How sustainable are India's investment flows?

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India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grandmother of tradition. Our most valuable and artistic materials in the history of man are treasured up in India only!

- Mark Twain

India is today one of the world's top five economies, with a large agricultural, industrial as well as infrastructure base. More importantly, during the journey of liberalization and economic reforms, the contribution of the services sector has risen quite significantly over the years. As things stand, it is widely accepted that India has the best potential and most well positioned to become one of the top three economies in the next decade, just after US and China. For this to happen, India will need, among other ingredients, a consistent supply of savings – both domestic as well as international. Foreign investors have generally viewed India as an important investment destination for over two decades now. This article is an attempt to analyze India's strengths and set out what it will get the world's savings into India over the next decade, even better than before.

History tells us that over the last 2000 years, India's share of Global GDP went from over 30% to less than 3%. However, in roughly the last three decades, from the early 1990s, we have seen a period of strong growth. India's GDP grew by over 10 times from USD 275 billion in 1991 to USD 2.9 trillion in 2019. This makes us the fifth largest economy and in the same time market capitalization grew by over 30 times, making India the ninth largest economy by the end of 2019. India is the world's largest producer of milk, cotton and spices, and a large exporter of cereal products, cotton, bovine meat, sugar etc. We are also the largest manufacturers of farm equipment and have over 180 million hectares of cropland. India also has a large infrastructure base, again in the top five countries of the world. India is the world's #1 manufacturer of two wheelers, and #2 producer of steel and cement. In terms of the further plan of action, India has drawn up projects worth USD 1.4 trillion under the National Infrastructure Pipeline.

India's biggest strength lies in its demographic profile, which is also often highlighted as an area which is yet to deliver its full potential. Given the size and scale of the numbers here, the outcomes could be significant. Consider this: India is set to add another 110 million workers by 2030 to the workforce which effectively means one fifth of the world's working-age population will be Indian. So the ability to supply labour is going to be one area where India is strongly positioned in the years ahead, given that the long term GDP growth rate is heavily influenced by working-age population and the participation of women in the workforce. What's more, the cost of labour in India, one of the lowest globally, can help change the game if a strong manufacturing set-up can be put in place. The Government certainly realizes this and hence the *Make in India* theme is aimed at increasing the contribution of the manufacturing sector from 16% to 25% of the GDP.

Not only does India have a powerful demographic profile, but the proliferation of new technologies, particularly mobile, has sparked a significant social change, across both values and lifestyles. India's technology revolution has seen us leapfrog developed countries in terms of a 24x7 payment platform (UPI) which, delivered by the Government at zero cost to the citizens, is quite unparalleled in the whole world. The connectivity enabled by the Internet penetration has meant that Indians have unprecedented access to information. Consequently, the civil society grown smarter leading to a change in the pattern of consumption as well. Consumer spending on goods and services are expected to exceed half of the total goods consumed in the country. So consumption is certainly a potential emerging big driver of India's GDP growth in the years ahead.

India has been presented with a great opportunity at this time, especially with the current global scenario in the midst of the coronavirus pandemic, where a number of global corporations have begun the process of shifting their manufacturing and supply chains closer to consumers. India needs to build value-creating and globally competitive business models to take advantage of this change. This can happen by bringing back the focus on manufacturing, a gradual shift that could materially alter the current landscape.

Some of the world's largest manufacturing plants in China, which India should focus on building are automobiles, solar cells, batteries, mobile phones, construction materials, equipments and toys. Some thoughts on this:

- Skill Development, setting up and expanding manufacturing facilities, pre-productions logistics and supply chain management, post production distribution channels offer great investment opportunities to domestic and overseas investors alike.

- Upping our investment in research and development and having incentives and processes to move from imitation to innovation.
- Manufacturing capacities would necessitate strides in design and engineering, and this would further make India more resilient and take a position of export promotion.
- Indian consumerism is currently sustained by import of consumer goods. Therefore, local production facilities for these goods would bring the consumer and manufacturers closer, saving on costs.
- A new-generation of entrepreneurs, facilitated with legal and infrastructural framework conducive for mega manufacturing facilities simply for import substitution, could overnight create jobs. The jobs so created would enable manufacturers to tap into as of yet untapped consumer market. With a large established consumer market, and even larger untapped potential for consumer market. India is well poised to be an investment opportunity which is resilient to external shocks while offering huge potential for growth

One other area, where American and Chinese internet platform leaders have done exceedingly well, is e-commerce. India's e-commerce promise is only now beginning to capture the attention of global investors, what with a slew of investments that we have seen coming into Jio Platforms. This foreign capital, coupled with the potential given the huge population, could see the unleashing of a massive wave of jobs, opportunities and corporate revenues, across advertising and e-commerce. Currently at about USD 71 billion of gross merchandise volume, India's e-commerce sector can potentially grow upwards of 5 times in the next 7-10 years, given high Internet and smartphone penetration compared to most other countries. We can already see the change, what with people's buying behaviour tilting very significantly towards online channels and platforms, accentuated more so by the coronavirus pandemic.

IT services is another area where Indian companies have done very well over the past two decades. With the initial momentum based on wage arbitrage, India's vendors have succeeded big-time with Fortune 500 firms. India's IT industry is one of the largest worldwide in revenue terms, and also an important contributor to GDP. The immediate future for this sector looks bright, certainly in the near to medium term, given the shift to *Work from Home* (WFH), particularly during the lockdown and recovery phases of the coronavirus pandemic. For longer term success, India's large IT players are looking to diversify in order to get ready for new revenue opportunities. India is certainly well placed to rise in the Tech World, and is regularly producing start-ups that go on to become Unicorns. At this time, India is #4 on the list of global private companies with valuations of over USD 1 billion (Unicorns). Also, India has 4 out of 18 global private companies with valuation of over USD 10 billion (Decacorns), with a potential to produce another 5 more in the next 2-3 years.

In recent years, India has seen a few themes work well. The Government has implemented a number of major reforms such as GST, RERA and IBC while also being focused on the Ease of Doing Business. The Prime Minister has further spoken about soon-to-come reform measures to optimize land, labour, capital and law. In the post-Covid world, it is clear that India is looking to capture emerging opportunities, and already demonstrating the required level of willingness to eliminate existing bottlenecks, particularly for large investors looking to participate, either in the set up supply chains, or in the infrastructure projects that the Government has lined up. So in the next several years, conditions do look quite favourable for India to fulfil its growth potential. Given that India could see 9%+ GDP growth rates in the next few years, investors are certainly going to consider gaining early exposure to gain from the next big growth engine of the world.

Up until now, India's share of the emerging markets indices has at best been modest. Although the *Fully Accessible Route* (FAR) enables unlimited investments into select Indian Government Bonds, India is yet to feature in the global bond indices, given that the issue around long term capital gains tax is yet to be addressed. This could well be addressed in the near term, which would automatically bring in significant investment flows into Indian fixed income. The India equities story is already quite popular with foreign investors, what with infrastructure and financials leading the pack in terms of exciting themes for the future. The rupee will also likely deliver attractive long-term returns, thanks to the high yield.

Finally, it is important to highlight also that Covid-19 can certainly have far-reaching consequences both for the global and the Indian economy. We are already witnessing changes in consumer behaviour. For instance, the shift to online buying versus the brick-and-mortar stores. Or the reluctance to eat out at restaurants or watch movies, leading to an uptick in take-away business and OTT platforms. Investment decisions are also similarly likely to change in the post Covid world. The impact of Covid-19 is quite challenging to predict, as the recovery could take different periods of time for different countries. The situation is still unfolding, and many of the ongoing changes are non-linear in nature. Still, based on the current evidence, India's investment-to-GDP ratio, which is currently about 30%, is all set to go up further as India unleashes measures to attract foreign capital and further improve the ease of doing business. *Make in India, Self-Reliant India and Vocal for Local* are powerful themes, and, coupled with the inherent strengths of the Indian economy described above, can certainly succeed, not only in sustaining the current levels of foreign investments but also in attracting much more, in the years ahead.