



INDIA REPORT

Celebrating 31 years (1995-2026)

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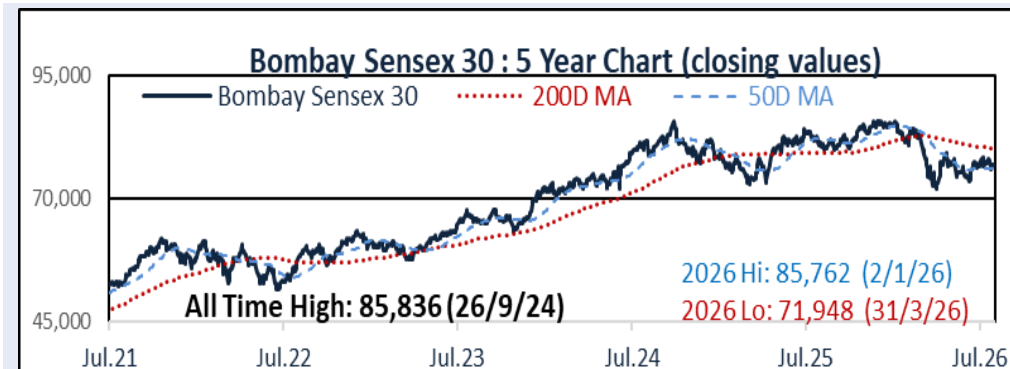


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London, 28 July 2026



Close: 28 July 2026	Index Level	Pts Chg- Day	% Chg YTD
SENSEX 30	76,766	-70	-10.0%
NIFTY 50	23,985	-11	- 8.2%

Other Markets: Level & YTD

ASIA: CHINA Shanghai: 3,813 (-4%)

JAPAN Nikkei 225: 62,365 (+24%)

EUROPE: UK FTSE: 10,871 (+9%)

GERMANY DAX: 25,464 (+4%)

USA: Dow Jones: 52,810 (+10%)

NASDAQ Comp: 24,923 (+7%)

GOLD: \$4,023.62 (-6%)

SILVER: \$57.21 (-20%)

BRENT OIL: 83.94 (+38%)

Indian Currency:

INR ₹ / USD \$1= Rs95.60 (-6.4%)

INR ₹ / GBP £1= Rs127.06 (-5.0%)

INR ₹ / EUR €1= Rs109.10 (-3.4%)

⇒ **President Trump's proposed tariffs on imported generic medicines mark a sharp shift in US trade policy.** The plan gives drugmakers a two-year reprieve before imposing a 100% tariff from August 2028, doubling to 200% a year later, in a bid to pull pharmaceutical manufacturing back to the US. **The tariffs could push up the cost of medicines in the U.S. and lead to shortages of everything from common painkillers and antibiotics to cancer medications.**

⇒ **For India, the world's largest supplier of generic medicines, the stakes are high.** The US imported about \$9.7 billion of Indian pharmaceuticals in 2025, accounting for nearly 38% of India's total pharma exports. Indian manufacturers also supply almost 40% of generic prescriptions dispensed in the US. **A 100% tariff would sharply erode their cost advantage, threaten export volumes and profit margins while raising the likelihood of higher drug prices and supply disruptions in the US.**

⇒ **Indian companies may need to accelerate investments in US manufacturing or forge local partnerships.** Even so, India's scale, low-cost production and established regulatory approvals make rapid relocation of global generic drug manufacturing far from straightforward.

⇒ **Last Friday Washington imposed new tariffs of 10% to 12.5% on imports from 60 trading partners, including India, claiming they had done too little to prevent goods produced with forced labour entering US supply chains.** India escaped the steeper 12.5% rate floated in June. **New Delhi said key exports—including generic medicines, smartphones, steel, aluminium and automotive components—would remain exempt.**

⇒ **The two sides have spent more than a year trying to strengthen commercial ties while tackling persistent market-access disputes.** Officials added that negotiations with Washington would continue, with sector-specific issues such as textiles folded into broader talks on a bilateral trade agreement. **India said roughly 45% of its exports to the US would avoid the new levy because of product exclusions, while the remaining 55% would attract the additional 10% duty on top of existing US most-favoured-nation tariffs.**

⇒ **Global Capability Centres (GCCs) are wholly owned offshore hubs where multinationals concentrate high-value work—from software finance and research.** India has become their global epicentre,

hosting more than 2,000 centres that employ over 2.3 million people. Once synonymous with low-cost outsourcing, the country now serves as a strategic base for innovation and corporate decision-making. **The United States remains the dominant foreign player overall, contributing nearly two-thirds of India's GCCs, while Europe is the second-largest source.**

⇒ **Japan has quietly emerged as the largest Asia-Pacific source of new GCCs in India, reflecting a subtle but important shift in bilateral economic ties.** More than 100 Japanese companies have established centres - accounting for roughly 5-6% of India's GCC ecosystem—more than any other APAC nation. This is driven by labour shortages at home, an ageing population and mounting digital transformation demands. These operations increasingly handle advanced engineering, cloud computing and analytics rather than routine back-office tasks. **The trend reinforces India's position as a global technology and innovation hub while giving Japanese companies access to deep pools of skilled talent and lower operating costs.**

⇒ **Assets managed by India's portfolio management services industry have grown to 42.61 trillion rupees (\$441.22 billion) as of May 31, 2026, from 18.07 trillion rupees in April 2019, prompting SEBI to undertake a comprehensive review of its rules.** "Considering the increasing sophistication of investors, growing demand for more personalised solutions and diverse investment portfolio, a need was felt to review the PM (portfolio manager) Regulations," the regulator said. **The proposals aim to improve the ease of doing business and provide flexibility to portfolio managers, the Securities and Exchange Board of India said in a consultation paper last Thursday.**

⇒ **SEBI has proposed a sweeping overhaul of portfolio management rules, loosening investment and operational restrictions while broadening access to higher-risk strategies.** Under the proposals, portfolio managers would be allowed to invest in overseas securities, bringing them in line with mutual funds and alternative investment funds. invest up to 10% of client assets in unlisted debt, an asset class currently off limit. The regulator also wants to introduce a new category of managers focused exclusively on exchange-traded funds, mutual funds and specialised investment funds, aimed at affluent investors willing to assume greater risk than retail clients but below the conventional wealth threshold. **The regulator has invited comments on its proposals by August 13.**



China and India: How One Economy Grew Five Times Faster

Two Asian giants began in similar poverty. By 2026, one economy is about five times larger than the other. How did this happen? The reasons lie not in geography or destiny, but in decisions made over nearly five decades. Below is a succinct overview.

The Starting Line

1. When India gained independence in **1947** and the People's Republic of China was established in **1949**, both countries were among the poorest large nations on earth.
2. India inherited the impoverishment from nearly two centuries of colonial rule, the trauma of Partition and mass displacement. China emerged from decades of Japanese invasion, civil war and hyperinflation.
3. Both were overwhelmingly rural. Agriculture dominated employment. Industry was limited. Infrastructure was poor. Literacy was low. Capital was scarce.
4. By 1980, the two economies remained remarkably similar in size. GDP figures for 1960 and 1980 are historical estimates (Maddison Project-style reconstructions), not precise government data.

Year	China GDP	India GDP	China GDP per capita	India GDP per capita
1960	~\$60bn	~\$37bn	~\$90	~\$80
1980	~\$191bn	~\$189bn	~\$195	~\$267
2000	~\$1.2tn	~\$468bn	~\$959	~\$449
2026	~\$21tn	~\$4.1tn	~\$15,000	~\$3,400

5. Today China produces roughly **five times** the economic output (GDP) of India.

Similar Beginnings. Different Choices.

6. During the 1950s both countries embraced state-led development and Five-Year Plans.
7. India built a democratic republic with an independent judiciary, federal government and free elections. Economic policy favoured import substitution, heavy industry and an expanding public sector. The Licence Raj subjected investment and production to extensive government approval, severely limiting competition and private enterprise.
8. China adopted Soviet-style central planning under a one-party state. Land was rapidly redistributed, industry nationalised and agriculture collectivised. Decisions could be implemented quickly, although mistakes proved equally swift.
9. Both sought industrialisation. Only one would later embrace markets decisively.

China's Lost Decades—and Its Turning Point

10. China's early decades were far from an economic success.
11. The Great Leap Forward (1958–62) triggered one of history's worst famines after catastrophic policy failures devastated agricultural production. The Cultural Revolution (1966–76) disrupted education, industry and government.
12. Yet China under Chairman Mao also expanded literacy, basic healthcare and state administrative capacity.
13. **Everything changed in 1978. Under Deng Xiaoping, ideology gave way to pragmatism : "It doesn't matter whether a cat is black or white, as long as it catches mice, it is a good cat." Hence, practical results mattered.**
14. Agriculture was liberalised through the Household Responsibility System. Private enterprise gradually returned. Foreign investment was welcomed. Special Economic Zones became laboratories for market reform. Manufacturing and exports replaced ideology as the engine of economic growth.
15. The Communist Party retained political control, but the economy became increasingly market-driven.
16. **Few policy shifts have reshaped the modern world more profoundly.**

India's Reforms Came 13 Years Later

17. India remained committed to its mixed economy throughout the 1970s and 1980s.
18. High tariffs protected domestic industry.
19. Industrial licensing constrained investment. Foreign capital remained limited.



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20. Economic growth averaged only around 3–4% annually for much of the post-independence period.
21. Only the balance-of-payments crisis of **1991** forced sweeping reform.
22. Prime Minister **P. V. Narasimha Rao** and Finance Minister **Manmohan Singh** dismantled much of the Licence Raj, lowered tariffs, opened the economy to foreign investment and encouraged private enterprise.
23. The reforms transformed India's economy.
24. China, however, had already spent thirteen years building factories, ports, export industries and global supply chains.
25. **Those thirteen years proved decisive.**

Manufacturing Made the Difference

26. The defining distinction between the two economies was manufacturing.
27. China became the world's production platform.
28. It developed globally competitive industries in steel, machinery, electronics, shipbuilding, chemicals, consumer goods, batteries, renewable energy and, more recently, electric vehicles.
29. Factories generated employment for hundreds of millions of workers. Supply chains deepened. Technology transferred. Productivity rose. Exports financed further investment.
Each success reinforced the next.
30. India found global leadership in information technology, pharmaceuticals, business-process outsourcing and financial services.
31. These industries became world class.
32. They generated high-value exports.
33. **But services could not absorb labour or create industrial ecosystems on the scale achieved by manufacturing.**

Infrastructure Became an Economic Weapon

34. China invested relentlessly.
35. Expressways. Deep-water ports. Airports. Industrial parks. Reliable electricity. The world's largest high-speed rail network.
36. For decades, investment averaged **40–45% of GDP**, creating logistics that dramatically lowered production costs and attracted further investment.
37. India also expanded infrastructure, particularly after the 2000s.
38. Progress, however, was slower due to the democratic system:
Land acquisition. Environmental approvals. Judicial review. Federal coordination.
Financing constraints. Democratic consultation.
39. **Each added time and complexity to project delivery.**

Urbanisation and Education Reinforced Growth

40. China urbanised at extraordinary speed.
41. Around two-thirds of its population now lives in cities, compared with less than one-fifth in 1980.
42. Cities increased productivity through larger labour markets, denser supply chains and faster innovation.
43. India's urbanisation has been much slower, with fewer than two-fifths of its population living in urban areas.
44. Education followed a similar pattern.
45. China achieved near-universal literacy earlier and invested heavily in engineering, technical education and vocational training. Human capital increasingly complemented China's industrial strategy.
46. India built world-renowned institutions such as the IITs but continued to face uneven school quality and skill shortages across much of the workforce – many graduates were not able to contribute without further skilling.

Global Integration Accelerated the Gap

47. China's accession to the **World Trade Organization in 2001** accelerated its integration into global supply chains.
48. China became the factory of the world. Exports surged. Foreign direct investment poured in.
49. Multinational companies transferred technology, management expertise and production capabilities.
50. India expanded exports too, particularly in software and business services.
51. Its merchandise exports, however, never approached China's scale.
52. The contrast is reflected in foreign exchange reserves:
By 2026: **China: approximately US\$3.2 trillion**
India: approximately US\$700 billion
53. China's reserves largely reflect decades of manufacturing trade surpluses.



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54. India's have grown through services exports, remittances and capital inflows despite persistent merchandise trade deficits.

Politics Shaped Economic Outcomes

- 55. Political institutions influenced economic execution.
- 56. China's one-party system enabled long-term policy continuity.
- 57. Infrastructure could be approved quickly. Land acquired rapidly.
- 58. Industrial strategies pursued consistently over decades.
- 59. Speed became a competitive advantage.
- 60. The same concentration of power also produced devastating policy failures—from the Great Leap Forward and Cultural Revolution to the prolonged COVID-19 lockdowns—demonstrating the risks when institutional checks are weak.
- 61. India followed another path.
- 62. Democracy, based on the Westminster model under the British system.
- 63. Independent courts. A free press. Federalism. Competitive elections.
- 64. These institutions strengthened accountability, civil liberties and property rights.
- 65. They also slowed decision-making. Consensus often replaced command.
- 66. Execution became more deliberate but also more resilient.

Why China sprinted ahead

- 67. China's rise was neither inevitable nor accidental. It survived famine. Political upheaval. International isolation.
- 68. Then it executed one of history's fastest industrial transformations. It reflected nearly five decades of disciplined execution.
- 69. Market reforms began thirteen years earlier. Manufacturing became national strategy. Exports became national policy. Infrastructure became national obsession. Local governments competed to attract investment. Foreign capital encountered fewer barriers. Integration into global markets.
- 70. Urbanisation proceeded at extraordinary speed. Industrial clusters created unmatched economies of scale.
- 71. Education increasingly aligned with industrial policy.
- 72. Long-term planning remained remarkably consistent across decades.

India's journey has been slower

- 73. India also transformed itself, but chose a different path.
- 74. Democracy over centralisation. Consensus over command. Services over manufacturing. Gradual reform over economic shock therapy. Strong institutions over unrestricted executive power. Its democratic institutions absorbed political diversity, regional complexity and electoral accountability.
- 75. Democracy produced delays. But, it also produced resilience.
- 76. Since 1991 it has become one of the world's fastest-growing major economies, developed globally competitive service industries, built one of the world's most advanced digital public infrastructures and emerged as the world's fifth-largest economy.
- 77. Its youthful population, expanding middle class, improving infrastructure and growing manufacturing base suggest substantial long-term potential.
- 78. Yet economics rewards time as much as policy. By 2026 the gap remains substantial.
- 79. China began compounding growth in 1978. Compound growth, like compound interest, yields results.
- 80. India began in earnest in 1991, and is still catching up. **This offers opportunities to investors.**

Summary

- 81. **Thirteen years of earlier reform, sustained over nearly half a century, largely explain why two economies that stood side by side around 1980 now differ by roughly a factor of five.** China's one-party authoritarian system enabled long-term policy continuity and speedy execution, although at a cost to human liberties.
- 82. Today, China is the world's second-largest economy. India is the world's fastest-growing major one.
- 83. **Prosperity rarely results from one transformative reform.**
- 84. **Rather, it is built through decades of consistent investment, rising productivity, improving education, expanding infrastructure, stable economic policy. And speedy execution. To compound economic growth.**



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Background to the 31 + years journey of the India Reports:

- The first India Report was authored by Deepak Lalwani, at the request of the then Indian High Commissioner (Ambassador) to the U.K., Dr L.M. Singhvi, for a key investor meeting.
- The meeting took place on 6 March 1995, in the Mahatma Gandhi Room at the Indian High Commission in London.
- Over the span of three decades, the India Report has expanded its global reach and is now read across five continents.
- More than 1,000 reports have been published, continuing to provide a succinct, independent, non-political and objective view of India's evolving macroeconomic landscape.
- The report is followed by a wide range of readers, including family office investors, institutional investors, hedge funds, high-net-worth investors, governments, chambers of commerce, as well as trust companies, lawyers, accountants, businessmen and media outlets, both in TV and print.
- The India Report is possibly the longest-running independent research on India's economy which has been curated consistently by the same individual, Deepak Lalwani, for over 31 years.
- Deepak Lalwani has continued his work out of passion and driven by a deep sense of gratitude to contribute to both his country of adoption, the U.K., and his country of origin, India.

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