



September 2022

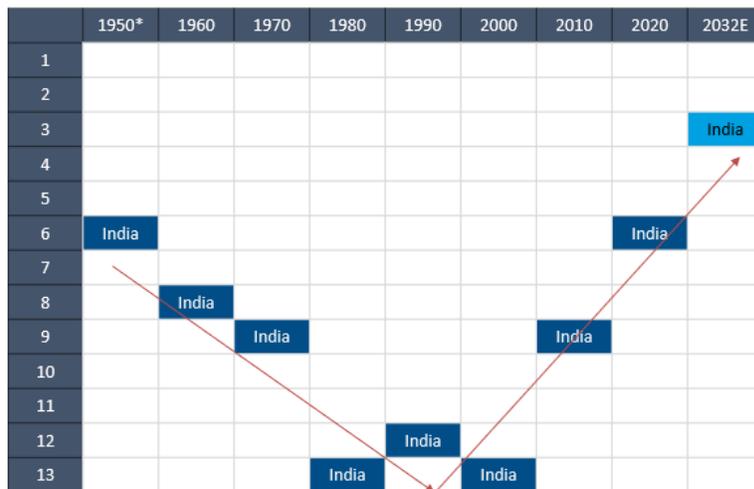
India at 75

For our first issue of Briefings, which will appear monthly, we look at the progress India has made since independence 75 years ago. Somewhat shockingly, India is no richer in relative terms than it was at independence, owing largely to the losses it suffered under heavy handed socialist rule in its first four decades. Since 1990, and the beginnings of free market reform, India has risen in the world—and it is now poised for relatively strong growth in the coming decade.

1. A 75 Year Round-trip

India was the 6th largest economy at independence, and after falling to 12th in 1990, it had climbed back to 6th by the start of this year. The good news: we estimate that India will be 3rd largest by 2030.

Chart 1. India's rank globally, by nominal GDP



Source: Maddison Project Database (2020), World Bank, Haver, Breakout Capital Calculations.

Note that 1950 data series starts in 1952 when data for China commences. Note: Y-axis plots India's rank

The same V-shaped development path is visible in average income. In its early decades India's per capita GDP was 18 percent of the global average, but fell to just 6 percent by 1990, and has since climbed back to 18 percent

2. A State That Destroys Wealth

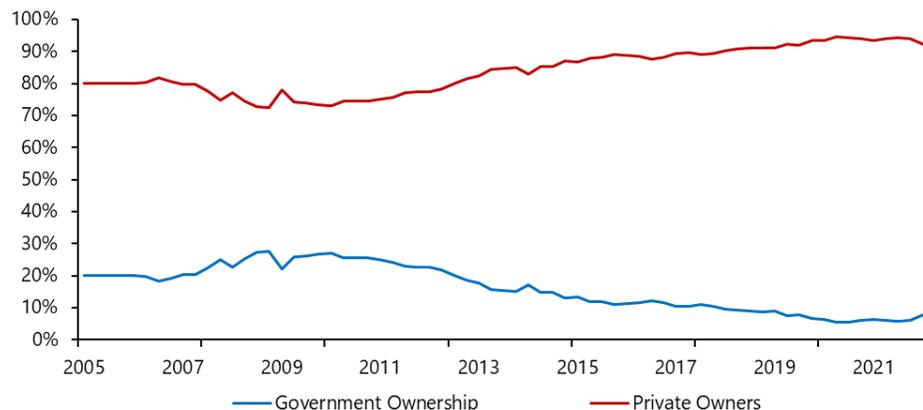
Despite decades of free market reform, India's governing DNA is still deeply socialist.

Ten years ago, government ownership represented 25 percent of the value of the Indian stock market (BSE Index); now that ownership has shriveled to 8 percent of the market, losing share to private investors of all kinds, including domestic and foreign, institutional, and retail.

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Chart 2. State v Private Ownership of Indian Equities (Percent, for BSE 500 Index)



Source: Credit Suisse Calculations

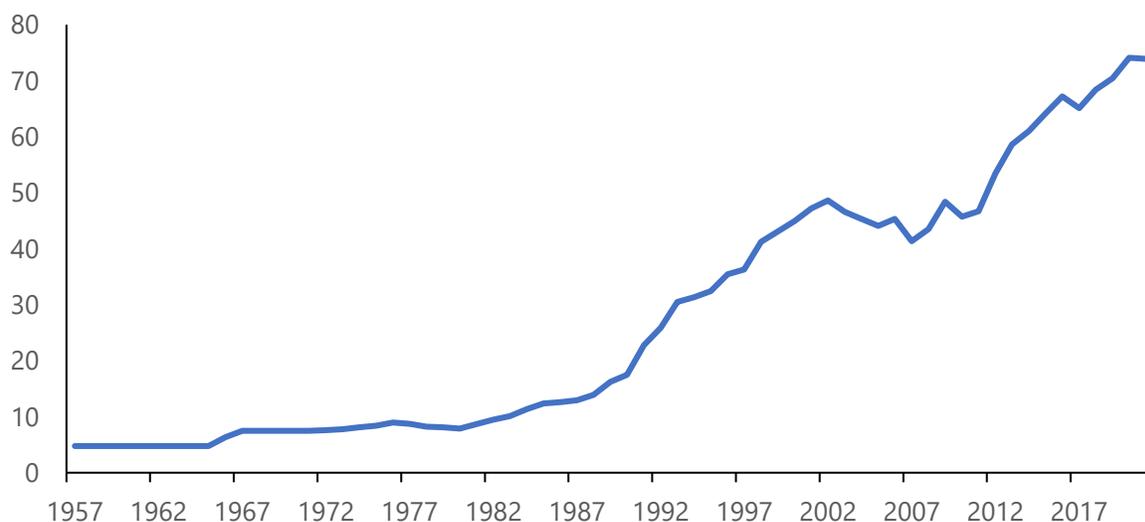
Note: Private owners include domestic, foreign, retail and institutional investors as well as private promoters, a category that includes company founders and top executives..

This decline has little to do with the state selling off companies, because there have been few big privatizations. The state sector is in decline because the state is mismanaging public companies, a phenomenon we have described as privatization by malign neglect.

3. The Incredibly Competitive Rupee

Further brightening Indian prospects is the rupee. From four to the US dollar at independence, the rupee has fallen to 79 to the dollar—down by 75 rupees in 75 years.

Chart 3. Number of Rupees Needed to Buy One US Dollar



Source: Reserve Bank of India, Bloomberg

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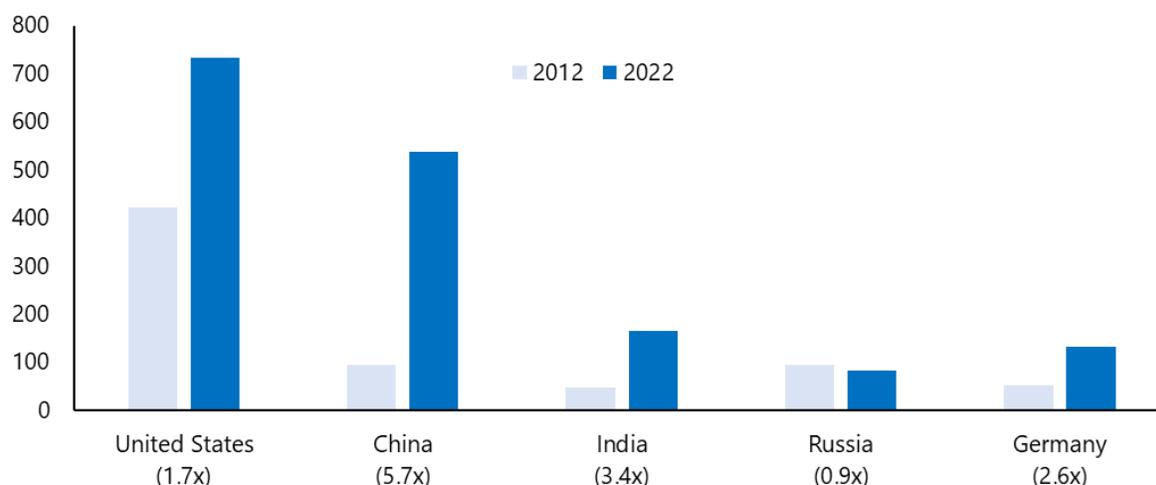
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To foreign visitors, the rupee now feels cheaper than more than 90 percent of the national currencies tracked by The Economist magazine's Big Mac Index.

4. A Billionaire Boom

In contrast to the state sector, the private sector is an extraordinary incubator of big success stories: more than a quarter of Indian companies with a market cap over \$1 billion rose at least fivefold in value over the last decade. This boom in turn fed a spike in the population of Indian billionaires, which nearly tripled in the 2010s to 140—now the third most after the United States and China.

Chart 4. Total number of billionaires



Source: Forbes List of Billionaires, Breakout Capital Calculations. Note: The numbers in the legend show that rise over the last decade

Though this boom raises serious concerns about inequality, the profile of Indian billionaires reflects competitive churn more than a stagnant elite. One hundred of the 140 were new to the billionaire ranks in the 2010s. Of the 55 names at the start of the decade, 20 had fallen off by 2021.

And one in three of the new billionaires rose in productive industries like technology and manufacturing. These trends reflect the accelerating digital revolution in India, and the largely unsung rise of its manufacturing sector.

5. A Stealth Factory Power

India is often compared unfavorably to China, particularly in manufacturing. While China's ruling party was mobilizing people, land, and capital to build factories to the world, India's onerous labor and land regulations were said to be keeping its factories small, all but invisible in world markets. This failure is often cited as one of the reasons India did not keep pace with the rise of China, or earlier Asian miracles.

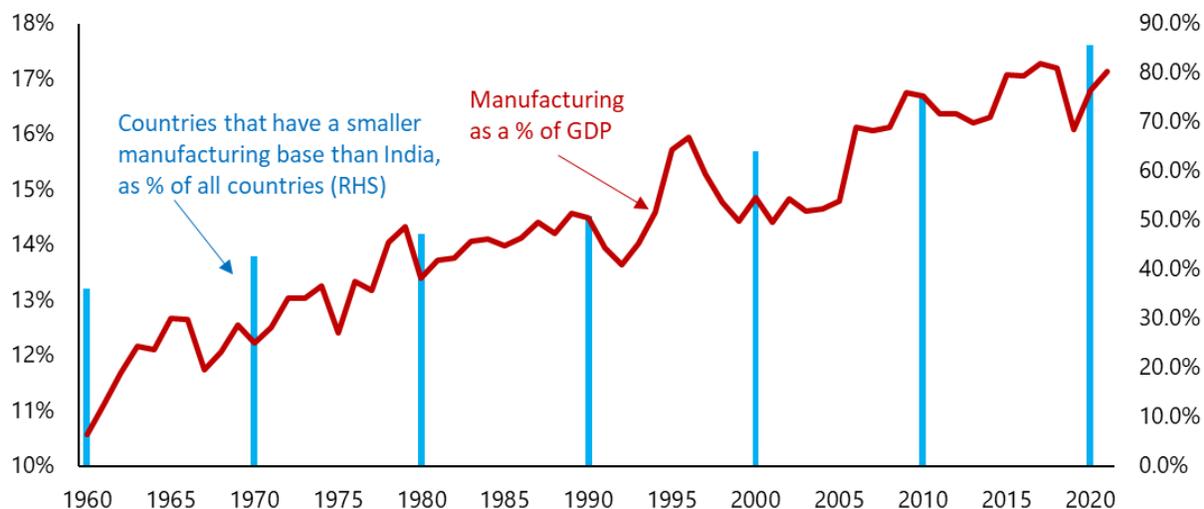
True, as far as it goes. Compare India to the rest of the world, however, and a different picture emerges. Its manufacturing sector has grown in inflation adjusted terms from 10 percent of GDP in 1960 to 17

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percent today. That pales in comparison to around 30 percent in the much larger economy of China. But as the blue lines in the chart below show, back in 1960, India's manufacturing sector was among the world's smallest as a share of GDP, and now it is among the largest—just outside the top 10 percent. That's not a miracle but it is real progress.

Chart 5. Indian Manufacturing Rises in the World



Source: Haver Analytics, IMF, Breakout Capital Calculations

Note: The calculations are in inflation-adjusted-terms

It is based in good part on the dynamism in the private sector, and in critical industries like technology and manufacturing, that we expect India to rise to world's third largest economy in the 2020s.

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