

# *The Worshipful Company of World Traders*

## **The XXIst World Traders' Tacitus Lecture**

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by

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### **India's emerging role in the global economy**

Master, Wardens, Lord Mayor, my Lords, Aldermen, Sheriffs, Ladies and Gentlemen,

#### **Introduction**

Good evening and thank you. It's a pleasure and an honour to be here in this historic hall, and to have been invited by such an esteemed organisation as the World Traders. And it's always wonderful, if a bit cooler, to be in London. At the beginning of the *Agricola*, Tacitus, our lecture's namesake, describes the climate of Britannia by writing that 'the sky is under a perpetual cloud'. That might be a tad excessive, but as it is 30 degrees C in India right now, I certainly won't complain about the weather here!

I've been asked to speak on 'India's emerging role in the world economy', which is a very broad topic indeed. To narrow it down a bit, this evening I'd like to speak to you about where I think India's economy is headed, some of India's strengths, acknowledge some of the issues she still faces and some of the ways those challenges are being met.

#### **India's economy**

India seems to have captivated many people, and I'm always interested to hear others' perceptions. In the West and in the business world, for instance, India is often spoken of in the same breath as China, though we are two very different countries. There certainly is much to compare – two of the world's fastest growing economies, the world's two largest populations, two countries that have, at times throughout history, dominated the area, and even the world, economically. But we are different in many ways, and assumptions about our respective growth must be based on the individual characteristics of each nation.

India is a unique country. It is multicultural, multi-ethnic and multi-lingual – the rupee note has fifteen languages written on it. Earlier this year Prime Minister Manmohan Singh referred to India as "an open house, an open society, open to the free flow of ideas and scholarship" We have over 50 TV channels, 675 publications

and a noisy, irreverent media – a clear indication that democracy is alive and well. Mark Twain once said ‘So far as I am able to judge, nothing has been left undone, either by man or nature, to make India the most extraordinary country that the sun visits on his rounds. Nothing seems to have been forgotten, nothing overlooked.’ This beautifully describes the diversity and pluralism that is India.

The state of the Indian economy today is something not everyone could have predicted. India endured several decades of sluggish growth, but now has one of the fastest growing economies in the world.

Of course, attempting to paint a wholly accurate portrait of *any* economy’s future is tempting fate, given the anxiety over the present state of economic affairs. But we can make some estimations and predictions about growth, based on India’s recent performance. No one is immune to the vicissitudes of a global economy, and fears of a US economic downturn have affected all markets, including India. But emerging economies have proved more resilient to the market’s recent reverberations. For India, this is in part due to holding relatively low levels of the ‘toxic waste’ associated with the sub-prime crisis, and losses should therefore be minimal, protecting the capital base of domestic banks. There is good reason to believe that, though we will not be entirely immune, there is hope of staving off the cold the rest of the world catches whenever America sneezes – perhaps just a case of the sniffles.

Though Indian exporters would certainly feel any belt-tightening by US consumers should the forecasted recession occur, exports still represent only 20 per cent of India’s GDP, and importers will benefit from cheaper products. HSBC’s Research suggests that even if the US halves its GDP growth, the impact on India (and China for that matter) would be only a 0.4 per cent slowdown as India and China depend on their large domestic markets. Corporate balance sheets are healthy and India’s easy liquidity conditions support growth. Loan to value ratios are much lower in India, interest payments as a percentage of income are manageable and the value of mortgages represents just 6 per cent of GDP. India faces virtually unlimited demand for houses as more and more of the country’s population – the youngest in the world – come of ‘home buying’ age.

In fact, India has experienced an average of 8.6 per cent GDP growth over the past four years, with the last year increasing to 9.6 per cent. Economists expect growth to continue, albeit more moderately than last year, with the HSBC forecast predicting 8.5 per cent for the coming fiscal year. So yes, there is likely to be some slowdown, but we should still see high rates of growth. However, the question some of us in India are asking is, ‘Why not 10 percent?’ Which is the rate I believe we need to pull all of India up, helping those living at the bottom of the pyramid.

### **Business Process Outsourcing and IT**

But I am boring you with statistics – what about the impetus for growth? What is driving the Indian economy? I am reminded of Winston Churchill’s statement ‘the empires of the future will be the empires of the mind’. His words resonate in the age of the knowledge economy.

India's best-known business strengths in the West are IT and business process outsourcing – or BPO; these are practically synonymous with India. I heard a tale recently of a pensioner who was planning a holiday to Goa – she was a bit unsure about weather reports, so she called her bank's customer service number! She just assumed the person on the other end would be in India and could simply tell her how hot it was. But India is not just about outsourcing and BPO. India's top 15 companies include energy, banking, capital goods and materials, on a globally competitive scale. Reliance Industries, for example, is worth \$100 billion, which is larger than Shell and twice the size of Merrill Lynch.

But IT is still a staple of the Indian economy, generating over 11 million jobs annually; higher than any other emerging country. India accounts for 65 per cent of the global industry in offshore IT and 46 per cent of the global BPO industry. And predictions are that the sector will keep growing, at a rate of over 35 per cent over the next few years.

### **Roots of BPO market domination**

But how did this come to be? The economist Thomas Friedman traces it to the 1990s, when a combination of India's excess of highly skilled technology workers and an abundance of fibre-optic cables converged to give India an edge in the technology market. He, in fact, cites this event as one of those that 'flattened the world', creating a more level global economic playing field.

India's emphasis on, and high standards of, technological education has been viewed as a resource for many years. Though India has many natural resources, reliance on these alone could not possibly sustain such a large population; we also needed to invest in human capital. The need for post-war industrial development of India led to the creation of the Indian Institutes of Technology, which are regarded the world over as occupying the uppermost echelons of technological education.

Because of insufficient opportunities at home, however, many Indian professionals looked to other countries for work – one in four IIT graduates found their way to the US.

It looked, at this point of history, as though India would continue to export its rich intellectual capital. That is, until the internet boom, when telecom companies began laying fibre-optic cables, embedded under the ocean floor, and creating high-speed communications capability around the globe. But there was also significant over-investment, and the service became markedly cheaper as a result. This created access, which increased competition and broke the government-owned monopoly – a boon to Indian industry. Now companies could access Indian skill more easily, and it was no longer necessary to leave India to pursue a professional IT career.

And so India became the world's leading destination for outsourced back-office functions. The effect of the availability of cheap telecommunications and the human resource pool cannot be overstated – it revolutionised the industry the world over. Today India has the cheapest call rates and one of the most efficient telecoms infrastructures in the world. And India is sitting on a human capital goldmine: we have one of the world's youngest skilled workforces and English-speaking India produces 2.5 million university graduates a year, including 400,000 engineers and 200,000 IT professionals.

In fact, things are going so well that growth in the market has led to expansion, and to what one observer labelled, 'outsourcing outsourcing'. Some of the biggest Indian companies are setting up outsourcing offices of their own – Wipro has offices in many countries, including Canada, China, Portugal and Saudi Arabia; Tata has offices in Brazil, Chile & Mexico; and Infosys has offices in the US, the Czech Republic, China and Thailand. The philosophy is to 'take the work from any part of the world and do it in any part of the world'.

### Other areas of growth

But there are other areas of Indian growth.

The mergers and acquisitions market – M&A – is booming, seeing a ten-fold increase from 2000 to 2007. 2007 was a record year for inbound deals and many of the outbound deals were on a huge scale: Tata Steel's recent \$13.2 billion takeover of Corus, the former British Steel, or indeed of Jaguar; or Mittal's successful \$32.3 billion bid for Arcelor. Happily for us, HSBC has been a large part of this growth: we were ranked fourth in the 2007 Indian M&A league tables, with \$17.6 billion in deals. India is also courting foreign investment by liberalising its financial markets and there has been particular success in attracting foreign interest in company shares.

India is also an important investment opportunity. In just 15 years, we have doubled our national income and world exports. In less than three decades it is projected we will be the world's third largest economy. And we are already the world's:

- second largest producer for software applications and the first choice for IT in many industries
- third largest market for aircraft
- fourth largest producer of medicines

And

- fifth largest market for telecommunications.

Vodafone's CEO Arun Sarin just announced that close to 40% of their mobile usage is now generated by their Indian arm, which added 4.2 million subscribers during the last quarter. Compare this with 3.1 million added in all of Europe over the same period. But India's teledensity is only about 23 per cent, versus 90 to 100 per cent in Europe, which presents a huge opportunity. India is now adding 8 million mobile subscribers each month.

There are still other investment opportunities that are untapped. There is certainly a need to invest in infrastructure, which is both a challenge and an opportunity, and something that I'll address a bit later, but there are also opportunities in other sectors. Air travel is seeing significant growth as the country becomes more affluent. The retail sector will see an estimated annual growth rate of 12 per cent over the next ten years. Hotels are another area for investment. There are an estimated 100,000 rooms in India – about the same as Las Vegas, though I should think the similarities end there – and this is only about half of the needed number.

There are a number of other factors that impact on India's economic fortunes, including her relationships with other countries. The dynamics in Asia, for instance, are changing. Japan is actively investing in India, and India was recently named the most preferred destination for long-term Japanese business investments, overtaking China for the first time. China and India, with our tumultuous history, are also finding more and more ways to work together and more initiatives on which to collaborate. The future of India's place in the global economy is a question of how we interact regionally as well as how we interact with the West.

## **International relationships – the UK**

So where does the UK fit in?

When Gordon Brown was in India last month he received a standing ovation for his speech to Indian industry. He quoted Churchill, ‘those who build the present in the image of the past will miss out entirely on the challenges of the future’. He then went on to say that he holds a deep conviction that India and Britain together can have a shaping influence in the emerging global economy. We talked about the financial sector and the opportunities for India and the UK. I couldn’t agree more: the UK should be India’s gateway to the West.

Business and investment across national boundaries helps strengthen relationships and build bridges. I certainly see Britain and India’s partnership growing and our friendship deepening as these activities increase. You can see this reflected culturally – in the former foreign secretary declaring that chicken tikka masala is Britain’s national dish, in the success of crossover films like *Bend it like Beckham* and *Monsoon Wedding*, or in music like *Bhangra Rap*, a melding of two cultures. And you can see it in our diplomatic relations, such as the recent British support for a permanent Indian place on the UN Security Council.

## **Students returning to India**

Recently, I read an article that profiled students pursuing MBAs at America’s most prestigious universities – Harvard (my alma mater), MIT, Stanford, Yale, the lot. The trend seemed to be to give up internships and placements with the top firms in the US, forsaking Wall Street for Mumbai. The students said the attraction was to Indian business models and software services, which they described as ‘innovative’ and ‘the next generation of business’. One Georgetown professor said that for American business students now, ‘India means the world’s best software services, and increasingly, pharmaceuticals and auto parts’. They also said that, in addition to the education they received, Indian placements brought with them a huge amount of prestige. Such a change from when I returned home armed with my MBA in 1982! People back home could not fathom why I had returned, when I had the world at my feet. But now, on any given day, I wade through a stack of resumes of students from around the globe applying for jobs in India.

## **Business innovation**

I believe that what these students – and their future employers – are recognising is the imaginative approach to business that can be found throughout Indian society, from the most sophisticated technologies to 100-plus year-old businesses.

I have often marvelled, as has the international business press, on a simple Mumbai service that is a model of efficiency and efficacy – I think it’s a good example of the Indian work ethos.

Dabbawallas are food deliverymen, who pick up meals in tiffin carriers from homes around Mumbai and its suburbs and deliver them to office goers in the city – right to their offices.

For many people, it is still traditional to have a home-cooked meal for lunch, but most city professionals leave for work long before the daily cooking commences. The Dabbawallas have a complex system of over 2,000 workers delivering over 100,000 meals every day. The dabbas – or tiffin tins – are picked up from individual houses, taken to the train station, sorted, placed on local trains, sorted again at their destination, and delivered directly to the desks of city workers. After lunch, the process is reversed and the tins are returned to the homes. This is an incredibly intricate system that could have any individual tin under the care of as many as eight dabbawallas on its daily journey.

One of the keys to the system's success is its code of coloured symbols to divine the tin's route, which has been learned and memorised by the largely illiterate Dabbawalla workforce. The business runs completely free of automation or computerisation and covers a vast expanse of geography, yet is astoundingly accurate. So accurate, in fact, that Forbes magazine awarded them a 6 Sigma rating – meaning accuracy to a percentage of at least 99.999999. This translates into only one missing dabba per six million delivered. The business continues to grow – between five and ten per cent a year – and the only effect technology has had is not to automate the system, but to get more customers through mobile phones and text messaging.

If this sounds a bit familiar as a business model, one Dabbawalla explained to a reporter, 'there is a service called FedEx that is similar to ours – but they don't deliver lunch'.

What I think this illustrates is how Indian business innovates and makes extraordinary use of available commodities. From creating a dominant global market by harnessing a newly available telecommunications infrastructure to devising an intricate code of symbols, letters and colours, Indian business has forged a remarkable path. This philosophy is best enshrined in the words of Tagore, India's first Nobel Laureate in literature, 'if I can't make it through one door I'll go through another door, or I'll make a door'. This philosophy, of course, has interesting implications when it translates to getting through the streets of India with its myriad forms of transport each creating its own set of rules!

It is also impressive to see how so many businesses, both Indian and foreign, combine entrepreneurship and skill with a social conscience, creating products for a low-wage earning market. India is a market for experimentation for many companies; new technologies and trial runs of products are often undertaken in India, and this grants the poorer classes access to goods that were previously unavailable – laptops, mobile phones, cars. We can see the effects of this kind of accessibility: the world's lowest telecom cost results in increased cellular phone use. There were close to 172 million subscribers in December of 2007, an increase of almost 8 million from the previous month. The world's cheapest car, Tata's \$2,500 Nano, made headlines around the globe and is seen as a turning point in the global auto industry. These products change lives and create opportunities for many by allowing access to technology and modern conveniences. The benefits of business innovation permeate all levels of

Indian society, and much of it is helping to facilitate employment opportunities, either directly or indirectly, an issue of great concern for India.

Take, for instance, Babajob.com, a professional networking site for manual labourers located in Bangalore – sort of a lower-wage LinkedIn. The company's founder read that much of the city's unemployment, or stagnation in dead-end jobs, was not due to lack of available work, but lack of connections to find it. Much of this work is facilitated through personal associations and vouching for friends and relatives, and vacancies are spread only through word-of-mouth. So they created a professional networking site to link manual labourers to employers while keeping personal associations clearly illustrated. This ensures employers can, as the site says, 'hire through your friends and neighbours', while making available a wide range of employment opportunities. Charities and small business are involved, to give the labourers the computer access that most of them lack.

And so imagination, technology and business come together to create something very meaningful.

### **India's economic issues**

But I've been only looking at the positives, at India's remarkable steps forward. There are areas in which progress has been slow, and where more attention is urgently needed. For all our advancement, some of India's problems have stubbornly refused to go away.

Despite the economic and business advantages I've mentioned, and the generally rosy outlook most have predicted, there are still areas of concern. The rupee has strengthened by approximately 15% against the US dollar in the past year. A rapidly rising rupee is a particular danger to the BPO sector, as it is to all exports that work on wafer-thin margins. But managing currency valuation means an increased risk of inflation. Inflation has been temporarily managed through controlled monetary policy, and while this is a positive step, it will still require constant monitoring, as will the rupee's strength.

Rising prices globally remain a concern. Food and energy prices in particular are on their way up, and these are inextricably linked. More and more lately, economists are highlighting the effect of rising fuel prices on food – in part, demand for biofuels has put a dent in food supplies, leading to higher food prices. Soaring prices for vegetable oil – including palm and soybean – will also have knock-on effects, and countries whose agricultural base includes crops in short supply will be looking at higher food costs and more difficulty feeding its people, especially the poor.

The rapid pace of business's expansion has also had an impact on India's pool of intellectual capital – employment in the sector is growing more quickly than the supply of graduates and wage prices are spiralling up. This is being addressed through education – from the primary level to the opening of more IITs and regional engineering colleges – but it will take time and, meanwhile, demand continues to grow.



Not to mention that, though business is rapidly expanding, it could be growing more. The authorities do not make it easy to do business in India – while there has been an effort to liberalise, India still ranks 120<sup>th</sup> out of 178 countries for ‘ease of doing business’, far behind several others in Asia – Singapore is first ranked and Hong Kong is fourth.

### **Infrastructure issues**

Then there is the problem with India’s infrastructure, rail, road, and power. India’s motorway is six times shorter than China’s – which spends about 10 times more on its roads than India does. Goods sent by rail cost approximately three times as much as they do in China for the equivalent distance. An identical load of textiles costs 35 per cent more to ship to the US than from China. And a lack of infrastructure such as storage facilities or terminals for perishables means a third of agricultural produce rots away. India is home to 10 of the 30 fastest growing cities in the world – according to a Goldman Sachs report – highlighting the need for better planning and urban infrastructure.

The answer to these problems is investment. The Government estimates that \$500 billion of investment in this sector is needed. If achieved, this could add another 2 per cent to GDP growth.

### **India’s social issues**

And as it is necessary to address the structural and economic problems that we may face, it is also necessary to recognise that there are social issues as well: climate change, for instance, and the role of women and the poor.

### **Climate change**

Climate change is, of course, a concern to everyone. It seems to be the general perception that developing countries are much less committed to pursuing environmental goals, arguing that massive energy consumption is necessary to catch up to developed economies. There is some merit to this argument; developed nations are responsible for the majority of emissions, and have been producing them for ages. On a per capita basis, India produces 1.3 gigatons and China 3.8gt, versus the UK’s 9.8gt. But there is much optimism in emerging economies that the challenge can be met. HSBC’s Global Climate Confidence Index surveyed nine countries for their views on climate change and what we can do about it. India had the highest positive response rate in all areas – concern, commitment and optimism. The UK came in last, followed by France and Germany.

This response could be, perhaps, linked to the scale of the project at hand. The thought of entirely rebuilding an entrenched infrastructure is different to the idea that one can incorporate change as one develops and grows. Adjusting for more environmentally sound practices inevitably means that emerging economies have more scope to embrace these changes as they build.

India and China are also facing a water crisis, which will only be compounded worldwide in the years to come. The UN’s Millennium Project has noted that the reason both countries could afford to feed their massive populations until now was

that water has been used in an unsustainable way, as irrigation has tripled. The Ganges no longer flows freely, but has stagnated, and the water is unclean. The HSBC Climate Partnership is working on water management in the Gangetic river basin with the WWF to clean and desilt this lifeline to all of North India. But this is a drop in the ocean – or the river, as it were – and there is much more to be done.

India must embrace green technology for obvious reasons, but also because it presents an opportunity. India, with its technological richness, is in a perfect position to develop new technologies to help any number of industries make this move. Companies around the world will need programming and monitoring systems and BPO services to re-align energy infrastructures, all of which India has the capacity to deliver.

There is progress, both from government and from business. There is groundbreaking work being done by The Energy and Resources Institute in India, whose head, Dr Pachauri, received the Nobel Prize recently for the work of the Intergovernmental Panel on Climate Change. And this is another area where Britain and India are working together – I was recently privileged to be at the CBI/CII signing of an agreement to work on all industrial aspects of climate change. To help the financial services industry do its part, I have urged the development of environmental ratings systems for industries, to help the industries themselves and to help banks in taking lending decisions. We need more organisations to certify green buildings, green technologies.

### **Women and the poor**

There is also a good deal to be optimistic about in terms of social issues, both for women and the poor.

These have attracted much attention in the past, but it is important to see the great strides India has made. Women have become a focus of planning, and programmes have been launched for generating employment, improving income and creating awareness among women, to create economic independence.

One path to equality is through Panchayats, local governance bodies that call for greater accountability at the village level. One-third of all seats – including one-third of all Panchayat presidencies – are reserved for women. In a number of states, over 40 per cent of the Panchayat Heads are women.

Another way to address the gender and class divide is to empower people financially. HSBC supports initiatives like the Mann Deshi Business School, which trains rural women to become entrepreneurs. Mann Deshi is unique among business schools as there is no requirement for formal training or education. Rural, often uneducated, women are taught to manage accountancy and finance books and learn to run enterprises – from purse and bag making, photography and screen-printing to mobile telephony kiosks. The school also provides micro-credit so the women can get their businesses up and running.

## **Microfinance**

Mann Deshi Mahila Sahakari Bank, who founded the school with our support, is a microfinance lender - you may recall microfinance gaining global attention when Muhammed Yunus and Grameen Bank won the 2006 Nobel Peace Prize for their work in Bangladesh.

India has lifted 20 million people out of poverty, but there is still more to be done. More than subsidies, the poor need access to credit and livelihood. Without formal employment, they are unable to access even the most basic financial services. Additionally, most need loans in amounts smaller than regular banks will accommodate - \$25 or so – cutting them off from legitimate lending. This forces people to borrow from local moneylenders at excessive interest rates they could not hope to pay back, keeping them in debt. Microfinance lenders offer small, affordable loans.

Microfinance has been a remarkable success. Research from Bangladesh found that 40% of the overall reduction of rural poverty in recent years is attributable to microfinance. Communities involved in microfinance lending experience socio-economic gains, even for those not receiving loans, indicating that prosperity has community effects.

India's overall microfinance reaches some 6.5 million families, but this is meeting only 10% of the estimated demand. Importantly, new initiatives are emerging every day, and here there is a quiet revolution. My family spends some of its time helping my husband with his work in rural India creating livelihoods for women and connecting them to markets to sell their goods. Money through microfinance is made available to groups of 10 to 15 women who guarantee each other's loans. If we can help women earn through entrepreneurship, they come out of the poverty trap and are empowered to stand up for their rights and vote sensibly. And it is women who are central to this because men will be men, and drink and smoke their earnings away!

I would like to share a personal experience. I was at this typical village gathering when a woman stood up and with great pride and confidence told us my "name is Rudiben. Until 5 years ago I was known as my husband's wife and my son's mother. Today I am known as Rudiben". Earlier she had no identity of her own. But this has changed since she now earns a living and looks after her family. Such women ensure they save, send their kids to school and feed and clothe their families. They become the conduits of health service programs. But I could go on forever on this subject, and if I do, I won't have time to answer your questions.

## **Conclusion**

India's sustainable growth is transforming the nation – not only in terms of the economy, but socially as well. Though there is more to be done, there have been remarkable benefits. I would like to see an accelerated growth rate so that the change at the bottom of the pyramid is faster, with continued focus on a more inclusive growth.

The opportunities in India are boundless. Yes, there are challenges. And as the world's largest, and possibly noisiest and most opinionated democracy, consensus-building is critical and requires an extraordinary amount of work. We are at a unique point of history. We have some issues and their resolution may take time, but this is a small price to pay for a vibrant democracy. Every challenge is an opportunity. And we must resolve to live to the timeless call of Mahatma Gandhi, "the future depends on what we do in the present. We must be the change we seek in the world".

I hope I have begun to paint a picture of modern India; of its society and its economy – it is, of course, difficult to cover even the highlights in a short time, and I'd like to hand the floor over to you, to answer any questions you may have.