

# India 2020

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## 1. India's Complex Mix of Pros and Cons

During the early years of the 21st century when the "BRIC" bubble was gathering momentum, the hype was all about India's enticing business environment as the world's largest democracy having a population of 1.2 billion and an ample pool of human resources with advanced IT skills and English-speaking ability. Over a decade since the boom, many Japanese and other foreign companies have experienced firsthand the pros and cons of conducting business in India. The negative aspects include: no foreseeable improvements in infrastructure, a muddled political situation, chronic inflation, a rash of labor disputes, a stratum of impoverished people still living under substandard living conditions, and so on. On the other hand, India's average economic growth rate of 7.7% over the past decade, while still short of China's growth, is double the world's average of 3.8% and has contributed significantly to the global economy.<sup>1</sup> In particular, India's star industries, IT and BPO (Business Process Outsourcing), grew by an annual average of 23% between 2000 and 2011, realizing a twelve-fold increase in scale. Lately, there are also signs of growth in the manufacturing sector, fueled by expanding exports to the Middle-Eastern and African markets.

Indeed, through the last decade of the "BRIC" bubble, foreign-invested enterprises have learned the reality of India, not as the media-hyped industrial utopia, but as a country that is a mix of complexly intertwined pros and cons.

## 2. "India 2020"

The goal of "India 2020," a research project that the Hitachi Research Institute is currently working on, is to forecast on the basis of past lessons learned what India will be like in the year 2020. One thing to be kept in mind is that countries like India at a growing stage of

development rarely follow a development process in a simple linear trend, but are considered to grow through an intertwined mix of existing circumstances and newly arising events. The project aims to examine and analyze such circumstances and events in their proper perspectives.

What follows shows some of those events that are expected to continue or come about anew in India in the future.

## 3. Circumstances Likely to Remain in India

The living conditions in India are rather harsh. The country suffers from a scant supply of water, which is essential to maintain life. Even in the central part of Delhi, the tap water is available for only about three hours a day; each household has to operate a pump manually during that time slot to store enough water in a tank to get through the night. India is basically a land of low rainfall except for areas in East India such as Assam; the amount of freshwater resources available tends to fall short of the requirements of the population. According to the statistics of the U.N. Food and Agriculture Organization (FAO), the country's per capita rainfall is 2,867 m<sup>3</sup>/yr, which is only about half of Japan's 4,983 m<sup>3</sup>/yr<sup>2</sup> and surface water is quick to evaporate due to India's generally high temperatures, allowing for formation of only a limited number of rivers. Not very many local urban centers or industrial parks are blessed with a river running nearby so the most common way to gain access to a water source for the households as well as industrial plants is to drill wells to a depth of approximately 100 meters.

India is relatively poor in mineral resources and there are few energy resources that can be used for commercial purposes. While the subcontinent has the fourth-largest coal reserves on the globe, Indian coal is

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<sup>1</sup> IMF (2013), World Economic Outlook, April 2013

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<sup>2</sup> FAO(2011) Aquastat

characterized by its high ash content and low combustion efficiency. India relies heavily on coal for its power generation—accounting for 53% of the total power supply; however, because of the low generating efficiency, coal-fired thermal generation is imposing heavy environmental burdens. Amid increasing concerns about the growing urban air pollution, the use of alternative energy sources is becoming a pressing issue; against this backdrop, chances are slim that domestic coal can single-handedly meet the vast energy demand in the future. Although natural gas is an apparently promising energy source, its production has actually been on a downward trend. In 2002, a major gas field discovery was made in the D6 block (KG-D6) of the Krishna-Godavari basin off the Andhra Pradesh coast in southern India. The estimated reserves at the time of discovery were 10 trillion cubic feet, building up the country's expectations that the discovery would turn India's energy situation around. Subsequently, in 2012, the recoverable gas deposit turned out to be only 3 trillion cubic feet and production has been on the decline. While exploratory drilling work is being continued in said basin, no major success has been reported so far, which would likely force India to depend on overseas sources for their future natural gas supply. Shale gas, although much talked about recently, is less apt to become the great white hope of India's energy security. One reason is that the country does not hold significant shale gas reserves. Another is that most of the shale strata are found with soft coal layers, pushing up mining costs to the levels that make the shale gas less competitive cost-wise when compared with imported LNG.

So far we have catalogued the cases of water and energy as the examples of the country's possibly detrimental factors. India, despite its vast land area, is not necessarily blessed with key strategic natural resources, which partly contributes to its vulnerable infrastructure, as typified by frequent power outages. These constraints are anticipated to remain standing in the way of India's economic growth for some time in the future.

Positive aspects should also be mentioned. The vast population will continue to underpin the country's

economic growth. According to U.N. statistics, India's population is expected to grow from the present 1.2 billion to 1.4 billion in 2020, catching up with that of China. Because of the declining workforce trend in China due to its increasingly graying population, India is projected to have the largest labor force in the world by the second half of the 2020's. In step with the growing workforce in India, the middle-income population will increase from the present 280 million to 460 million in 2020; along with the change, various infrastructure markets and consumer markets are expected to continue their expansion. However, being relatively poor in natural resources, India will have to look to other countries for sources of their industrial raw materials. Thus the economy will be directly affected by fluctuations in exchange rates and commodity prices. Additionally, since India is only able to provide a relatively limited supply of almost everything for the potentially vast demand of the population, its economy is considered to be susceptible to the ravages of inflation, posing risks to consumption and investment.

#### **4. Upcoming Events Likely to Transpire in India**

Our research also sheds light on the events that are considered likely to happen in India in the future. These events as well are anticipated to have both positive and negative aspects.

First of all, the future prospects for India's political situation are currently unclear. A general election is scheduled to be held for the Lok Sabha (the lower house of India's parliament) in May 2014. Depending on how the press chooses to cover it, circumstances could change quite frequently and drastically; however, at the moment a close contest is being predicted between the ruling party, the Indian National Congress (INC), and the largest opposition party, the Bharatiya Janata Party (BJP). Though the predictions of the electoral victory between the two camps vary from one state to another, both the INC and BJP are likely to lose some seats in parliament, while minor parties are expected to increase their representation. In that case, a coalition government would be formed around either the INC or BJP. As seen from the past coalition

governments in other countries, it takes time to balance the conflicting interests among factions, thereby causing legislative traffic jam. Given that in the 2013 parliament, deliberations on 110 bills have been incomplete so far, a new parliament under a coalition government would be destined to face an even more slowed-down legislative process. That would most likely delay such substantive matters as economic policies and government-led projects. Hence, those who are involved in the businesses and projects that may be affected by such delays are advised to carefully monitor the course of events in this respect.

The positive side involves two future changes. Firstly, Indian companies' global mode of operations will change. Traditionally many of Indian enterprises have deployed mostly in Western developed countries with a view to expanding their customer base; in the coming years, however, they will increasingly make their way into emerging countries in Africa, Middle East and South America in search of much-needed natural resources and raw materials. Some companies have already started moving in that direction, setting a precedent for the future operation model of Indian companies, that is, accelerated expansion of overseas operations for the dual pursuit of their interests in both developed nations and emerging countries.

Secondly, there will be a change in people's lifestyle. Like Japan in the 1960s, a new way of thinking about family is fast spreading in India, while working from home and purchasing commodities via online shopping are taking root as part of the changing modes of life. Again, like Japan some time ago, along with the intensified competition in school entrance exams and the growing need for better use of leisure time, momentum will gather for the development of all kinds of educational, cultural and recreational facilities. Those who are adopting such new lifestyle are called "new Hindustanis," and under the influence of their new life patterns---such as double-income life, nuclear family, urban dwelling and eating out, there is expected to be growing demand in various infrastructure segments including telecommunication, logistics, and IT.

## **5. Concluding Remarks**

The present paper has discussed, from a short-term point of view, some of the conditions that are considered to persist in India and some others that may arise in the future. The fast growing Indian economy is expected to keep witnessing a complex intertwining/intermingling of a wide variety of events in the years to come. Through "India 2020" we at Hitachi Research Institute will continue focusing on how the conditions currently facing India may be affected by newly arising future events.