

Matéria

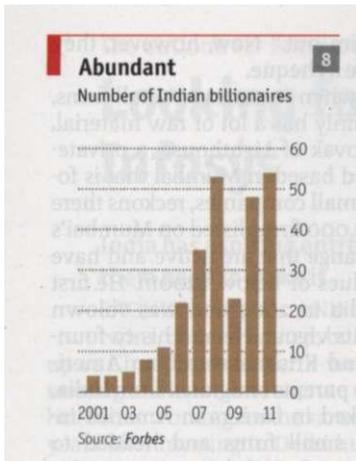
The Indian miracle and the future

Rolls-Royces and pot-holes

Long-term economic success may make the current way of doing business obsolete

IT'S NOT A movie set. Mumbai today really is a place where you can see Rolls-Royces bumping along pot-holed streets past naked children, in the shadow of billionaires' personal skyscrapers. India's capitalism is raw and sometimes ugly, but its private-sector firms are dynamic and mostly optimistic. If the country maintains its current rate of growth it is expected to become the world's third-largest economy some time after **2030**, and hundreds of millions of people will lift themselves out of poverty. But it is not a second China. Thanks to an exhausted and cranky state, for which there is no prospect of dramatic reform, much of the job of development will fall upon the private sector. India's companies are refreshingly red-blooded, but more than other firms in the world they carry a giant responsibility.

This special report has argued that after a decade of euphoria the business scene has sobered up, partly prompted by a sticky patch in the economy and the depression in the rich world. Over the past decade a new kind of capitalism has entrenched itself in India, in which large family concerns, often in their second generation or older, hold remarkable sway. Yet the private sector is not the comfortable oligarchy it might seem, for family firms compete head on and often live and die by the sword. And although some big hereditary groups often seem to prefer investing abroad to investing in India, collectively these firms are prepared to stump up very large amounts of money on long-term capital projects in India-the kind of money that only ••



the government in China, or bond markets in the West, can conjure up.

Many of the big cross-border takeovers of the past seven years, by Indian firms abroad and foreign firms into the subcontinent, are not the triumphs their promoters and excited supporters claim. One or two almost sank their backers and some will never make a decent return on capital. This yardstick tends to be shrugged off by empire builders, but in the long run it is the only one that counts. Indian businesses

are going global quicker, earlier and more deeply than perhaps any other country's have-but the more durable trend is in the myriad of smaller expansions below the surface, not the trophy transactions bankers brag of.

At the same time, companies have discovered the limits of frugality: cutting prices and building big customer bases may sometimes lose them money, rather than making it. Big state-owned companies dominate in sectors politicians judge to be strategic. The areas where the government still runs the show are often plagued with problems. And despite all the hype about new entrepreneurs, they have had a mediocre decade.

Some Indians feel that Western critics of their approach are hypocritical-after all, didn't America also have a stage when families dominated the business scene? They have a point. But the idea that India is merely at an earlier evolutionary stage on an American journey looks misplaced. India's soft state encourages the conglomerate form of doing business, whether owned by a bloodline or not. This corporate model does not contain the financial seeds of its own destruction-not immediately, anyway. Over time the problems of succession and attracting outside capital will eventually cause families to cede control. But no sudden change is likely.

The triumph of the conglomerate in India, often family-controlled, does contain a contradiction, however. Today's way of doing things reflects a rational and even admirable capitalist response to the shortcomings of the state, and has helped India's economy motor along despite them. But at some point the mudle-through approach may yield diminishing returns. The recent wobble in the economy and dip in investment by the private sector has come after a long period of government inertia and scandal. It has prompted some to doubt whether the country can really deliver growth of 8% or more without sparking inflation.

If India is to finish the long journey to superpower status that has been plotted for it by many forecasters, it will have to get its act together on things like infrastructure, efficient land allocation, education, bond markets, reliable supply chains and the enforcement of contracts. Yet if it manages to make progress in these areas, the rationale for sprawling big business groups-sometimes almost like mini-states in their own right, as substitutes for the real thing-will gradually disappear. A big danger, then, to Indian business's cur-

rent way of doing things is long-term economic success. It would make today's approach to organising firms redundant. And there is another danger that is rarely mentioned in the offices of business bigwigs.

Don't just adapt. Lead

As the corporate scene has found its own rhythm in the past decade, something has been lost: the idea that the company does not merely adapt to the society it operates in, but also acts to drive up standards, even if the state cannot. The original stars of India's miracle, firms like Infosys, were like breaths of fresh air, with top-notch governance. Today's bosses seem world-wearier, while officials in some cases have been captured by vested interests and have lost enthusiasm for pushing through world-class standards in simple but vital areas like accounting. In the past year of corruption scandals, too many Indian businesses have been cowardly, like witnesses so terrified of being implicated that they do not denounce a crime. The job of prodding the government into action against graft, and of raising standards, has therefore been left to big street protests of urban middle-class people who are fed up.

The second danger for India's business establishment is straightforward: hope. Especially in the cities, aspirations have been raised. That powerful and inspiring optimism is the underlying engine of India's miracle, but it is politically essential that people's expectations be met. In the next decade many more entrepreneurs must break through the established business order. Opportunities must be seen to grow as fast as profits. Otherwise, at some point, the giant crowds of frustrated urbanites might turn their attention from India's government to its billionaires.



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A tale of two cities