



In the News

India's Secret Weapon

Nonresident Indians were once viewed with suspicion. But now they and their money are coming back home.

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Nov. 13, 2006 issue - In a way, the story of India and its diaspora reads like a Bollywood script about two brothers, the younger one rich and successful, the older one poor but closer to the family. And now, not too late in life, they are reconciling.

As recently as a decade ago, overseas Indians were viewed either as cash cows to be milked or as traitors who'd taken their highly subsidized educations and abandoned the motherland to get rich abroad. That disapproval was reflected in a play on words that turned NRI, or nonresident Indian, into "not required Indian." But as India has evolved from agrarian torpor to high-tech vibrancy in recent years, the newly self-confident country has also begun to re-evaluate its relationship with its expatriates. At the same time, members of the diaspora have begun looking homeward for the same reason they originally left—the pull of economic opportunity. "The mind-set of India changed in the 1990s," says author Gurcharan Das, whose book "India Unbound" charts the country's rise. "The minds of young Indians, especially, became decolonized."

Everyone knows about the "reverse brain drain" of talented Indians who have returned home from Silicon Valley to fuel the country's tech boom. But more quietly, the money has now begun to follow the people. Though overseas Chinese, not to mention overseas Filipinos and Mexicans, are much more famous for sending cash home, Indians now lead the world in this category. According to the World Bank, cash remittances from Indians abroad have more than doubled since 1995, and last year totaled \$22 billion. (China, at \$21 billion, was close behind.) Over the past decade India's aggregate remittances totaled \$154 billion—about 50 percent higher than what China received from its much larger diaspora.

With more than 20 million Indians overseas, including 200,000 millionaires in America alone, the diaspora could be a critical weapon for India in its effort to catch up to its archrival. A recent JPMorgan report says the diaspora is becoming "a powerful catalyst in helping India realize—perhaps even exceed—its aspiration toward 10 percent annual GDP growth." Aside from remittances, the stock of bank deposits held by nonresident Indians, many of whom bank money in India to take advantage of preferential interest rates, topped \$32 billion last year, accounting for a whopping 23 percent of India's foreign-exchange reserves. These large inflows have helped protect the value of the rupee and dampen inflation in a nation that, unlike China, runs a trade and government deficit. And while it's not clear how much of the foreign money flowing into the Bombay Stock Exchange comes from overseas Indians, local traders assume the NRIs account for a good share of the incoming money that has driven up the market 300 percent since 2003. Over the same period, the Shanghai market has stagnated (due in large part to China's reluctance to open it to hot money from any overseas source).

There are other critical differences between the Chinese and Indian diasporas. Because overseas Chinese are concentrated nearby in places like Hong Kong, Singapore and Taiwan and largely earned their wealth in manufacturing, they're both better situated and more motivated to make direct investments in factories on the mainland. In contrast, India's post-independence emigrants

were mainly professionals—doctors, lawyers, scientists and engineers—or small shop and hotel owners, settled in countries far from India. Until recently they had neither the expertise nor the impetus to invest in their homeland.

That's a big reason, says JPMorgan analyst Rajeev Malik, that to date overseas Chinese have sunk far more than their Indian counterparts have into new factories back home. The overseas Chinese contributed as much as half of China's foreign direct investment in the 1990s, while overseas Indians chipped in only about 10 percent of India's much smaller total. In 2000, for example, overseas Chinese pumped \$32 billion in FDI into China, compared with \$200 million for Indians.

But this, too, is changing. Curiously enough, India's first concerted official effort to court its own diaspora began on the heels of its first nuclear test in 1998. To help offset the international backlash that led to sanctions, India issued Resurgent India Bonds, for sale to overseas Indians only. This patriotic appeal drew in \$4.2 billion.

Over the next five years, India's burgeoning economic might undermined the members of the protectionist swadeshi—or "self-sufficiency" —lobby in their battle against free-market reformers. Bureaucrats began for the first time to embrace the business class, including videshi—or "foreign"—executives. In 1999, India introduced a quasi-citizenship scheme for Indians born overseas that allows them to travel in and out of the country without a visa, as well as to buy land and take advantage of investment programs directed at nonresident Indian passport holders. In 2000, the government formed a high-level committee to explore ways to improve ties with Indians abroad, and in 2003 it introduced Non-Resident Indian Days, at which government ministers seek diaspora investment. The next year India created a Ministry for Overseas Indian Affairs to address the concerns of the diaspora throughout the year.

At the same time, the diaspora itself has undergone remarkable changes. The mix of contract workers and professionals, scattered from the Persian Gulf to Britain, the United States and Canada, has developed a new core of increasingly high-powered entrepreneurs, centered in but not limited to Silicon Valley. Many of them, like Gururaj (Desh) Deshpande (founder of Sycamore Networks), Vinod Dham (father of Intel's Pentium chip), Vani Kola (founder of RightWorks software) and venture capitalist Vinod Khosla are investing time and money in Indian companies. "Business people in India now have a lot more confidence, and people here [in America] have a lot more respect for what the guys in India are doing," says Deshpande. "If it was 10 years ago and somebody came here looking to invest or contribute, if you got a phone call or an invitation from somebody in the government it was like they were doing you a big favor. Now they offer to come see you. They're reaching out."

The result has been a very recent spike in huge investments from the diaspora. "The pace of investing in India is accelerating," says Google billionaire Ram Shriram, whose Shero Ventures is now investing in Indian firms. Hotmail founder Sabeer Bhatia has unveiled plans for a \$2 billion infrastructure project in Haryana that he's billing as India's Silicon Valley. And, most dramatically, the world's leading steel tycoon, London-based Lakshmi Mittal, is building a \$9 billion steel plant in the eastern state of Jharkhand—the largest expat investment to date. "I am very proud to be an Indian, and yes, there is certainly an emotional dimension to be able to invest in my place of birth," says Mittal. "[But] investing in India is a business decision, as it's a market with huge potential for growth in steel consumption."

All this has made Indian and NRI business leaders more active in promoting ties. Organizations like the Confederation of Indian Industry's Indian American Council identify opportunities for collaboration in areas like training and education, health care and scientific research. The expat network Indus Entrepreneurs mentors younger entrepreneurs and has created more than \$200 billion in wealth by helping to build start-up companies.

Supersuccessful NRIs see India as an exciting frontier where they can use the skills and contacts they developed abroad to launch second-act careers with a broad socio-economic impact. Consider Deshpande, who—first as "coach," then as investor and chairman of the board—helped entrepreneur Sanjay Nayak build India's first homegrown telecom-equipment company, Tejas Networks. Now six years old, Tejas holds the No. 2 market share in India. Former McKinsey & Co. managing director Rajat

Gupta, who left India more than 20 years ago, used a combination of India savvy and a brilliant network abroad to set up the Indian School of Business and the Public Health Foundation of India. Six years after it opened its doors, ISB is the eighth largest business school in the world. The PHFI, launched this year, will set up five world-class Indian Institutes of Public Health, the first two opening by 2008, which will eventually produce as many as 10,000 graduates a year.

Successful emigrants like Dham, Kola and Shriram are bringing more than money to India. They're both benefiting from and fueling a new sense of possibility. Dham, for instance, helped persuade Kola to move home after 22 years in the United States to run a new \$100 million VC fund, based in Bangalore. On a trip home, Kola felt something she had felt years ago in Silicon Valley, a sense of being at the center of things. "I'm happy and proud that this is where things are happening now," says Kola, who says the move to India was like getting back on a bike after a break of 20 years. "It's fun. It's almost like a gift I wasn't expecting." Today, India's prodigal sons and daughters are more than welcome home.

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