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Toward a uniquely Indian growth model

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India can't afford to emulate China. Mahindra Group chairman Anand Mahindra says the country's states must compete, not march in lockstep, if India is to develop its own path to sustainable prosperity.

When I listen to pundits, economists, and multinational CEOs talk about India, often I detect a familiar note of frustration. India, they insist, should be blasting upward like a rocket, its growth rate ascending higher and higher, bypassing that of a slowing China's. India's population is younger than that of its Asian rival and still growing. Its democratic government enjoys greater legitimacy; its businesspeople are more internationally adept. And yet the Indian rocket continues to sputter in a low-altitude orbit—growing respectably at 5 to 7 percent each year but never breaking through to sustained double-digit growth.

According to this way of thinking, India is an underachiever, perversely holding itself back—and needs only to fire some particular afterburner in order to get its rocket to full speed. The government needs to go on an infrastructure building spree, or open the door to big-box retailers. Political parties need to crack down on corruption and nepotism. Farmers need to adopt smartphones. *Something* will trigger the long-awaited boom, and the billions in foreign direct investment (FDI) that have flowed to China over the last two decades will at last head south.

If we continue to judge India's progress by China's, using metrics like FDI and GDP growth, or statistics like the kilometers of highway and millions of apartments built, we will continue to be branded a laggard. India's messy coalition governments are not suddenly about to become as efficient and decisive as China's technocrat-led Politburo. Nor should that be the goal.

Moreover, India simply cannot afford to grow like China has over the last two decades. In authoritarian, tightly controlled China, the costs of that headlong economic expansion are obvious. Unbreathable air and undrinkable milk, slick-palmed officials and oppressive factory bosses provoke tens of thousands of protests each year. In a society as diverse as India's—riven by religious, community, and caste divides—those kinds of tensions can easily erupt in violence and disorder. Already the battle between haves and have-nots is driving a powerful rural insurgency across nearly a third of the country. Labor riots can turn into religious pogroms. Farmer protests can turn into class wars.

For India's economy to expand as rapidly and yet more sustainably than China's, we need to make our differences into virtues rather than vulnerabilities. For too long we have clung to a mind-set shaped by the early independence years, when the areas in the northwest and northeast had become Pakistan, and India's first government was struggling to weave a patchwork of provinces and maharaja-run kingdoms into a nation. In those days, the risk that India might break apart was very real. One of India's great accomplishments is that no one worries about that anymore. Indeed, the idea of a united India runs so broad and deep that it allows us to consider a counterintuitive way of thinking about growth—that the best way to propel the economy may be to encourage different parts of the country to go their own way.

I'm not suggesting secession, of course. But there's no sense in pretending that "India" is a single investment destination or even a coherent, unified economic entity. India's 28 states and seven territories are as different from one another—as varied in language, food, culture, and level of development—as the nations of Europe. In some ways, Gujarat has more in common with Germany than with Bihar. Companies understand this. When they make decisions about where to locate factories or R&D hubs, they're looking at the tax policies, physical and legal infrastructure, or labor costs in the particular state they're considering—not at some mythical "India" visible only at Davos. We should be celebrating and encouraging these differences.

Certain states will be able to exploit these new powers better than others, of course, just as certain provinces on China's eastern seaboard have raced ahead of compatriots inland. But in India, success can inspire competition and push laggards to reform—as Bihar, say, has begun to. Though it started from a very low base, the Bihar government's focus on improving basic governance by providing security and enforcing the rule of law has made a remarkable difference. For years, Bihar and three other troubled north Indian states—Madhya Pradesh, Rajasthan, and Uttar Pradesh—were collectively dismissed as BIMARU. The acronym, formed from the first letters of each state, was a wry put-down because it sounded like the Hindi word *bimar*, or "sick." These days, the term no longer serves; not only does Bihar show new vigor, but Madhya Pradesh is now regularly included in rankings of India's best-run states.

All Indian states will have to improve their infrastructure and climate for doing business if they want to contend for major projects. In this way, investment will drive innovation and changes to the system much more efficiently than any edict from Delhi could. Tata Motors' decision to shift its Nano project from West Bengal to Gujarat illustrates the point.

We should encourage a similar competition between cities as well as states. India's biggest long-term challenge, like China's, is to figure out how to urbanize a population of more than a billion people. Millions have already migrated to the cities in the last two decades, and tens of millions more will soon follow. We cannot hope to stem this flow. Nor should we want to—urbanized societies produce an array of positive outcomes, from higher literacy rates to lower infant

mortality. At the same time, if we don't slow the influx of migrants to a dozen or so key urban centers, our already volatile and overburdened cities will collapse under the strain.

India needs to find a way to *distribute* growth—to create new urban hubs all over the country that can attract talent and money. Even if government had the power to bulldoze neighborhoods and erect forests of skyscrapers, as some seem to wish, it would struggle to surmount the challenges currently facing big cities like Mumbai and Bangalore. At double or triple the population, those megacities would become ungovernable. We need to break these problems into manageable pieces, developing hundreds, even thousands of smaller cities around the country where the problems of water, transit, power, and governance can be negotiated at the local level. India's sprawling subcontinent can never become a plus-size Singapore. But perhaps we can weave together an urban web that is the equivalent of a thousand Singapores.

Technology is making this more than a fantasy. Given how much India has benefited from the way fiber-optic cables have already shrunk the world, we should be quick to see the opportunities in shrinking the subcontinent, too. With widespread 4G connectivity, many businesses will be able to operate from anywhere. That will create an advantage for locations emphasizing efficiency and livability. Workers will be able to perform their tasks closer to home, if not actually at home, thus relieving pressure on India's roads and bridges. Even manufacturing can be distributed, once technologies like 3-D printing become more widespread. Populations of laborers will no longer need to cluster around big factories. Indeed, once every home can become a manufacturing hub, the kind of small enterprises that have been the backbone of the traditional Indian economy could find ways to thrive in the modern world.

Forced to compete for talent and for business, cities will have to experiment and innovate. Several corporations, including Mahindra, have begun exploring new ways to live, work, and play in planned enclaves like Mahindra World City outside Chennai. While these efforts are continuing, the government, too, should foster and support such experimentation as a matter of urban policy. Already the government taxes coal and fossil fuels used in the power and transportation industries, and offers tax incentives for renewable energy and nonpolluting vehicles. But we can go further, finding new ways to use technology to improve and expand the delivery of government services. The government's Unique Identification project, which uses biometric data such as photographs, fingerprints, and retinal scans to create cost-effective and easily verifiable ID numbers for all Indian residents, is an excellent example of how government can leverage technology to help India's citizens. These new numbers will make it easier for Indians to pay taxes, collect government benefits, and receive other government services. They also will help prevent fraud, bribery, vote rigging, and illegal immigration, as well as facilitate the delivery of many private-sector services.

India's new cities will be its afterburners, the catalysts sparking new bursts of growth. The innovations developed in each scattered enclave will be emulated and improved upon elsewhere, and thus give rise to innovation. Rather than directing where capital should go, or funding white-elephant infrastructure projects, the central government should set the rules of the game and then step back.

What India needs from the world as much as investment dollars are bold thinkers who can help to define these new ways of living. We should seek out these visionaries, give them a platform to test their theories, and invite them not to build gaudy skyscrapers but to help develop new ways for the human race to live. Foreign direct *ideas* should be as valued a commodity as traditional FDI.

The world has a stake in India's success—and not just because of the need for someone to pick up the slack from a slowing China. Much of the developing world faces the same challenges India does. The solutions developed here—the answers to almost metaphysical questions about how societies should work and grow—will have worldwide relevance.

For better or worse, India is where the future will be made. Let's get it right. □

Anand Mahindra is chairman and managing director of global conglomerate Mahindra. This essay is excerpted from *Reimagining India: Unlocking the Potential of Asia's Next Superpower*. Copyright © 2013 by McKinsey & Company. Published by Simon & Schuster, Inc. Reprinted by permission. All rights reserved.