



Active Perspectives on India's Evolution

June 23, 2020

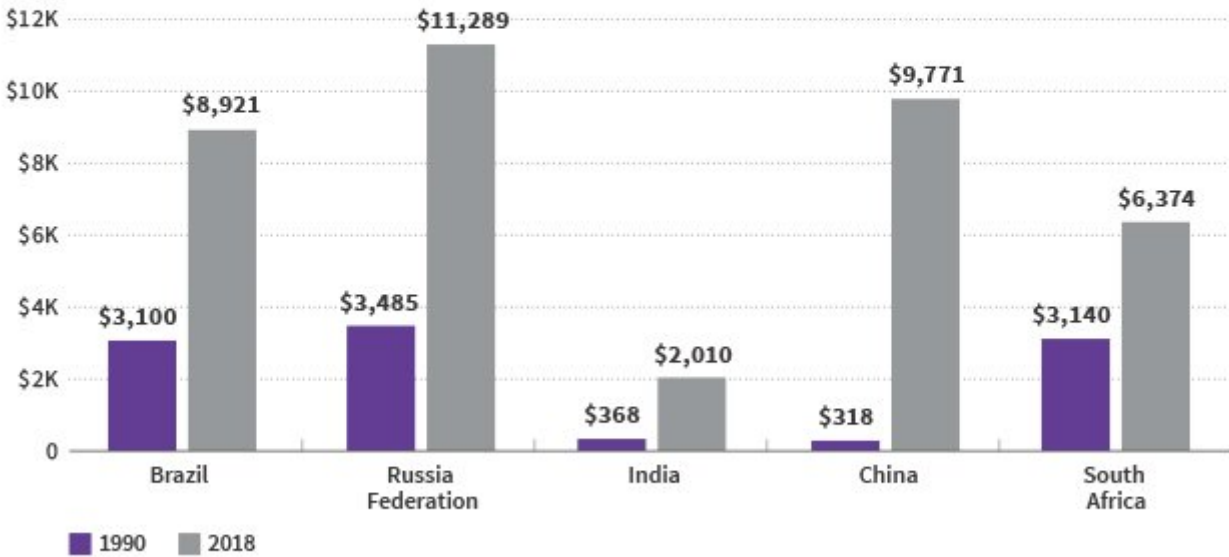
In *India 2020: A Vision for the New Millennium*, A.P.J. Abdul Kalam and Y.S. Rajan detailed how India could become a developed country and one of the world's four largest economies by 2020. But how is the *India 2020* vision holding up in 2020?

With the world's second-largest population, a democratic government, and a capitalist economy, India represented enormous untapped economic potential when *India 2020* was written more than 20 years ago.

During the ensuing two decades, however, that promise went largely unfulfilled. While India's economy grew significantly, it was just the seventh-largest economy in 2018 (between France and Italy)¹ and its per capita income is still far below the other countries that comprise the BRICS countries (Brazil, Russia, India, China, and South Africa), as shown below.

Lagging the Other BRICS (Per Capita GDP, 1990 vs. 2018)

India's economy is now the world's seventh largest, but India significantly trails its fellow BRICS in terms of per capita GDP. This gap highlights India's potential—as well as the forces that have hindered its economic development.



Source: The World Bank. Data is in current U.S. dollars.

Over the past several years, however, numerous developments have reenergized the belief that India may be on the cusp of reaching a key point in its economic evolution. While the effects of COVID-19 will impact the near term, massive advances in digital infrastructure and connectivity, coupled with a series of governmental reforms, have laid the foundation for long-term growth as India transitions to a more formalized economy.

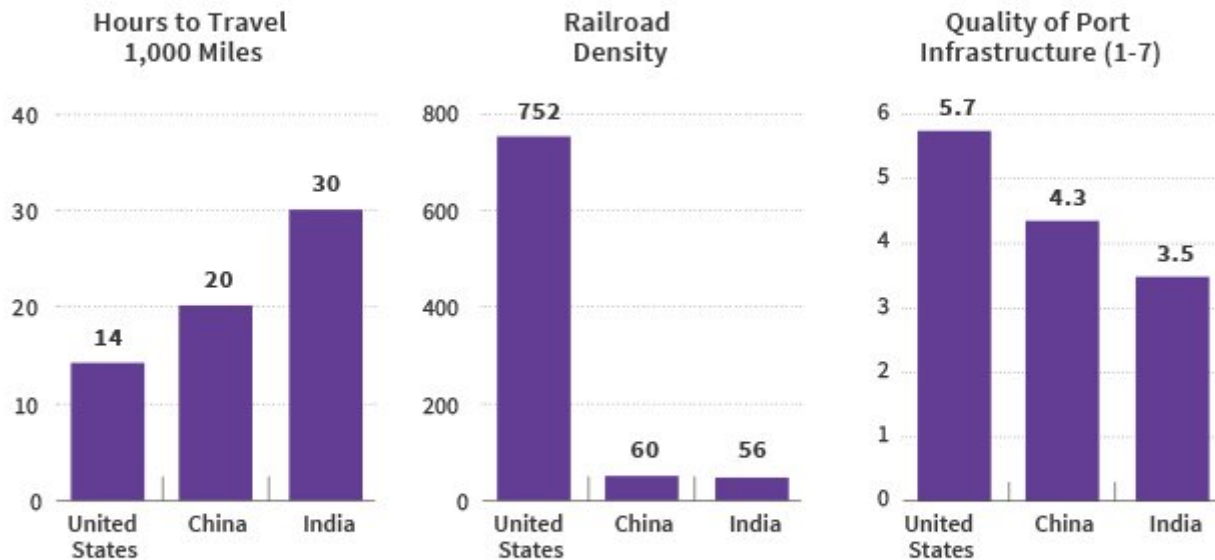
Specifically, digital connectivity and policies supporting the move to a digital, rules-based economy are allowing strong companies to become stronger in India. The gap between leaders and laggards is expanding. Quality companies with proven management teams and durable, sustainable advantages are widening their competitive moats, gaining market share, and growing through consolidation.

At the same time, governmental reforms—and the resulting transition to a cashless economy and the shift away from crony capitalism—are creating a more level playing field for companies operating in India. This means companies are more likely to thrive or fail on their own merits, rather than on their connections to governmental officials or their ability to navigate an informal economy.

The transition will be far from smooth, however. Crumbling physical infrastructure (as shown in the chart below), poor air quality and other environmental concerns, unintended consequences of governmental policies, and the challenges of overcoming a legacy of crony capitalism will slow India's growth.

Infrastructure Investment By Country

India's infrastructure has historically lagged that of the United States and even China.



Source: Michael J. Silverstein. *The \$10 Trillion Prize: Captivating the Newly Affluent in China and India*. Boston: Harvard Business Review Press, 2012. Hours to travel is at an approximate average speed of 75 miles per hour (United States), 50 miles per hour (China), and 35 miles per hour (India). Railroad density refers to kilometers per 1 million people. Quality of port infrastructure is rated from 1 (extremely underdeveloped) to 7 (well developed and efficient by international standards). Data is as of 2010.

In the following three post series, we share our findings about recent changes in India that have sparked new optimism about the country's economic development—and also examine the headwinds that will likely impede this progress as these changes unfold (including the affects of COVID-19 on the domestic economy and global supply chains).

These obstacles are being addressed at drastically different rates and in a less-than-predictable fashion. That means that while India's transition to a more formal, organized economy is progressing, it will be a messy, non-linear process.

And while the country's total addressable market (TAM) is undeniably compelling, the ability to monetize that TAM will vary significantly by sector and from company to company.

The nature of the country's development means that identifying high-quality companies that can thrive in this new competitive reality is paramount. Ultimately, we are excited about India's potential, and we conclude that it is a textbook example of the importance of active management when investing in emerging markets—because the chaotic nature of India's development represents opportunity for active managers to capture alpha.

1 Source: The World Bank. December 31, 2018.

India in 2020 Series

Part 1: [Active Perspectives on India's Evolution00](#)

Part 2: [Headwinds \(and Tailwinds\) in India](#)

Part 3: Sector Insights in India



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