

Chazen International Study Tour Report

India: A New Generation of Young Leaders Is Ready to Transform the World's Largest Democracy

GIORGIO LIBOTTE MBA '09

**Runner-Up,
Outstanding Study Tour Report Award**

Sponsored by The Heinz Dürr International Communications Fund

Chazen International Study Tours

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business and culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During the study tours, students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Destinations change yearly, as study tours are student-initiated. Recent destinations include Brazil, China, Dubai, India, Japan, Mexico, Romania and South Korea.

Executive Summary

Democracy has historically been synonymous with economic development. Over the last 20 years, India's democratic government has been the driver behind the country's economic improvement. However, India is not quite where it could be, in particular when compared to the economic growth experienced in China.

With more than 500 million youths below 25 years in a population of 1.1 billion people, India is experiencing the rise of a new generation of young leaders who can transform the world's largest democracy into a developed nation. A group of Columbia Business School students met with two young and energetic members of Parliament who are extremely well positioned to lead the change.

A Distinctive Democracy

The word δημοκρατία (democratia, “popular government”) was derived from the Greek δῆμος (demos, “people”) and κράτος (kratos, “rule, strength”) in the middle of the fifth century BCE to denote the political systems then existing in some Greek city-states. The spread of democratic ideals to other cultures—or their failure to spread—has many times been explained by the rationale that these ideals are foreign to the non-Western world. But a real and intimate understanding of the non-Western world shows a strong and lively interest in democracy.

India, the world's largest democracy, is distinctive. With its dozens of languages and hundreds of dialects, India's population is among the most diverse in the world. Indian democracy may have seemed an improbable experiment in such a poor, ethnically divided and hierarchical society, but it has proved deep-rooted. Since 1947, except for the brief interlude of emergency rule imposed in 1975 by Indira Gandhi, Indian democracy has been resilient. Its success over more than 60 years is significant in two ways. First, even taking into account the corruption and the internal violence that often mar Indian democracy, India has demonstrated that poverty, massive illiteracy and diversity were not arguments against democracy. They were arguments for it. Second, India's democracy is based on a national myth of pluralism, not the standard nationalist invocation of a shared history, a single language and a common culture.

However, while in the Western world democracy has been an important factor in fostering economic development, India has paid an “economic price” for its democracy.¹ Particularly over

¹ *Economist*, Leaders, China and India “Suddenly vulnerable,” December 11, 2008, http://www.economist.com/opinion/displaystory.cfm?story_id=12773135.

the last 20 years, the Indian economy has done quite well and social indicators and development have improved. But the country is not quite where it could be, in particular when compared to the economic development experienced in China.

India has historically paid a heavy tax because of its bureaucratic and underdeveloped financial markets. Investment does not go where it is needed. Excessive government intervention distorts the efficient allocation of capital, and this reduces growth. "It takes a lot of time for us to take basic decisions," admitted Prime Minister Manmohan Singh in an interview a few years ago.² "In a world in which technology is changing at such a fast pace, we need to look at a more innovative mechanism to cut down on this rigmarole of many tiers of decision making processes." Heavy regulation and coalition governments at the national, state and local levels have historically led Indian democracy to an extremely long and tortuous decision-making process. Reducing government intervention and increasing its responsiveness is the key to progress.

Revitalizing Government Performance

Reshaping the culture of a country cannot be achieved without introducing changes in its political class. In his role as prime minister, Mr. Singh has pursued the goal of toning up the government's performance in crucial economic sectors. "We needed some young and experienced faces," Mr. Singh declared in April 2008, when he appointed Jyotiraditya Scindia, a 38-year-old member of Parliament, minister of state for communications and IT.³

Educated at Harvard and Stanford, Mr. Scindia, a descendent of the former royal family of Gwalior, worked as an investment banker with Merrill Lynch and Morgan Stanley before becoming a member of Parliament in 2002. "India does not need only young leaders, it also needs young thinkers," explained Mr. Scindia during a private discussion in Delhi with the students from the Chazen International Study Tour. He emphasized the importance of creativity, open-mindedness and commitment in everyday work life. He showed a unique inner sense of obligation to make an impact on the development of India. "With more than postal 150,000 branches, India has the most widely distributed post office system. I want to transform these offices into windows on the world," said Mr. Scindia, describing his enormous effort to rebrand and transform the Indian Postal Service. He is trying to leverage his former work experience to

² Rajat K. Gupta, "India's Economic Agenda," *McKinsey Quarterly*, September 2005.

³ Indo-Asian News Service, "Eye on Polls, PM Mixes Youth and Experience in Reshuffle," *Thaindian News*, April 7, 2008, http://www.thaindian.com/newsportal/politics/eye-on-polls-pm-mixes-youth-and-experience-in-reshuffle_10035159.html.

the public sector to effectively improve the level of service and the quality of life of the Indian population.

Mr. Scindia also shared with the group his assessment of the current state of the Indian financial market. “Particularly in the telecommunication industry, long-term investment is a key factor to the economic development,” replied Mr. Scindia when the Columbia MBA students asked him to comment on India’s need for a developed debt capital market. In fact, while featuring a large equity market, a sizable government bond market and a modest-size banking sector, India has an underdeveloped corporate bond market. The main reason is cumbersome regulation, such as lengthy approval and issuance processing, which raises the cost of such transactions. Consequently, corporate bonds represent just 2 percent of GDP in India, compared with 68 percent in South Korea and 145 percent in the United States.⁴

Although one must admit that conservative regulation has helped India weather the current financial crisis better than other economies, designing a road map for reforms in the financial sector seems one of government’s priorities, according to Montek Singh Ahluwalia, deputy chairman of the Indian Planning Commission.⁵ Besides the difficulty in financing investment projects, efficient capital allocation is the other key issue India is currently facing. In fact, a large percentage of funds flow to the economy’s less productive parts, thus making investments less efficient and productive and imposing huge economic costs.

The Indian government absorbs a great share of the financial system’s capital to finance a budget deficit that equals nearly 10 percent of GDP. Much of what is left is directed to priority areas, including agriculture, household microbusinesses and state-owned enterprises.⁶ Although the concern with unemployment in these key economic areas is certainly understandable, distorting the financial system does not seem to be an efficient long-term remedy. India directs lending to agriculture and rural enterprises because rural underemployment is arguably one of the country’s most pressing social problems. “Farming is one of the key issues the government will have to address to increase the living conditions of a large part of the Indian population,” said Sachin Pilot to the delegation of Columbia Business School students during an intimate discussion that he hosted in his house in Delhi.

⁴ Diana Farrell and Susan Lund, “China’s and India’s Financial Systems: A Barrier to Growth,” *McKinsey Quarterly*, November 2006.

⁵ Adil Zainulbhai, “Clearing the Way for Robust Growth,” *McKinsey Quarterly*, October 2007.

⁶ Economist Intelligence Unit, “India Country Data,” 2009; McKinsey Global Institute.

Creating a More Developed India

Elected at 26 years of age, Mr. Pilot became the youngest member of Parliament. After completing his MBA at Wharton, Mr. Pilot came back to India, where he has been actively working toward uplifting the oppressed, the farmers and the laborers. He has been traveling extensively, especially in the remote and interior areas of the country to spread the message of communal harmony, social justice and empowerment to the farming community. He has also been trying to inculcate a sense of social and political responsibility among the youth that live in the rural and the semiurban areas of the country. But India's task remains overwhelming. Some 65 percent of Indians live on agriculture, which accounts for less than 18 percent of GDP.⁷ Shifting them to more productive activities, and consequently reducing poverty, would be hard even were the number of people of working age not growing so fast. In addition, during our conversation Mr. Pilot talked about the charitable trust he runs that sets up student hostels for girls in the rural areas and provides monthly pensions to the physically and mentally challenged, war widows, elderly and orphans. Thanks to his extraordinary effort, Mr. Pilot is contributing to the creation of a more developed India through a bottom-up approach, starting with addressing the issues of farmers, laborers and youths.

A New Generation of Young Leaders

The conversations with Mr. Scindia and Mr. Pilot gave us a strong sense of the high level of expectations for the new generation of young Indian leaders. While the youth vote in the United States helped to carry Barack Obama to victory in November's presidential elections, young Indian parliamentarians speaking at the 24th India Economic Summit called on their countrymen to pursue the same spirit of change, "from our young sportsmen, our young businessmen, our young politicians," said a member of Parliament.⁸ New leadership and new ideas are desperately needed to address the critical challenges faced by India.

Former president of India Abdul Kalam offered a vision of how India can emerge to be among the world's main economic powers by 2020.⁹ His words have inspired a group of people to start a movement called DreamIndia2020.¹⁰ This has been pioneered by a group of young professionals who share the vision given by Mr. Kalam and are trying to realize this through their small but significant efforts. The organization believes that India's future lies in its youth

⁷ *Economist*, Special Report on India, "An Elephant, not a Tiger," December 11, 2008, http://www.economist.com/specialreports/displaystory.cfm?story_id=12749735.

⁸ ETNews, "Invoking Obama, Young Parliamentarians Call for Change in India," November 21, 2008.

⁹ Abdul Kalam and Y. S. Rajan, *India 2020: A Vision for the New Millennium*, New Delhi: Viking, 1998.

¹⁰ DreamIndia, <http://www.dreamindia2020.org>.

and in the professionals of India. The potential to prosper lies in the hands of India's huge youth population. "There are 540 million youth below 25 years in the population of one billion people. The nation needs young leaders who can command the change for transformation of India into a developed nation," said Mr. Kalam, showing his dedication and vision for India.¹¹

We feel lucky that the Chazen International Study Tour gave us the chance to meet two of the most prominent of India's future leaders. Mr. Scindia and Mr. Pilot showed us a unique sense of commitment toward their country and an unparalleled willingness to make a difference and lead change. Even though it is clear that India still has fundamental challenges to face, it is encouraging to find such an uncommonly high level of confidence and dedication among the young leaders who will be driving the transformation of the world's largest democracy.

¹¹ IndiaInfo.com, "Young Leaders Should Transform India," September 23, 2004.