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ON THE RIGHT TRACK

The euphoric hope that reforms will be implemented overnight has given way to more pragmatic realism. But irrespective of whether Modi moves things slowly or quickly, India is moving in the right direction

BY MARK MOBIUS

India is part of a global phenomenon. The spread of internet and the proliferation of smartphones mean that people have a lot more information about their governments and society. Young people are becoming sophisticated and aware of policies and their failures, so there is pressure on policymakers.

There was euphoria when Narendra Modi was elected Prime Minister. But I, and a lot of other people, realised at the time that despite the promises, Modi would not be able to accomplish as much as expected. We knew that things would not go as fast as people expected. People were too optimistic. But now, there is a sense of realism and the direction is right. The tone and direction have been set. Whatever speed Modi moves things at, the reality is that India is moving in the right direction. He has the right fix.

We read that he has been criticised in some quarters about his constant touring, but it is good that he is travelling. His time overseas is not too much more, compared with his predecessor [Manmohan Singh]; in fact it is the same. That Modi is already extremely popular overseas is a positive. India needs the support of its wealthy, intelligent and successful diaspora; it is all part of a broader strategy. Even China's leadership has done the same thing with Chinese people trained overseas.

Modi has made policy objectives clear through the elections and now he must let the rest of the administration get on with it. This will amount to more money coming to the states. The states, in turn, have to realise that if they want to become more prosperous, they have to make changes in governance and administration.

The Prime Minister has set up programmes, which will help monitor and measure changes at the state level. India's place in the World Bank's 'Ease of Doing Business' rankings is poor compared to China. (India's ranking is 130 while China is placed at 84.)

I frankly don't think that 2016, or any specific year, will be a make or break one for India. The cat is out of the bag in terms of what Modi can or cannot do. People have resigned to the fact that India will not witness revolutionary changes overnight. But you see some of the bureaucratic initiatives playing out in infrastructure. Modi faces the Congress as opposition, which wants to get even, so to speak, for Modi's opposition to their policies in the past. But there are things which the PM can do at the ministry level without having to go to the Congress each time. I believe that India will outpace China over the next 20 years. I am optimistic because India is starting from a lower base, so the percentage increases are easier.

The smartphone revolution is pushing the Indian government to move faster. The feedback mechanism is creating a big impact. India is also different from China in some ways: China is a planned economy, the government tries to do the best for its people, but it is a top-down approach. In India, the central government may think that it has a top-down approach, but it doesn't. It must rely on the incentives of the population across the country and now the environment is very conducive to change at that level, because of the revolution in the telecommunications field.

India also has time on its side to make these changes. If you ask any major multinational corporate where they want to be—and where they have to be—to survive, it will have to be in China and India. But there is more that India needs to do in the small enterprise space and if the country continues with reforms, we could see improved earnings, amid low interest rates. The outlook for India is very positive because with relatively small changes at the Centre, there can be incredible changes at the state level. For instance, the unique identification (Aadhaar) system, tied up with bank accounts and subsidy payments, is among the steps which will help lower corruption.

Crucial to investor confidence will be the implementation of the Goods and Services Tax (GST). If Modi can get the bill passed, it will be a big boost to markets and corporate earnings. But it will be a bad signal if it does not come through in 2016. We also believe that the path to greater urbanisation will continue in full swing.

What we will continue to see in 2016 is big changes in consumer habits when it comes to internet shopping. Big private and public sector banks are waking up to growing competition. We believe that technology and consumer-facing (retail, internet services and ecommerce) companies will do well but the big issue will be infrastructure. Those companies which are able to inhabit the infrastructure space and make efficient deliveries are the ones that will survive. In equity, India will see better performance in 2016 than in 2015. There will be a rub-off effect of all the factors discussed above. Also, inflation levels are much lower than in 2014.

The Reserve Bank of India currently has the luxury of lowering rates in the coming quarters. Franklin Templeton stays strongly committed to India, with huge operations in Hyderabad. The firm has assets worth Rs 77,320 crore under management (as of September 30, 2015) through 35 schemes. About 61 percent of that is in income schemes and the balance in equity.

At the global level, commodity prices will recover, but this will take time. Yet, the impact on India and all other commodity consuming nations will be negligible. The main reason is that during the period when commodity prices were high, industries had already moved on to alternatives.

If Brazil can turn the corner and make the reforms they have to make, it will be a big boon for the Latin American region. The US is doing fairly well but you cannot expect too much in terms of growth in the coming year. The same goes for Europe and if the sanctions are lifted for Russia, we could see a big positive.

In recent times, there have been fears of capital outflows with the US Federal Reserve raising interest rates. But I think the threat of outflow due to the Fed rate hike has been overdone. The markets have accounted for it, so what next? We could see a recovery and not fear in the emerging markets. With the uncertainty over, you will see money flowing back to emerging markets.

There is a realisation that emerging markets are still growing. In early years, the biggest investors into these markets were US-based. For the most part, they were provincial and did not look beyond their borders easily. Then came the UK-based investors who were more open-minded. Now the emerging market countries themselves are beginning to invest in other emerging markets, domestic investors there are getting bigger and the rise of sovereign funds in emerging markets is changing the nature of investing there. Going forward, it will result in less volatile flow of funds. And within the emerging market nations, India has stood out.

(As told to Salil Panchal)

PM Narendra Modi at the G-20 leaders' summit in Turkey's Antalya. The PM has been criticised by some for constant touring

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