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India And The Road Ahead

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by: CFA Institute Contributors

by Mark Harrison, CFA

With economic growth at a decade low of 5% and a bevy of lagging economic indicators, India has had a rough year, and some analysts are predicting harder times ahead. Is the era of India's expansive economic growth over? Opinions on the road ahead are divided.

Later this week, such luminaries as Avinash D. Persaud and Fereidun Fesharaki will convene in Mumbai for this year's *India Investment Conference* to discuss the short- and long-term outlook. Speaking at last year's conference, Clint R. Laurent argued that, [despite its many advantages, India's huge population will not automatically translate into any demographic dividend](#) to benefit investors. The underperforming educational system and the threat from automation mean that India needs to work hard to leverage its low-cost labor force in new ways, strategically positioning itself as a global provider of high-quality goods to the affluent. [In the coming decades, India is predicted to have a fifth of the world's working-age population](#). Despite this advantage, a weak labor market and political impasse means the country may squander this demographic advantage as it neglects to fully develop its middle class. Particularly mystifying to outside investors is India's thirst for gold imports which is sufficient to [regularly jolt global gold prices](#). Despite government intervention, Indians continue to hoard gold on an epic scale rather than directing capital to more useful purposes— for example entrepreneurial investment, capitalizing their banking system, or enlivening consumer spending multipliers. In an address to a CFA Institute conference titled "[The Truth about Gold: Why It Should \(or Should Not\) Be Part of Your Asset Allocation Strategy](#)," Fuqua School of Business Professor Campbell R. Harvey, suggests that most arguments for holding gold in a portfolio are not supported by an analysis of the data. Nonetheless, an argument can be made for including gold as a commodity in a well-diversified portfolio, particularly if investors and central banks increase their demand — even moderately — for gold. A series of remarkably popular *Enterprising Investor* blog posts have explored the topic of gold in some depth over the past year. Academic research focused on India reflects the scarcity of reliable data on the country, but recent research has evaluated the issues of BRIC-country ethics and the impact of local versus international investors. In one study published in the *Journal of Business Ethics*, the authors investigate the use of favors to accomplish business goals by firm managers. They argue that the ethicality of the favors should be not be viewed solely from a developed-country perspective but rather by using the moral reasoning of the developing country in question. The giver and the receiver of the favor, as well as network insiders and outsiders, are defined as stakeholders by the study.

In another study by a pair of Australian researchers, the authors conclude that local investors can affect how information is incorporated into stock prices in their own country and that this "local investor information effect" differs in its power by country. High levels of individualism by local investors are associated with overconfidence, self-attribution biases, and a preference for risk, something it could pay international investors to be wary of.

A CFA Institute book review of *The Growth Map: Economic Opportunity in the BRICs and Beyond*, by British economist Jim O'Neill, notes the author's prediction that by 2050, the world's largest economies will not be the G-7 nations but will instead include several countries currently considered emerging markets. India is tipped to grow out of the emerging market investing bucket, yet with such strong prospects, why are emerging markets recently slumping so badly? For India, the answer may well be its relatively weak economy which suffers twin deficits, both current and external. According to a [recent piece](#) in the *Economist*, prospects for a revival of India's economy are unclear. It appears that the measures being taken by India's government are geared towards keeping the economy afloat, but deep-rooted reforms will have to wait until after the elections in 2014.

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