



Immigrants from India spread business success to homeland

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By Edward Iwata, USA TODAY

SANTA CLARA, Calif. — When Silicon Valley entrepreneur Sabeer Bhatia was a kid growing up in Bangalore, India, in the 1980s, his native country seemed eons from evolving into an economic power. Bhatia and his parents, a banker and a government bureaucrat, waited 10 years before their house got a telephone line. Because of auto shortages, they waited two years to buy a tiny Suzuki car. They shopped at small family stores with limited goods.

"Brick by brick, we are building an 8,000-mile bridge between the U.S and India," says Navneet Chugh.

Today, when Bhatia flies to India, he jets over an ancient land undergoing a vast transformation. Some 100 million consumers carry cell phones. Automakers sell everything from Ford Fusions to Rolls-Royce Phantoms. And shopping malls are sprouting everywhere.

"Imagine, it used to be cause for celebration to get a phone line," said Bhatia, a Stanford University graduate who co-founded the Hotmail e-mail service and sold it to Microsoft for \$400 million in 1997. "All of that is finally changing. People are seeing the benefits of an open economy and consumerism."

Bhatia and many thousands of Indian immigrants with strong ties to the USA and India are storming back to their ancestral homeland to cultivate business and cut deals. With 1 billion people, a rising wave of consumers and annual economic growth of 8% since 2004, India is the world's most promising economy after China.

Indian engineers, executives and investors are launching start-ups in business services, telecommunications, computers and software, manufacturing and other sectors. They're paving the way for research and development centers. They're

encouraging foreign investment and pressing the Indian government to continue opening their markets to the world.

"Brick by brick, we are building an 8,000-mile bridge between the U.S. and India," says Navneet Chugh, an attorney and founder of the Chugh Firm in Los Angeles. He has strong business and charity ties to India.

The business growth between the two countries is gratifying to Chugh, who immigrated to Los Angeles 25 years ago and earned an MBA from the University of Southern California before starting his law firm.

Chugh grew up in a middle-class neighborhood of Nagpur, India, where his parents' home overlooked a huge, smoke-covered shantytown. The shantytown had no gas or electricity, and its 100,000 people lived in dwellings made of rusty tin and dried cow dung.

If India's economy grows 10% a year for several years, Chugh says, it will strengthen trade and investments between India and the USA while lifting millions of Indians out of poverty. Chugh also is a trustee of the American India Foundation, which donates millions of dollars a year to charities in India.

"India is booming with cross-cultural development," says Chugh, who lives in the Los Angeles suburb of Cerritos with his wife and two kids. "Indians and white business people are bringing their cultures and creativity together."

The stronger U.S.-India business connection is also evident in venture capital. When high-tech banker Ash Lilani took U.S. investors on their first trip to Bangalore in 2003, barely a handful of U.S. venture firms were funding Indian start-ups. Many investors held stereotypes of India as a home for cheap labor, outsourcing and call centers.

Once on the ground, though, the U.S. investors realized that India was a business gold mine. The country boasted top engineering and managerial talent, an English-speaking workforce and a British-style legal and regulatory system.

Few differences

The investors found that doing business in a Bangalore office was no different than in the USA, says Lilani, the head of SVB Global, the international consulting arm of SVB Financial Group in Santa Clara, Calif.

Today, nearly every venture firm in Silicon Valley is funding young companies in India. "The floodgates have opened," Lilani says.

Corporate India has been a sleeping economic giant for decades, but the pace of U.S.-India business has especially quickened the past two or three years. Trade,

hotels, construction, transportation and financial and business services saw 10% to 13% growth in the year ended March 31, India's Finance Ministry reports.

Trailing only China, India is the No. 2 most preferred country for foreign investment, according to consulting firm A.T. Kearney, which surveys executives. Last year, companies worldwide invested \$5 billion into the former British colony.

India's economic climate is heating up in:

•**High-tech investments.** Venture capital firms and private investors last year poured \$2.2 billion into 146 start-ups in India — compared with \$1.7 billion invested in 71 deals in 2004, reports TSJ Media's Venture Intelligence India Roundup. Not to be outdone, U.S. tech giants — Texas Instruments, IBM, Intel, Dell, Cisco Systems and others — are investing billions of dollars in start-ups, research and development centers and manufacturing sites across India.

The most ambitious project may be "Nano City," a \$10 billion, environmentally sustainable development unveiled in April by entrepreneur Bhatia and the Haryana state government in northern India. Modeled after Silicon Valley, Nano City will feature R&D and educational centers and corporate offices for technology, biosciences and other "knowledge industries."

"My goal is to build a model city of the future for the whole world," says Bhatia, who hopes Nano City will be completed in 10 years.

•**Mergers and acquisitions.** India-based companies signed off on \$15 billion in mergers in 2005, according to consulting firm Grant Thornton, which predicts an M&A boom in the next three years.

More midsize and small deals are being struck between U.S. and Indian firms. At least a dozen mergers, mostly private, were signed the past year, says Chugh, whose law firm worked on several of the deals.

In a public deal last April, Helios & Matheson Information Technology, a health care software firm in India, bought a \$9 million controlling stake in TACT, a business outsourcing firm in New York that's traded on Nasdaq.

"Thousands of Indians have gone back to India armed with the ways of capitalism and the stock market," Chugh says, "and they're finding fertile ground to make deals."

•**Manufacturing.** As labor costs rise in China, more global corporations based in the USA, Asia and Europe — General Motors, Dell, Nokia, Hyundai, Limited Brands and others — are also turning to India as a manufacturing base.

India's manufacturing sector is growing at a 9% annual clip, says India's Finance Ministry.

Industry in India is getting government help from 70 "special economic zones" that give tax breaks to manufacturers. The economic zones are similar to some used successfully in China to boost business and trade two decades ago.

"Over the long term, India has a strong opportunity to overtake China on many economic fronts," says Ng Buck-Seng, an analyst at IDC's Manufacturing Insights.

What's feeding the business and investment boom in India?

Since the early 1990s, economic reform and the lowering of trade barriers has gradually led to more foreign investment and trade. India also is becoming a society of middle-class consumers with more spending power than ever before. Each year, the country's engineering and business schools — including the elite Indian Institute of Technology, known as the "MIT of India" — churn out several hundred thousand graduates who help lift India's economy.

Plus, the global network of Indian engineers and entrepreneurs here and in India keeps getting stronger. A business group called The Indus Entrepreneurs (TIE) claims some 8,000 members, among them people who have launched 300 U.S. and India-based firms that do business in both countries.

At a recent TIE conference in Silicon Valley, both Republican California Gov. Arnold Schwarzenegger and Democratic National Committee Chairman Howard Dean found time to speak to the several thousand in attendance.

In Silicon Valley, nearly 10% of the 4,000 high-tech firms launched from 1995 to 2000 were by Indians, says AnnaLee Saxenian, a UC Berkeley dean and author of *The New Argonauts*, a book on Indian and Chinese entrepreneurs. Saxenian says the number of Indian-run start-ups has risen since 2000.

Saxenian says Indian managers and engineers started their own firms a decade ago because U.S. investors "treated them as outsiders" who lacked leadership skills to run companies. Not anymore, she says. Today, every U.S. venture capital firm is seeking Indians to run start-ups and to make business contacts in India.

Infrastructure woes still an issue

Economic nirvana hasn't arrived yet, though. India's biggest problem: an infrastructure of clogged two-lane highways, crumbling sewers, rundown railways and old airports and seaports.

Many regions — including the hillside city of Bangalore, home to several thousand tech and business-service firms — suffer power blackouts and horrendous traffic jams.

Last year, the government spent \$24 billion upgrading India's infrastructure — a long way from the \$100 billion needed to sustain economic growth of 8% to 9% in 2010, according to Morgan Stanley.

Moreover, in a few years there may not be enough college-educated workers to fill jobs in India's fast-growing economy. The McKinsey consulting firm and technology trade group Nasscom project a shortfall of 500,000 by 2010.

Political uncertainty and government bureaucracy also could slow growth. While India is a democracy, its economic reforms have sputtered through the years, and foreigners are barred from or limited when investing in several industries, including retail, textiles and telecom.

Meanwhile, some investors fear that India's Sensex stock

market index, which has hit record highs in recent months, is starting to look like the U.S. markets in the late 1990s before the dot-com crash. Indian investment bankers reply that India's companies — unlike many failed U.S. Internet firms — have real revenues and earnings.

Beyond the uncertainties, India stands at the cusp of a surging global economy — "the forces of convergence that have led the world to one village, one market, one audience," says United Nations Undersecretary General Shashi Tharoor at the TIE conference.

Veteran Indian entrepreneurs are bullish on their homeland. Look at Krishnam Ganesh, who has launched several successful tech-related companies in India, including TutorVista, an online tutoring service that uses India-based tutors for U.S. students, from 6-year-old kids to business people.

TutorVista recently received \$2 million from Sequoia Capital, a venture-capital firm in Menlo Park, Calif., and Ganesh hopes to raise another \$10 million to \$15 million in the next year.

"India's economy is a launching pad for the U.S. and global markets," says Ganesh, former CEO of Bharti British Telecom, a joint venture between British Telecom and computer maker HCL. "It is possible now for many success stories to be spawned in India. Business entrepreneurship is here to stay."