



A Trip to India

By Peter D. Scholtz

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I have just returned from the longest vacation I have had since 1980. I spent 10 days in India. The trip started on the west coast at a wedding in the Portuguese colonial port of Goa. We then spent time in the Golden Triangle (Jaipur, Agra and Delhi) in the north central part of the country. India is a fascinating place, and as the saying goes, India is a very wealthy country inhabited by poor people, a country of contrasts with virtually no middle class. For this quarter's newsletter, I thought I would take a different tact – sharing my experiences from the trip as well as some thoughts about the Indian economy.

After the wedding, it was a long, arduous day traveling by air from Goa to Jaipur. We counted 10 check points along the way, including showing ID just to enter the terminal. We got to Jaipur at night around 10:30, and Yogesh, our driver, weaved through Jaipur's streets in our rickety van. I noticed groups of young men wandering the streets. Small fires dotted the sidewalks with more men huddled around them. Not one woman to be seen anywhere among these roaming men. Not one white person. Yogesh turned into a side alley that the van barely could pass through, and I thought we may be in trouble. Suddenly, we popped out on the main street and we were at our hotel, the elegant Raj Palace. Paramilitary guards greet you at the better hotels and my theory became, if they are armed, it is very upscale. They open the hood of the vehicle, and use a mirror on a pole to look under the car. Entering the hotel, you go through metal detectors. The top hotels are compounds of luxury in the middle of poverty.

Tourists are a novelty, and at a landmark my wife was approached by some students to have her picture taken with them. I thought they wanted money, but our guide said that it was just that they wanted to show their family a picture of them with the exotic tourist. At the Taj Mahal, I was struck by the colorful outfits worn by many, but noticed that several locals were equally intrigued by the white tourist in western clothes. We Americans clearly stuck out.

India is a country living in constant chaos and nowhere can this be more apparent than driving. We had drivers all throughout the trip. Driving is artwork. In Goa, there were no stop signs, no street lights and no lines on the road. Our driver went down the middle of the road, dodging and weaving about, barely avoiding pedestrians that haphazardly crossed the street. Sacred Cows wander everywhere and no one touches them. Most of the traffic was scooters and they weaved through the traffic, cows and people like a school of fish. One guide said to us, "To drive in India you need three things: good luck, good brakes and a good horn." Everyone honks, which means, get out of the way I'm encroaching on your side of the road. Also, they blink their lights, not to suggest you go first, but it is a variation of honking- get out of the way. Finally, outside of Goa we saw our first stop light. Our

driver went right through it like it didn't exist. They do, however, stop at lights in the cities, especially if there is a traffic cop. Seat belts? We don't need no stinking seat belts.

The smog in Delhi is crushing. It is very common to see hotel employees cough, and I quickly realized that they weren't sick, they simply had respiratory problems. There were cranes all over the southern edge of Delhi where we stayed, mostly huge apartment buildings. Strangely, I never saw any workers. Endless poverty everywhere and yet there is no graffiti anywhere. They truly have a respect for things that we don't.

On November 8, 2016, India instituted a radical "Demonetization Plan" to capture unpaid taxes on the underground economy and discourage illegal activities. They want to shrink the shadow economy and hurt terrorists and counterfeiters. They are eliminating their 2000, 1000, and 500 rupees notes from circulation. Their largest note would then be the 100 rupees, worth about \$1.50. This takes out 86% of currency in circulation. It is thought that with little cash people will be forced to use credit and debit cards, where the government can then capture the VAT tax. The lines are long at ATM machines where cash withdrawals are limited and the machines quickly run out of money. When we were there they had just extended the period to turn in your larger notes, although we were constantly trying to break 2000 rupee into 100's. I successfully managed to leave the country without any local currency.

At the pre-wedding party in Goa, I met a woman named Lizzy, a Brit that used to work as an analyst in banking and technology at a large private equity fund out of London. Now she was working in India, and she has started a PayPal type company that also extended credit, like the U.S. company, Affirm. She claimed that the rapid decrease in cash in a cash oriented society has been hurting small vendors and businesses that don't use credit cards. Only 200,000 businesses can use cards, and in a country of 1.2 billion people, it's a problem. She claimed that most small businesses have seen their sales drop over 10%. Homes cost about \$20,000 and you pay 50% in cash, literally a suitcase full of money that gets passed on from one home buyer to the next. I assume there is some avoided tax in this behavior and it certainly weighs on home sales generally. Although the government reports strong economic growth of 4%, she thought the country was in a recession. The impression she left me with is that the government is as creative with their reported numbers as China.

It does seem that it will take a while for the economy to adjust to the lack of cash. Lizzy and I both agreed that they should have first slowly eliminated the largest bills and then worked off the smaller ones. India is a land of small business, many of which are street vendors without shops. The street vendors approach every tourist with cheap trinkets, costing a dollar or so. I don't see how this currency transition can be smooth.

India is not China. The central government cannot simply dictate proper change or comprehensive infrastructure. Bureaucracy has clogged progress in many large-scale projects. I have watched India for 25 years with the occasional sell side firm recommending the India Fund. India will slowly muddle through and if Lizzy is right, expect no help from India regarding world growth this year. India is a country that requires patience. It will have its day, but it still seems a ways off from an investment perspective.