

Shaking hands with a strong India



VIVEK
KULKARNI

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The US President, Mr Barack Obama, is visiting a strong India this time round, unlike in the past. India has been growing at 9 per cent and emerged out of recession unscathed. Compared to their western counterparts, Indian banks are healthier, thanks to a sensible Reserve Bank of India. The spectrum auction and disinvestment proceeds have ensured that the Government of India finances don't show fiscal stress.

The capital market has just celebrated its largest IPO in Coal India. IT exports are still booming and expected to maintain the momentum for some more years. Real estate consequently remains upbeat. No wonder India is a darling of foreign investors, attracting unprecedented investments.

On the other hand, the President is facing a weak America. While the recession is

technically over, the jobless rate is stubbornly near-double digits. Both short and long interest rates are low, and the chances of deflation have not disappeared. In spite of spending over \$400 billion, the war in Iraq has not yielded results. In fact, Wiki-leaks disclosed 5,000 civilian deaths. The American banks are capitalised but not lending enough to small companies.

While Mr Obama's health-care Bill offered universal insurance, it has not done anything to contain costs. As elections approached, Mr Obama played to gallery by reprimanding outsourcing of jobs, increasing visa fees and so on. Yet, the US electorate is highly dissatisfied with the President, whose opponents have taken lead in recent elections. How can Mr Obama use his India visit to kick-start the US economy?

COMPARATIVE STRENGTHS

The US has been preaching the world on free markets and the theory of comparative advantage. India, which has comparative advantage in highly-skilled knowledge workers, should be allowed to develop its information technology industry. This implies that Mr Obama should not restrict outsourcing, off-shoring and help US firms become more competitive. In turn, the US should exploit the comparative advantage it has in different sectors.

For instance, consider higher education, where the US is the undisputed world leader. India offers huge opportunities in this sector and the US could use them to create new jobs in the US. The number of Indians aspiring for US degrees has gone up. For instance, Wharton class of 1990, when I graduated, had ten Indians or just one per cent class size. Now, in 2010, it is over 12

per cent. Thus, US education in India can satisfy the inherent local demand.

In addition, it can improve the quality of education. India graduates over a million engineers a year, yet over 40 per cent are unemployable. Thousands of Indian MBA graduates struggle to write a properly worded essay or business proposal. India offers the US a huge opportunity to set up quality universities.

Many in the US feel that India is cheap and universities may not make any money. The truth is strange. India's premium institutes are able to charge tuition fees matching US numbers. For instance, a one-year executive MBA programme in the Indian Institute of Management, Bangalore, costs over Rs 16 lakh or \$35,000 a year. Even the best schools in the US charge over \$50,000 a year as tuition.

KNOWLEDGE TRANSFER IS BIG BUSINESS

The US President should use the stimulus funds to enable US universities open shop in India. While they may lose money in the first five years, they will turn into a goldmine later. The top 200 schools in the US could be given stimulus money of, say, \$1 billion each.

This would amount to half of what the US spends in war with Iraq with no apparent benefits. Long-term engagement in education can be highly beneficial for both. Running these universities will create a lot of jobs in the US.

The US President will, however, not find it easy to implement the programme. Most universities in the world are inefficient bureaucracies. They have all made it comfortable for the faculties. Professors don't teach on Friday and enjoy long weekends. Many



senior professors do just research and are not available for students.

The decision to enter India may have to go through many faculty committees, which typically discuss more and decide less. The President must engage with these universities and ensure that they take quick decisions.

Mr Obama will perhaps sign a few defence deals where India would purchase fighter planes. The US, however, lost when the Indian Nuclear Bill imposed stiff liabilities on for-

foreign companies. French and Russian companies, backed by their governments, are in better position to take up such liabilities.

Mr Obama would do well to use some stimulus money to back the US companies and bag the deals in India, rather than begin arguments to change the Indian law. These decisions will go a long way in creating jobs in the US.

(The author is former IT Secretary, Government of Karnataka and founder of Brickwork Group.)