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How the BRICs Stack Up: Part 2
India – Size Isn't Everything

India is Asia's third largest economy, weighing in at almost $2 trillion. It is the seventh largest country geographically and second only to China with a population of 1.2 billion. It is the largest democracy in the world. India gained its independence from Great Britain in 1947; so, by historical standards, while it is a very old nation, it is a very young country. Currently it consists of 28 states and 7 union territories.

In the Western press, headlines frequently hail India as one of the most promising emerging markets. I would label India as a Top 10 country for all of the following reasons.

CATEGORY	RANK IN WORLD
Democratic Country Size	1st
Labor Force Size	2nd
Population Size	2nd
Economic Size (Purchasing Power Parity – PPP)	3rd
Military	3rd
Land Area	7th
Economic Size (Nominal Terms)	10th

India's sheer size in land area and population make them a force investors should not ignore. After China, India is the fastest-growing economy in the world. They specialize in services (56% of GDP), industrial (26%) and agriculture (18%).[1] India is home to 7 of the world's top 15 Information Technology outsourcing companies. Their telecom industry is the fastest growing in the world, having added 227 million subscribers during 2010-2011.[2] Other strong domestic industries include autos, biopharmaceuticals, textiles, chemicals, steel, cement, and software, just to name a few. In 2011, India was the world's 10th largest importer and the 19th largest exporter.[3]

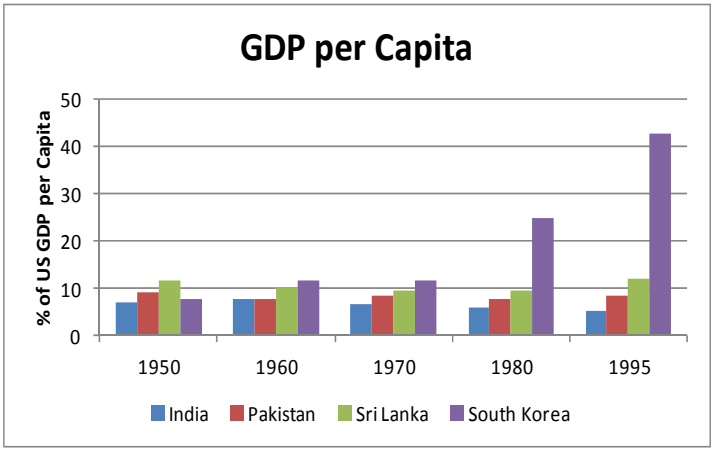
The government has plans to increase foreign investment and, this September, even opened up the retail, aviation, and broadcast sectors to foreign companies. In another positive development, on January 14, 2013, India postponed the implementation of the General Anti Avoidance Rules (GAAR) which was introduced to fight tax evasion. They diluted some provisions and guaranteed that GAAR would not examine any investments prior to August 30, 2010. The new GAAR effective date will be April 1, 2016. The Finance Minister, P. Chidambaram, reiterated that "No investor should now have any apprehension about his investments in India."[4] Recently, India also raised the price of heavily-subsidized diesel by

[1] World Trade Organization (WTO), 2010
[2] Telecom Regulatory Authority of India, April 6, 2011
[3] WTO, 2010
[4] WSJ, Prasanta Sahu, Mukesh Jagota, Romit Guha, "India Defers GAAR by Two Years," January 14, 2013

14% and began to partially privatize four state-run industries.[5] The government realizes these steps must be taken in light of India's fiscal deficit, ongoing inflation, and falling asset prices. As long as the government can deliver on these policy changes, India's growth should begin to accelerate again.

India possesses certain characteristics that make the country a possible investment candidate. Their domestic demand for goods and services is strong. This stands in stark contrast to China, which has grown primarily on the back of exports. Domestic consumption is important for economic stability as it reduces dependence on the economic health of other countries. In fact, currently India imports more than they export. Their dependence on foreign oil has, at times, caused current account stress. The demographics in India are favorable as well. It is forecast that by the mid-2020's, India will be more populous than China.

However, in spite of these positives, recent data coming from India has not been reassuring. Instead of the year-ago forecasted GDP growth rate of 8.2%, the actual annual GDP growth rate is running at a much lower 5.3%. Just last year, it was 6.5%. Inflation is still on the high side at over 7%, giving policy-makers little room to stimulate the economy through monetary means, and, above all poverty remains a serious problem. At the time of their independence, India was home to 320 million people. Now, more than 320 million people live below the international poverty line (less than $1.25/day). Last, but perhaps the most important piece of the equation, the Indian culture is rife with crime and corruption. This makes the social programs (food subsidies) for the poor difficult to administer successfully and much of the benefit of these programs is reduced by "skimming" that happens at each transfer point.



The levels of corruption in the system, from the millions of street dwellers to the highest levels of government, make India a perilous place to invest. As a result of this, many multi-national companies have reduced or eliminated their presence and/or investments in India. In fact, as recently as January 8, 2013, Fitch Ratings reiterated a negative outlook on India (BBB- rating). The negative outlook no longer specifies only the slowing economic growth and inflationary pressures, but now the concern also includes India's widening current-account and fiscal deficits.[6]

In summary, India should concentrate on cleaning up their political system and creating an environment that attracts foreign investors. This would provide a solid basis for long-term investing in India.

- *Rachel Wakefield, CFA*

[5] CNBC, Gauri Bhatia, "India declares, 'We're back in Business,'" October 8, 2012
[6] WSJ, "Fitch Keeps Negative Outlook on India," January 8, 2013