

IRAQ: HEADING FOR HOLY WAR?



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The New INDIA

Is Asia's Other Powerhouse Ready for Its Moment in The Sun?

By Fareed Zakaria



Actress Padma Lakshmi

PHOTOGRAPH BY NIGEL PARRY

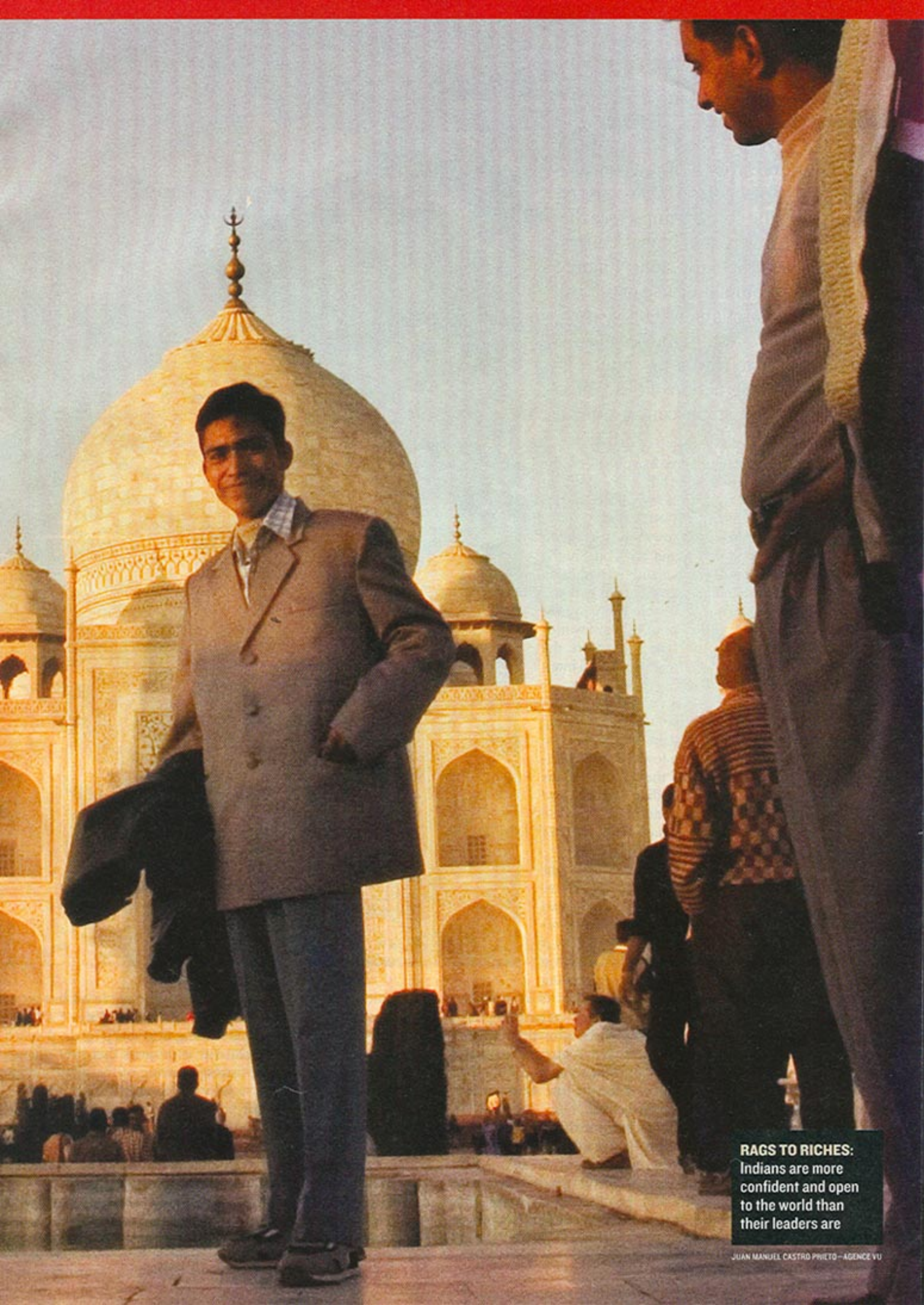


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| Albania | Lek 600 | Finland | €4.10 | Israel | NIS 19.00 | Norway | Kr 40.00 | Slovenia | SIT 630 |
| Austria | €4.10 | France | €4.10 | Italy | €4.10 | Poland (incl. tax) | PLN 11.30 | Spain | €4.10 |
| Belgium | €4.10 | Germany | €4.10 | Kazakhstan | \$4.30 | Portugal Cont | €4.10 | Sweden | SKr 33.00 |
| Bulgaria | BGL 4.50 | Gibraltar | € 2.80 | Latvia | \$4.30 | Romania | Lei 10.65 | Switzerland | SF 7.20 |
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Special Report

INDIA RISING

Messy, raucous, democratic India is growing fast, and now may partner up with the world's richest democracy—America.



RAGS TO RICHES:
Indians are more
confident and open
to the world than
their leaders are

BY FAREED ZAKARIA

EVERY YEAR AT THE World Economic Forum in Davos, there's a star. Not a person but a country. One country impresses the gathering of global leaders because of a particularly smart Finance minister or a compelling tale of reform or even a glamorous gala. This year there was no contest. In the decade that I've been going to Davos, no country has captured the imagination of the conference and dominated the conversation as India in 2006.

It was not a matter of chance. As you got off the plane in Zurich, there were large billboards extolling INCREDIBLE INDIA. Davos itself was plastered with signs. WORLD'S FASTEST GROWING FREE MARKET DEMOCRACY! proclaimed the town's buses. When you got to your room, you found an iPod Shuffle loaded with Bollywood songs, and a pashmina shawl, gifts from the Indian delegation. When you entered the meeting rooms, you were likely to hear an Indian voice, one of the dozens of CEOs of world-class Indian companies. And then there were the government officials, India's "Dream Team," all intelligent and articulate, and all selling their country.

The Forum's main social event was an Indian extravaganza, with a bevy of Indian beauties dancing to pulsating Hindi tunes against an electric blue Taj Mahal. The guests joined in the festivities. The impeccably dressed chairman of the Forum, Klaus Schwab, donned a colorful Indian turban and shawl, nibbled on chicken tikka and talked up the country's prospects with Michael Dell. INDIA EVERYWHERE, said the ubiquitous logo. It was.

And everyone now is in India—most significantly, of course, George W. Bush, who will arrive there on March 1. Jacques Chirac was there two weeks ago. (So was Bill Clinton, who can't stop returning to the country.) Two weeks before that it was Saudi Arabia's newly crowned monarch, King Abdullah. The week after Bush leaves, Australian Prime Minister John Howard arrives. And that's all in six weeks. The world—and particularly the United States—is courting India as it never has before. Fascinated by the new growth story, perhaps wary of Asia's Chinese superpower, searching to hedge some bets, the world has woken up to India's potential. But does it really know this complex, diverse country? Just as important, does India know what it wants of the world?

The marketing slogans wouldn't work if there were no substance behind them. Over the past 15 years, India has been the second fastest-growing country in the world—after China—averaging above 6 percent growth per year. Growth accelerated to 7.5 percent last year and will probably hold at the same pace this year. Many observers believe that India could well expand at this higher rate for the next decade.



While China's rise is already here and palpable—it has grown at almost 10 percent since 1980—India's is still more a tale of the future, but a future that is coming into sharp focus. A much-cited 2003 study by Goldman Sachs projects that over the next 50 years, India will be the fastest-growing of the world's major economies (largely because its work force will not age as fast as the others). The report calculates that in 10 years India's economy will be larger than Italy's and in 15 years will have overtaken Britain's. By 2040 it will boast the world's third largest economy. By 2050 it will be five times the size of Japan's and its per capita income will have risen to 35 times its current level. Predictions like these are a treacherous business, though it's worth noting that India's current growth rate is actually higher than the study assumed.



Over 125
Fortune 500
firms now
have R&D
bases in
India.

Expected 2040 rank
among world economies:

No. 3

Year of India's most
recent nuclear tests:

1998



TWO WORLDS COLLIDE:
A bustling Mumbai market
(left); India makes a strong
impression at Davos (above)

EVEN THE HERE AND NOW IS IMPRESSIVE. INDIAN companies are growing at an extraordinary pace, posting yearly gains of 15, 20 and 25 percent. The Tata group, the country's largest business house, is a far-flung conglomerate that makes everything from cars and steel to software and consulting systems. In this sense, it is a useful window on India's industrial and postindustrial economy. Its revenues grew last year from \$17 billion to \$24 billion—and it is heading for extremely strong growth this year. At another end of the scale, the automobile-parts business is made up of hundreds of small companies. Five years ago the industry's total revenues were \$4 billion. This year they will exceed \$10 billion. In 2008, General Motors alone will import \$1 billion of auto components from India.

That's outsourcing—as it is any time an American company buys goods or services from abroad. It's also called trade or globalization or capitalism. Those who want to stop it—and it's not clear how you could do that—should remember that the United States' prosperity has come from its very willingness to open itself up to the world. Over the last 60 years, manufacturing employment in the United States has plummeted as those industries went abroad—and yet average American incomes have risen to be the highest in the world. Over the last 20 years, as globalization has quickened, American companies have outsourced first goods, then services—and American incomes have risen faster than those of any other major industrial country. Banning auto-parts factories or call centers will not save General Motors. Globalization highlights some problems for America, but the solutions are all at

WHY INDIA'S HOT...

The growth of the Internet, a young, English-speaking work force with high-tech skills, and a new openness to foreign investment all make India a top choice for foreign companies looking to outsource work that used to be done at home.



Playing Favorites

India has passed the U.S. as a preferred spot to invest in.

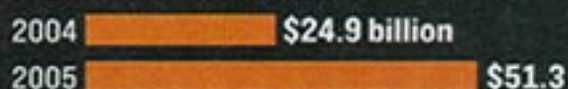
AT KEARNEY FDI CONFIDENCE INDEX

| 2004 | 2005 |
|----------|----------|
| 1. China | 1. China |
| 2. U.S. | 2. India |
| 3. India | 3. U.S. |

Adding Value

Services—including information technology, finance and R&D—employ 25% of Indian workers, but generate almost half of GDP.

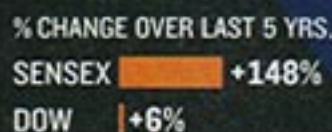
BUSINESS-SERVICES EXPORTS



Local Heroes

Foreign investment isn't the only thing driving growth. Homegrown successes like tech companies Infosys and Wipro, and industrial conglomerate Tata, rank with the most prestigious companies in the world. And the world is taking notice:

Japanese investors have poured **\$1.5 billion** into India's financial markets in the last six months, helping to keep the Bombay Stock Exchange's Sensex index red-hot.



Even though most Indians remain poor, the country's huge size yields a consumer market of **300 million** people, about the same size as that of the U.S. And this new consumer society is helping revolutionize life in what's long been a traditional and conservative society.

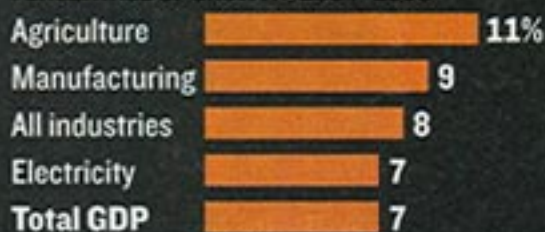


An American-style restaurant

Spreading the Wealth

Call centers get the attention, but other parts of India's economy are heating up, too.

PERCENTAGE OF GROWTH, 2004-2005



Doing Deals

- **BMW** is investing **\$23 million** in a new assembly plant in Chennai to build its 3-Series and 5-Series cars.
- **Cisco** plans to invest **\$1.1 billion** in the next three years. The company's Bangalore office is already a major R&D hub.
- **Nokia** is spending **\$100 million-\$150 million** to expand production facilities in India.



Tata car and truck factory

home. As they have in the past, Americans must—and can—make goods and services that people will pay for freely, not because the government forces them to by shutting out the competition. That is the only stable path to economic security.

At this point, anyone who has actually been to India will probably be puzzled. "India?" he or she will say. "With its dilapidated airports, crumbling roads, vast slums and impoverished villages? We're talking about that India?" Yes, that, too, is India. The country might have several Silicon Valleys, but it also has three Nigerias within it, more than 300 million people living on less than a dollar a day. India is home to 40 percent of the world's poor and has the world's second largest HIV population. But that is the familiar India, the India of poverty and disease. The India of the future contains all this but also something new. You can feel the change even in the midst of the slums.

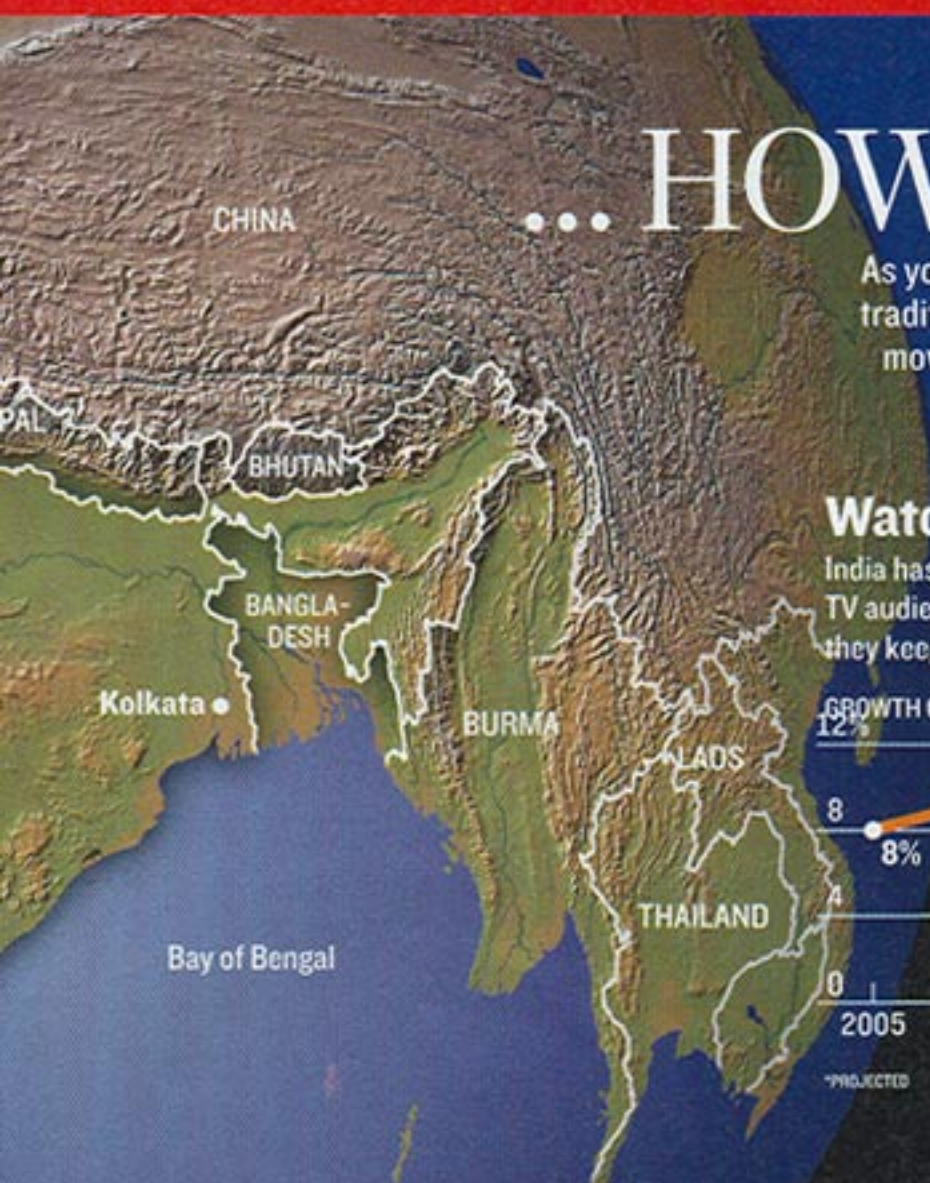
To new visitors, it won't look pretty. Many Western businessmen go to India expecting it to be the next China. But it never will

be that. China's growth is a product of its efficient, all-powerful government. Beijing decides the country needs new airports, eight-lane highways, gleaming industrial parks—and they are built within months. It courts multinationals and provides them with permits and facilities within days. It looks good and, in many ways, it is that good, having produced the most successful case of economic development in human history.

India's growth is messy, chaotic and largely unplanned. It is not top-down but bottom-up. It is happening not because of the government, but largely despite it. India does not have Beijing and Shanghai's gleaming infrastructure, and it does not have a government that rolls out the red carpet for foreign investment—no government in democratic India would have those kinds of powers anyway. But it has vast and growing numbers of entrepreneurs who want to make money. And somehow they find a way to do it, overcoming the obstacles, bypassing the bureaucracy. "The government sleeps at night and the economy grows,"

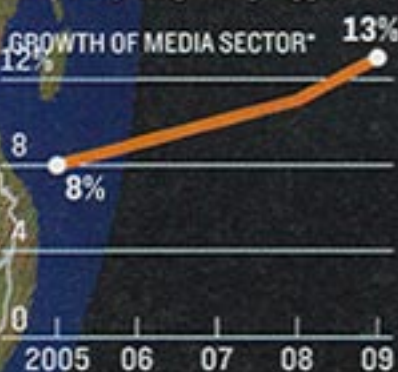
...HOW IT'S CHANGING

As young people make more money than their parents, they're less willing to obey traditional rules about sex and dating. More women are staying single. Bollywood movies, TV and magazines are getting spicier. And everybody is going shopping.



Watching It

India has the biggest movie and TV audiences in the world, and they keep on getting bigger.



Basant Lok Mall, New Delhi



Spending to Dress and Impress

Retail sales are rising at 28% per year as malls proliferate. Here are some of upwardly mobile India's favorite splurges:

- **Luxuries:** India's \$14 billion luxury-goods market has lured international brands like Omega, Rolex, Tag Heuer and Cartier, which target twenty- and thirtysomethings with upscale tastes. They may want to broaden their reach: 43% of all Indians polled said they'd pay more for big brand names.
- **Phones:** 80 million Indians have mobile phones, and 2.5 million new customers sign up every month. Phones are status symbols, none more than Nokia's \$39,000 Vertu Signature White Platinum, aimed specifically at Indians.
- **Travel:** The number of Indian air travelers is up 125% since 2003, and travel agents pitch European holidays to middle-class families, who pay on the installment plan.



Actress Bhairavi Goswami

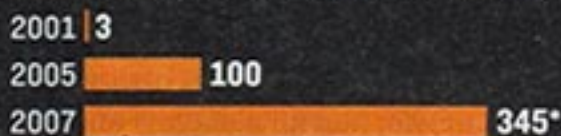
Living Free

Traditional assumptions about women's roles in the home and family are breaking down.

- **Jobs:** Call centers challenge taboos by making young men and women work nights together. The workers adopt American diction and attitudes to deal with U.S. customers.
- **Romance:** Taboos against premarital sex are falling away among some sectors of Indian society, and dissatisfied wives are increasingly seeking professional help or having affairs.

Getting Malled

The number of shopping centers is exploding.



-JOHN SPARKS

says Gurcharan Das, former CEO of Procter & Gamble in India.

THERE ARE SOME WHO ARGUE THAT INDIA'S PATH has distinct advantages. MIT's Yasheng Huang points out that India's companies use their capital far more efficiently than China's; they benchmark to global standards and are better managed than Chinese firms. Despite being much poorer than China, India has produced dozens of world-class companies like Infosys, Ranbaxy and Reliance. Huang attributes this difference to the fact that India has a real and deep private sector (unlike China's many state-owned and state-funded companies), a clean, well-regulated financial system and the sturdy rule of law. Another example: every year Japan awards the coveted Deming Prizes for managerial innovation, and over the last four years, they have been awarded more often to Indian companies than to firms from any other country, including Japan.

This bottom-up activity is evident not simply among entrepreneurs. The Indian consumer is also rearing for action. Most Asian success stories have been ones in which the government forces its people to save, producing growth through capital accumulation and market-friendly policies. In India, the individual is king. Young Indian professionals don't wait to buy a house at the end of their lives with their savings. They take out mortgages. The credit-card industry is growing at 35 percent a year. Personal consumption makes up a staggering 67 percent of GDP in India, much higher than China (42 percent) or any other Asian country. Only the United States is higher at 70 percent.

Statistics don't quite capture what is happening. Indians, at least in urban areas, are bursting with enthusiasm. Indian businessmen are giddy about their prospects. Indian designers and artists speak of extending their influence across the globe. Bollywood movie stars want to grow their audience abroad from their "base"—of half a billion fans. It is as if hundreds of millions of

IT-related services could top \$36 billion in earnings this year.

Increase over last year's revenues:

28%



FILE ACCESS: Civil servant's office in the city of Patna, tech school in Hyderabad (above)



people have suddenly discovered the keys to unlock their potential. A famous Indian once put it eloquently, "A moment comes, which comes but rarely in history, when we step out from the old to the new, when an age ends and when the soul of a nation, long suppressed, finds utterance."

THOSE WORDS, WHICH INDIANS OF A CERTAIN generation know by heart, were spoken by the country's first prime minister, Jawaharlal Nehru, just after midnight, on Aug. 15, 1947, when independent India was born. What Nehru was referring to, of course, was the birth of India as an independent state. What is happening today is the birth of India as an independent society—boisterous, colorful, open, vibrant and, above all, ready for change. India is diverging from its past, but also from most other countries in Asia. It is not a quiet, controlled, quasi-authoritarian country that is slowly opening up according to plans. It is a noisy democracy that has finally empowered its people economically. In this respect India, one of the poorest countries in the world, looks strikingly similar to the world's wealthiest country, the United States of America. In both places, society has triumphed over the state.

The Indian state has been a roaring success on one front. India's democracy is a wonder to behold. One of the world's poorest countries, it has sustained democratic government for almost 60

years. And this is surely one of the country's greatest strengths when compared with many other developing countries. If you ask the question "What will India look like politically in 25 years?" we know the answer: like it does today—a democracy, probably with a coalition government. Democracy makes for populism, pandering and delays. But it also makes for long-term stability. (In case President Bush is looking for some answers for Iraq, he should recall that the British were able to stay in India for 200 years and built lasting institutions of government throughout the country, and that India got very lucky with its first generation of leaders. Men like Nehru may not have understood economics, but they deeply understood political freedom.)

If the Indian state has succeeded in one crucial dimension, it has failed in several others. In the 1950s and 1960s, India tried to modernize by creating a "mixed" economic model, between capitalism and communism. This meant a shackled and overregulated private sector, and a massively inefficient and corrupt public sector. The results were poor, and in the 1970s, as India became more socialist, they became disastrous. In 1960 India had a higher per capita GDP than China; today it is less than half of China's. That year it had the same per capita GDP as South Korea; today South Korea's is 13 times larger. The United Nations Human Development Index gauges countries by income, health, literacy and other such measures. India ranks 124 out of 177, behind Syria, Sri Lanka,