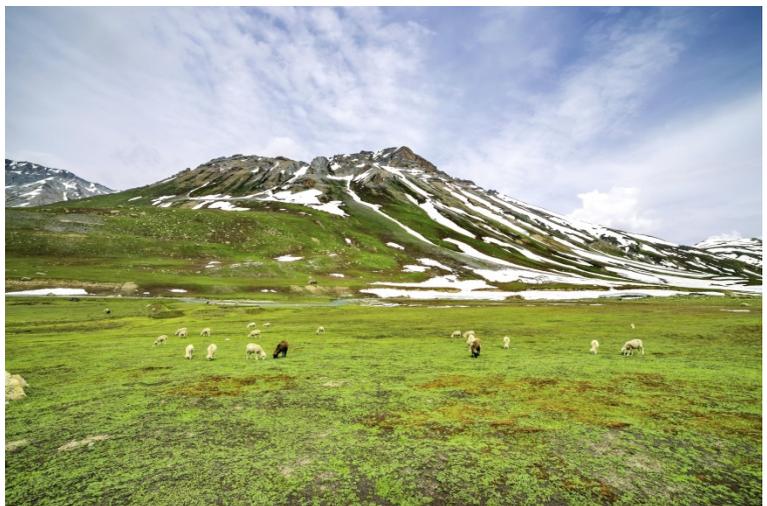


March 3, 2015

Kashmir

The State of Kashmir, India, is located in the northern portion of the country, with the Himalaya mountain range the dominant geological feature of this beautiful land. Pakistan actually controls the northwest portion of Kashmir and India controls the central and southern portions. When one thinks of the Indian landscape, one does not think of the beautiful mountain range in Kashmir that includes K2, the second-highest peak on earth. And yes, the region is known worldwide as the home of cashmere wool.



Enough of the geography lesson – like the surprising landscape of Kashmir, the economic landscape of India is surprising to many. India is not the country one imagines.

True, India faces dramatic cultural, political and economic challenges, but if one steps back and studies the opportunity the Indian people face, the potential for economic growth and societal wealth creation is truly stunning.

Raw Material

Let's take a quick peek into India's economy. India is the second most populous country on earth, with 1.25 billion people. A quick comparison of population levels show India's population to be 92 percent of the population of China (surprise!), and 3.9 times that of the U.S. One in six people who live on the earth reside in India.

From a social standpoint, India is a very complex country. Almost 2,000 ethnic groups make up the population of India. Talk about diverse. Infant mortality (babies dying in their first year of life) has fallen, from a rate of 7.2 percent in 1998 to 4.3 percent in 2014 (compared to 6.2 percent in the U.S.) India's population has grown by 44 percent since 1990 while China's has grown by 19

percent and the population in the U.S. has risen by 26 percent over the same time span.

At one time (until the late 1940s) India was a providence of the United Kingdom. The country became independent from the U.K. in 1947. The “father” of India’s independence is widely accepted as Mahatma Gandhi, who stands in the country’s history as George Washington stands in the United States. Upon independence, the Constitution of India came into effect.

India’s governmental form is very similar to England’s parliamentary structure. Free elections are regularly held. There are three key branches of government, each with cross-checks against the others. The President seeks advice from the Prime Minister. The Supreme Court of India reviews laws passed by Parliament for constitutional compliance. Contracts are binding. Business is done within the familiar “British Common Law” structure, similar to the United States. It is a “land ruled by laws” rather than a “land ruled by men.”

Economic Performance

India boasts the world’s tenth largest economy, but is the second most populous country. The GDP per capita is \$1,625 annually (compared to the U.S. at \$53,000). India is considered an “emerging” economy. Poor, but its economic growth rate has been strong, particularly of late.

India is a poor country that is becoming less poor. Historically, one of the major hurdles India has had to face is its age-old social “caste” system. This system classifies all citizens of India into one of five “classes,” predetermined by religion and birth. It has been very difficult for members of a lower caste to move upward into a higher caste. This is a social issue with which Indian leaders have been wrestling with since the days of Gandhi. It is one of the problems with the country.



Regarding education, 75 percent of the country is literate as compared to a literacy rate of only 45 percent in 1980. There are now 33,700 colleges and universities in the country as compared to 7,500 in 1990. India’s higher education system is now the world’s third largest (behind the U.S. and China). This country values higher education and is willing to put the capital into its education system. This adds dramatically to the country’s economic growth prospects.

Recent Developments

From 2011 through 2013, India’s economic growth rate slowed – from 6.5 percent to 4.4 percent. National elections were held in 2014, heralding into power the Bharatiya Janata Party (BJP) with its champion Narendra Modi. The party won 282 of the 350 parliamentary seats. Mr. Modi is viewed as one of the most powerful Prime Ministers in Indian history.

Mr. Modi’s focus is away from socialist “handouts” toward overall economic growth. Many view the political developments that have occurred in India as a historic opportunity to improve India’s economic performance and, perhaps more important, to expand the presence of a true middle class in the society, uprooting or changing the age-old caste system that has so long hampered upward mobility in this society. This will be a long, challenging road for India, with many potholes.

But the country faces a real opportunity for long-lasting economic growth tied in with a more broad-based sharing of the economic pie.

Summary and Closing Thoughts

So, let's compare and contrast India's economic and capital market outlook to that of China. The recent GDP growth rates of China and India are similar. China's growth rate (if one believes what they hear from Beijing) is slowing while India's is accelerating. Both countries are major oil importers, so the recent decline in oil prices should help each country's economic performance.

From an economic composition standpoint, India relies less on industrial output for growth than does China (30 percent vs. 49 percent) and more on agriculture than China (18 percent vs. 11 percent). This leads one to the conclusion that with proper investment spending and liberalization of trade rules, the agricultural segment of India's economy may be able to become much more efficient, eventually driving per-capita productivity upwards and creating a true upward push in societal wealth.

India's workforce is set to grow in relation to the overall size of their population base, whereas China will eventually witness a decline in the size of its labor force as compared to the overall population. This is a result of China's long-standing "one child" policy – a policy that is currently under review.

Finally, India and China are not even close when it comes to "transparency" and reliability of contractual arrangements. China is a communist-controlled society without free elections. It is a country that is ruled by men and the desires of the communist party. If an investor places capital into China, there is a chance that capital eventually may be confiscated, because contracts, by themselves, mean little. On the other hand, India is a country ruled by laws, which are based on British Common Law, a structure that honors contracts and property rights.

This year, prospects are for India's economy to grow by 8.5 percent. If this occurs, and historical social barriers are honestly attacked, the Indian economy, a potential "tiger," may start to truly roar. Over the long term, if I were given the choice to place my capital into China or India for 10 years without the ability to liquidate the investment at any time, my choice is clear. Hello, Kashmir.

We will be back next week.



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