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Is India the new China?

Shifting Asia

Content

UBS Shifting Asia
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Editorial

Dear reader

India and China share few similarities despite a long history of economic, religious and cultural ties. Their political systems, governance models, cultures and societies are a world apart. Yet, the two are often closely compared largely because they are Asian neighbors and by far the world's two largest populations. These frequent comparisons make one difference particularly stark: while China has catapulted to become an economic and geopolitical juggernaut, India is still lagging on most socio-economic indicators.

In the decade ahead, however, the conditions look ripe for India to fulfill its growth potential. Indeed, a confluence of external and domestic factors are coalescing that could help India's economy leap forward. With over 9% nominal GDP growth projected in the coming years, investors should consider gaining early exposure to potentially the world's next growth engine.

Welcome to the latest edition of Shifting Asia. This report dives into India's future, bringing to light the structural drivers powering the economy and the challenges that are weighing it down. Our aim is to familiarize investors with the country's long-term growth outlook and the underlying structure of its economy and financial markets. To the question of whether India will be the next China, we reference China where it is most instructive to gauge India's comparative advantages and ultimate economic potential. After all, its growth path ahead will likely be distinctly different from China's.

India's nascent e-commerce market is a particularly promising area. As one of the world's biggest consumer markets, international and local players are racing to gain market share. We forecast a 17.3% average annual expansion rate for the sector over the next 10 years, driven by the youthful population's swift embrace of the internet age. Online retailing, travel booking, food delivery, and business-to-business segments offer significant potential, in our view.

Min Lan Tan
Head of APAC Investment Office

Corporate profits, in general, should rise across the board. We expect earnings to grow 11.5% on average a year over the decade, with financials (14.5%) and infrastructure (16.7%) leading the pack. This should underpin prospects for the equity market. The rupee and local bond market are also well-positioned to benefit from a rising tide of economic productivity.

The challenge with investing in India isn't a scarcity of opportunities—on the contrary, we see a surfeit of them. It's the obstacles hindering foreign investors from tapping the local markets. Progress has been made on this front and we expect further financial market reforms ahead, but more needs to be done. Still, as a vast and under-owned market, the potential investment rewards can be substantial.

We wish you a happy reading and look forward to any comments and feedback you may have.

"India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grand-mother of tradition. Our most valuable and most artistic materials in the history of man are treasured up in India only!"

Mark Twain

Key takeaways

India's future is bright

- Enviable GDP growth: India could achieve 9.5% nominal GDP growth in the decade ahead.
- Youthful demographics: India will add 110mn workers by 2030; one-fifth of the world's working-age population will be Indian.
- A mature tech sector: India's IT industry is one of the biggest globally by revenue.

Challenges to overcome

- Investment needed: To reach full potential, infrastructure investment needs to rise from around 5% of GDP today to 7%–8%.
- Small manufacturing sector: At 1.7%, India's export share is a tiny fraction of China's (approx. 13%).
- More reform heavy lifting needed to entice investment, upskill the labor force, and build a more robust manufacturing base.

Asset class implications

- Equities: Earnings to grow 11.5% on average each year from 2021 to 2030, with financials (14.5%) and infrastructure (16.7%) leading the pack.
- Bonds: India's BBB rating looks secure, IG space has room to grow, and HY defaults should remain relatively low.
- Currency: The rupee should deliver attractive long-term returns thanks to its high yield.

Investing in India

- Not easy, but not impossible: India is one of the last large population markets that is waiting to be truly discovered. Waiting to invest could mean high opportunity costs.

Blue sky – gauging the country's growth potential

GettyImages

Expectations for India have always been sky high, especially after elections. For years, many projected the economy would grow (in real terms) by a world-leading 9% clip. But while actual growth rates have been enviably high, they have yet to meet expectations. So what is a realistic target? The long-term rate at which an economy can grow without overheating is largely determined by:

1. the supply of labor such as working-age population growth, the participation of women and retirement ages
2. investment
3. total factor productivity, which measures the efficient use of labor and investment

Labor supply

Only India can match China in terms of abundance of labor, with the country set to overtake China as the world's most populous by 2027. By 2030, close to one-fifth of the world's working-age population (aged 15–64 years) will be Indian. At a youthful median age of 28, which is 10 years below the median age in China, the supply of labor is India's key advantage. An average of 10 million people will enter the working-age population each year until 2030 (a cumulative of 110mn, which is close to the population of the Philippines), translating to around 1.0% annual growth for India's current working age population of about 920mn, a feat very few countries can claim. China's working-age population, in comparison, peaked in 2015 and is on track to decline by 27mn by 2030. The large pool of labor should keep a lid on India's labor costs. This, alongside the government's focus on skills improvement and labor reforms, can boost the employability of India's youth.

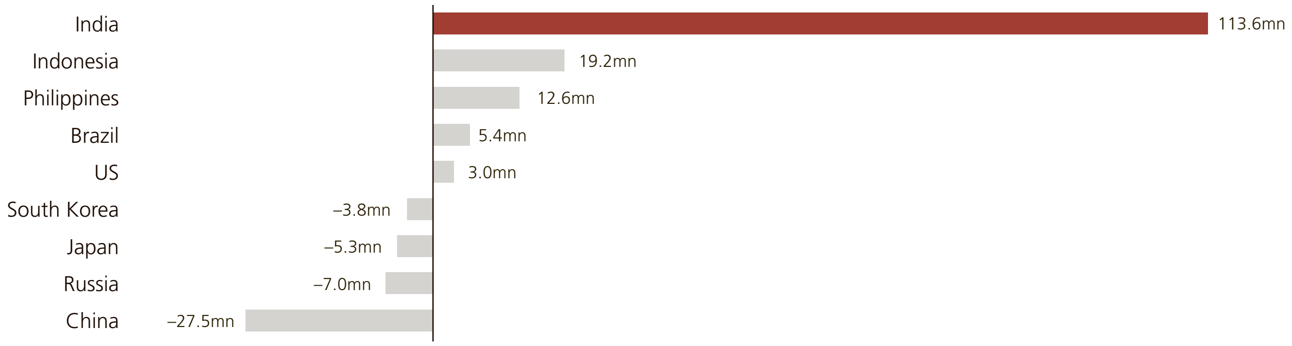
Investment – the need of the hour

At around 30%, India's investment-to-GDP ratio is high by global standards. But to consistently realize a potential growth rate of 6% in real terms—our forecast for the years ahead—we estimate it needs to climb to 33%. The private corporate sector is likely to remain the main source of investment, followed by households and the public sector. The latter will be focused primarily on boosting infrastructure investment, which currently accounts for about 5% of GDP. For India to reach its full potential, we estimate investment needs to be at 7%–8% of GDP. Projects worth USD 1.4tr are being drawn up under the national infrastructure pipeline (NIP). Investment, overall, is mostly being financed by domestic savings. The current savings ratio stands at 29% and will rise as India's dependency ratio

Fig. 1

Incremental working age population: 2019E–2030E

mn people



Source: UN

falls, but it will still sit below the investment ratio. Hence, the country will likely run an external (or current account) deficit. More money from abroad will therefore be needed to fill the nation's coffers; this would also keep the currency from unduly losing value.

Make in India – angles to attract foreign capital

The COVID-19 pandemic and US-China tensions have opened a window for India, whereby foreign firms are considering their options beyond China. A UBS Evidence Lab Survey shows that many CFOs view India as a preferred alternative destination (see Fig. 2).

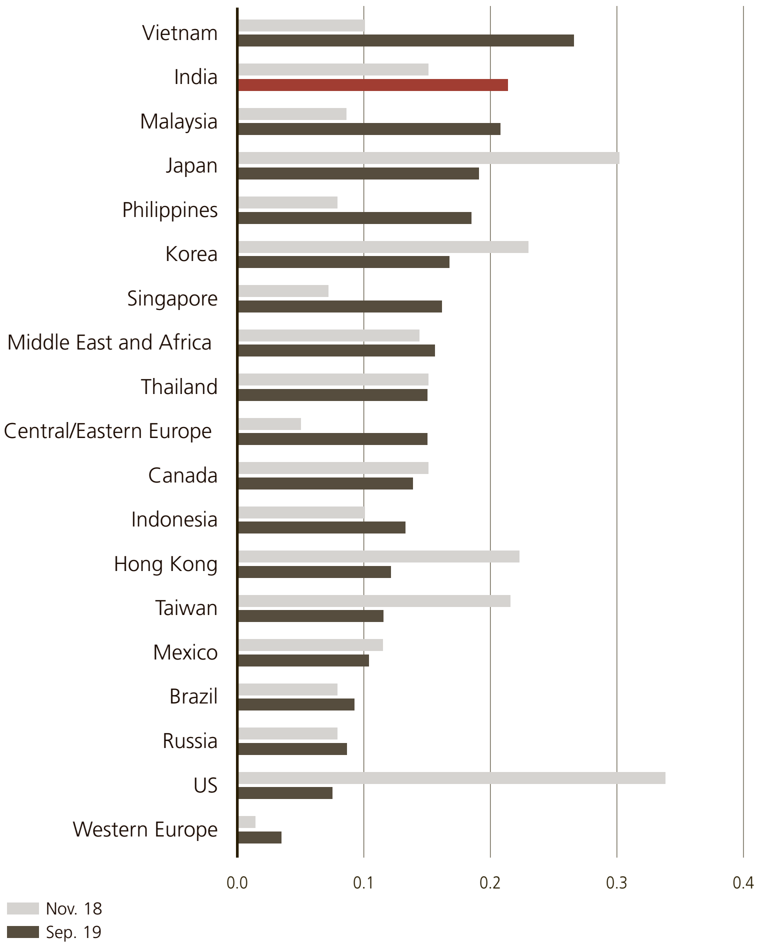
Domestic pull and global push factors are serving as a tailwind for foreign direct investment (FDI) into India. In fact, according to government estimates, 2020 could be a record year for FDI with USD 161bn estimated to be in the pipeline, double that of 2019. More importantly, the manufacturing sector witnessed an encouraging rise in FDI in 2019. This trend could continue in the coming years with Indian policymakers taking steps to benefit from firms adopting a "China-plus-one" strategy (to diversify supply chain risks), rather than competing with China head on.

What really sets India apart from other non-China competitors as a manufacturing base is its large and fast-growing domestic market, which can absorb a large share of a company's output. A study by the Brookings Institute found that India's middle class (income range of USD 11–110 per person per day) is growing fast and is on its way to become the second largest in the world by 2030. India, Brookings estimates, will account for 17% of global middle-class consumption in 10 years, one notch below China (22%) and ahead of the US (7%).

Despite having essential resources like land, low-cost labor and coal, India has missed out on developing a strong manufacturing setup. It largely skipped to cultivating a robust services sector (~56% of GDP), but the lack of a strong manufacturing base has limited India's growth potential—services have a smaller multiplier effect on capital expenditures and employment. The government, cognizant of this, aims to raise the manufacturing sector's contribution to GDP to 25% from around 16% currently. Its "Make in India" and, more recently, "Self-Reliant India" initiatives endeavor to bolster the country's manufacturing footprint, lifting FDI in the process and raising India's share of exports globally; at 1.7%, India's export share is a fraction of China's (13.2%). Developing its manufacturing sector can also help absorb a large part of the population that is expected to enter the labor force in the coming years. In summary, it can be said that whereas China needs to consume more, India needs to invest more.

Fig. 2

Which economies have exporting manufacturers already moved to or are planning to?



Source: UBS Evidence Lab

> "India is not Calcutta and Bombay; India lives in her seven hundred thousand villages."
>
> Mahatma Gandhi

TFP – the wild card in the growth mix

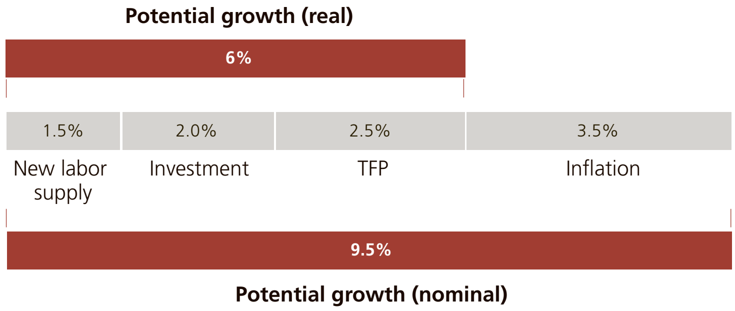
India's total factor productivity (TFP) growth has been well below the 3% threshold achieved by a number of economies that have experienced GDP growth rates of greater than 8%. But the country's growth drivers are deeply structural and, hence, sustainable. They include urbanization, with Delhi aiming to bring the portion of the population residing in rural areas and villages from 66% to 60% over time; the gradual movement of the informal economy, which currently comprises 90% of India's workers, into the formal economy; and the ongoing upskilling of the local workforce.

In our view, India's nominal GDP growth could touch 9.5% (in local currency terms) if the right measures are taken (see Fig. 3 for a breakdown of how we came to this number). So where would such a rate put India on the global map of economies? When looking at the top 10 economies globally (in nominal GDP terms, i.e., not adjusted for purchasing power) since the 1980s, India first entered this list a decade ago and has been climbing up ever since. The key question is whether it will stay in seventh place or float even higher.
To figure this out, we adjusted nominal growth rates for potential currency depreciation and for India used 7.5% growth in USD terms. Using these assumptions, by 2030, the US and China remain the two largest economies by far. India, however, emerges as the third largest economy with some distance between the other contenders. It is, after

Fig. 3

India's nominal, sustainable GDP growth potential

India could become the fastest-growing large economy in the decade ahead



Source: UBS

Top 10 economies' nominal GDP

In USD tr

Rank	1981	1991	2001	2011	2020E	2030E	USD tr
1	United States	United States	United States	United States	United States	United States	33.3
2	Japan	Japan	Japan	China	China	China	28.3
3	Germany	Germany	Germany	Japan	Japan	India	6.5
4	France	France	United Kingdom	Germany	Germany	Japan	4.0
5	United Kingdom	United Kingdom	France	France	France	Germany	4.0
6	Italy	Italy	China	United Kingdom	United Kingdom	United Kingdom	2.9
7	Canada	Canada	Italy	Brazil	India	Brazil	2.8
8	Mexico	Spain	Mexico	Italy	Italy	France	2.5
9	China	China	Canada	Russia	Brazil	Italy	1.6
10	Spain	Brazil	Spain	India	Canada	Canada	1.6

Source: UBS

all, already the third largest economy when measured by purchasing power parity, behind China and the US.

What are the main obstacles?
Making India's bulging workforce as efficient as possible, beyond the low-wage benefits, would give the country a paramount global advantage. Upskilling is one route to take, but doing so takes years to accomplish. One way to speed up the process is to enact broad labor reforms. But this would be a monumental task given the 100+ labor laws previously in existence, many of which are questionable. One example was a rule by which a company needs to provide a space for workers to dry their clothing. If an inspection found it missing, it may lead to rent-seeking. Another is when a factory has more than 100 (in some states 300) workers who need to be retrenched, an approval by the state government is needed, although states can now opt to be less strict. However, in the world's largest democracy, politicians who are answerable to voters may not have a particular incentive to approve the layoffs. Firms may opt to stay small to avoid the law, and don't grow to their full potential as a result.

Deficient infrastructure is one of the bigger hurdles in the way of productivity, and is a significant hindrance to Delhi's Make in India ambition. Plugging the gaps in infrastructure—mainly in the power, transport, logistics sectors—would help kickstart a virtuous cycle of higher investments, growth and employment generation. India's power prices are among the highest in Asia due to mandated pricing to support farming at the cost of industrial customers, and because of losses and theft. The power system is also plagued by India's high financing costs; 70% is debt funded.

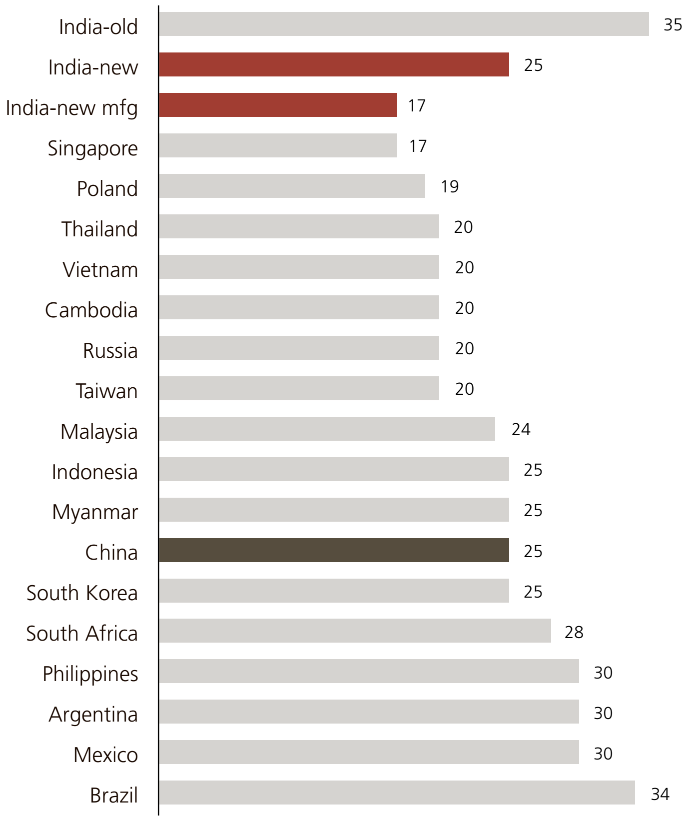
High financing costs should be mitigated by long-term inflation targeting and government budget consolidation, however, which coincidentally could also improve financial savings. Corporate taxes, which once were among the highest in Asia, have been drastically cut. They are now on par with competitors like China and, for newly opened manufacturing facilities, can be as low as Singapore's.

Land acquisition is a thorny area. As a first step, the formation of special economic zones (SEZs) for manufacturing could provide dedicated areas where this issue is already solved for investors. India is developing a land pool to captivate businesses moving out of China. Opening up to more FDI is a start, but a lot more can be done in terms of raising FDI limits and the number of eligible sectors.

Fig. 4

India is closing the tax rate gap

India's tax rates pre and post reform, in %



Source: UBS

Heavy lifting on reforms needs to continue
Even in the long run a government has very little influence over the size and growth of its labor force, so it needs to be taken as a given. The authorities are therefore focusing on the other two variables: boosting investment and TFP. Much has been written about reform efforts, some of which, such as the goods and services tax and the unified identifier Aadhaar, were worked on before the Modi administration entered office. Observers often only describe their effects in isolation. But they all have an end game: to support either investment or TFP. The table on page 10 summarizes a number of

India's reform roadmap

Obstacles to growth	Examples of reforms and measures
	Reforms supporting investment
Banks' and non-banks' insufficient lending scope, regulatory framework and contract enforcement. This includes the complicated process of resolving insolvencies.	India Bankruptcy Code (expediting lengthy procedures, thus freeing up capital for bank lending)
	Inflation targeting and government budget consolidation for financial savings
	SOE bank reform; merging and allocating capital to the most efficient ones
	Financial inclusion, nationwide roll out of basic bank accounts
Hurdles to FDI	Significant corporate tax cuts, FDI support departments
Infrastructure bottlenecks	Power sector reforms
	Dedicated (rail) freight corridors, highway build-out programs
Only partial capital account convertibility, limiting long-term financing avenues	Partial opening of sectors and bond market
	Reforms supporting both investment and TFP
Availability of skilled labor quality and flexibility of laws	Condensing from >100 partially conflicting laws to 4 simplified and more investor-friendly labor codes
More agriculture reforms needed	Slower pace of minimum support prices for agricultural produce
Administrative and regulatory burdens including rent-seeking	Universal ID (UID aka Aadhaar), biometrics based registration system that allows for direct (subsidy) benefit transfer, easy enrollment for bank accounts and other services
	Electronic project approvals with tracking and clear time lines, e-auctioning and private mining
	Goods and services tax (GST) to lower the number of tax brackets and create equal conditions across states
Limited competition, monopolies & oligopolies, and state interference	SOE privatizations and consolidation
Long legal and land acquisition processes	Land acquisition regulation / law

Source: UBS

Done   Done/to be improved   Initiated   Pending

This statement contains views which originate from outside Chief Investment Office Global Wealth Management (CIO GWM). It is therefore possible that the statement does not fully reflect the views of CIO GWM.

Dr. Krishnamurthy V Subramanian
Chief Economic Adviser
Government of India

Interview with Dr. Krishnamurthy V Subramanian

Dr. Krishnamurthy V Subramanian, currently the Chief Economic Advisor to the Government of India, is a leading expert on economic policy, banking and corporate governance. A PhD from Chicago-Booth and a top-ranking IIT-IIM alumnus, he authored the path-breaking Economic Survey that commends "Ethical Wealth Creation" for a prosperous India. The 2019 Economic Survey laid out the Strategic Blueprint for India to become a USD 5tr economy by generating a virtuous cycle where private investment, wage and employment growth as well as consumption feed into each other. By integrating India's rich economic and spiritual heritage with modern economic ideas, he advocates ethical wealth creation through a marriage of the invisible hand of the market with the hand of trust. His idea of Thalinomics—what a common person pays for a vegetarian or non-vegetarian thali—has been acclaimed as the Indian Big Mac Index.

We have seen many reform measures in recent years. What do you consider the biggest area of reform to be tackled in the next decade?

In his Independence Day address, the Hon'ble Prime Minister focused on wealth creation as the lasting solution to rapid economic development and eliminating poverty in the country. In line with this vision, the Economic Survey focused on "Ethical Wealth Creation" as the sine qua non for economic development. I expect the reforms over the coming decade to be directed towards fructifying this vision of ethical wealth creation in India.

Recall that for more than three-fourths of known economic history, India has been the dominant economic power globally. As research by Angus Madisson shows, till about 1750 A.D., India accounted for more than one-third of the world's GDP. Economic dominance over such long periods manifests by design; not by mere chance. This year's Economic Survey establishes clearly that India dominated the global economy because our age-old economic model commended ethical wealth creation as a noble human pursuit and advocated the combination of the "invisible hand of markets" with "the hand of trust" to achieve this vision.

The focus on ethical wealth creation marks a total departure from India's "tryst with socialism." In pursuing the socialist model, India undermined the power of markets by excessive government intervention that not only created inefficiency in the economy but also created a mindset that viewed private profits with suspicion. The focus on ethical wealth creation marks a key departure from the socialistic mindset that India ephemerally experimented with— a few decades is but ephemeral for civilization that spans millenia. For instance, Kautilya's Arthashastra is a treatise on creating Artha, which is the Sanskrit word for wealth. Other Indian literature also recognizes wealth creation as a worthy human pursuit. The Thirukural, a treatise on enriching human life by Tamil saint and philosopher Thiruvalluvar, asserts in verses 753 of Chapter 76: "Wealth, the lamp unfailing, speeds to every land; Dispersing darkness at its lord's command."

In this process, I expect the role of markets and the private sector to secularly increase in the Indian economy. The policy of privatization announced by the Government of India as part of its COVID-19 package, which gives the private sector the "commanding heights of the economy," underlines this change. A slew of reforms have been launched in the last few years—the Bankruptcy Code, the Goods and Service Tax, critical changes to the Essential Commodities Act, Agricultural and Product Marketing.

In the next decade, I expect the mindset in the Indian private sector to also undergo reform. As research on the Global Financial Crisis of 2008–09 has demonstrated, naked capitalism that emphasizes private greed even when it comes at the cost of social good is past its sell-by date. The Global Financial Crisis demonstrates the critical role of trust, and thereby governance, in ensuring that private greed does not wreak havoc on social good. Similarly, the COVID-19 crisis illustrates the importance of sustainable economic development; naked pursuit of profits without accounting for the social costs of global warming cannot be sustained either.

Here again, I expect the private sector to benefit from the perspectives provided by ancient Indian wisdom which emphasizes equally the means to creating wealth. Verse 754 in the Thirukural declares: "(Wealth) yields righteousness and joy, the wealth acquired capably without causing any harm." "Wealth acquired capably without causing any harm" encompasses the need for sustainable economic development that private sector must espouse.

This also means recognizing that phenomena such as willful default, for instance, cannot be consistent with ethical wealth creation. Reforms that enable better governance in the private sector and eliminate incentives for cronyism will feature in this mindset change in the private sector.

We note the support for manufacturing. Which particular manufacturing industries do you see where India might have competitive advantages and may be counted among global leaders by 2030?

Development anecdotes across countries are replete with instances of capacity building, first through baby steps that absorb learnings followed by giant strides that rapidly build on the accumulated learning. Similarly, to become a global force in manufacturing, India needs to focus on "Assemble in India for the World" before integrating backward to producing in multiple stages of the value chain. In doing so, India can develop the comparative advantage in networked products and thereby become a major player in global supply chains. India will thus emerge as a viable alternative among its Asian neighbors.

We project India could be the third largest economy by 2030 (non-purchasing power adjusted). Do you sense an aspiration that the INR could become a global reserve currency to accompany this economic weight?

The government aspires to make the country a USD 5tr economy from a USD 3tr presently, in order to reduce the poverty level in the country. The strength of the economy will then be seen in the rising productivity of its workforce. India's global trade will be a significant proportion of GDP and capital flows into the country will be voluminous to keep the country's foreign exchange reserves at a high level. Under such situations, the country's currency is well-placed to becoming a global reserve currency. When the situation arrives, India will be in a good position to take a view on making the INR a global reserve currency.

key obstacles to reaching full potential growth, as well as the associated reforms meant to solve them. Many reforms have been rolled out but some need improvements, and others are just getting started.

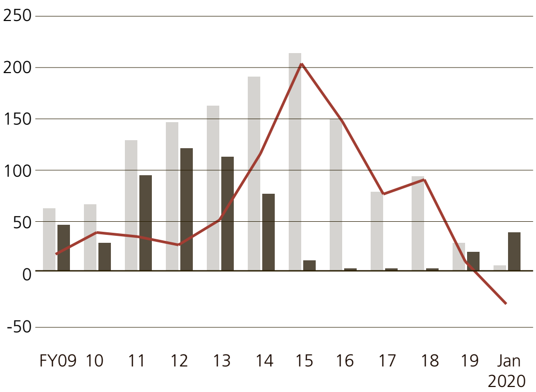
Some reforms have already contributed to relative success. This can be seen in the ease of doing business global league data in Fig. 6.

India has become Samsung's second largest handset producing location. Apple plans to move one-fifth of its China capacity to the country over the next five years, according to media reports. And its iPhone assembly partner Pegatron is planning to set up shop there as well. Courting electronics manufacturers with the right incentives and actually less market-friendly measures, such as increasing import tariffs, have put a feather in India's cap. It is now a net exporter of cell phones (see Fig. 5), accounting for one-fifth of global production. Even though the bulk is still low end, further upscaling from 10% to 40% value-added manufacturing in the country could, according to Credit Suisse, lead to the creation of up to 2mn higher-skilled jobs and a 0.7% of GDP improvement in the trade balance by 2025.

Fig. 5

From heavy importer to exporter of cell phones

Not only has domestic manufacturing grown, India has turned into a net exporter of devices, mn units

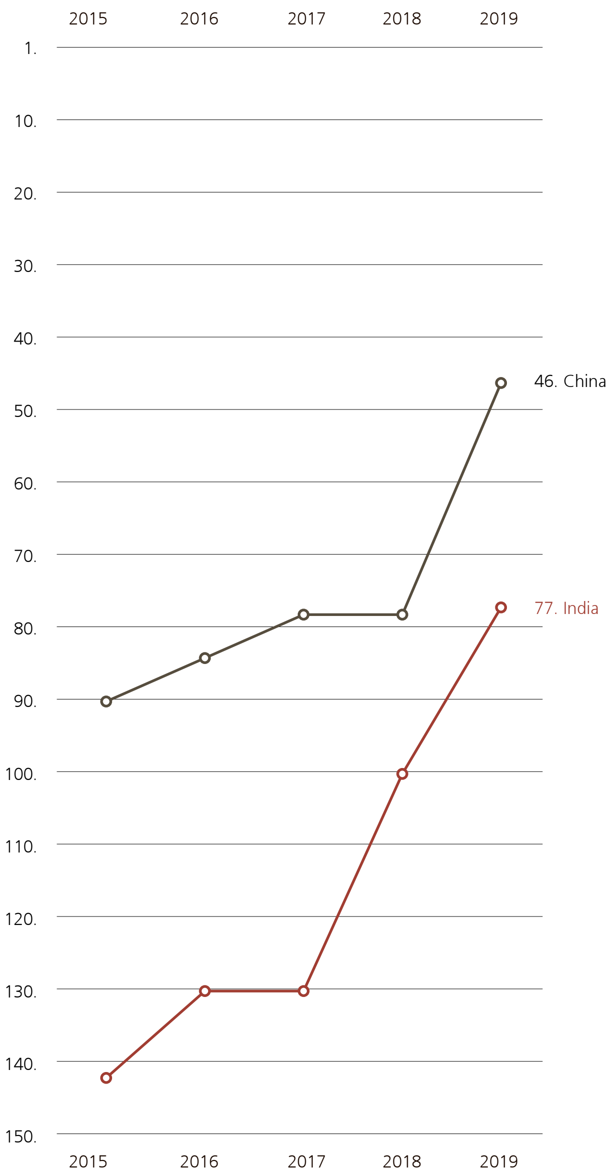


Source: Credit Suisse, UBS

Fig. 6

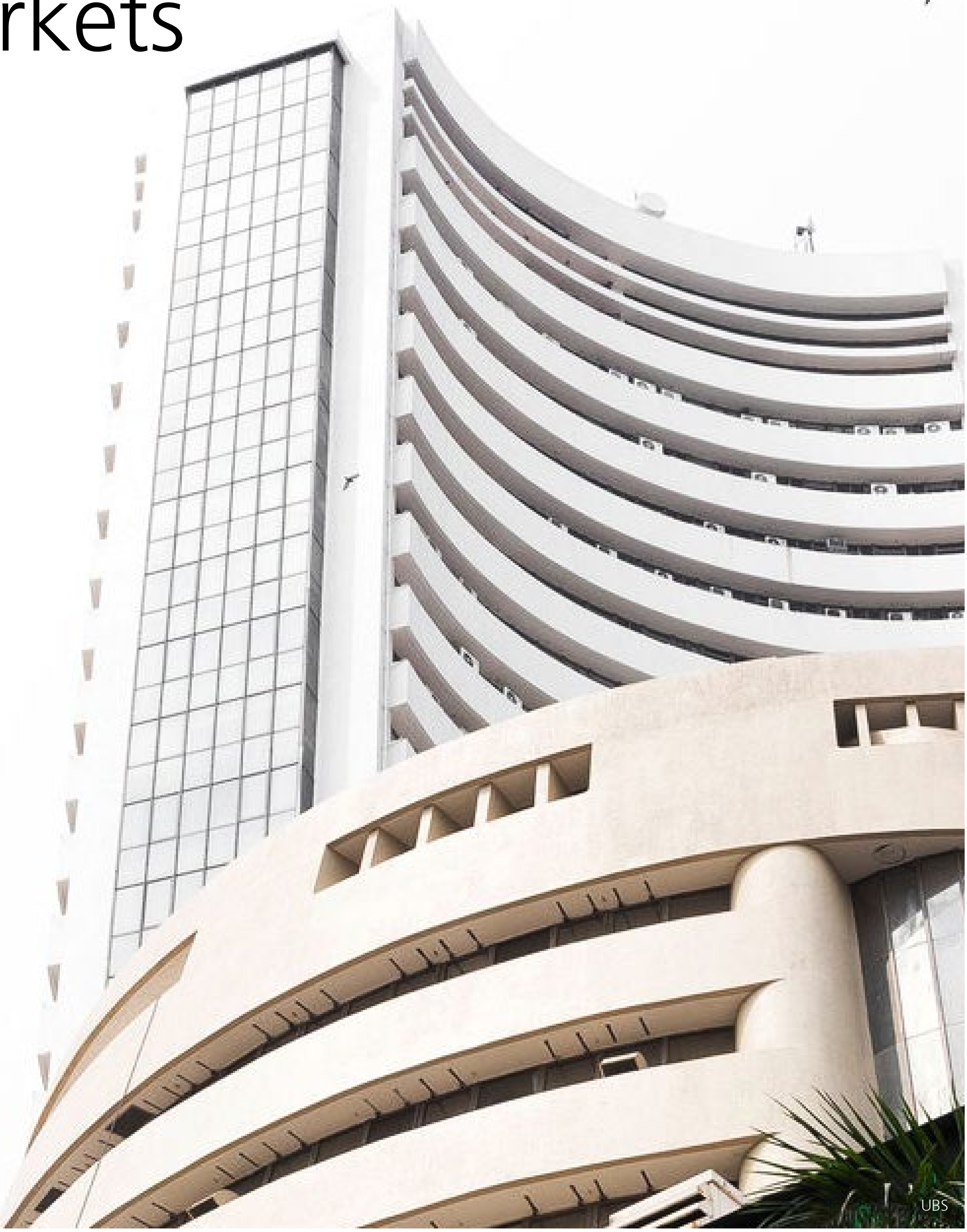
Ease of doing business ranking still low but rising swiftly

India rose 65 ranks in four years



Source: World Bank

A decade of opening doors ahead in financial markets



Four themes from India credit

1) Local currency bonds – room for corporate issuers to grow

India's local currency bond market is dominated by government securities. The corporate bond market, at around USD 405bn (or 14% of GDP), is relatively small compared to more developed markets like China (31%). The local currency bond market, particularly on the corporate side, should gradually grow over the next five years. But this will depend on demand, especially from foreign investors. Indian authorities have resisted fully liberalizing the bond market to foreign investors. Government and corporate bonds work on a quota system, which stands at 6% and 15%, respectively. Investors utilize less than half of this quota, suggesting subdued demand in the current environment. The 2020 Indian budget included few measures to allow more foreign participation. Current and macro stability should entice foreign investors back to the market, however.

India has dabbled in offshore INR, or Masala, bonds over the past five years. These bonds are free of any quota restriction. However, the market has not picked up strongly because pricing levels have not been attractive enough to create demand.

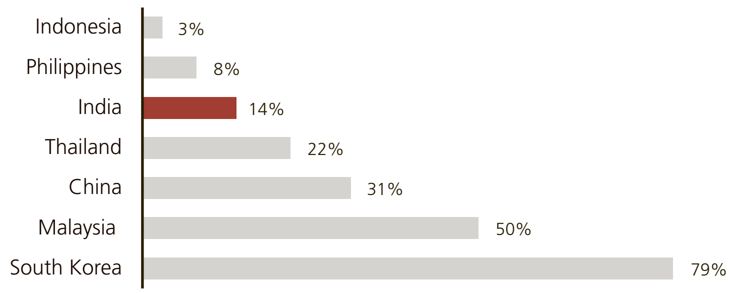
2) Sovereign rating challenges should ease in the long term

India's sovereign rating is facing short-term challenges from slowing economic growth and the stimulus introduced to combat COVID-19. We think India will be able to maintain its investment grade (IG) rating, so long as it doesn't issue excessive additional stimulus. Our longer-term view is that India will be able solidify its position in the BBB rating category. The key is bringing the fiscal deficit down to around 7% over the next five years thanks to growth and reforms. This would help to bring the debt-to-GDP ratio below 70%, in our view.

Fig. 7

Local currency corporate bond market size

As a % of GDP

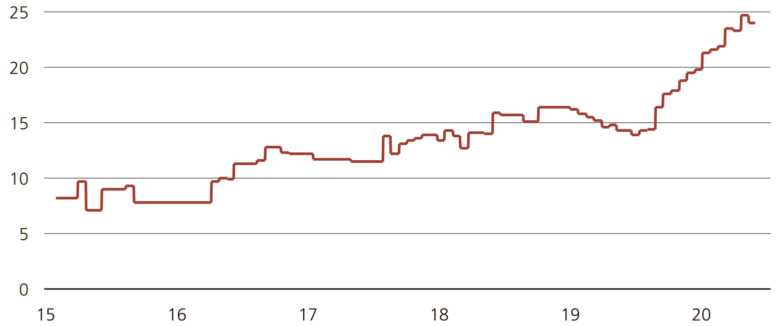


Source: ADB, SEBI

Fig. 8

Total outstanding India HY bonds in the JACI HY index

Decent growth in the past 18 months, in billion USD



Source: UBS, JP Morgan

3) Inaugural USD sovereign bonds driving the IG space
India's government had planned to come up with its inaugural sovereign bond issue in 2020, but the pandemic has disrupted this timeframe. We expect the sovereign to establish a liquid USD bond curve over the next five years, however. This would provide a good benchmark for IG issuers, particularly the state-owned ones. As such, we believe this will help the Indian IG issuers to grow in the coming years. India currently represents around 5% of the JP Morgan Asia Credit IG index, and we estimate it could increase to around 10% by 2025.

4) Controlled HY issuance growth likely to keep defaults at bay
India's high yield (HY) segment was generally stagnant in the years after the global financial crisis. But there has been some growth in recent years, led by renewable energy players and non-bank financial institutions. From a low base of USD 12bn in 2015, it has grown to around USD 24bn currently. However, due to the external commercial borrowing controls set by the central bank, the HY segment is unlikely to grow significantly faster than the rest of the market. This is not necessarily bad, as these controls have resulted in a relatively better quality pool of issuers in the USD market. Among rated Indian issuers in the HY index, around 67% are double B issuers, higher than the overall HY index. We think this will help to keep defaults from Indian issuers relatively low in the coming years.

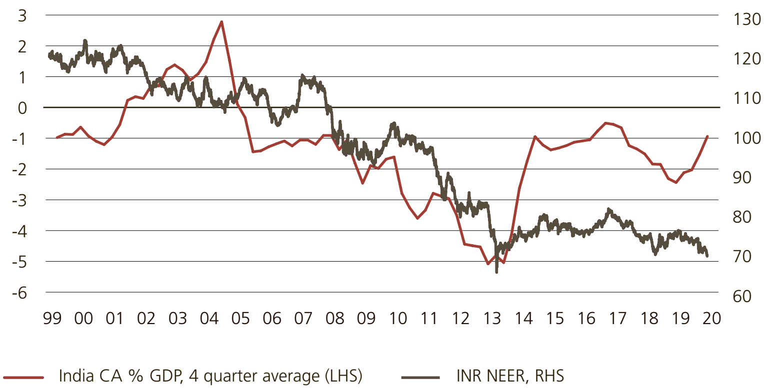
The Indian rupee – a look at the past two decades

When it comes to currency stability, the Indian rupee (INR) has had a lackluster track record since 1999. It has lost around 44% of its value against the greenback, with the USDINR exchange rate rising from around 42 to around 76 currently. However, this does not mean that the INR has been an unattractive currency to own. On the contrary, it has delivered positive total returns for a USD-based investor once interest is taken into account. Over the past two decades, Indian 10-year government bonds have commanded a 4% p.a. yield advantage on average versus comparable US bonds which have more than compensated US-based investors for the 2%–3% p.a. depreciation of the INR against the greenback. For this reason, the Indian rupee has stood out within the APAC region as a magnet for investors seeking yield in a low interest rate environment.

What has caused the rupee's depreciation trend?
Two factors can explain the bulk of the rupee's persistent depreciation: high inflation and negative current account dynamics. Inflation in India, which was stable at mid-single-digit levels from 1999 to 2004, accelerated between 2005 and 2013 to high single digit/double digits. This period of high inflation weighed on the Indian rupee, as reflected by the INR nominal effective exchange rate (or NEER, a measure of how the INR performs relative to its trading partners' currencies). It was only during 2013 to 2016 when the Reserve Bank of India for-

Fig. 9

India's improved current account dynamics bode well for INR stability



Source: Bloomberg, June 2020

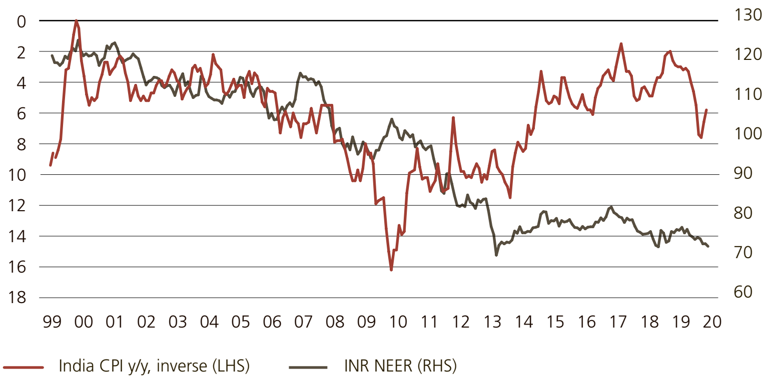
malized an inflation-targeting regime under then-Governor Raghuram Rajan that inflation was brought back under control and the rupee stabilized.

Current account dynamics have also played a significant role in the INR's weak historical performance. The rupee was fairly stable from 2001 to 2004 when the Indian economy registered a current account surplus. But it started to slide steadily as India's current account deteriorated in 2005, to as much as –5% of GDP in 2013. The INR then regained stability when India's current account dynamics started improving in 2013, helped by a more prudent monetary policy and lower oil prices, which reduced India's hefty oil import bill.

Rupee's fortunes to be shaped by capital flows
Assuming India's hard-won stability in its current account and inflation dynamics can be maintained, we think investors can be optimistic on the rupee's outlook for the decade ahead. As opposed to current account trends, we think capital account flows will take over as the dominant driver for the INR in the years ahead. India's efforts to gear up as a regional manufacturing hub amid shifting global supply chains, as well as the further opening up of India's financial markets to foreign investment, should help the rupee expand its growing footprint among international asset managers.

Fig. 10

Stability of INR has been enhanced since 2013, when the central bank started to emphasize inflation-targeting



Source: Bloomberg, June 2020

Equity markets

Like GDP, corporate India's earnings growth often ranks among the highest in Asia and globally. However, unlike GDP, where the export share is among the lowest in the region, the perception that earnings for the flagship Nifty index are a purely domestic affair is not quite accurate. In fact, around 25% of the index's market cap is reliant on global developments. This includes two sub-categories. One is commodity-linked, including metal miners and oil companies. The other is companies with a high export share; 40% of corporate India's sales originate outside of the country, compared to 14% in China. Vehicles are a big area of export, where producers of trucks, cars, 3-wheelers and 2-wheelers have occupied lucrative niches in emerging markets. Tata Motors relies on sales and profits of its Jaguar Land Rover business much more than domestic sales of trucks and cars. India is also well known for IT services and generics, although the generics sector has a much smaller market cap.

India boasts a number of intriguing structural growth aspects beyond rising incomes and low penetration rates in many sectors. One such trend is the increasing formalization of industries. In the gold jewelry business, for example, only 10% of sales were made through formal channels in 2010; it is 30% now and we estimate it will be around 45% in 2030. Paint sales in the formal economy were 55% a decade ago; they're 65% now and we expect them to reach three-quarters by 2030. Another significant trend is state-owned enterprises (also known as public sector undertakings, or PSUs) ceding market to private players because of the former's slower relative growth, a process sometimes referred to as privatization by stealth. Financials, especially banks, are a key example. While PSU banks still account for almost two-thirds of the country's banking system, private peers occupy 96% of the sector's market capitalization given their superior growth and profitability. State Bank of India, the largest by assets and state owned, carries around 25% of the system's non-performing loans. It therefore only has a 1.4% weight in the Nifty index, or a mere 4% of the financials sector. For telecoms and airlines, this trend has mostly run its course already. Energy, power and perhaps even defense may see more government stakes being divested; governments might even drop their ownership below 50% controlling thresholds. Even in sectors seen as strategic, the government will likely keep the number of PSUs to four or less. The market capitalization share of PSUs has already dropped to 6% from almost 30% in 2010, and given the trend, we expect it to head toward negligible portions by 2030.

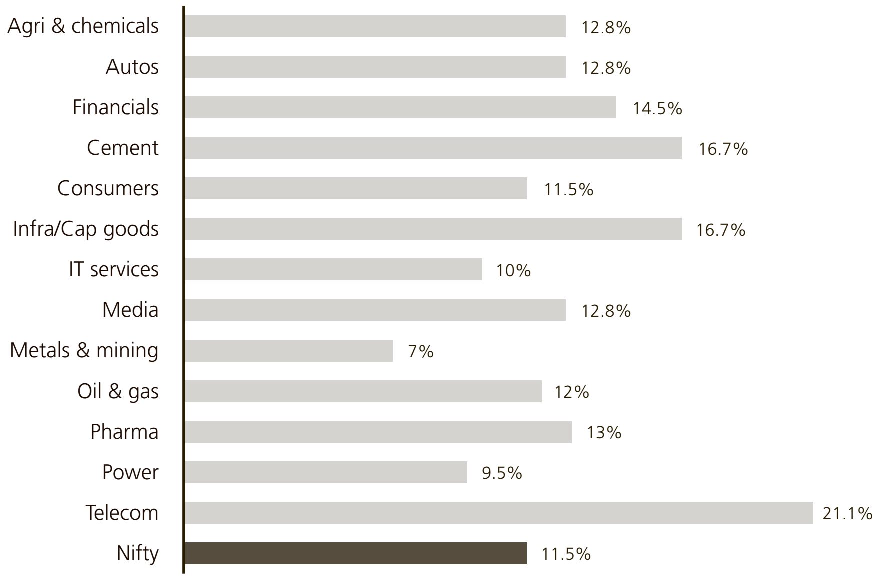
Like we did with GDP growth, we have forecast the average yearly growth profile for the Nifty index over the next 10 years and how its composition might change. Starting with the biggest weight, financials: we assign a 14.5% CAGR given the dominance of private players, which would mark an around 3ppt outperformance per year versus the average. The infrastructure sector, for which we use nominal GDP times a typical multiplier, is projected to grow by a 16.7% CAGR.

Figure 11 shows our assumptions, which we believe are on the conservative side. The combined estimated growth rate is around 11.5%. Even though the correlation with nominal GDP growth is not always tight, it would almost equate to an around 1.2x multiple—at which point Nifty profits have historically outgrown the economy. After applying some simplified assumptions, for example that valuations remain largely constant, we think the size of the market could almost triple by 2030 from what it is today.

Fig. 11

Projection of Nifty earnings growth by sector and overall

Double-digit growth in INR terms expected, average growth 2021-30



Source: UBS

E-commerce – The smart money trail for the growth opportunity

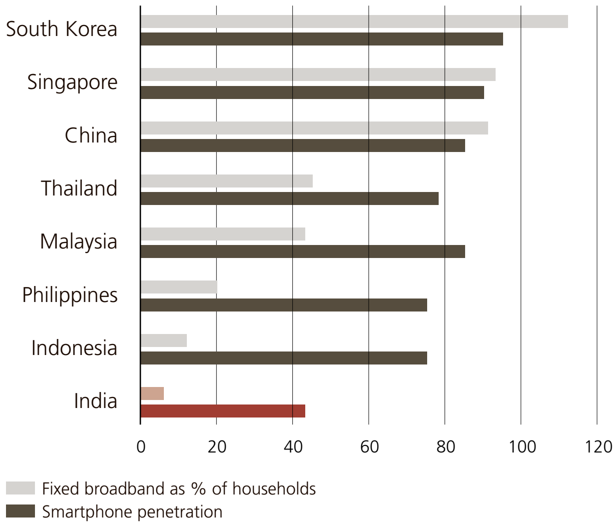
Gettyimages

India's e-commerce sector may not be the focus for most stock investors (for now), but American and Chinese internet platform giants, as well as venture capital players, have been doubling down on the sector. Just six months into the year, 2020 has already seen the largest amount of foreign tech investment ever in India. Facebook acquired 9.99% of Jio Platforms, the telco and tech arm of India's most valuable listed company, Reliance Industries. And Intel's investment arm is among the latest to seek exposure to India's e-commerce landscape via Jio Platfroms. Jio became India's biggest mobile operator, taking one-third of the market, in just five years. It saved money by skipping the second and third telephony generations and went straight to 4G and 5G, but it amassed up to USD 40bn of debt in the process (even though it is owned by Mukesh Ambani, Asia's wealthiest business man). After many years of fierce price competition, the other two main telcos, Bharti and Vodafone Idea, have also become strapped for cash. The joining of foreign financial muscle with popular content and domestic access to the planet's second largest population could catalyze advertising and e-commerce revenues.

Fig. 12

Modile data the best gateway to more internet usage

While mobile penetration at 87% is decent, most Indians don't own a smartphone



Source: UBS, as of March 2020

India offers an underpenetrated yet enormous consumer market. Hence, its potential growth rate is among the highest in Asia and worldwide. The natural key to unlocking the market is first getting people online. Fixed broadband penetration is very low and will likely remain so in the coming years. A fixed connection can set a user back INR 499 (USD 6.70) to INR 9,999 (USD 135) a month depending on the data limit. In contrast, a mobile contract costs INR 129 (USD 1.70) to INR 349 (USD 4.70), making India one of the most affordable markets globally. India's average mobile data user consumes 9.8 gigabytes per month, compared to 7.1 in China and 6.7 in Western Europe, according to Ericsson. With just under half of the population using smartphones today, we expect adoption to surge and potentially reach full penetration by 2025. The country's internet population could very well double over the coming years, offering significant opportunities in the internet space.

Internet business models fall into broad two categories: advertisement based, which is often coupled with search, social media, general information and entertainment; and transaction based, which spans merchandise, groceries, food delivery, ride hailing, etc.

In India, like in many other markets, Google and Facebook dominate the first group. Their network and scale effects, thanks in large part to ads of global consumer brands, provide them competitive advantages. Both firms benefit from Indians' familiarity with English—estimates point to 300mn English speakers in the country, many of whom hail from the wealthier echelons of society—and the desire to connect with the large Indian diaspora. Some local niche offerings aside—e.g., Justdial, a listed company with more than 100m users, is an early local player to provide restaurant, doctor appointment and other service bookings—it is unlikely that domestic firms can command dominant market shares in these areas. Global platforms have done well across Asia—except China, where regulations have largely stymied their expansion.

Local players are better positioned to compete in the second group. There are local business-to-consumer platforms selling everything from electronics (48% of overall e-commerce GMV), clothing (29%), and home goods & furniture (9%) to beauty products, books and groceries. This can also be seen in other markets like Indonesia and Thailand, where domestic or regional platforms dominate. These businesses benefit from in-depth knowledge of local consumer preferences and tastes. A big challenge for them has been funding. In their early years, even China's internet giants, like Alibaba (Yahoo, SoftBank) and Tencent (Naspers), had to join forces with foreign partners to secure sufficient capital. In India, the approach is similar.

The current market leader is homegrown Flipkart, which includes its Myntra offering. Flipkart itself was an early consolidator, taking over eBay India. To operate in India's physical multi-brand retail space, foreign firms are limited to 51% ownership of any local business. The online segment is much less restricted and, hence, an easier way to enter the consumer market. As such, Walmart took a 77% stake in Flipkart, whose other other investors include Tencent, Tiger Global and Microsoft. Amazon India, fully owned by the Seattle-based giant, is the exception to the rule.

The e-commerce market is still in its relative infancy, at USD 71bn gross merchandise volume (GMV), and the platforms are loss-making. We forecast it to grow to USD 350bn by 2030, equivalent to a 17.3% annual growth rate. While India is likely to attain a higher growth rate than China over this period due to the latter's more mature stage, our 2030 estimate for India would put the country where China was between 2013 and 2014.

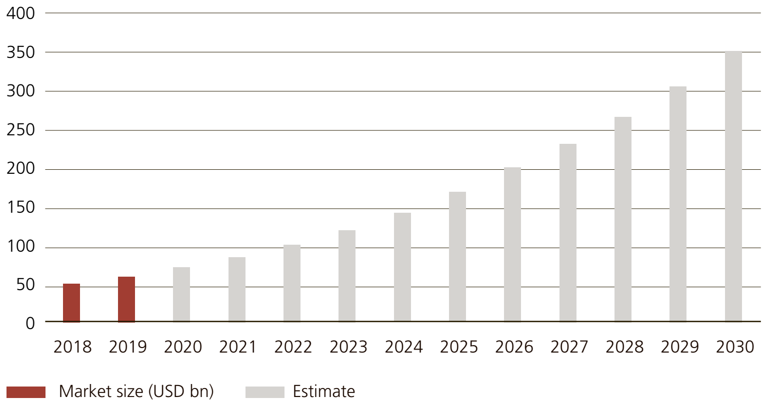
The vast ride-hailing market is split 50/50 between SoftBank-backed Uber India and Ola, which is also backed by SoftBank as well as by Tencent and Tiger Global. Interestingly, their estimated valuations, while not observable in the listed space, broadly reflect the current market size. This means investors aren't attaching high growth multiples to these names, which may be because of the degree of competition and cash burn. As we discuss later, some form of equilibrium or consolidation is needed in the long run.

Online travel transactions account for 55% of all air tickets; 22% of bus tickets, which is an important domestic mode of transport; and 20% of hotels booked. We expect online travel bookings to reach USD 26bn in total by 2025 (vs. USD 10bn today), even allowing for a temporary dent caused by COVID-19-related travel restrictions. This segment has seen consolidation. In 2018, MakeMyTrip (which is Nasdaq listed but still loss-making) acquired the former number two player (Ibibo) to command 60% of the market. Cleartrip, as the next biggest player, controls about 20% market share. Yatra holds a dominant position in corporate traveling, and was recently acquired by US-based software producer Ebix.

Fig. 13

Projections for B2C e-commerce market size

Almost 20% growth can be reached early in the decade



Source: IBEF, UBS

We relied on market r esearch reports for the sizing of the e-commer ce market up to 2026. The research reports assume a 19% CAGR fr om 2018-26. For 2026-30, we assumed a slightly slower growth rate of 15% as the market maturity increases. Please note that we do not have official published estimates of the e-commerce market size.

While the penetration of online food delivery is low, India is not that far behind other countries. Its market is also fairly consolidated already. The biggest player is Zomato, which in 2020 acquired its smaller competitor UberEats and now boasts 52% market share. Zomato is backed by India-listed InfoEdge as well as, among others, Alibaba's Ant Financial, Sequoia and Singapore's Temasek. The not-too distant number two is Swiggy, which also lists impressive anchor investors such as Naspers, Tencent and Meituan. Restricted to private investors at the moment, as we will discuss later, these companies may list at some point in the years ahead.

The growth potential of the food delivery space is high, and in our view, even surpasses that of the more general merchandising space. In concrete numbers, the food delivery market accounts for 7.4% of all food services spending. We project the food services market overall to grow by 8% over the coming years, with the online penetration rate almost doubling to 16.7%. This would amount to a solid 23.5% growth rate over the next five years and a still decent 14.4% for the decade.

Early days for B2B, but a space to watch
Business-to-business activity is still in its infancy, in part because of the high number of small and medium-sized enterprises. One interesting segment is the so-called Kiranas, or mom-and-pop segment, which claims just over 10 million stores across the country. Only 12% of India's retail sales are conducted via organized channels, and only 5% are done online. A growing number of companies are trying to bring Kiranas into the modern age of e-commerce and, hence, the formal economy. Doing so can mitigate fears of these micro outlets falling victim to large retail chains. Reliance Industries, India's largest firm, hopes to connect 40% of them to an online platform that includes payment facilities, inventory management and sourcing support. Reliance Retail already has logistics in place via its ownership of retail branches for groceries, electronic goods and others, as well as the JioMart platform.

One issue for e-commerce in India is that for every piece of clothing sold, four are returned. One new strategy is to use brick-and-mortar stores (not necessarily a Reliance one) for pick up or delivery, as opposed to shipping from a warehouse. For instance, a Kirana shop would be invited to become the gateway point, allowing them to sell to their customers directly and the merchandize procured via Reliance's channels. When a customer orders something, the platform would show nearby Kirana stores to choose from. It would then be the shop's responsibility to fulfill the delivery.

Listed space likely to become bigger, at least in pockets
India's e-commerce landscape is mostly the domain of private equity funds and institutional financial investors. Search and network-related businesses will probably stay private to retain crucial network effects. Companies like Alphabet and Facebook have not listed their overseas units anywhere, for example. Public listings are more probable for the domestic-oriented transaction businesses. Here, China provides an example of what may happen.

SoftBank recently announced a reduction in its Alibaba stake. The Japanese firm stated more generally that it wouldn't buy new stakes for now and would be more discerning in new funding rounds in its existing investments. This may see SoftBank more often on the exit rather than the entry lane.

When Walmart acquired Flipkart in 2018, both SoftBank and Naspers exited their investments in the company. Walmart is open to an eventual IPO for Flipkart, according to media reports, which may be a precursor to more investors being able to trade such e-commerce firms publicly.

In China, SoftBank backed both ride-hailing leaders—Didi and Uber. They merged eventually and Didi is now the undisputed market leader without any major competitor. Likewise in India, it backs the two main operators. The business logic to merge at some point is compelling, in our view. The listing value of a combined entity would normally be higher than that of the two competing ones combined. India's online food delivery business, which is led by Zomato and Swiggy, may also at some stage consolidate. India's e-commerce gems are mostly owned by a handful of global companies which have investments in other countries. They likely view extremely fierce competition to be economically unviable, making them more open to consolidation to recoup the losses accrued while keeping the platforms running and growing.

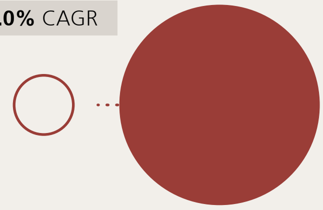
Given the difficulties for private investors from outside India to participate in Mumbai's stock market, it will be interesting to see where India's e-commerce players list. While a local listing will always be an option—Reliance is listed on the BSE, for example—stock exchanges in the US and Europe, especially London, where a few Indian stocks are listed, can provide ample liquidity. Some Asian stock exchanges have become more flexible on listing criteria. It is thus possible to see Singapore or Hong Kong as listing destinations for India's emerging e-commerce champions.

The price-to-sales ratios of transaction-based businesses (which includes new growth areas like cloud computing) can range between 4x and 10x for the big international platforms. Alibaba, for instance, commands a 7x multiple and Tencent close to 10x. As a sales proxy, we can use our 2030 GMV estimate of USD 350bn for India's players and a take-rate of 10% as revenue. If an 8.5x sales multiple is applied, we estimate the combined valuation for firms operating in this space can reach close to USD 300bn. Given the tendency for consolidation, some of the larger companies may one day reach market values of over USD 100bn.

India's e-commerce players and listed main backers at a glance

E-commerce logistics

13.0% CAGR



2020 215 billion

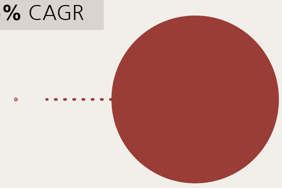
2030 728 billion

Market share leaders (by revenue)

Ekart (Walmart via Flipkart)
Amazon Logistics (SoftBank [Uber's major backer], Tencent)
Delhivery (SoftBank)

Business-to-business e-commerce

64.6% CAGR



2020 3 billion

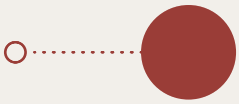
2030 439 billion

Market share leaders (by revenue)

Udaan (Tencent)
IndiaMART (IndiaMART)
Ninjakart

Ride on demand

16.7% CAGR



2020 26 billion

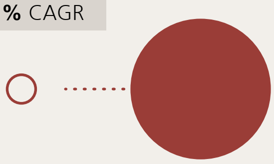
2030 122billion

Market share leaders (by revenue)

48% Uber India (Uber)
47% Ola (SoftBank [Uber's major backer], Tencent

Business-to-consumer e-commerce

17.3% CAGR



2020 71 billion

2030 350 billion

Market share leaders (by revenue)

37% Flipkart (Walmart, Mircosoft, Tencent, Ebay)
31% Amazon India (Amazon)
3% Paytm (SoftBank, Alibaba)

Telco players – mobile subscriber share

8.1% CAGR

2020 19.8 billion

2030 43.2 billion

Market share leaders (by revenue)

35% Reliance Jio
32% Bharti Airtel
26% Vodafone Idea
5% BSNL

Online food delivery

14.5% CAGR

2020 7 billion

2030 27 billion

Market share leaders (by revenue)

Swiggy (Naspers, Tencent)
Zomato (Alibaba, InfoEdge)

Source: UBS estimates; CAGR = Compound annual growth rate

The names listed above are factual references and not investment recommendations. For our stock picks, please refer to our Equity Preference Lists.

K Vaitheeswaran

Interview with K Vaitheeswaran

K Vaitheeswaran is a serial entrepreneur and an internet industry veteran who pioneered India's e-commerce industry. He co-founded Fabmart.com, Fabmall supermarkets (subsequently acquired by a leading business group, re-branded as More and now acquired by Amazon), and AGAIN Drinks, and has advised global brands like Deloitte, Diageo and the Tata group on their digital initiatives in India. K Vaitheeswaran is a TEDx speaker, a review committee member of the Government of India's prestigious Government e-Marketplace (GeM) and is the author of the bestselling book "Failing to Succeed - the story of India's first e-commerce company." K Vaitheeswaran holds an electronics engineering degree from Government College of Engineering, Tirunelveli.

The options to participate in listed e-commerce companies are fairly limited at this stage. Do you think this might change? Do you sense an appetite to go public?

The horizontal (non-grocery) Indian e-commerce business is now divided and dominated by Amazon and Walmart (Flipkart). The grocery business still has a big play left with local players ahead of both Amazon and Walmart. Further, some of the more popular apps are seriously entering this space. There could be an opportunity for public listings by Indian firms, but the current market conditions due to COVID will make it tough.

For potential future listings of Indian e-commerce firms, where do you see the most likely locations would be?

I expected leading retail chains to create strong e-commerce omni-channel offerings and create potential listing opportunities. But frankly, most have disappointed. Potential listers, such as the top e-commerce players, are unlikely to list in India, but could explore overseas listings in the US or Europe.

How do you think India's e-commerce landscape differs from China's and other global markets? What is structurally different or unique to India?

The Indian e-commerce market differs from China in these aspects: First, fundamentally, the Chinese market is protected from foreign competition and investment. This has allowed local Chinese entrepreneurs like Jack Ma to build large scale and subsequently take their businesses like Alibaba global. On the other hand, the Indian market is more open and allows foreign competition and investment. This means that Indian startups like Flipkart get acquired early and global giants like Amazon are able to come in and build scale quickly. Second, the Indian market has always lagged behind China by a few years due to slower internet penetration. The first Indian e-commerce site was co-founded by yours truly in 1999, but it took over a decade before consumers started enjoying the benefits of online shopping at some scale. By nature, Indian consumers are deal seekers. My strong belief is that over half of India's online shoppers may drastically reduce or even stop shopping online if the current trend of deep discounts offered by e-commerce players are removed. This means that the sector will continue to remain stressed by the lack of profitability, and that is never a good sign. On the other hand, we have seen that Chinese e-commerce companies are quite profitable.

A limited number of global investors invest in Indian Internet names, even across different segments. What does this mean for future competition or possible consolidation?

A significantly high percentage of startup investments in India have come from a handful of overseas (USA, China, Japan, Russia, South Africa) investors. These investments are made through impatient venture capital funds who have a limited time horizon for investments (generally four to seven years). This time pressure does not allow entrepreneurs to build solid sustainable businesses; instead, they are under pressure to show rapid growth despite weak financial models. Whenever capital becomes scarce, these startups are forced to shut down or get consolidated into other investments of common investors. With this potential outcome in mind, many investors prefer to invest only in business models which are replicas of US startups so that consolidation becomes easier.

In my view, this is not good at all for the Indian startup ecosystem. Indian entrepreneurs must focus on solving typically Indian problems and ideally be backed by patient Indian capital willing to back entrepreneurs over a longer period (instead of setting seven-year exit horizons). Several Indian funds have launched in recent years, but they are not as aggressive as overseas funds, which is also a problem.

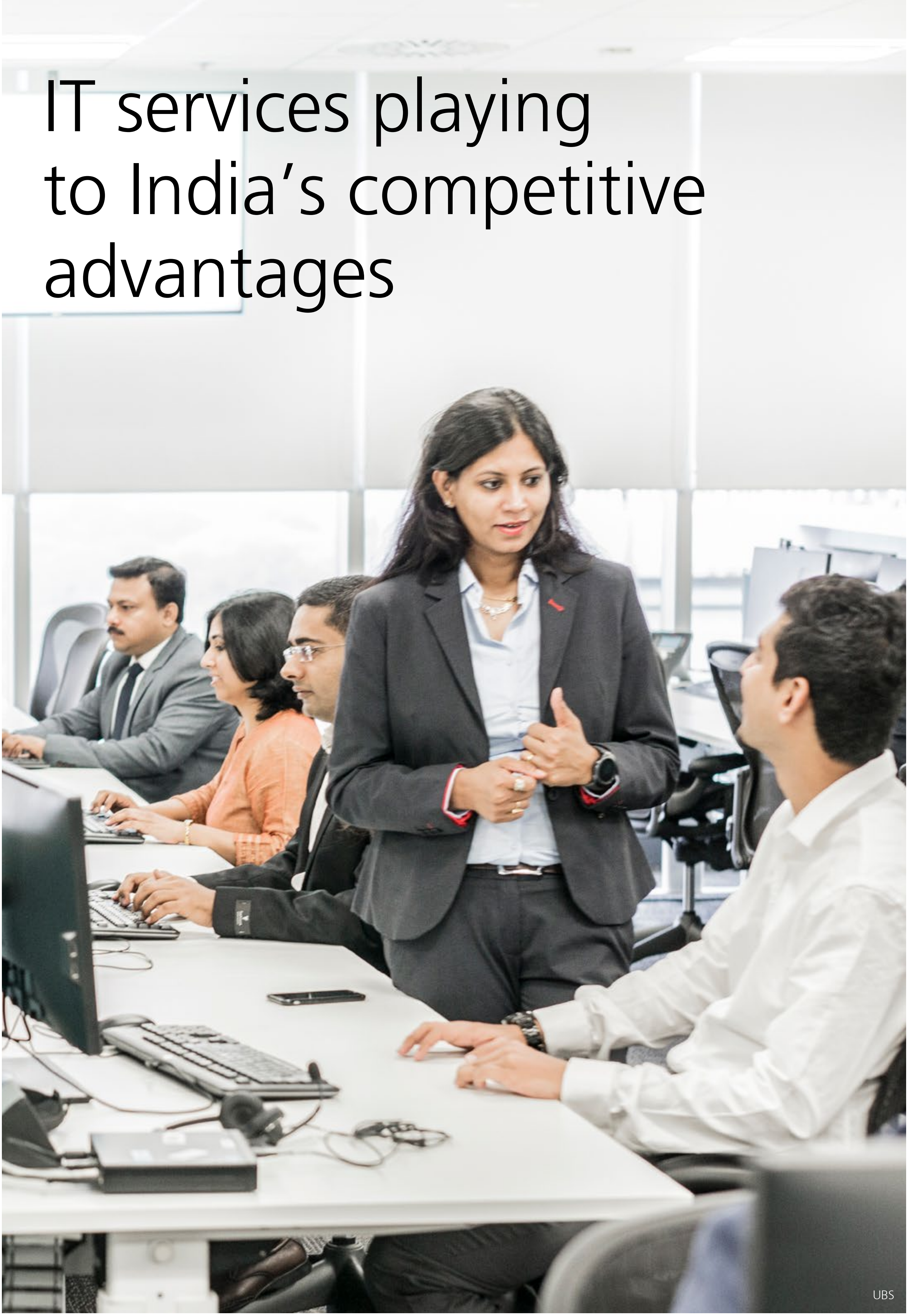
Can Indian companies take their business global? If yes, in which area could this happen?

Indian companies can take their business global only if they have defensible advantages. In the past three decades, IT services firms, leveraging Indian strengths in software, managed to go global due primarily to cost arbitrage advantages but as this advantage has diminished, global competitors have caught up and maybe gone ahead in some cases.

The best way for Indian companies to go global and remain competitive is to create world class products and brands. This is a harder path compared to service businesses but if they succeed, they will remain globally competitive for longer periods. I am hopeful we will see this happen in the next decade. Some areas could be apparel, jewelry, food and beverages, pharmaceuticals, engineering, design services, etc.

In a strange way, the COVID pandemic may help India. Global supply chains, especially those with a China link, are under pressure and many could eye India as an alternative, as it offers similar human capital advantages. This could help India become competitive in manufacturing, and this is another area where, in a decade or so, India could become globally competitive.

IT services playing to India's competitive advantages



> "We owe a lot to the Indians, who taught us how to count, without which no worthwhile scientific discovery could have been made."
>
> Albert Einstein

IT services are one area where Indian companies have an edge over their Chinese counterparts. After initially trying to compete internationally, Chinese IT vendors largely decided that their domestic market is big enough. India's vendors have found more success here, with several serving Fortune 500 firms. The sector's 4mn employees may seem tiny compared to the country's total population, but it's one of the largest worldwide by revenue. India's IT industry is approaching a crossroads, however.

The momentum that propelled it over the last two decades was mostly based on wage arbitrage. Fresh IT graduates often earn just USD 4,000 per year for an entry-level job. There are about 900,000 engineering graduates each year. Earlier predictions of Indian salaries converging with regions like the US or Europe have proven premature, as salary growth levels in India have been moderating in recent years.

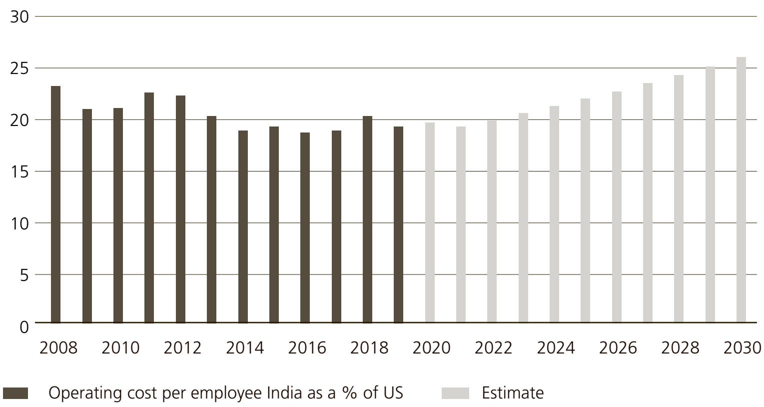
With global competitors able to hire portions of their workforce in India, the business model will likely evolve in the decade ahead. Accordingly, the big players in the industry are focusing on emerging areas. By only engaging in conventional, non-cloud businesses, IT firms would likely only grow by low single digits over the next few years. In contrast, we expect new digital areas—such as cloud service models (e.g., software or infrastructure), digital engineering and Internet of Things (e.g., mobile connectivity projects)—to expand by 15%–25% a year. As Microsoft's Hyderabad-born CEO Satya Nandella put it in April 2020: "We've seen two years' worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security"

Figure 16 shows how powerful the cost proposition becomes when restrained salaries and new technologies combine. One critical factor for the coming decade will be the use of artificial intelligence (AI) for repetitive work and highly complex tasks. Using AI is as much about cost as it is about speed and avoiding human error. In order to improve productivity and benefit customers, Indian IT vendors have developed AI platforms that, while small, should start to support revenue growth over the next 2–3 years.

Fig. 14

Operating cost per employee India as a % of US

In %

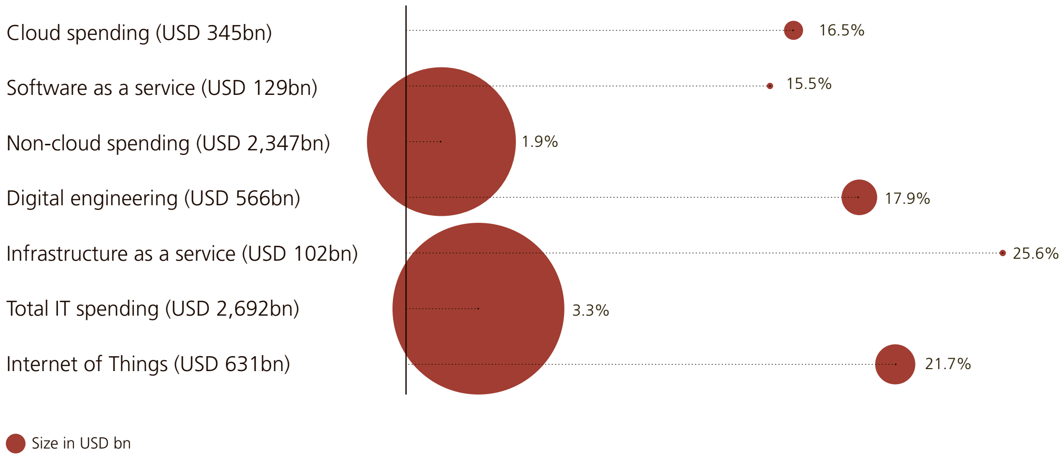


Source: Goldman Sachs, UBS

Fig. 15

Plenty of opportunities to capture

Growth in % p.a. through 2022

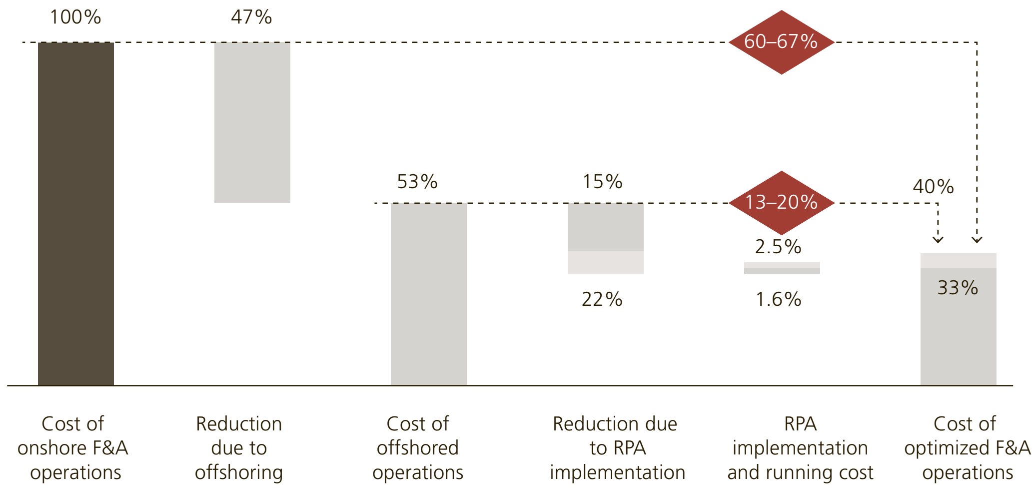


Source: Goldman Sachs, UBS

Fig. 16

Impact of robotic process automation (RPA) on finance & accounting (F&A) services: reduction in cost by more than half for onshore operations

Percentage of reduction in cost



Source: NASSCOM, IDC, Gartner, Company data, BLS, Goldman Sachs Global Investment Research

One example is Ignio, the AI platform developed by India's largest vendor, Tata Consultancy Services (TCS). For the average multinational company, every minute of IT downtime translates into a loss of USD 72,000. Tata's platform helps analyze and, in some cases, anticipate issues across an enterprise—a feat which would be nearly impossible for humans to achieve. It uses machine learning and cognitive solutions to maintain an overview of a firm's IT systems, forecast weaknesses in the infrastructure, and suggest how to fix some issues. According to TCS, this can lower business risks and outages by up to 90% as well as reduce the time it takes to fix a problem by a similar amount.

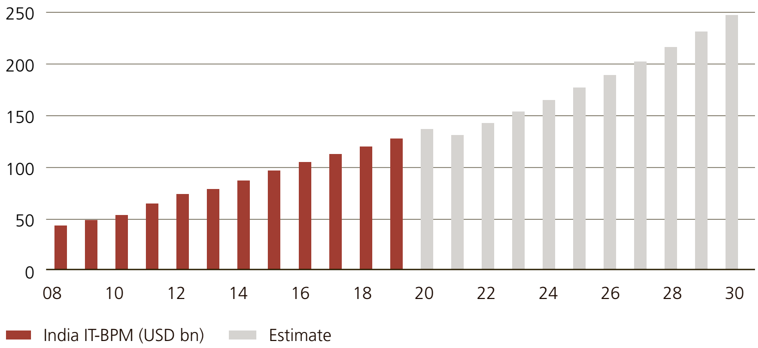
Another example is Infosys NIA, which helps automate contract risk analysis. This allows for quicker resolution and more consistent approaches across different contracts. The system is also able to propose concrete changes in legal phrasing when previous samples of contracts are used. Beyond reducing risk, the automation can save customers up to 90% of the cost for drafting contracts.

How else will Indian IT service providers look different in 2030? The workforce clearly needs to be trained up to take advantage of the new revenue opportunities, which may bring about cultural shifts. They will likely become more diverse, potentially resulting in a higher mix of non-Indian workers in regional offices. Wipro's recent hiring of a non-Indian Chief Executive Officer was a first, and might be a precursor to a more international labor force. We also believe Indian vendors could close some of the gap to global leaders such as IBM and Accenture, who currently still dominate the lucrative consulting business. This is another area where India could develop a USD 250bn gorilla.

Fig. 17

Business process management revenues of leading Indian vendors

In USD bn

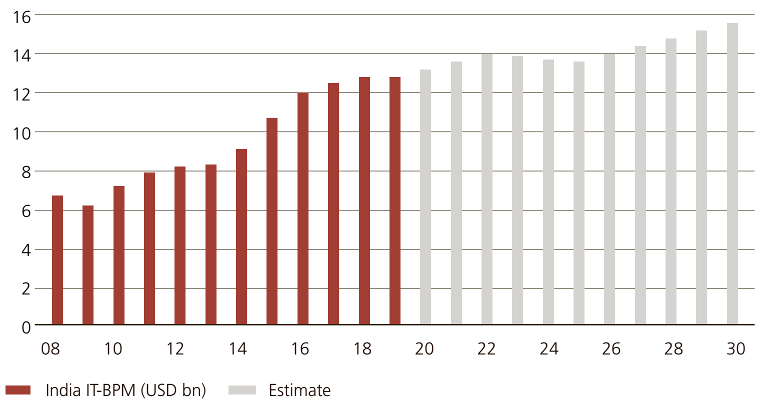


Source: Goldman Sachs, UBS

Fig. 18

Market share wins – likely slower from here but continuing

In %



Source: Goldman Sachs, UBS

Final word – the next China or not?

India needs to be understood on its own terms. It is the only country with the scale to match China, but it will not be the next China.

India's economy will continue to grow in the years ahead, but it will take a long time for it match China's size today (China is currently five times bigger). China's economy would have to crash and India's grow at over 10% a year for several decades for India to catch up. Neither is likely.

Nor will India's economic model mirror that of East Asia's. Its growth will be driven by consumption and services, not exports. It has demographics on its side, a long entrepreneurial tradition, an expanding consumer class, significant headroom for productivity improvements, and the confidence that comes from a strong sense of its civilizational pedigree and destiny.

For investors, India is one of the last large population markets that is waiting to be truly discovered. Restrictions, especially for non-institutional investors, make it difficult, but not impossible, to access the market. Indeed, it will take more effort for investors to capture opportunities in India than it would in other, more developed markets. But as the bond and stock markets, as well as certain sectors, open up further, waiting for this convenience could mean high opportunity costs.

Anyone who has visited India will tend to agree that the passage to the country is not always smooth, but rich historical and cultural bounties await those who embark on the journey. For investors, the experience could well be similar for those open to it.

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