Beyond the call center

Mastering India's growth dynamics

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A point of inflection

With a population of 1.1 billion, India is the world's largest democracy, a nuclear power with an important seat at international institutions and increasingly a significant driver of the global economy. Even the most conservative growth forecasts place India among the world's top five economies by 2025, and its emerging retail market is rated as the fifth most attractive in the world.[1] At the same time, the United Nations' latest estimates indicate that 35 percent of Indians live on less than US$1 a day and 39 percent of adults are illiterate.

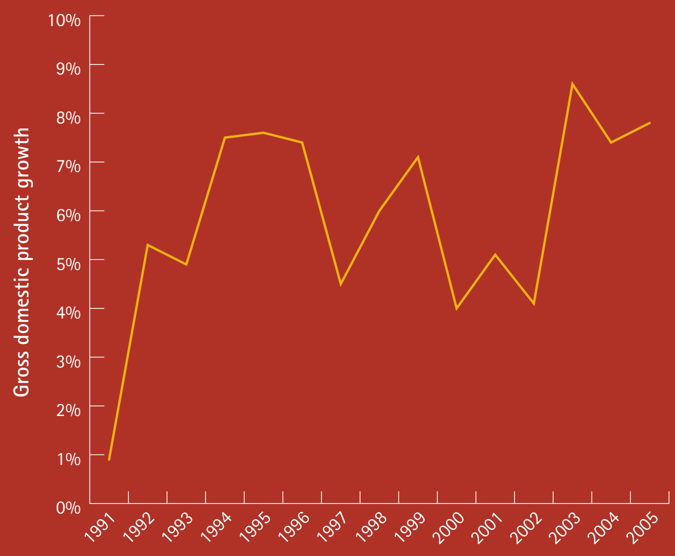
These contradictions run throughout the Indian economy, but globally there is a palpable sense of confidence and assurance as India finally seems to be delivering on the promise that it has offered for so long. Businesses looking to achieve high performance need to understand the drivers of, and limits to, India's growth story.

Figure 1a: World's largest economies (GDP at market exchange rates)

2006		2026
United States	1	United States
Japan	2	China
Germany	3	Japan
China	4	Germany
United Kingdom	5	India
France	6	United Kingdom
Italy	7	France
Canada	8	Russia
Spain	9	South Korea
Brazil	10	Canada
	...	
India	13	

Source: Economist Intelligence Unit

Figure 1b: Recent economic growth



Source: Economist Intelligence Unit

An economy running on two engines

India has been creating ripples across the global economy ever since its reform process began in 1991. The potential for growth is huge, thanks in no small part to the country's astounding demographics. In this decade alone, India will add another 130 million workers to the global labor market – more workers than Japan, Germany and Spain combined.

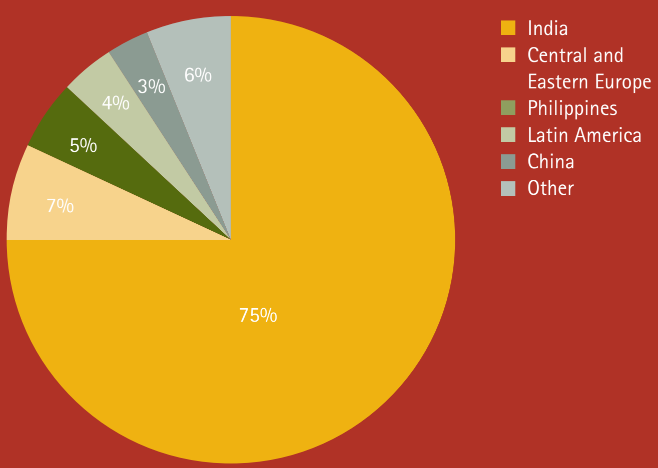
The size of the Indian economy has already doubled since 1991, driven by a proficiency in supplying services and, increasingly, products to the global economy. This has been India's primary engine for economic growth and is discussed in Part 1 of this paper.

India's second engine has been slower to warm up. Part 2 looks at how the growth of the domestic economy has been hampered by illiteracy, poor infrastructure, bureaucracy and corruption. However, the buoyancy and self-belief of the Indian business community is driving domestic businesses to grow and serve the country's burgeoning consumer markets.

Despite the slower growth of India's domestic economy, its potential is immense. Releasing this potential is essential for India to achieve sustainable long-term economic growth and generate the wealth needed to lift its population out of poverty. Part 3 explores the opportunities for future growth and highlights key industry sectors and market trends that business can capitalize on.

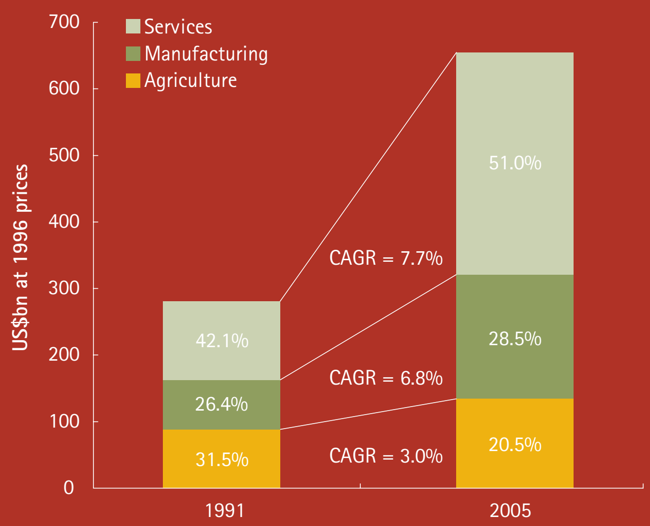
India's growth dynamics have been characterized by a separation of the global and domestic aspects of the economy, but continued growth will rely on their interdependence. It is the rising incomes of India's global-sourcing workforce that fuel the current domestic consumer boom. At the same time, it is India's budding new industries that will become tomorrow's suppliers to global markets. This publication looks at the trends, opportunities and challenges facing businesses looking to achieve high performance in both spheres as well as presenting an agenda for action.

Figure 2: Global sourcing IT services export share by region, 2004



Source: Economist Intelligence Unit

Figure 3: Economic growth by sector



Source: Economist Intelligence Unit

1.
India as a global sourcing hub

India boasts a few internationally-competitive industries upon which global markets have come to rely. Many of these industries have developed in new sectors and have therefore benefited from the absence of stifling bureaucracy and legislation that hamper more established industries.

Taking on the world in technology

India's most renowned success has been in the IT services and software industry, in particular systems integration and business process outsourcing. India has already captured 75 percent of worldwide global sourcing IT services exports (figure 2). Indian IT companies have irrevocably changed the nature of global competition and multinationals have been scrambling to take advantage of India's English-speaking labor force that is both highly-skilled and low-cost. India's National Association of Software and Service Companies (NASSCOM) has calculated that India is home to 28 percent of the suitable talent available across all global sourcing locations, and 80 of the world's 117 software companies that have attained the highest global quality standard are from India.[2] NASSCOM figures show that the IT sector has grown annually at about 30 percent over the last five years and exports will account for nearly 80 percent of total software and services revenue in 2006. Export sales are expected to hit US$60 billion in 2010.

A new center for pharmaceuticals

Another Indian success story has been the pharmaceutical industry, known for developing effective generic drugs that cost 20 to 40 percent of the prices charged in the West.[3] Low costs have made India the main supplier of anti-retroviral medicine to poor countries battling HIV/AIDS. India also boasts the second largest number of US Food and Drug Administration-approved laboratories and plants in the world,[4] and industry leaders are spending more on research and development (R&D) than ever before. Companies like Dr. Reddy's Laboratories already inject 15 percent of sales into R&D, a level comparable to Western drug companies. With R&D costs typically a fifth of those in the West, international drug manufacturers are already unearthing opportunities and carrying out clinical trials in India. The flow of research into India is expected to increase with the government's recent recognition of full product patents. This complements existing process patent recognition. However, neither measure addresses how efficiently these rights are enforced.

Moving up a gear in automotives and autoparts

Among the first to be deregulated, India's automotive industry has proven to be a promising sector for global success. Progressive liberalization and the import of technology have stimulated production, which will soon exceed 10 million vehicles per annum.[5] Global automakers such as BMW are moving manufacturing operations into India, while Indian autoparts companies like Bharat Forge are now among the global leaders, driving India's autoparts export market past the US$1 billion mark in 2004, after six years of 19 percent annual compound growth.[6]

India's recent record of supplying global markets with high-quality, low-cost services and products is highly impressive. Continued success will rely on a fast-growing domestic economy to act as a pipeline for skills and resources to maintain India's competitive advantage over other global suppliers.

The global sourcing hub – emerging threats and required responses

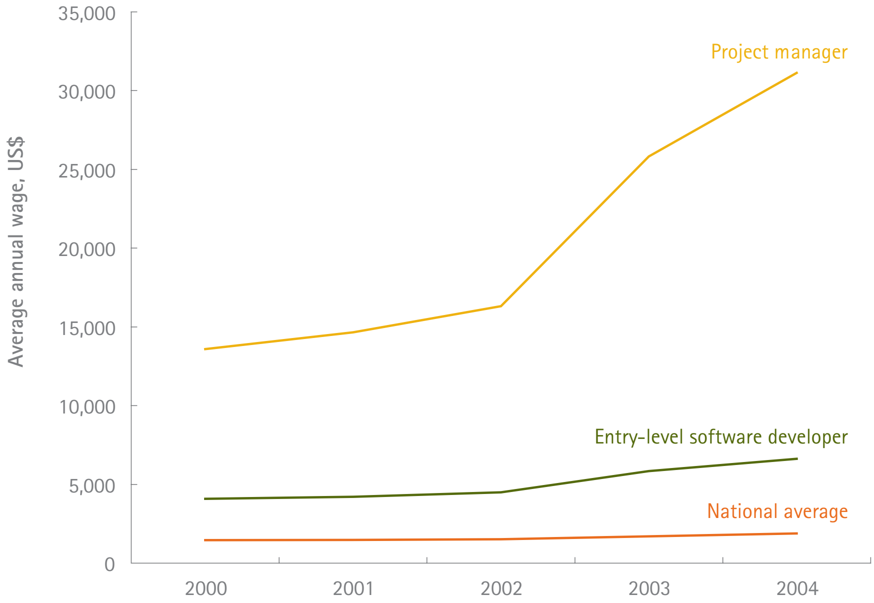
Beyond the challenges of operating in India's complex and fast-evolving markets, two emerging issues demand immediate action from companies involved in India's global-sourcing sector: talent and global competition.

The talent squeeze

The success of the Indian global-sourcing economy has been rapid – so rapid, that other parts of the Indian economy have had trouble keeping up. In particular, there is a threat of labor shortages as the education system struggles to supply the required pipeline of highly-skilled workers. This in turn is driving up wages and beginning to erode India's cost advantage that lies at the heart of its global success. The salaries of Indian IT engineers have reportedly quadrupled over the last five years and although they remain about a quarter of US levels, this is narrowing India's competitive advantage over other emerging economies.[7] Hewitt Associates have predicted a 13.7 percent average salary rise in 2006, with IT companies representing the second highest sector, at 16 percent. Despite the fact that India produces the second largest number of engineering graduates in the world (320,000, with an annual 20 percent increase), a survey by NASSCOM found that the quantity is not always matched by quality, with two-thirds of engineering graduates "unable to make a satisfactory contribution due to a lack of analytical or linguistic skills".[8] NASSCOM also estimates attrition rates of 30 percent (compared to 10-15 percent in China) as young graduates "job-hop" to yet higher compensation levels.

Already, Indian firms and multinationals are looking beyond existing Indian global sourcing hubs into other Indian states as well as to cheaper locations outside India such as China. In June 2005, for example, Tata Consulting Services and Microsoft launched an IT-outsourcing company in China.

Figure 4: Wage inflation



Sources: Economist Intelligence Unit and National Association of Software and Service Companies

Response

For companies striving to achieve high performance in this competitive environment there is a premium on building strong capabilities in hiring, training and retaining. Actions can be taken to set up a "talent multiplier" dynamic that builds on the energy and enthusiasm of the employees.

First, hiring strategies should take into account less traditional sources of supply where competitive advantage remains stronger. For example, companies can target recruits from upcoming regions where salaries have not escalated as quickly. They can also target the enormous pool of Indian students studying and building high-level skills abroad. More generally, corporations should grasp opportunities to collaborate on initiatives that will raise the profile of their industry, which can be done individually or through established institutions like NASSCOM.

Second, training at both professional and earlier levels is essential to ensure that workers keep developing and updating the appropriate skills, but a dedicated training program also acts as an important differentiator to attract recruits. Companies in India's IT and software sector have realized the importance of going beyond internal training to setting up their own educational institutions to develop their own future labor pools. At Accenture, we are trying to go one step further, facilitating a deeper understanding of Human Resources (HR) management by setting up an HR Academy with XLRI (one of the oldest management institutes in India), with a special focus on the IT and business process outsourcing industries. The program includes training and development, career and performance management, rewards and compensation, organizational behavior as well as financial and legal aspects of HR management.

Last, retention is an often-overlooked but critical capability in India's war for talent. Identifying and keeping hold of top recruits is an ongoing challenge for companies around the world. Beyond pecuniary rewards, employees must be convinced that a company offers them an enriching, long-term career with a clear path toward greater experience, knowledge and responsibility. For companies with global operations, this means providing opportunities for international rotations and exposure to diverse working experiences.

Global competition

India's success in providing higher-value-added services to the world represents an anomaly among emerging economies, whose economic development has traditionally been led by manufacturing in the early stages. At the same time, other emerging economies are aspiring to replicate this success, building their service sectors as a symbol of advancement. China has specifically targeted diversification away from manufacturing and toward services as a key part of its development strategy. Having set the example, India now finds itself facing increasing competition from developing countries that are competing to service the same global markets, often at a lower cost. In response, India is attempting to push itself yet further up the value chain. At the same time, the government is mindful of the need to improve India's capabilities in lower parts of the value chain, specifically manufacturing, to provide large-scale employment and growth.

Meanwhile, at the opposite end of the spectrum, developed economies are reacting to the increasing threat from India and other emerging economies by highlighting the need to innovate into even higher-value-added markets. This leaves India competing on multiple fronts, in different economic segments and geographic markets.

Response

Creating a global innovation hub

A focus on R&D and innovation is imperative if India is to remain competitive on the global stage. While most Indian firms spend less than 1 percent of their sales on R&D,[9] IT services, software and pharmaceutical companies are adjusting to the need for more extensive R&D efforts. Automakers have also maintained high R&D budgets, but rather than spending on research, they focus on product development, modifying existing models for better performance. Despite this progress, most Indian companies have yet to master the ability to commercialize research, often turning to US or European firms to translate their ideas into profitable products.

For multinationals, taking R&D to India makes sense. Goldman Sachs estimates that India's R&D costs are one-eighth of Western levels. Beyond cost incentives, tailoring products for Indian consumers from inception to launch enables global players to seize a larger share of one of the world's fastest growing markets. The number of Indian engineering colleges will likely double to 1,000 by 2010[10] and links between corporations and academic institutions are strengthening. The "brain drain" is becoming a "brain gain," as foreigners and diasporan Indians are attracted by India's job prospects, providing local businesses with access to capital, talent and relationships. Crucially, India's enforcement of intellectual property rights is also improving. The country has been identified as an emerging hub for collaborative and outsourced R&D with 2,000 software patent applications being filed in 2005 (as many as the cumulative figure for 2000-2003), with 85 percent of these filed by multinationals.[11] Over 225 of the Fortune 500 companies have R&D and product design centers in India.[12]

Filling in the gaps

India's government is well aware of the need to boost its manufacturing sector and is trying to initiate policies to grow production. Building capabilities in these lower-value-adding sectors is essential to provide jobs and income to India's poor. Despite the difficult environment, some Indian manufacturing companies and industries have managed to achieve global success. Bharat Forge, for example, is India's largest auto-components company and has recently acquired its sixth company in two years, in four different countries. But manufacturing, unlike the services industry, relies on serious and immediate improvements in India's domestic environment and, most critically, its infrastructure.

India's "global sourcing" model has already altered the structure of the IT industry irrevocably and has played a pioneering role in the development of 21st century business models. The growth of India's domestic markets promises a healthy future for these businesses. However, maintaining a leadership position requires immediate action in response to new market challenges.

2.
Domestic economy

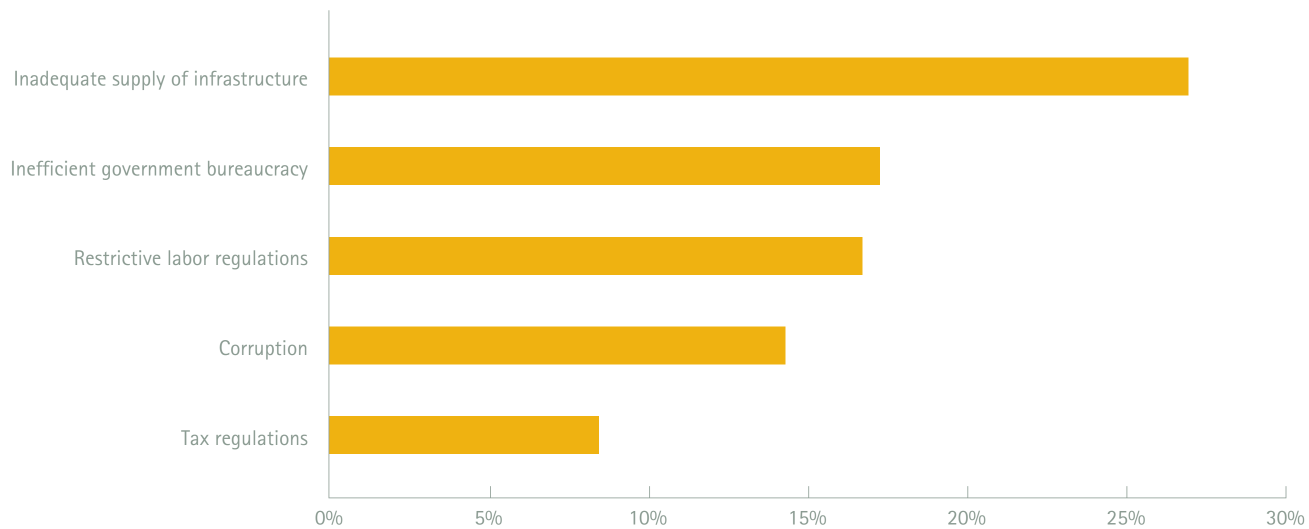
Though highly successful, the IT software and services sector only employs a fraction of a percent of the Indian population. India's future success relies on improvements in the domestic economy.

India's shackles

While Indian companies have found great success as suppliers of services to global markets, progress within India's domestic economy has proven to be more challenging. Underdeveloped infrastructure, including potholed highways, chaotic ports and airports and unreliable power supplies, has greatly hindered growth. The World Bank estimates that commercial losses in the Indian power sector alone amount to US$3 billion a year.[13] Up to 40 percent of electricity generated is believed to end up lost in transmission.[14] The average Indian business faces 17 power outages a month, and over 60 percent already run their own generators. An estimated US$150 billion is required to address the problem of infrastructure,[15] with current major programs focussed on India's roads, ports, water systems and electricity distribution networks. With most programs likely to be public-private partnerships, foreign and local companies are looking for opportunities in the form of government contracts and subsidies.

Unwieldy bureaucracy also suppresses successful business in India. The International Finance Corporation ranks India 116th among world economies in terms of "ease of doing business" (compared to 91st for China), with Indian managers spending over 14 percent of their time dealing with regulatory issues.[16] Inflexible labor regulations have held back foreign investment, and corruption is an everyday reality. The extent of red tape and corruption varies across India's states, creating unevenness in investment climates.

Figure 5: Top five problems facing businesses in India



Note: Respondents were asked to select the five most problematic factors for doing business in India. The bars show the responses weighted according to their rankings.

Source: World Economic Forum, The Global Competitiveness Report 2005-2006. Hampshire: Palgrave Macmillan.

The role of politics & reform

Two sides of the coin: India's healthy, inclusive, consensus-based model of democracy brings with it a negative flip-side of extended decision processes and unpredictable timelines.

Following decades of inward-looking economic policies, India began its reform process in 1991. Since then, industries have progressively been privatized and the government has opened up certain sectors of the economy to foreign direct investment (FDI). The country's subsequent entry into the global economy has caused ripples at macroeconomic and geopolitical levels.

The coalition government, now led by Manmohan Singh – the former Finance Minister responsible for launching India's reforms – has agriculture high on the agenda, with a focus on agribusiness and food processing to raise farm efficiency. Improvements in national infrastructure, health and education are also targeted. The 2006 annual budget allotted US$4.2 billion to rural infrastructure and US$3.2 billion to rural employment, with plans to spend US$40 billion by 2009 on bringing electricity and drinking water to villages. The 2006 health and education budgets are due to increase by 22 percent and 31.5 percent respectively.

The Indian government's reform objectives are sound and the business community's natural entrepreneurial spirit is driving the reform agenda in a positive direction. Yet despite these forces, cumbersome bureaucracy and political barriers act as significant obstacles to progress. If India is to swiftly tackle its dire poverty and unemployment and achieve the 10 percent growth envisioned by Prime Minister Singh, increased and accelerated reform is critical.

More recently, pressure from the political left, which provides the coalition government with crucial support, has forced the government to slow its reforms. This bloc prevented the relaxation of labor rules within India's Special Economic Zones and countered plans to sell stakes in 13 major state-owned companies. Opposition to reform is likely to remain short term as divisions within the leftwing parties are expected to surface after regional elections in April 2006. Curiously, despite the general leftist anti-reform tendency, future prospects are also strengthened by a core in the Communist Party developing a pro-reform stance. Overall, few would have expected a coalition government with such a diversity of views to be as successful as it has.

Deregulation is expected to gradually spark competition and growth in India, sector-by-sector. Those industries that have seen deregulation have been highly successful. The aviation industry has expanded capacity for domestic airlines, particularly in the budget flight sector, and the number of Indian carriers has increased from one to eight since 1991. The number of domestic passengers is rising at about 25 percent a year and is expected to grow from around 20 million a year now to 50 million a year in five years' time.[17] The telecoms sector is also expanding rapidly. The mobile phone market is already dominated by the private sector and the number of subscribers is set to increase nearly five-fold to 358 million by 2011,[18] having added more than 60 million mobile phone users since 1995.[19]

India's reform process requires participation and collaboration from all parts of society, including business, politics and civil society. India's institutions and culture are consensual in nature and lend themselves to public-private partnerships. Business should capitalize on this opportunity to provide productive and constructive direction to the reform process, allowing true win-win outcomes for all sections of Indian society. More than most other emerging economies, Indian business has already shown that it has the energy and motivation to achieve this. Equally, the government has shown its willingness to work with the private sector.

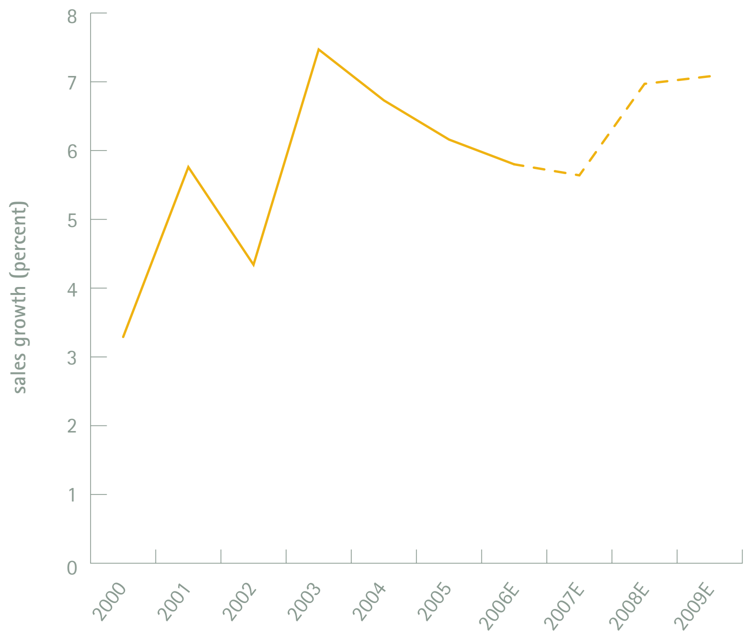
Beyond the operations of Indian businesses, an important part of India's reform program that will boost growth is the long-awaited relaxation of strict caps on FDI. Apart from bringing much-needed investment, this will encourage the transfer of talent and knowledge into the country as well as providing new business opportunities. The government has expressed its willingness to open its borders to more FDI, but the process will be incremental. For example, the retail industry was recently opened to 51 percent foreign ownership, though this is still restricted to single-brand outlets. Multinationals looking for these opportunities should keep an eye on the progress of India's reforms and press the government for relaxation of its regulations and reduction of bureaucracy and corruption.

3.
Revving up for the future

The Indian economy has clearly turned a corner. Indian business is no longer synonymous with call centers alone. A new sense of confidence is apparent from the government and from businesses in India and abroad. India's manufacturing resurgence and budding consumer markets are ready to yield very tangible benefits to the country's population and to people around the world.

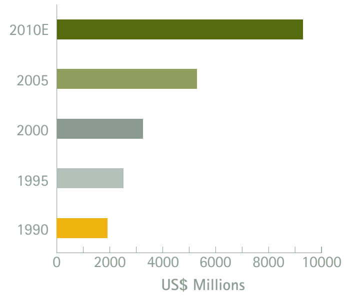
Brimming business confidence

Figure 6a: Retail sales growth (percent)



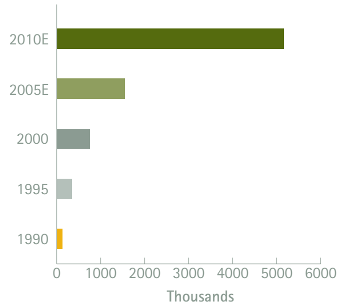
Source: Economist Intelligence Unit

Figure 6b: Pharmaceuticals sales



Source: Economist Intelligence Unit

Figure 6c: Passenger car production



Source: Economist Intelligence Unit

Paradoxically, the recent disruptions to the reform process have been accompanied by a growing sense of confidence within the Indian business community. India's economic growth rate rose from 3 to 4 percent a year in the four decades before reform to 7 percent today. Surveys reflect a growing sense of self-confidence among Indian businesspeople and entrepreneurs who realize that they can hold their ground against foreign competition and achieve international success in many domains. Manufacturers are building up their capacity and major Indian companies are strutting onto the global stage, even talking of leveraged buyouts of ailing global corporations.

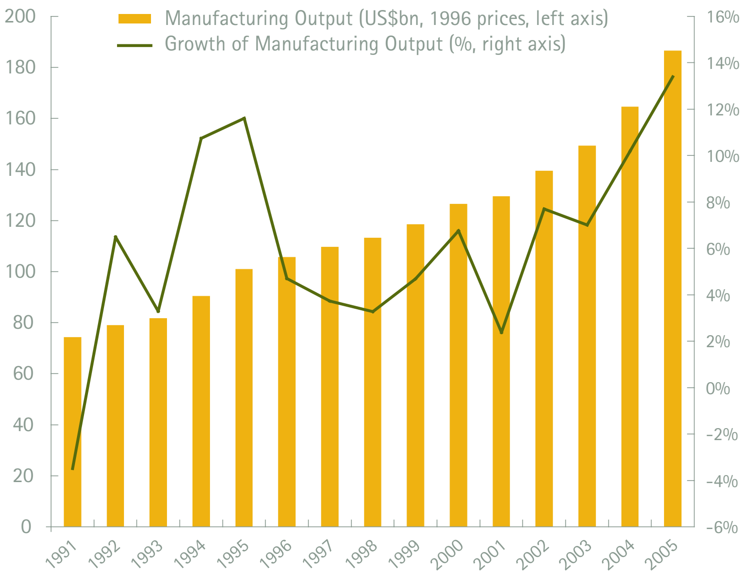
Success in India will depend on companies identifying the favored industries of the future. For example, biotechnology is due to grow five-fold to US$5 billion by 2010,[20] fueled by a supportive government and a large pool of cheap, qualified chemical engineers. The media and entertainment industry has just received a round of capital infusion from initial public offerings and private equity. This market was recently opened to minority foreign ownership and has room for significant growth. India's retail sector is also booming with a currently fragmented retail industry giving way to more organized retailing – large premises and supermarkets – that is expected to constitute up to 20 percent of retail sales by 2010.[21] The first opportunities will be in the food and groceries market in big cities. Indian retailers are well-positioned to seize this opportunity as foreign players still face ownership restrictions, despite recent relaxations of regulations.

Retail banking is also expected to grow quickly, with total bank assets increasing by 16 percent in 2004 and 21 percent in 2005.[22] Demand for private banking and financial services will also increase as incomes increase. In February 2005, the Reserve Bank of India laid out a roadmap for deregulating the banking sector by 2009. Serious reform is required over the next few years to tackle regulatory issues and the enormously complex and restrictive controls on both Indian and foreign companies. Currently, domestic players dominate the retail loan market and 27 state banks control more than three-quarters of all bank assets and liabilities.[23] The government is keen to see serious consolidation in the banking sector to build competitive Indian firms before exposing them to foreign competition. Despite the generally positive government rhetoric and minor relaxations of policy, foreign ownership restrictions are expected to remain in place until the 2009 policy review and until significant consolidation has taken place.

India's small-car market is the second largest in the world, trailing only Japan.[24] With only about seven cars per 1,000 people[25] (compared with 750 in the United States), domestic growth prospects are impressive. Recent performance has been encouraging despite problems like unreliable component suppliers and deficient infrastructure. Passenger vehicle sales grew by nearly 50 percent from 2004 to 2005[26] and new models are entering the market.

Manufacturing's long-awaited resurgence

Figure 7: Manufacturing output and growth



Source: Economist Intelligence Unit

Poor infrastructure and bureaucracy have played important roles in holding back the growth of India's manufacturing sector. Manufacturing is essential to absorb excess labor released from farming and to drive the levels of growth needed to sustain a country with more than a billion people. In 2005, manufacturing was estimated at only 28 percent of India's GDP as compared with 53 percent in China.[27] The magnitude of India's manufacturing and infrastructure deficits are so onerous that government action is essential to unlock the potential growth, create jobs and alleviate poverty.

But India's manufacturing sector is definitely picking up, estimated to have grown by more than 13 percent in 2005 (figure 7). Some manufacturing companies have managed to transform themselves through product design, labor efficiency and capital expansion projects. Productivity has surged as a result – Tata Motors more than doubled its production between 1999 and 2004 with 40 percent less labor.[28] Encouraged by improved performance, Indian manufacturers are expanding their operations abroad and acquiring foreign brands, such as the Apeejay Surrendra Group's recent purchase of the Typhoo tea brand for $US140 million and Mahindra and Mahindra's acquisition of the Stokes Group (the UK's largest automotive forging company). This progress is also attracting the attention of multinationals that increasingly see India as a legitimate competitor to China for global sourcing in manufacturing, with companies like Nokia, BMW, Toyota, LG Electronics, Samsung and even Wal-Mart all planning to move more of their production to India. India's competitive advantage over other Asian low-cost economies lies in its access to better skills and technology, which have gained increasing importance in manufacturing.

As the manufacturing sector continues its long-awaited resurgence, India must be aware of the broader implications of this shift. Recent free trade agreements that open the Indian market to competitive imports from countries such as Singapore and Thailand may undermine manufacturing growth prospects. Also, as manufacturing increases, so will India's energy requirements. With resources already squeezed, India is on a global hunt for energy to fuel its growth, putting it in direct competition with other resource-hungry nations including China and the United States. China and India have made recent efforts to cooperate in their pursuit of energy security in order to avoid driving up the cost of global energy assets, but competitive pressures cannot be overcome in the long term.

Consumer markets

Figure 8: Changing consumer dynamics

Annual household incomes (US$), Households (millions)

The Classes	1995	2000	2005	2010
Affluent (more than US$10,000)	0.6	0.8	2.4	7.9
Consuming (US$3,000 - US$10,000)	11.8	17.2	47.3	115.5
Struggling (US$1,000 - US$3,000)	104.6	126.3	146.9	97.3
Impoverished (less than US$1,000)	50.6	44.1	9.7	negligible
Total	**167.6**	**188.3**	**206.3**	**220.7**

Source: Economist Intelligence Unit, Accenture analysis

It has proven very difficult to measure the size of India's "consumer class" and to understand what their demands will be. There will be a Western influence, but companies would be ill-advised to treat India's consumers like those of America or Europe. The bulk of India's consumers will have a very different set of values and tastes and, indeed, these will vary greatly by region, as with everything in India. That said, the sheer size of the potential markets cannot be ignored.

India's new consumers, like its business leaders, display a sense of assurance about the future. Indian households now have higher purchasing power than ever. Personal disposable incomes surged by 42 percent between 1999 and 2003 in local currency terms,[29] and borrowing has increased as credit has become readily available and debt more acceptable. There are now nearly 15 million credit cards in India[30] and 80 percent of car purchases are financed through loans.[31] India's consumer market has become a ripe proposition for multinationals, particularly compared with China, which must overcome structural banking and credit issues.

With 70 percent of the country's citizens below 36, young people in particular are at the forefront of the country's new brand-aware consumer culture. Foreign companies have been excited by India's potential consumer spending figures for years, particularly following the high spending growth from 1993 to 1998. But many had their fingers burnt by the ensuing slow growth. Since then, higher incomes, falling interest rates, credit availability and improvements in variety, price and quality have led to a more secure consumer base. That said, having the right strategy and targeting the right customer segments remains key in India's fickle markets. As companies such as Nokia, LG and Hindustan Lever have found, success in India requires high quality products and services that are tailored for the local environment, all served at a very competitive price.

India's unique population dynamics offer further new and exciting opportunities. Social entrepreneurs and businesses are increasingly investing in the development of innovative business models that will service India's enormous low-income population. The Aravind Eye Hospital carries out 190,000 operations a year, offering affordable rates for patients at all income levels. Profits are being made from designing high quality, low-cost products specifically to cater for low-income consumers. Computers and prosthetic body parts are available to Indians at a fraction of the cost in the West, thanks to innovative indigenous designs. As more of these products and services are proven to be successful, more businesses will be drawn into the high-volume opportunities that this market offers. Successful business models can then be replicated in other countries with large low-income populations. Innovation out of necessity may well generate some of tomorrow's successful global businesses.

Both foreign and Indian companies are benefiting from India's new era of prosperity. The government is doing a better job of working with the private sector to create a more enabling environment for business. The potential for Indian industry is enormous, as are the opportunities for foreign companies willing to serve India's consumer markets. In turn, this creates a positive dynamic in the drive to raise living standards throughout the country. The appetite for further growth appears to be present on all sides. The challenge will be to accelerate implementation.

An agenda for action

Achieving high performance in a rapidly-evolving market like India's requires the ability to identify important market-shaping trends, interpreting the implications of these trends and turning these insights into action. This is true for both Indian and foreign businesses looking to gain market share in India. Where the policy environment needs adjustment, the private sector should present a coherent and united front, working through institutions like the Confederation of Indian Industry and NASSCOM to multiply their voices and weight.

For its part, the Indian government is forward looking and ambitious, which are important pre-requisites in tackling the enormous challenges that the country faces. An equally important characteristic is the capability to understand how best to elicit and utilize the private sector's skills and resources. In particular, the vast and diverse nature of the country means that many problems are of such a large scale that solving them quickly and effectively requires technology, expertise and experience that only reside within the private sector.

India's economic progress requires committed action from both the private and public sectors. There is significant room for cooperation between the two due to a number of shared ambitions. Concentrating on these joint objectives allows us to identify some of the most salient opportunities for immediate action:

Infrastructure

Infrastructure is a critical area where public and private interests converge in the need for more efficient ports and airports, effective transport systems (including roads) and Special Economic Zones (SEZs) that provide a useful focus for initial planning and development. Technology can play an important role in managing complex logistical programs such as congestion management.

Education

India's demographic prospects are only of benefit if they are accompanied by an education system of sufficient size and quality to develop a productively employed population. High-skill sectors are already facing labor shortages and business growth depends on a pipeline of skills at every level, from basic literacy to advanced technical skills. Skill transfer on this scale requires participation from both private and public sectors and innovative solutions like e-learning offer efficient, high-impact opportunities for progress.

Innovation

India's need to establish itself as a hub for innovation and value-added research is an important part of its ability to compete in tomorrow's global markets. SEZs provide a particularly effective environment for nurturing and propagating these capabilities, but a critical capability for Indian companies is to translate these ideas into commercial success.

Labor Markets

Improving labor mobility and flexibility is a politically sensitive issue. But, if applied with parallel policies in education, training and job creation, the rate of economic and social growth in India could be significantly improved, along with unemployment figures. In the meantime, restrictions on labor flexibility are fast becoming one of the biggest obstacles to business growth in India.

Foreign Investment

The flow of foreign investment into India has increased substantially over the last couple of years, but still remains low compared to China and Singapore. On one hand, the government is making enormous efforts to attract further FDI. On the other hand, restrictive caps remain on key industries. Reform will eventually come, but in the meantime India will be losing valuable resources and skills that can only boost the performance of the economy.

Bureaucracy

Challenges on the scale of India's burdensome bureaucracy require large-scale solutions that are sensitively implemented to have minimal negative impact on employment. A key enabling tool to solve India's governance inefficiencies while improving skill levels is technology. India is in a strong position to leapfrog over more advanced economies in implementing e-government solutions that tackle the complex layers of state, national and district government regulations.

Transparency

Corruption in the interaction between businesses and with government bodies automatically creates an inefficient business environment. Importantly, corruption is a significant obstacle to attracting foreign investment, but it also means that India's domestic markets will remain inefficient and growth levels stifled. Both domestic and international businesses must work in collaboration with India's government to implement workable solutions that provide appropriate incentives for improved transparency.

Conclusion

India faces serious challenges but has the potential to be one of the great success stories of the early 21st century. The attention that India has received in the business world is well-deserved, but to achieve high performance it is important to understand the complexities and subtleties within the Indian economy.

The global-sourcing models developed in India have provided great opportunities for companies around the world. However, India's global-sourcing industry now faces new issues such as wage inflation, a global war for talent and increasing low-cost foreign competition. Equally, as India attempts to enter higher-margin markets, it finds increasing competition from the developed world.

Meanwhile, on the domestic front we are finally seeing the emergence of new consumer and manufacturing markets that promise a brighter future for India's own population. Continued domestic growth will also increase the pipeline of Indian goods and services to the global economy. However, as long as the reform agenda continues to be hampered by bureaucracy and political wrangling, progress will be slow in developing infrastructure and improving levels of basic education and poverty.

There is no question that India faces some serious challenges. Yet, thanks to the dynamism of its workforce, highly-educated political and business leaders, globally-successful trailblazers in business and an optimistic and confident business environment, progress seems unstoppable, if at times unhurried. The Indian elephant may be lumbering, but it continues to march forward… and is not easy to halt.

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