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Silicon Valley places bets on India

Sean Randolph – July 29, 2020

As the list of issues with China lengthens, the US and India are drawing closer together. As they do Silicon Valley companies are starting to place their bets.

In January of this year, California's Lieutenant Governor led a Bay Area delegation to India. It found strong opportunities to expand trade and investment. Since then much has changed, but much has not. Like all economies today India has been severely impacted by the coronavirus pandemic. The IMF is projecting an economic contraction of 4.5% this year, followed by a 6% rebound in 2021.

More important than today's growth rates, however, are the long-term forces driving them: economic reform and massive digitization of the economy that is creating expansive new digital markets – estimated at \$710 billion by 2024.

One benchmark is the World Bank's annual Ease of Doing Business Index. In 2019 India ranked 77 out of 190 countries, moving up 20 places from 2018. The latest Index (2020) shows India improving its position further to 63 of 190, advancing another 14 slots. Much of this momentum can be attributed to continued economic reform as Prime Minister Narendra Modi began his second term, reforms that will likely continue for the remainder of his tenure.

Another key measure, driven by digitization, is an increased investment from Silicon Valley. As several recent examples:

- Taiwan manufacturer Foxconn has announced plans to invest up to \$1 billion to expand a factory in Southern India that assembles Apple iPhones, as Apple shifts some production out of China.
- In April Facebook announced a \$5.7 billion investment – its largest ever – in India's cellular internet company Jio Platforms, with Google adding another \$4.5 billion in July. Other recent Bay Area investors in Jio include Silver Lake Partners, TPG and Intel Capital.
- In July Google announced a larger investment of \$10 billion; the India Digitization Fund, through equity investment and partnerships, will focus on digital infrastructure and on new products and services for the Indian market,

including affordable access in local languages and digital transformation in sectors such as health and education.

- Also in July Sequoia Capital announced commitments of \$525 and \$825 million – \$1.3 billion total – to two new venture funds targeting India and Southeast Asia (Sequoia manages its Southeast Asia investments from India.) With hundreds of millions of connected smartphone users, Southeast Asia’s internet economy reached \$100 billion last year, up 40% from 2018.

As regional tensions with China have increased, the US and India – two democracies with market-based systems – are drawing closer strategically. Border clashes between China and India in June led India’s government to ban 59 Chinese apps including TikTok and Tencent Holdings’ WeChat, a setback for Chinese ambitions for the Indian market that is opening doors for Silicon Valley companies such as Facebook’s Instagram. Huawei is also scaling back its presence.

While China’s market and manufacturing capacity remain enormous, the evidence is growing that India and Southeast Asia will offer increasingly attractive opportunities in a diverse Indo-Pacific market and that Silicon Valley companies are taking notice.

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