

Why To Invest In India

It is time Non-Resident Indians and foreign investors took note of India. Not just because a much publicized report has predicted that the Indian economy will become one of the world's largest by year 2050 -- which is anyway too far out to invest for.

But because there are real changes happening here; changes which will have a significant impact on India's prospects in the next decade. The opportunity is here and it is beckoning you.

It was in July 1991 that Dr Manmohan Singh , the then finance minister of India, presented his first Union Budget. India was in a crisis then and drastic measures were needed to tide over the emergency. The two-stage devaluation of the rupee marked a turning point in the Indian history. Talk of import substitution was replaced by export promotion. What transpired over the last 13 years or so is for all to see.

It is widely thought that India's external sector performance will continue to be good. To believe this, one needs to look at the outsourcing revolution that is taking place across the globe, in not only the services but also the manufacturing and research sectors. On the investment side, liberal rules and better and well-regulated markets are drawing in capital to fund India's growth.

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Unfortunately, the same degree of success is not evident when it comes to India's finances.

The numbers pretty much tell the story. But one needs to keep in mind that during this period the world witnessed several crises involving Mexico (1995), South-East Asia (1997), Russia [Images] (1998) and then, of course, the global economic slowdown that followed the stock market meltdown in early 2000.

These crises spread to other countries too. But the impact on India was more muted than one would have expected.

As the Reserve Bank of India often highlights, this is so because of the 'resilience' of Indian economy. This resilience is clearly illustrated in the overall economic growth posted by India over the last many years (last 10 year average of 6.1 percent p.a) and the benign inflationary environment

But then this is history. And investing today requires a good understanding on what can be expected going forward. This is where one can take a break from numbers and list out five big reasons you should invest in India.

1. You can't ignore the resilience

It has been close to 20 years since the reforms process started, with the main push coming with the twin devaluations in 1991. During this period numerous developments have taken place that have contributed to the resilience of the Indian economy.

Key amongst these are the opening up of the Indian economy to foreign investment, strengthening of the domestic financial system, liberalization of imports, rationalization of interest and exchange rates, a more conducive environment for investing in industry, and of course, the people-intensive services sector.

This resilience is clearly reflected in the fact that average economic growth rates have moved up (peaking at 8.2 percent in the financial year ending March 2004) and India has emerged as one of the fastest growing economies in the world.

Even the change in the government has not stymied growth completely (in fact, there is an improvement in overall growth rates).

Going forward the benefits of these measures will become more pronounced as focus shifts to implementation. Coupled with the expected shift in the demographics which should see a larger share of the Indian population falling in the 'working class' age bracket, the Indian economy can be expected to perform better over the next decade.

2. Renewed focus on agriculture, infrastructure

In recent years there has been a renewed focus on two key but long ignored segments of the Indian economy – agriculture (about 22 percent of the economy) and infrastructure. The focus on agriculture and related activities, which supports approximately 65 percent of the Indian population, should provide a new thrust area for economic growth.

Although the results will take time to show, when they do, the impact will be huge. An increase in output, productivity and value-add will lead to higher income levels for India's large rural population. This will aid investment and consumption activity leading to higher overall economic growth in the long term.

Belatedly the government has taken note of the poor state of infrastructure. Highway development, power sector reforms and substantial investment in building a pan-India telecom/internet network are just three of the several new initiatives underway which will help improve the quality of infrastructure.

An overall improvement in infrastructure will add to the competitiveness of the economy. Of course, in the interim, as these projects are implemented, the economy will get a boost as investment demand will surge (for example to build roads you need among other inputs people, machinery, steel and cement).

3. Benefits of foreign direct investment

Undeniably, foreign direct investment (FDI) inflows have stagnated in recent years (though interest in India is unarguably increasing). But its significance cannot be lost (we only need to look at China to understand this). Not only does FDI augment domestic capital and help increase productive capacity of the economy, it also brings in with it world class technology, processes and products/services, and jobs.

The benefits of these lessons are likely to be more pronounced in India, which is way behind developed countries. This should help the economy leapfrog in some sense, boosting productivity and competitiveness. Higher productivity could again trigger a virtuous circle of higher incomes, higher consumption activity and even higher investment.

4. The global outsourcing boom

Whenever one talks about outsourcing, Indian business process outsourcing companies come to mind. More often than not, the understanding is that the BPO is a call centre. Rightly so, given that this is where it all started. But there is much more to this outsourcing boom than is commonly understood. Fortunately, India stands to benefit from it in a great measure.

Some examples of the kind of 'outsourcing' work that could find its way to India: research and development for various products and services (including pharmaceuticals), manufacturing of auto parts and complete IT departments and networks. As confidence in India's abilities grows, more value-added work would come through.

Competitiveness in this sector would be sustained by declining/stagnating infrastructure costs (a case in point is the declining telecom rates which are a key cost for BPOs) and ample supply of skilled manpower.

As outsourced services tend to be people intensive (in 2002 it was estimated that 4 million jobs in the sector and support services will be created by 2008), significant benefits could be reaped by India over the next decade. Higher employment and better incomes would once again contribute significantly to overall economic growth.

5. Well-regulated and deep capital markets

The Indian stock and debt markets (including banks and mutual funds) are well regulated by the Securities and Exchange Board of India and the RBI. Not that there are no irregularities that are committed (we are still trying to book all the culprits of the scams that rocked the country in 1992 and 2000). But the overall regulatory environment has improved dramatically in recent years.

Redressal measures are well laid out and this makes it easier to protect one's interest. In terms of infrastructure the Indian institutional framework is improving rapidly, backed by a strong financial system. By some measures Indian markets compare with the best globally!

In terms of choice, the Indian markets are right up there. Be it stocks, mutual funds, deposits or life insurance. The market is deep and liquidity is no major concern for individual investors.

India today offers a great investment opportunity. To make the most of it, investors need to take adequate precautions while committing funds to India. One way you can minimize the risk of fraud or bad advice is by selecting a credible financial advisor.

Finally, a note of caution. There will be ups and downs. Things may even not turn out the way one expects them to. But then if you have done your home work well, you stand a better chance of meeting your goals.

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