

India

Asia/Pacific

2004

Summary

Opportunities:

- India is now growing as fast as China, possibly faster.
- Indian business and technical diaspora are now reinvesting in India.
- India is expanding as a world-class software and service center.
- Rapid growth is also spreading to infrastructure and manufacturing.
- Improving relations with Pakistan and Moslem community.

Risks:

- Telecommunications and electrical infrastructure are still bad, but improving.
- Nationalism is still strong, but weakening; lingering suspicion of foreign investors.
- Government is corrupt and inefficient, but improving.
- Conflict with Pakistan and ethnic minorities creates continual turmoil.

Opportunity Assessment

Measurement	2004-2009 Average Growth Rate	Regional Performance (Growth Rate)	2009 Market Size (\$ Millions)
Economic Growth	7.5%	–	–
IT Growth	9%	Average	30,390
Information Svcs. Growth	12%	Average	7,360
Software Products Growth	11%	Average	5,235

Source: SPS/Spectrum Economics

Economic and Business Climate

Economic Climate – India is taking off and now growing at least as fast as China if not faster. India is building a firmer political and financial base for its economic boom. India is a functioning democracy, not a Communist dictatorship, and India's banks are increasingly private and prosperous, not government controlled and bankrupt. Having seen the benefits of an open economy, the Indian Nationalism movement has turned from being the enemy of reform to its key supporter.

The days of incompetent Indian socialism and corrupt capitalism are waning. India is on the positive spiral of a fast-improving economy, a reforming government, and stabilizing politics. India still has a corrupt and inefficient bureaucracy, but the power of that bureaucracy is declining. Most importantly, India is exploiting its greatest resource—highly trained English-speaking professionals. India has the largest English-speaking population in the world and is becoming a worldwide leader in software and IT services. Let China have low-profit manufacturing, India will write the high-profit software. India's growth is also more "home grown." China's manufacturing boom is led by foreign direct investment—the key technology and market knowledge resides in the United States and Japan. Indian companies serving foreign markets increasingly lead Indian growth. Indian companies are even expanding overseas by making their own direct investments.

The U.S.-Indian economic alliance is growing. The United States has clearly decided that Indian markets are more important than political disagreements, and Indian politicians have decided that foreign investors are necessary and...and, well, not so evil. Once-pacifist India is in love with the bomb (Gandhi must be turning in his grave), and allowing Western investment is the only effective route to vital Western technology. Foreign investment in India is now booming, led by India's overseas elites investing their Silicon Valley winnings back into India.

Exhibit 1 summarizes India's key economic indicators.

Exhibit 1

India—Economic Indicators

Indicator	Performance	Range
GDP Growth Rate		
2001	5%	—
2002	4.3%	—
2003	8.4%	—
2004–2009 (average)	7.5%	6.5% to 8.5%
Inflation Rate (2004–2009)	3.5%	2.5% to 5%
Unemployment Rate (2004–2009)	12%	10% to 15%
Exchange Rate (Rupees per \$1)	45.6	—

Source: *Spectrum Economics*

India's growth is real. One of the benefits of India's colonial past is that its statistics are far more reliable than China's. India, not China, should be the new media darling of globalization. India has cut its rate of inflation, once one of the highest in Asia, to only 3.1% in 2003. India's government has cut its deficit from 10% to 5% of GDP and the debt ratio is starting to decline as economic growth takes off.

Business Climate – India’s business climate is still difficult, but improving. It may be easier to do business in India than in China, but India is incredibly frustrating—new bribe requests and new regulations are around every corner. India remains one of the world’s most corrupt major nations, but there is some improvement—investors now brag that they can spend more than half their time running their business instead of fighting the bureaucracy.

India’s xenophobic nationalism, once the curse of foreign investors, is now their blessing. Threats from China and Pakistan drove the Indian government to make life easier for investors in key technologies and infrastructure. The key to Indian growth is that India has the world’s least expensive skilled labor force, including English-speaking engineers and scientists, and the world’s second largest middle class market of over 200 million people. India’s secret ingredient may be its Silicon Valley connection: Indians received 40% of U.S. skilled worker visas in recent years. The flood of talented Indian engineers and software developers into Silicon Valley is also a two-way street. The more Indians there are in the United States, the easier it is for U.S. companies to do business with India.

The fouled-up side of India is exemplified by its electric sector. India is desperately short of power and all the State Energy Boards (SEBs) are bankrupt. Much of the problem is due to the fact that Indians pay for only about half the power they use. The remainder is either stolen or given away to political supporters. India tried to solve its shortages by allowing in foreign energy producers in the 1990s. The policy failed disastrously as the State Energy Boards couldn’t pay for the power they contracted to buy. Enron’s \$2.9 billion Dabhol power plant illustrated the collapse of the policy. This vital, high-profile, “government-guaranteed” project collapsed when the Indian power agency couldn’t pay for the power (customers stole over 30% of it) and Enron fought to collect what it was owed for the project. Enron threatened to use its White House connections to impose trade sanctions against India’s effective expropriation of the plant, but failed. Enron was finally forced to sell the plant for less than 50 cents on the dollar. If a well-connected giant like Enron can’t make a high-profile project work in India, what hope is there for anyone else? Oh, and by the way, we all know what happened to Enron, don’t we!

That said, India continues to offer incredible opportunity. India is becoming a world leader in information technology applications, especially software development. All industry sectors in India are growing and investing more in information technology.

Information Technology Market Forecast

India's spending for information technology is summarized in Exhibit 2.

Exhibit 2

Information Technology Market Forecast India—2004, 2007, and 2009

Type of IT Spending	2004 (\$ Millions)	2007 (\$ Millions)	2009 (\$ Millions)	3-Yr CAGR 2004-2007	5-Yr CAGR 2004-2009
External Spending	16,330	21,160	26,345	9%	10%
– Information Services	4,140	5,630	7,360	11%	12%
– Software Products	3,150	4,170	5,235	10%	11%
– Equipment Services	1,570	1,750	1,950	4%	4%
– Equipment	6,280	7,930	9,620	8%	9%
– Data Communications	1,190	1,680	2,180	12%	13%
Internal Spending	3,440	3,830	4,045	4%	3%
– Staff/employees	2,650	2,960	3,135	4%	3%
– Occupancy/facilities	790	870	910	3%	3%
TOTAL IT SPENDING	19,770	24,990	30,390	8%	9%

Source: SPS

Although India's forecast economic growth (7.5%) is strong, India was not immune to the decline in IT spending that was a by-product of the global economic slowdown during the early 2000s. Although the economy benefited from foreign firms outsourcing customer service and software development to Indian firms in order to reduce costs, India's business community, feeling the pinch of the slowdown, reduced its investments in IT until the foreign markets for Indian products grew stronger and revenue flows resumed. The world markets have bounced back, India is now more open to foreign investment, and business growth has expanded beyond just those firms serving foreign markets to include the total spectrum of Indian businesses. IT investments will be especially strong in the following industry sectors: energy, communications, multinationals of all types, banking and financial services, and most government agencies. IT services companies (primarily those software development and IT customer support firms serving foreign clients) will continue to grow rapidly as India's rich inventory of low-cost, highly qualified IT professionals attracts more and more business. In addition to telephones, this growth will require investments in computer, telecommunication, and software resources.

By 2009, external spending for IT products and services will reach \$26 billion and India's total IT spending will exceed \$30 billion. Increased investments in equipment will be moderate, growing at 8% to 9% a year. Services of all types will see double-digit growth, except for systems integration and processing services, where markets will be tempered by the slow growth of internal costs due to an abundant and inexpensive labor force and cost-effective equipment. Network services and data communications investments will be the fastest growing IT market sectors, a logical consequence of the telecommunications resources needed to support India's burgeoning global IT services market.

All in all, even though India faces a number of challenges, its economy will continue its strong growth and its government and business community, relatively under-invested in IT infrastructure when compared with other industrial nations, will acquire the IT assets necessary to improve performance and be competitive in global markets.

India's spending for information services is summarized in Exhibit 3. Exhibit 4, Software Products Market Forecast, provides data on this market sector.

Exhibit 3

**Information Services Market Forecast
India—2004, 2007, and 2009**

Type of Information Services Spending	2004 (\$ Millions)	2007 (\$ Millions)	2009 (\$ Millions)	3-Yr CAGR 2004-2007	5-Yr CAGR 2004-2009
Professional Services	1,785	2,440	3,195	11%	12%
Systems Integration Svcs.	405	510	625	8%	9%
Outsourcing Services	1,300	1,660	2,095	8%	10%
- Processing Services	690	890	1,060	9%	9%
- Operations/Appl. Mgmt.	610	770	1,035	8%	11%
Network Services	525	860	1,265	18%	19%
Application-Specific Sys.	125	160	180	9%	8%
TOTAL IS SPENDING	4,140	5,630	7,360	11%	12%

Source: SPS

Exhibit 4

**Software Products Market Forecast
India—2004, 2007, and 2009**

Software Product Category	2004 (\$ Millions)	2007 (\$ Millions)	2009 (\$ Millions)	3-Yr CAGR 2004-2007	5-Yr CAGR 2004-2009
Application Software Prod.	2,025	2,830	3,645	12%	12%
Systems Software Products	1,125	1,340	1,590	6%	7%
TOTAL SOFTWARE SPENDING	3,150	4,170	5,235	10%	11%

Source: SPS

Electronic Commerce and the Internet

Exhibit 5 shows the growth of India's Internet host population. The population's percentage growth over the previous year is shown in the right column.

Exhibit 5

India—Internet Host Population

Year	Number of Hosts	Yr-to-Yr Growth %
1995	359	—
1996	788	119%
1997	3,138	298%
1998	7,175	128%
1999	13,253	85%
2000	23,445	77%
2001	35,810	53%
2002	78,595	119%
2003	176,838	125%

Sources: 1995 to 2002, Network Wizards; 2003, SPS

With a population of nearly 1.1 billion, there are more than 6,000 Indians for each Internet host! However, the economic gap between the poor and the rich and middle class in India is huge, and this fact makes population versus hosts a meaningless e-commerce comparison.

The end of the parastatal Videsh Sanchar Nigam Limited (VSNL) monopoly has opened Internet access to competition and will stimulate the growth of electronic commerce and other network- and Internet-based activity such as e-mail and database access. However, a restrictive factor still to be overcome is India's

telecommunications infrastructure, which is neither sophisticated nor reliable enough to support an active domestic EC market. Despite these limitations, significant EC activity is taking place between Indian software developers and exporters and their global clients. Customer support services via e-mail are another significant e-commerce activity. These activities will increase steadily during the next decade and be augmented by a growing number of domestic EC transactions as the Indian telecommunications infrastructure evolves to a level that can support them.

India's National Association of Software and Services Companies (NASSCOM) projected the number of Internet subscribers to be 11 million by 2003, and the number of Internet users at 23 million the same year. (More recent credible numbers are not available.) NASSCOM also estimated that by March 2003, the Indian Internet and e-commerce industry would employ more than 500,000 people. We continue to feel that both estimates were ambitious, but given that 23 million users represent about 2.3% of the total population and the industry numbers only 0.05% of the population, they *could be* conservative—but we don't think so. They simply demonstrate that the Indian market for electronic commerce is in its infancy and has huge potential for growth.