

India Navigating Turbulent Times-The Recession.

by
Dr.V.Aravind

The Platform

The world is reeling under the effects of a global economic crises, climate change, terrorism and war. The global economy is facing more uncertainty than at any other time. What started as a problem with sub-prime mortgages in the United States has expanded into a financial crisis engulfing the global economy. Different Governments are planning bailouts worth a total USD 8 trillion to avert an economic disaster. It is a unique, post bubble recession brought about by the bursting of multiple-asset credit bubbles around the world. This unique one cannot be figured out to be calibrated by the economic history or text books. The cycle itself is prompted by the bursting of asset and credit bubbles, is very much intertwined with the unsustainability of imbalances that have built up over the last decade, in large part between savings-short, current-account –deficit in nations like the US. and surplus-savings countries like those in Asia.

In the US, extravagance is a normal way of life where in China, it is a sin. Such contrasting consumer psyche between the two economies needs to be evened out before a sustainable recovery of the post-bubble global economy can be achieved in the long run. The next few years are expected to be a much weaker period for the global economy. How quickly the world returns to a stable economic climate will rest largely on two main pieces of the equation: the American consumer driving the demand side and the Chinese producer driving the supply side. The US, which has spent itself into oblivion, will have to become a saver and China, which has spent too little and saved too much, will need to develop more of an indigenous, private consumption culture. Neither of these developments will be easy, but they are essential and, if the world can pull it off. There may be a better economic climate.

It is foolhardy to expect penny-pinching China to rescue the developed economies, such as the spendthrift US. Both will have to restore the balance an economy demands, in their own ways.

India has had a balanced economy till such time it fell short of good governance in recent 4 to 5 years to fall in to the grip of economic melt down and recession. In a global economy of multi polar economic world, India need not have contacted recession in total if the good governance with the mechanism of workable economic tools had been put in place. Being a part of the integrated global economy, India also has the heat of a severe global recession.

India has the added problem of political instability, domestically and on its borders. The country is expected to go to polls in summer this year – probably resulting in another tenuous coalition – and the recent terror attacks in Mumbai have escalated tensions in the sub-continent.

Can India Inc. navigate this difficult time and turn risk into opportunity? The answer is yes. After all, we have experience to learn from. The last time India faced such a situation was in 1991, when an external payments crisis forced the Government to approach the IMF for assistance. India then successfully turned a crisis into an opportunity by launching economic reforms.

Business and Political leaders will have to share their thoughts on how India Inc. can successfully navigate the current uncertain times. Focusing on sectors and functions, they have to bring out practical ways in which the economy overcomes the challenges of uncertainty in the past and turned dangerous currents in their favour.

Anatomy of uncertain environment-Recession

India had seen real GDP growth in previous Govt., led by strong growth in services, increased private consumption and greater fixed investment. When the sub-prime crises started in the US more than a year ago, it was hard to believe that it would affect the real economy in India. The crisis has now expended into a more broad-based credit crunch and a global economic slowdown. According to the IMF, world economic growth, at 5.0

per cent in 2007, is projected at 3.8 per cent in 2008 and 2.2 per cent in 2009, with the downturn led by the advanced economies.

In the past, crisis have unfolded all over the world, triggered by macroeconomic and external sector shocks, revealing asset bubbles, impairing real sector performance and weakening the financial system. A similar sequence has unfolded in India. The severe liquidity crunch and redemption pressures in the external markets have distorted India's capital markets, created short-term liquidity pressure and eroded borrower and lender confidence. High leveraging for growth in the last few years and rising asset prices have made certain sectors prone to shocks. Through linkages across the value chain, these could affect a broader range of corporates and small and medium enterprises.

Strategizing for uncertainty

The current uncertainties – global economic, political and financial – have made strategy development, never an exact science, more difficult than ever. In an ideal world, companies would wait until these uncertainties were resolved before committing valuable resources to a plan of action. However, competition drives them to take risks before all ramifications are fully understood. The traditional approach to crafting strategy often uses static industry, customer, and company analysis to identify current pockets of opportunity [such as under-served niches] and use them as indicators of near-term profit making opportunities. While this approach is useful in stable environments, it is not a sound approach in uncertain ones [e.g. evaluating new services not yet fully commercialized such as broadband or IPTV]. Further market leadership in any industry changes significantly during uncertainty – usually 10 out of the top 20 companies in most industries give way to challengers. This makes it critical for companies to approach strategy development in a completely different way.

The Govt. and Business leaders, across various industry sectors will have to evolve unique and successful strategies they devise for uncertain times. We will have to provide innovative ideas and tools for strategy development, which can be applied in the context

of a company to successfully tackle uncertainty and retain leadership. **This has to be followed by Govts as well.**

Uncertainty beyond business

Businesses can devise effective strategies to deal with uncertainty. But how is the slowdown affecting the common man in India and how does he cope with uncertainty?

The overwhelming majority of Indians live either in the rural sector or as daily wage labourers. The Govt. will have to throw light on how they cope with the crisis while managing the family's needs for food, education and healthcare, all the while confronting uncertain personal security and the looming threat of natural disasters.

Financing in uncertain times

India was one of the preferred destinations in the world for capital and everybody was talking about the massive direct and portfolio investment flowing into the country. Indian corporates also had other options for raising capital to finance growth: listing on international bourses or seeking private equity investment. Foreign capital will always adorn the shores where the regulations are less, less complicated, cool business environment and climate prevail, and political calmness with better stable eco-political culture with out terrorism of any kind.

But the recent financial crisis has created two obstacles to this flow of capital. First, the emerging and Asian markets, from Brazil to South Korea, were suddenly seen as high-risk destinations. Second global financial institutions faced massive redemption pressures in their local economies. Foreign money was withdrawn and India did not escape the onslaught. Foreign institutional investors withdrew close to USD 15 billion till November, 2008. Terrorism played yet another part in withdrawal of capital with meagre inflow of fresh capital.

With tight liquidity in the real economy, borrowers are drawing down existing credit limits and term loan sanctions. Though the Indian banking sector is leveraged to some extent, with stable retail funding, it is wary of a sharp slippage in asset quality due to liquidity pressure and a distorted debt securities market. Even if this risk is averted, the constraints on external borrowings and debt markets will make it difficult for India's domestic banks to meet the large demand for credit which is so crucially needed to ensure high economic growth. The focus should be there to understand how companies can raise finance in these uncertain times, both to sustain their current operations and pursue growth opportunities.

Managing for Talent-Govt.and Business

The Governments should give impotence for newer talents in every portfolio.

Is your business feeling the pinch in this turbulent market? Are you experiencing what we're reading in the headlines everyday? In uncertain times like these, when businesses are starting into lowered revenues and shrinking margins, is it prudent for the top management to focus on managing talent? Experts believe managing talent in such times is as equally important as it is during high growth times and much more challenging. This is the time when new market leaders emerge and fortunes are made, and according to a research conducted in the US, companies with high trust amongst their employees outperform those with low trust by 168%.

Since time is of the essence during uncertainty, CEOs must find ways to boost their company's strategic agility and ability to respond to opportunities and threats more rapidly. But executing change is never easy, especially if the new strategy requires a cultural change. How can organizations perform the delicate balancing act of the need to make tough, data-driven decisions to manage their financial viability and the need to understand the emotions and concerns of its employees? The challenge is to truly understand the primary factors that affect employee morale during downsizing and organizational change to be able to mobilize and motivate people. This is easier said than done.

Innovative HR practices, alternative and work-life paradigms and maximizing employee performance, in an uncertain economic environment like this are essential.

Uncertain times-Opportunity or Challenge?

A slowing economy has tangible burdens, as companies become extra cautious due to uncertainty over how things will unfold in the future. Cautiousness makes some of them defer their expansion plans, while some others are forced to taken even harder decisions like rolling back their recent expansions or laying-off long-standing employees. There are inherent risks involved in taking such measures which might create more challenges for e.g. how will the brand positioning be affected in the eyes of the clients / consumers? Or what implications will it have on the morale of the employees?

On the other hand, there are companies which take a different approach to the slowing economy, constantly looking for market opportunities to expand their business. They not just show solidarity with their employees by retaining them but use this trustworthy talent to reorganize and tap new market opportunities to propel the company to the next league. But there are inherent risks involved in this as well and such companies are essentially on a tightrope walk, balancing between scaling new heights on one extreme and becoming bankrupt on the other.

The Govt., Businesses and People should understand the nuances of dealing with this economic situation. They must have the Takeaways-Equipments- Appreciation.

- Various elements of the global crisis and understanding how it will affect the various sectors of the Indian economy such as MNCs, large and small / medium-sized corporates.
- Innovative ideas and tools for strategy development, which can be applied to the company/Govt. context to successfully tackle uncertainty and retain leadership.

- Unique and successful strategies devised by various Govts and business leaders, across various countries/ industry in uncertain times.
- How rural people / common man cope with the crisis while managing the family's needs like food, education and healthcare, all the while confronting uncertain personal security and the looming threat of natural disasters.
- The aam aadmi [common man] perspective through the eyes of not-for-profit organizations.
- How the not-for-profit organizations get affected during these uncertain times and learn from the strategies that they use.
- How companies can raise finance in these uncertain times, both to sustain their current operations and pursue growth opportunities.
- How to maximize employee performance and deliver superior results in an uncertain economic environment like this.
- How to utilize trustworthy talent to reorganize and tap new market opportunities to propel the economy to the next league.

The basic mantra to over come economic recession is to achieve maximum out put with as far as possible lesser/still lesser inputs. Innovation, development of newer, cheaper ways and means, products and services are all within the ambit. Every one should practice cost cutting/saving attitude. Expertise, Quality & Performance Excellence, New Talents, Innovation and building up of overall Competences should be the order of the day in the Governments and Businesses in all the sectors. Every sector is intertwined with the other calling for an overall application of any mechanism. Both Govt. and the Businesses have to bridge the capability gaps. Besides the following measures by the

Govts. , Businesses and People will yield excellent results in turning down recession, which we courted unnecessarily because of bad governance styles. The Governmental responsibilities are most.

Adaptability

Adaptability to the economically turbulent times is an essential parameter. The Govt., Business and the Common man should know the art of navigating recession and they must have the knowledge to manage the finances prudently with the desire to follow the do's and don'ts. Curtailing the demands and wants will be the slogan. Extravagance is out of place. For some time, every one has to live with recession with life style changes.

Immunity

The Governments, Businesses and the Common man should follow such healthy economic practices that will boost the immunity of the economy towards any economic evil the recession. At least the sectoral influences, the passing on of evil effects of one sector to the other dependent one, may also be reduced. Better savings among the public, better rural, agricultural economy based on rural development, rural livelihood and warranted rural reconstruction would make the Indian economy immune towards the recession and other maladies of economy. Governmental styles and regulations play a vital part.

Eco-Political Governance and culture

Governmental governance in India has not changed yet ever since independence, in as far as the political agenda is concerned. Developed countries in the world adopt a pure economic agenda even for their elections. Our political and governance culture should have a focus shift towards the economy of the country and the resultant welfare of the people. Political agenda depicting the exclusive political culture aimed at vote bank politics with scant respect for economic issues should be changed. The welfare measures

announced should speak for economic soundness making the people stand on their own legs rather than expecting the Govts to bail them out even of their daily commitments, reducing them to the position of dependents on subsidies, exgratia payments and politically motivated waivers, which are often book figures.

Better savings among the public will render them strong in times of recession. The Govt should always promote per capita savings which can be achieved by the excess of per capita income over the per capita expenses. Mere increase in per capita income alone will not suffice. Better savings will not come with out reduction in per capita expenses. The Govt.has the responsibility to keep the prices under control.

Political parties in India should have the National Spirit in them and should care for the economy of the Country and there by the people's welfare. Mushroom growth of regional parties with their own regional, linguistic fanaticism spoiling the morale of the people for achieving their selfish ends do not go well in economic development in the paise the global economy is moving. Foreign Investments and Capital shy away from India on account of this draw back. They shall adopt a better Eco Political culture.

Govt. /Regulatory Authority/Regulations

Terrorism

The Govt. should by all means control terrorism of all kinds for economic betterment of the country and to combat and remove recession easily.Terrorism, Political instability and Turmoil will seal all economic avenues for development and growth.

Inflation

The Govt.should ensure the inflation is brought down. The prices of essential commodities, fuel, transportation and the overall input costs have to come down to counter balance the recession.

Balance of Payments/ Foreign Exchange reserves/Reserve Ratios/Fiscal Deficit

Balance of Payments position should be kept at a comfortable level by the Govt .and also the Foreign Exchange reserves. The Trade Balance should never suffer and the country should be in a position to export at a cheaper price than other countries at times when local consumption is poor. Exports have to improve at this stage with more competitiveness. Cash reserve ratios can vary from 5% to 15% in a sound economy. Banks should be directed to lend liberally initially and then optimize lending to productive purposes with still lower interest rates. The prevailing interest rates are very high to combat recession. The Govts should avoid Fiscal Deficits which will be a burden.

Industrial Growth and Output.

By promoting local consumption industrial out put can be maintained in the recessionary times. In addition exports have to be promoted. To have cost effectiveness of products the input costs have to be less. Minimum Inputs and Maximum out put is the slogan. Best Governance practices, expertise, aiming at overall excellence and bridging the capability gaps and talent can see the industry through. Caring for Profit, People and the Planet, the triple bottom line of growth will give the industry the impetus with more inflow of capital. The Govt.on its part will have to ease out the financial stress.

Capital Market/Share Market

The Govt.has to ensure stable conditions in the Capital Market and Share Market. The regulatory Authority has to be well tuned. The Govt. and the investors should promote healthy and responsible investment culture.

There should be relation between market price and profitable earnings of the company. This should be considered at the time of investment. Speculation to be avoided.

Media should give market projections correctly. Unnecessary hype creation in view of speculation should be avoided.

The mutual funds are dealing with the contributions made by the small and medium investors. The assured return to the investors will be grossly affected due to fall in prices. They should invest in infrastructural projects for long term.

Financial Institutions have to verify shares which the investors are going to buy for their Profit Earning Ratio, break-even price etc.

The notifications of the Govt .should be correct and not to promote speculation. The investors have to be educated and should be equipped with past experience and analysis.

There should be minimum holding period for institutional investors, who invest in the shares of a particular company, not allow the market to fall under casino culture.

The role of advisers should be responsible and they should not favour speculation and they should advise for long term investments to strengthen the capital market. Short term investments will result only in speculation.

There should be guidance regarding the safety; earning and other market speculate terms and conditions to be followed by the investors.

Regulatory Authority should warn the investors of the safety of their investments and strength in earning income, at the time of investment.

At present the investment in capital market is treated as investment in a market for speculation and not for long term investment. People who are investing are mainly the dealers and speculators. The investment should be for a minimum period of 10 to 15 years in a company share, where the investors will feel happy in safety and returns.

Investments in capital market on shares should not form part of Casino culture instead of the investment culture.

The necessity of Authorized Advisory organization which advises the investors for long term investment specifying the parameters of PE ratio, net asset value, return on capital and all other market base analysis is a must. The investor should be cautioned whenever the share price is quoting more than that particular industry's PE ratio, since the price may fall at any time. Any share price quoting more than industry's PE ratio is in anticipation of a boom and results into speculation which is highly risky for small and medium investors.

It is time to convert the savings of the citizens into the investment for long term requirements of the Nation in the form of Industrial infrastructure & Project requirements. The entire criteria should be for the safety, income, transferability/liquidity of the investment made by the investors. Ultimately it is the confidence of the individual investors which is utmost important a factor than speculation, rumors, unviable projections. If the investment culture is not in the minds of individuals, the mutual funds and corporate may not have sufficient funds to meet the requirements of the infrastructure and other investments required for fairly long period projections.

Tax Base/Structure/Taxation

The Govt .has to apply its good sense in to the Taxation which plays a vital role in the economic scenario. By initiating proper action in the system, problems of economic melt down can be addressed, scams mitigated, economic offences curtailed and the recession combated.

Tax structure can be suitably altered with fresh guidelines to improve the Economy with Increased Revenue, More Stringent Administrative Steps, Widening tax base- Increased Compliance and Removal of Ambiguity. Tax base can be widened by covering many areas which are not yet seen by the revenue department. The rates of taxes have to be

fixed between 5.5% to maximum of 20.2% and indirect tax rates should not be more than 5% in total for a better economy with lower prices.

Steps Required

- Cross Verification
- TDS Returns Verification
- Extracts from Banks, LIC. Govt. Securities
- Compulsory filing of funds flow, capital fund account and statement of affairs along With Income Returns.
- Any additions to the assets, Deletion of Liabilities should be disclosed and explained with evidence.
- Investments, Policies, Deposits, Shares all put together held by each person above the THRESHOLD limit should have prior permission of the department.
- TDS to be made Compulsory above THRESHOLD limit.
- Unbiased and judicial approach by the department with earnestness and fairness.
- Only the registered value should be taken as the purchase price.
- Every Investment/acquisition of asset has to be brought to the notice of the dept.
- The Department has to verify each and every legal aspect, while confirming the
- Computation of Tax

The role of Financial Institutions

Financial institutions play a vital role in the economic wellbeing of the Nation. To overcome the Economic Crisis/Recession, well tuned functions of the FIs are needed.

- Granting loans based on present/future Income will give a better money spin. At present the financial institutions are advancing loans on the basis of collateral and immovable property security provided against such loans disbursed. The financial institutions are not considering advances where there is no immovable property security, even though there is source of income. The assets having lesser value with more income generation are not taken for advance, fulfilling loan

requirements. They are concentrating on loans against security but would not take in to consideration the process of prompt repayment of loans and the income sources of the borrower. Emphasis should be given to income earning capacity of the asset against which the loan is advanced instead of treating the asset as mere security.

- The financial institutions should concentrate on welfare based economics rather than wealth based economics. The repayment should be from the income generation.
- There should be centralized organizations to appraise the applications of borrowers so that the technical scrutiny and analysis of the repaying capacity of the borrower will be analyzed by independent agency or consortium.
- The nearest branch to operate such loan account will reduce diversion of funds advanced and will ensure financial discipline besides prompt repayment by the borrower.
- Loans should be granted only for income generation and investment and not for acquiring un-productive assets, at least for some time and to meet the general unproductive expenditure.
- Three or four branches of a Bank can be merged and asked to work shift wise by maintaining business hours at least 16 hours a day. This will reduce the over heads and ensure more customer satisfaction
- Central lending advisory agency may be constituted at every level to avoid over valuations, multiple loans against the same source of income.

- The Banks should not write off the loan, the assets should be continued to be the performing assets by re-scheduling the loans based on the repayment capacity of the borrower.
- The borrower should be given liberty to forecast their repayment schedule along with interest and may be permitted to request for longer repayment period to meet his commitment.
- The borrower should be asked to reduce his limits gradually so as to reduce current assets as well as current liabilities.
- The unsecured loans availed by the corporate (to the extent of Rs.2.92 lakh crores, according to Economic Times, Page 1, dated 10-10-2008) should be converted in to term loans and be supported by collateral security. The Banks should discourage transfer or takeover of such loans. The management of the company should be made responsible for repayment of such loans as per schedule. All the Banks should be communicated about such low secured loans.
- Strict monitoring is required for such loans, the repayment of which should be by earnings and not by taking additional/further borrowing.

Agriculture and Rural Economy

Agriculture, the back bone of our economy has to be nursed well to combat economic evils and the Recession. Required know how, technology, finance, proper scientific guidance and patronage provided by the Govt., agricultural sector could change in pace with the times of modern agriculture and farming. The rural savings will improve. India will reach a position where other countries cannot dream off. Agricultural exports can earn foreign exchange reserves. Creation of employment opportunities and agro based industries are more secure than other types of industry. Agricultural wastes form part of better bio fuel.

The village population, the majority in total population, does not get their legitimate share in the society. Unless the rural economy is built up and the poor rural folk increase their income and savings the economic development and growth of the Nation cannot improve. The sound village and agricultural economy will resist recession and other economic evils. The rural population suffers plight of (i) Low Education, (ii) Larger Population, (iii) Low Health Awareness and lack of medical facilities (iv) Low Employment, (v) Social Injustice, (vi) Low Economic Development and also Low Infrastructural Development, (vii) No Proper Guidance, (viii) No Self-Confidence. ix) Less Political Awareness, which have to be addressed as well. The semi urban locations should also develop in order to get maximum results of rural development and also total of economic development.

Infrastructure/Employment/Use of Natural Capital/Energy Security/Alternate Energy

During the recessionary times the Govt. and also the Industry can improve their infrastructural facilities with cost effectiveness for a better tomorrow. As far as the Govt. is concerned building up of productive infrastructure will create additional employment opportunities especially in the rural areas, when unemployment will otherwise be more on account of recession. Public –private partnerships can be more meaningful.

India has a great agricultural base and many agro based industries and rural cottage industries can generate employment opportunities with out much investment. Having cultivated the practice of free grants for every thing, it will be difficult for the Govt. to make the people work.

Nearly 600 million tones of agricultural wastes in India can be better utilized for power/energy generation and also be used as bio fuel. This can produce cellulosic ethanol equivalent to 80,000 mega watts of power, ie 60% of India's installed capacity and create 30 million new jobs. This 180 degrees shift in our thinking of the holistic solution, will

solve poverty, rural regeneration, removing imbalances and re generating the planet. Brazil is meeting 40% of its transportation fuel from ethanol.

The future of humanity lies in the harnessing solar energy.1% of sun light by the earth can meet humanity's demand for power for another 20%.We can tap solar energy with appropriate technology which is developed recently at a lesser costs than the costly volotic cell panels.

India has a long coast lines, Malabar and Corromandal coasts. Tidal power generation up to 1, 00,000 mega watts is possible very easily. Hydrogen separated as fuel from sea water, by using solar energy in the process, is an attractive venture.

Interlinking of rivers will solve drinking water problems & irrigation problems besides power generation, employment and removal of poverty for the country as a whole.

These sources of Non conventional/renewable/Alternate energy, if tapped properly, will solve poverty, rural regeneration, removing imbalances and re generating the planet. The efforts have to be initiated by the Govts.

Triple Bottom Line Growth-The Aim

The Govts. and the Business world have to always aim at Tripple Bottom Line Growth. This will mean Profit, People and Planet as part of excellent governance style.Profitting minus the people and the planet will result in chaos and catastrophe. Many a foreign investors insist environmental protection and people friendly best governance style. The Govt. should through much light on these aspects for a better economy without recessionary invasion.

Better Control over Demands/Wants

The Governments, Businesses and the people at large should limit their wants during the recession for a speedy recovery of the economy. In India political parties should also adhere to this and adopt a better political culture.

Education-Awareness

Educating the public of the economic maladies, ways and means for a better economy, to limit their wants, to shun extravagant spending and spend thrift attitude, the does and don'ts in recession, is essential. Cultivating the habit of work to earn is essential to combat recession.

The above measures if properly initiated can put the economy back on rails and the recessionary trend of the economy will get dissolved. As the Governmental responsibilities are more the Govt. will have to take the corrective steps in an appropriate manner and time.