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From the Director's Desk

K.T. Chacko

One of the major catalysts of the exponential growth of the Indian economy during the last decade has been its vibrant services sector. Services now contribute more than 50% of the country's GDP. In the recent years, India's export of commercial services has increased at a much faster rate than the world's average. In 2007, it ranked 7th amongst the WTO Member countries in export of commercial services and 13th in import of such services.

India's strong position in global trade in services makes it imperative that the financial crisis buffeting the world since the onset of subprime crisis in US is carefully monitored and suitably responded to. The crisis has not only affected the financial services but also other important services like air transport, maritime transport and tourism. The recent WTO estimates suggest that India's ranking as an exporter of commercial services in 2008-09 may decline to 9th position from the 7th position that it held in 2007.

The financial crisis presents both opportunities and challenges for the Indian services sector. This sector is likely to suffer in the short term as the major trading partners of India like US, EU and Japan are in a recessionary mode with growing tendencies towards protectionism. As Indian service exports are concentrated on a few knowledge-based sectors, the impact of the financial crisis may last longer. This provides an opportune time to explore and expand into newer markets and newer services. It would ensure that Indian companies do not remain hostage to the business cycles of a few countries. This also gives a window to fully exploit the potential of the domestic Indian market which has till now not got as much attention of some of India's big service providers as it deserved.

The Indian industry also needs to forge constructive partnership with the Government of India to fight protectionism abroad and to reinvigorate WTO negotiations in the services sector where it stands to gain considerably by a deeper and more comprehensive commitment by its trading partners under Modes 1, 2, & 4 of supply of services. The time is ripe to bring the services negotiations out of the shadow of the more high profile negotiations on industrial and agricultural goods and to attempt a more balanced outcome of the Doha Round of negotiations through a considerably improved market access in the services sector as well.

India's Trade in Services and Global Slowdown

*Arpita Mukherjee**

This paper analyzes the impact of the recent global slowdown on India's trade in services. It found that India's major trading partners are adversely affected by the slowdown and contraction in these markets is affecting India's services exports in sectors such as IT/ITES. Growing unemployment in developed countries and the slow progress of the Doha Round may lead to protectionism. In spite of these concerns, the study found that the slowdown offers opportunities for the Indian companies to expand in the medium and long terms by exploring new markets, offering new services, acquiring assets abroad, creating strong brands and adopting innovative business practices.

INDIA is now a major player in global trade in services. With a huge pool of English-speaking skilled manpower at competitive prices, the country has created a niche for itself in export of knowledge-based services. India needs foreign investment, technology and best management practices in services, especially infrastructure services, and since 1991 service sectors have been progressively liberalized to attract foreign investments. In 2007, India ranked 7th and 13th respectively among the WTO (World Trade Organisation) member countries in commercial services export and import. While its share in world trade in goods has remained constant at around one per cent, India's share in the services trade has increased over time. In 2000, India's share was around one per cent for both global services exports and imports which increased to around 2.7 per cent for exports and 2.3 per cent for imports in 2006.[1] In recent years, India's export of commercial services has increased at a much faster rate than the world's average.[2] In 2006, India ranked 4th among the major exporters of communication services, 2nd in computer and information services and 6th in other business services.[3]

The contribution of services to the domestic economy and its share in India's total trade has increased since 1991. From 41 per cent in 1990-91, services now contribute to around 60 per cent of the country's GDP (gross domestic product) and organized sector employment.[4] Between 2002-03 and 2006-07, services contributed 69 per cent to India's overall GDP growth.[5] It has the largest share in the FDI (foreign direct investment) inflows – over 28 per cent of the total FDI inflows between January 2000 and November 2008 was in the service sector and this excludes services such as computer software, real estate, trading, etc. Trade in services as a percentage of total trade increased from 20 per cent in 1995 to 30 per cent in 2007. Services exports as percentage of total exports have more than doubled since 1995. Unlike in goods, India enjoys a favourable trade balance in services.

The growing importance of services has changed India's international negotiating strategies. In the Uruguay Round, India opposed the inclusion of services in the WTO and had a defensive position. In the on-going Doha Round, India is a major proponent of services liberalization. In particular, India is pushing for removal of barriers to temporary movement of service providers and cross-

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border trade (including outsourcing). Post 1991 liberalization, apart from a few sectors such as retail and insurance where there are partial FDI restrictions, there are very few entry barriers in India. On the other hand, Indian service providers are facing both entry and regulatory barriers in markets of export interest. It is, therefore, in India's interest to multilaterally negotiate for removal of such barriers. Liberalizing trade and enhancing cooperation in services is also an integral part of India's recent bilateral/regional engagements. The India-Singapore Comprehensive Economic Cooperation Agreement (CECA), signed on 29 June 2005, is the first comprehensive agreement covering services. India is in the process of negotiating comprehensive agreements with Japan, Korea, EU, Sri Lanka among others which will cover services.

Unlike goods, disaggregated data on different service sectors by destination countries is not available in India. The existing services trade data indicate that major part of India's services trade is with the developed countries and the share of developing countries is low. It also shows that India's services exports concentrate in a few sectors and a few markets. For instance, within services, IT/ITES services is a major component of India's services exports. This sector had a nearly ten-fold growth in the past decade, is highly export dependent and exports account for over 60 per cent of its revenue. The US is the largest export destination (over 60%) followed by the UK (around 17%) and other European countries (around 12%). By industry verticals, financial sector accounts for over 40 per cent of the revenue of the IT/ITES sector. English speaking countries are our major destination markets for knowledge-based services while services such as audio-visual, healthcare and education are exported to countries with large non-resident and South Asian population. Neighbouring countries such as Bhutan and Middle East countries are important markets for the construction sector. Indian oil companies are investing in oil rich countries for meeting the country's energy requirements. Developed countries such as the US, UK, Germany, France, Japan are the major source of FDI inflows into India, especially in infrastructure services.

The recent global slowdown which started with the subprime crisis in the US has spread to other developed and developing countries and adversely affected most of India's major trading partners in services. It is likely that this slowdown will continue in 2009-10 and according to some estimates may extend beyond 2010. This paper attempts to analyze India's opportunities and constraints to trade in services in the backdrop of the global meltdown. It also discusses some key measures that the government and industry should take to mitigate the adverse impacts of the slowdown.

1. Impact of the Global Slowdown

A recent WTO estimate[6] shows that the financial crisis has worsened since September 2008 and the real global output growth slowed to 1.7 per cent, compared to 3.5 per cent in 2007, and is likely to fall by 1 to 2 per cent in 2009. The available data for trade in services of OECD countries show a decline in trade in services in the third quarter of the year 2008. Although export of commercial services rose by 11 per cent in 2008 to $3.7 trillion, it grew at a slower rate than in 2007 (19%). Apart from financial services, other services such as air transport, maritime transport and tourism have also been adversely affected. WTO estimates also show that India's rank may fall to 9th position in exports of commercial services in 2008 from 7th in 2007 while India will be the 12th largest commercial services importing country.

In early 2008-09, the impact of the global slowdown on the Indian economy was not visible. In fact, the economy was on a high growth trajectory and fear of overheating prompted the Reserve Bank of India to tighten the monetary policy which saw hikes in interest rates and rupee appreciations. While this led to a slowdown in the growth in service sector like real estate within India, exports of IT (information technology) services was hit by the rupee appreciation. The impact of global financial crisis on the Indian economy is visible from the second half of 2008-09, with a sudden decline in goods exports and withdraws of foreign institutional investments. Exports declined due to lower demands in major markets while Foreign Institutional Investors (FIIs) withdrew around $13 billion in 2008, primarily to meet the liquidity needs of their parent companies in developed countries. Indian banks and corporates are now unable to borrow from abroad and hence are facing credit crunch. This has affected their domestic and global expansion plans. Although the Indian banking sector has been shielded from the financial crisis since it is highly regulated, it is facing liquidity crisis and credit crunch. Overall, the GDP growth has shown a downward trend from 9 per cent in 2007-08 to 7.1 per cent in 2008-09 and it is predicted that it will further reduce to around 5 per cent in 2009-10. In 2008-09, service sector is expected to grow at around 10 per cent to sustain the overall growth rate of around 7 per cent.

In the second half of 2007-08, India's exports of commodities such as textiles and gems & jewellery have declined. However, the impact of the slowdown on Indian service sector is more difficult to estimate than in the case of goods. While some experts believe that India's trade in services will be badly affected since our major trading partners (US, EU, Japan, etc.) are in a recessionary mode and there is increased tendency of protectionism, others opined that this is an opportunity for Indian companies to explore new markets and change business strategies. India is one of the few countries that is predicted to have a reasonably good growth rate despite the slowdown. The country has a large domestic market which can generate demand and the growing Indian market will attract foreign investors who face a saturated demand at home. Also, there is a huge potential for investment in the infrastructure sector.

The growth rate of export of services such as IT/ITES is showing signs of decline. It is predicted that exports of IT/ITES sector will grow at figures below 20 per cent in the current fiscal year compared to 28 per cent in 2007-08.[7] Globally there has been a decline in IT purchases and technological spending. Forrester Research pointed out that global IT purchases in currency adjusted terms will grow at 3 per cent in 2009, compared to 8 per cent in 2006 with Western Europe and the US, the major markets for India, growing at 2 per cent. Financial sector in developed countries, which is the largest client of Indian industry, has been the worst affected by the recession. Discussions with the Indian industry experts show that clients are busy restructuring, the number of new clients has dropped and existing clients are not very keen to undertake new projects. There are delays in client spending even from sanctioned budgets, clients are more focused on cost reduction and this is putting pressure on the companies/service providers to reduce rates. Many clients are renegotiating outsourcing contracts to reduce costs and suppliers are sometimes expected to make initial upfront investment to get the business. These problems are more acute for the smaller companies than the larger players.

Other knowledge-based sectors are also affected by growing unemployment among professionals in developed countries (unemployment rate in the US is at its highest in 26 years), which is forcing their governments to take measures, even if it is temporary, to protect domestic jobs. For instance, the US Senate has imposed strict conditions on companies that receive federal bailout money, limiting the hiring of foreign H1B professionals. Indians account for a major proportion of applicants under this visa category. The US bailout package also may make it harder for US companies to receive tax benefits if they send jobs overseas. The UK government is planning to tighten the rules for entry of high skilled migrants. In the Gulf countries, where many Indians are employed in service sectors like construction, banking, retail, governments have cut down work visas.

The construction trade is affected by slacking investments in many countries including the Middle East. Public expenditure forms a major part of the stimulus package given by countries to overcome the slowdown. Some countries are imposing new conditions that generate a domestic bias in procurement activities in sectors like construction. The domestic construction industry is suffering from lack of funds which are delaying the implementation of projects. India's global competitiveness in traditional services such as transport and travel has decreased overtime. Global slowdown coupled with the terrorist attacks in Mumbai in November 2008 has adversely affected India's travel, tourism and hospitality sector. The higher fuel price has hit the aviation sector which could not gain much from the reduction in global oil prices in the second half of 2008 due to lower demands in the recent months. Logistic and express delivery services are suffering from lower international demand and decline in goods trade. The increase in interest rates and higher prices of raw materials in the early part of 2008 has slowed down the construction sector. In the second half of 2008, this sector suffered from liquidity crunch.

With the slow progress in the Doha Round, there is an increasing fear that the developed countries might resort to protectionism. Many countries, including India, have liberalized significantly since the Uruguay Round and failure to conclude the Doha Round will put political pressure on them to roll back from the unilateral liberalization to protect the domestic industry. The bilateral negotiations with countries such as Korea have slowed down. Since India is not a member of the WTO's plurilateral Government Procurement Agreement, India cannot discuss the protectionist measures in government procurement in the WTO.

Although in the short run, the services exports may slow down, the global crisis provides opportunities for the Indian companies to expand in the medium and long run. Foreign companies are increasingly outsourcing services such as administrative services to reduce costs. The route of the financial crisis is the poor risk management system of the global financial giants. Better transparency, control and risk management systems of individual firms and the entire financial system could help to track the risk associated with it. This requires substantial investments in risk management system which has so far been neglected by developed countries. The global financial system has become complex with numerous products in the market, but companies have not spend enough on innovative technologies. Their focus has largely been on maintenance projects. The crisis has created demand for innovative risk management technologies and there is an opportunity for Indian companies to enter this segment. Also, with increasing mergers and acquisitions, there is a likelihood of increased investment in IT applications that can track all nuances of the underlying operations. Slowdown has created demand for technological innovation and India can develop as an R&D hub.

The Manpower Employment Outlook Survey conducted in December 2008 shows that among 33 countries and territories surveyed, India had the second strongest hiring intentions after Peru. The survey found that, although the pace of hiring has slowed down, India is doing better than most countries especially in service sectors. Past surveys have shown that population in developed countries is aging while over half of the population in India is less than 25 years. This will create demand for Indian skilled workforce. Indian companies such as Infosys Technologies have continued to hire, train workforce and increase salaries in the anticipation that more projects will be off-shored and demand for software services will increase.

With rupee appreciation in the first half of 2008, IT companies had already tightened their sales and general administrative expenses and with rupee depreciation against the dollar in the second half of 2008 the price competitiveness of Indian exports is now higher than their global counterparts. The slowdown provides an opportunity to Indian companies with cash reserve to acquire assets abroad and set up multi-location operations/ delivery centres. They can enter into joint ventures, mergers and acquisition with foreign companies which will enable them to acquire new technologies, widen client base and upgrade skills. Indian companies such as TCS and Wipro have already announced plans to open up new outsourcing centres in countries such as the US, Malaysia and Hungary to move closer to their clients. Such near-shoring would benefit significantly from the weaker dollar against the rupee. Local employment will help to counter the fears related to job moving offshore and provide the opportunity to climb higher up the value chain, with sensitive or complex processes (with relatively inelastic prices) being provided onshore.

2. What Needs to be Done?

The Indian government has already taken various measures to counter impact of the global slowdown. It has announced stimulus packages to boost demand. The Reserve Bank of India, in an attempt to ease the liquidity constraint, reduced the cash reserve ratio, repo rate, among others. There has been an increase in emphasis on infrastructure investment. From August 2008 to January 2009, 37 infrastructure projects worth Rs 700 billion were approved, majority of them through the public-private partnership. The government also issued guidelines to ease the entry of foreign investment in certain sectors like retail and real estate that are facing fund shortage.

Although the above measures will help the industries to mitigate some adverse impact, they are not enough. Both government and industry needs to take a series of reform measures which will enable them to minimize the negative impacts of the slowdown and enhance their competitive position once the global economy revives. In sectors like IT/ITES, Indian companies need to move up the global value chain (for instance, from business process outsourcing to knowledge process outsourcing). Research has shown that with wage inflation, high turnover, and entry of countries like China in outsourcing Indian companies no longer enjoy the benefit of cheap skilled labour. In moving up the value chain, Indian companies are facing shortage of talents in verticals such as engineering R&D, healthcare and logistics. The industry is working with different universities to upgrade skills and is offering in-house training. The government should focus not only on increasing the number of higher education institutes but also on bringing professional courses at par with international standards. According to a recent Planning Commission Study, India's Gross Enrollment Ratio (GER) is only 11 per cent against the world average of 23.2 per cent.[8] The enrollment ratio should increase if India wants to develop as a knowledge-based economy. Without improving the domestic educational standards it will not be possible for India to sign mutual recognition agreements with trading partners such as the US. These agreements ease the qualification-related barriers to movement of professionals.

So far, Indian companies have largely concentrated on getting business from a few developed countries such as the US and the UK. Overdependence on a few markets has made the Indian companies susceptible to the business cycles in these countries. Also, exports of Indian service providers tend to concentrate on a few knowledge-based sectors. Indian companies need to venture into new segments and geographies such as Eastern Europe, West Asia and Latin America. They need to create strong brands (in services, products, solutions, etc.) and adopt innovative and efficient business practices which will reduce costs. For instance, an efficient offshore delivery centre can overcome the barriers associated with restrictions on H1B visas. While the Indian companies are trying to upgrade themselves to international standards, some international clients have raised concerns about consumer protection and data privacy. A sound data protection regime is important for developing as knowledge-based economy.

In infrastructure, India is far behind its competitors like China. Although there has been growth in the telecommunication infrastructure, the bandwidth cost should be lower and connectivity, reliability and performance should improve. There is need for investment in the power sector especially in the transmission and distribution network to reduce losses and irregular supply. Logistic infrastructure such as roads, airports, ports, storage and warehousing services are crucial to support trade, economic growth and services like tourism. Urban planning is important for infrastructure development and all cities should have an integrated traffic and transportation plan. Although there are no major restrictions on FDI, delays in award of contract, requirements of multiple clearances, multiple taxes, lack of inter-ministerial and centre-state coordination deters foreign investment. These should be removed to attract FDI. Infrastructure projects require large debt and equity investments and are currently facing credit crunch. Private sector alone may not have the financial capability to invest in large projects in the current circumstances and there is need for government intervention to kick-start such projects. India has a good foreign exchange reserve and this can be used in infrastructure investment. The financial sector needs to be strengthened and reformed. There is need to consolidate the mid-sized public sector banks that are currently duplicating investments in technology and other infrastructure, and not benefiting from economies of scale.[9] Reforms in the rural credit system will encourage rural investments.

The reform process has slowed down and second-generation reforms have not taken off. The regulations in many key service sectors are either outdated or are pending in the Parliament. This creates a difficult and uncertain business environment. There is an urgent need to modernize regulations in sectors like express, delivery, retail, education and energy.

The government and industry associations have to work with their global counterparts to reduce protectionist measures. In various international forums like the G-20 and WTO, India needs to emphasize on the adverse impacts of protectionism in developed countries. In the on-going Doha Round of the WTO negotiations, India has been pushing for greater liberalization of Mode 4 and Modes 1 & 2. However, services negotiations have taken a back seat to negotiations in agriculture and non-agricultural market access. This is a cause for concern for countries like India which are major exporters of services. There is need to push forward the multilateral services negotiations to reduce protectionist backlashes. India should push for removal/reduction of regulatory barriers in the on-going Doha Round since most developed countries are now replacing market access barriers with regulatory barriers which are more difficult to identify and address.

NOTES

[1] IMF, BPO, 2008

[2] WTO (2008)

[3] WTO (2007b).

[4] The data is not available for the unorganized sector. Certain services such as retail and construction are major employers in the unorganized sector. (Source: WTO (2007a)).

[5] For details see WTO (2007a).

[6] WTO, Press Release 2009.

[7] NASSCOM, Strategic Review 2008.

[8] Planning Commission (2008).

[9] For details see Planning Commission (2008).

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NEWS (NATIONAL/INTERNATIONAL)

India Calls on EU to Adopt Rational and Reciprocal Approach

THE EU accounts for 17 per cent of world trade but is still discriminatory in nature when it comes to bilateral and regional free trade agreements, according to the WTO Secretariat in its Trade Policy Review (TPR) of the EU. The WTO called upon the EU to continue fundamental structural reforms.

At the TPR, Indian Ambassador Ujal Singh Bhatia told the chairperson that India would expect the EU to make more rapid progress in harmonization of customs procedures, internal taxation including VAT and excise duties and incentives. India also seeks harmonization of technical requirements including SPS issues, standards, technical regulations and that of the IPR regime. Also, it expects rationalization of the tariff structure - specifically the conversion on *non-ad valorem* tariffs to *ad valorem.* According to Shri Bhatia, the lack of harmonization often creates market access barriers, particularly for products of developing countries as exporters are not always conversant with specific requirements of the EU member states.

According to India, the EU agriculture subsidies, which are at one-third level of the total producer support estimates, remain at very high levels. India's exporters have suffered huge commercial losses as the EU has imposed a number of very complex and impractical requirements for product testing.

India also called on the EU to have a comprehensive market policy in services. India called for restraining various stimulus packages, particularly the automobile sector bailouts by changing competitive conditions, and bank bailouts. India is concerned as many EC member states are pushing their banks to lend money only to domestic borrowers. India also called on the EC to address the issue of repeated seizure of Indian generic medicines in transit by "an EU Member Country," which India has raised in other WTO fora.

(*www.economictimes.com*, 10 April 2009)

Reciprocal Terms Missing in the Proposed India-EU Pact

SINCE 2007, India and European Union (EU) are negotiating a free trade agreement (FTA). The negotiations do not merely cover trade in goods but also include liberalization of trade and investment in banking services.

EU is seeking greater market access and national treatment for European banks through cross-border supply and direct investments. Unlike other bilateral agreements, the potential implications of India-EU FTA would be far-reaching since nine EU-based banks together controlled 65 per cent of total assets of foreign banks in India in 2008. By asset size, out of the top 10 foreign banks in India, six are European.

Since 2000, several European economies have registered a significant growth in their banking services net exports. UK's financial sector net exports reached a record £38.8 billion in 2007. Banks were the largest contributor with net exports of £23.2 billion.

For European banks, India provides immense profit opportunities given the favourable demographics and growth potential. However, big European banks are primarily interested in serving three niche market segments: up-market consumer finance, wealth management services and investment banking.

One of the key policy issues determining market access is reciprocity. How much market access Indian banks would get in return? Except UK, other big European countries are restrictive in this regard. The popular perception that India's regulatory framework discriminates against foreign banks lacks evidence. Unlike Singapore and China, foreign banks are free to undertake any banking activity in India, which is allowed to domestic banks.

On the contrary, foreign banks are given undue favour when it comes to priority sector lending and branch licensing. The Indian authorities have imposed lower priority sector lending requirement at 32 per cent for foreign banks as against 40 per cent for Indian banks.

Foreign banks have the freedom to decide the location of their branches. While for new private banks, it is mandatory that after three years of operations, they should open one out of four new branches in the rural or semi-urban areas. This lopsided policy works in favour of foreign banks because rural branches generate less profit due to low-value transactions.

Not a single European bank has opened a branch in rural areas though many of them have been operating here for more than 140 years. Their lending to agriculture, SMEs and weaker sections has been negligible. It is distressing to note that European banks are not serving the poor and low-income people residing in urban areas.

Since many big European banks are in the midst of turmoil since 2007, it raises serious questions about their efficiency, "best practices", state-of-the-art risk management models, corporate governance and transparency norms. Keeping these in view, policymakers should rethink about the benefits of opening up banking sector under India-EU FTA.

(An article by Kavaljit Singh, *The Economic Times*, 7 April 2009)

Services Sector Corners 24 per cent of Total FDI Inflows in '08

THERE is good news for India Inc. Despite the global financial crisis, inflow of foreign capital to the country has increased sharply in 2008. The aggregate inflow of foreign direct investment (FDI) has more than doubled in 2008 over 2007. The stake was enormous. For, Corporate India's dependence on foreign funds has increased steadily in recent years as the easing of norms for FDI, especially, external commercial borrowings (ECB), over the years had led to a dramatic rise in the inflow of foreign capital in India.

Granted, there are reasons for caution as these data relate to 2008 only and the situation may have changed in 2009. After all, the crisis is not over yet. In fact, RBI's recent release shows that the inflow of ECB and foreign currency convertible bonds (FCCBs) has slowed down considerably in 2009 — down 73 per cent from $1,702 million in November 2008 to $453 million in February 2009.

The decline in ECB is feared to affect the investment plans of companies. After all, a large number of companies use these funds to import capital goods. In fact, of the 32 companies which raised funds through ECB and FCCBs last February through the automated route, as many as 15 did so for import of capital goods for expansion of capacity or for modernization of plants.

That India's investment activities in recent years have largely been financed by foreign sources may be seen in the sharp rise in FDI inflows. Aggregate inflow of FDI has increased more than nine times during the past five years, from Rs 14,781 crore in 2004 to Rs 139,725 crore in 2008.

While improved macro fundamentals in recent years have strengthened the confidence of foreign investors in Indian industry, opening up of new areas and changes in government policy towards FDI must have engineered this jump in foreign capital inflow. That opening up of new areas has given foreign investors more investment options is reflected in the changing destinations of foreign capital. The services sector, which was a restricted domain for foreign capital in the past, for example, has become the most sought-after area of late.

The services sector has been the prime mover of India's gross domestic product in recent years and foreign investors never had doubts about its potential. However, policy restrictions in the past did not allow them to invest in this industry as much as they willed. Now that restrictions have been eased, FDI has flowed in to this industry as never before. It accounted for a huge 24.3 per cent of the total FDI inflow in 2008. In actual terms, the FDI inflow to this sector has grown 32 times in the past five years from a mere Rs 1,074 crore in 2004 to Rs 33,947 crore in 2008.

The second most important destination of FDI in 2008 was telecommunication. It accounted for about 8.3 per cent of the total FDI flowing into the country in 2007.

But while the services sector and the telecommunication industry have increased their share in total FDI inflows in the country in 2008, the software industry has gone down the ladder further. The poor performance of the software companies dampened the mood of the foreign investors and FDI inflow to software sector has fallen sharply.

The sector received only Rs 7,810 crore FDI in 2008 against Rs 10,214 crore in 2007. Its share in total FDI inflow has fallen to only 5.6 per cent in 2008 against 16 per cent in 2007. But as the financial crisis continues, the big question is: Will FDI inflow to India grow at the same rate in the coming months?

After all, the services sector, which has been the main contributor to GDP growth, was the biggest gainer of the rise in FDI inflow in recent years. Now if the FDI inflow slows down, it will affect the growth of the services sector and in turn, the GDP growth.

(*The Economic Times*, 6 April 2009)

'India Must Move on Opening Trade in Services and non-Agri Goods'

European Union trade commissioner ***Peter Mandelson*** *admits there are several trade difficulties between India and the EU. Bilateral trade can jump significantly from the current levels, he told* ***FE****, answering a questionnaire mailed to him. "India must, however, reduce its tariff and non-tariff barriers," he said. Excerpts:*

What does the EU intend to do to increase trade with India?

The EU continues to be India's largest trading partner and accounts for almost a quarter of India's exports and imports. Bilateral trade has been growing at a healthy rate, increasing by 17 per cent since 2004. However, we can do better since current levels are clearly below potential. The EU-India Action Plan, adopted at the Summit, sets out an ambitious and forward-looking agenda with concrete actions aimed at enhancing trade and investment flows.

There is no reason why trade with India should not be bigger in view of India's potential. However, this would only be possible if India is ready to open further its market to trade and investment. India has benefited greatly from the liberalization reforms to date, but would only become a top economic powerhouse if the current barriers to trade and investment fall further. There are a number of pending disputes with India at the WTO.

Will you be taking a different line from your predecessor in resolving these?

Our overarching aim has always been to resolve trade problems in an amicable manner, be it under the auspices of the WTO or at a bilateral level, and we will continue to do so. Although we're witnessing a healthy growth in EU-India trade, there are a number of trade difficulties between us and removing them would give trade and investment a further boost. I am keen to resolve these issues with my Indian counterparts and I know how keen the government of India is — progressively and steadily — to reduce tariff and non-tariff barriers that stand in the way of India's integration in the global economy. The US and EU have linked cutting export subsidies to increased market access by the developing world.

What kind of *quid pro quo* do you propose here?

It is because of its own significant domestic agricultural reforms that the EU has been able to move forward in agriculture. The EU has clearly stated that it is willing to move on all pillars of the agricultural negotiations. However, the EU believes that others should also move in parallel not only within agriculture but also in other areas as well so that we have a balanced outcome for all. The round urgently needs to make progress towards the Hong Kong ministerial in December. That progress will depend on our ability to create an agreement that meets the needs of developing countries.

Developed countries will have to open their markets in agricultural products. But advanced developing countries will have to move on opening trade in services and non-agricultural goods. With India's leadership comes responsibilities to help make this happen.

Will the coming together of the "Quint" make a difference to the final outcome?

We are attempting to build a consensus on the various complex issues facing member-countries. Eventually, the deal will have to be signed by all members. Clearly, the outcome of talks will hinge on the ability of members coming to a consensus on all the vexed issues.

In services negotiations, Mode 4 access has been a major demand from India that the EU countries have consistently denied. Is there any likelihood of progress here?

The EU has been extremely sensitive to this demand from the developing world and has made a real market opening effort on the movement of natural persons for the benefit of countries like India. Our revised GATS offer has, indeed, improved this further, notably by extending these commitments to the new EU member-states.

(*The Financial Express*, 19 February 2009)

India Raps Japan at WTO

INDIA asked Japan at the World Trade Organization to remove a range of burdensome restrictions on Indian generic drugs, fruit & vegetables, marine products, and short-term movement of professional services providers. The occasion was the trade policy review on Japan.

India said it shares the difficulties faced by Tokyo in grappling with the worsening downturn, but New Delhi is as concerned about overly restrictive hurdles faced by Indian exporters in the Japanese market.

Conditions – such as mandatory bioequivalence testing of each generic product, partnering with Japanese trade companies for local marketing and the legal need to keep product inventories for five years – have hampered "access for high-quality but reasonably priced Indian generic products in the Japanese market," complained India's deputy trade envoy, Ravi Bangar.

Besides, stringent sanitary and phyto-sanitary restrictions on fruits and vegetables, strict quotas for import of marine products "like squids, seaweed, mackerel, sardines" and excessive restrictions on Indian professional and computer-related services provides have reduced export prospects, he said.

India and Japan are currently negotiating a Comprehensive Economic Partnership Agreement (CEPA). The two-way trade between the two countries, now at $12 billion, is expected to grow substantially once the CEPA is implemented, he said.

The trade policy review provides a platform for the WTO members to vent their grievances on restrictions and barriers faced in the country under review. Ahead of the review, the WTO prepares a detailed report, chronicling macro-economic developments and the overall trade policy regime.

Japan is facing a severe downturn, with its GDP having declined by 3.3 per cent during the last quarter of 2008. In the face of gloomy economic conditions and unprecedented recession in the Japanese economy, several WTO members shared Tokyo's concern on its mounting problems at this juncture.

Tokyo was, however, also asked to improve its labour productivity and to cut its fiscal deficit. Besides, India urged Japan to prune its income subsidy payments, amounting to over $50 billion.

(*Business Standard*, 19 February 2009)

India Can Retain Leadership in KPO Sector

KNOWLEDGE Processing Outsourcing (KPO), over which India holds the sway with a potential 12 billion dollar market by 2010, is expected to grow despite global recession and the country could maintain its leadership in the KPO sector with stable government policies.

"India has competitive people cost which is sustainable at least for the next seven to ten years. There is an established ITES (Information Technology Enabled Services) sector with good management, plus a reasonable sized talent-pool of human expertise in many areas. All this coupled with fairly stable government policies could help

India in its quest to maintain leadership in the KPO sector by a wide margin," Chandu Nair, President and Director of Scope e-Knowledge Centre, a leading KPO company, said.

According to an earlier estimate of National Association of Software and Service Companies (NASSCOM), the apex business association, the KPO sector is expected to be worth US$17 bn by 2010 of which US$12 bn would be outsourced to India.

"Despite the recession in the US and UK/ Europe, NASSCOM still feels that IT/BPO sector would grow in the FY 2008-09. There has been an impact on certain companies, especially those with clients predominantly in certain sectors – financial services – or high exposure to clients which have gone bankrupt", he said.

Seeking to differentiate KPO and BPO, Shri Nair said BPO is essentially process or rules based while KPO is more expertise or judgment based.

Asked about the competition, he said India's key competitors in the KPO domain are Russia, China, Ireland, Israel, Philippines among others. The competition for India could vary depending on the nature of work.

"For instance for certain kinds of foreign language oriented services, locations in Eastern Europe or South America are favoured. Russia and Israel have scientific talent pool to provide certain specialist KPO services. The major challenge for them as also for say, the Philippines, Ireland is that the talent pool is much smaller while for China and Russia, non-English speaking population is relatively small."

About the scenario five-ten years hence, he said the KPO sector has the potential to grow faster and bigger and create more jobs. "There is certainly a challenge in terms of availability of certain skill sets and basic employability of fresh graduates which hits small and medium sized companies", he said.

Other business bodies like the CII too have more comprehensive HR skills based initiatives in conjunction with academia and government plus individual companies including Scope too have their own programmes to develop and nurture talent. "We for instance, had programmes to develop home grown technical language skills in French and German," Shri Nair said.

Scope, started 22 years ago, was initially into business and industrial market research, then moved into content & data for portals during the internet boom, and in late 2002, forayed into offshore knowledge service. "From being an India centric company, with virtually all its revenues coming in Indian rupees, today we are 100 per cent overseas focused, with all our revenues being export revenues!," he said.

"In 2007, Quatrro BPO solutions took a majority stake in Scope. For liaison and sales, we have personnel in five cities in the US, the UK and Netherlands and associates in Belgium, Japan and Australia," he said.

Ads By GoogleScope is projecting a growth of over 30 per cent in 2009-10 and has already invested in front end sales resources and network particularly in the US and UK, he said.

The company, with its delivery centres based in Chennai, is over 550 people strong. There are no recession based lay offs and recruitment continues on an as needed basis, Shri Nair said.

Scope has won international awards like Service Provider of the Year award from the Data Publishers Association, UK in 2005. In 2006, it was listed among "Top 100 Knowledge Management Companies in the World" by KM World Magazine, USA. It has also been selected by CBI (the Netherlands) among a select group of ITeS companies in India in 2007 to receive special attention for marketing its services in Europe.

(*The Indian Express*, 17 February 2009)

TCS Beats Recession, Wins New Orders

EVEN as the fear of recession hits IT companies, Tata Consultancy Services (TCS) walked away with one order after another. In the last couple of months, TCS has bagged several orders from various international players. To begin with, it landed the World Bank order.

This was followed by a contract from the Caterpillar. Soon, the Italian bike maker Ducati Motor Holding made a beeline for TCS. The Tata company has added yet another to its growing list of clients by getting an order from Phones 4U of the UK.

Sources say that the international companies are even now looking at low cost countries for their off-shore option. This syndrome will continue even during the recession period. Today, customers do not want to spend more money on the near-shore market, which is customer location. This will be a boon to the Indian IT companies. But what will happen if the rules are reversed by the US President Barak Obama? One has to wait and watch. However, TCS seems to be looking at European and the UK markets in a big way. Will this be an alternative proposition for TCS?

Recently, the company has bagged a $100 million agreement to provide a full range of managed IT services to 4U Group, the holding company of Phones 4U, and other organizations in the UK telecommunication and financial services marketplaces.

Under the agreement, TCS will provide a full range of IT and business change services to 4U Group, including service management, application support, maintenance, management and development, data centre and desktop services, helpdesk, networks and communications, business support, and management of all third party contracts for the organization's retail operations. This will enable the group to improve IT service, increase capacity, boost skills, create a more flexible IT model and ultimately enhance the business to meet current and future demands.

According to sources, it will be a three-to five-year agreement. Since the retail innovation centre is located in Chennai, it is assumed that the delivery will be from the centres located in Chennai. Similarly, the company has also reportedly bagged another retail order from the US.

Vice-President and Country Manager, A.S. Lakshminarayanan, UK & Ireland, TCS, said the significant contract win underlined the important role that the company played in enabling the UK businesses to enhance their competitiveness and retain market share, especially in the current economic environment.

(*The Hindu*, 29 January 2009)

FTA Need of the Hour: EU Trade Commissioner

FORMER European Union (EU) trade commissioner Peter Mandelson has said that efforts should be made to implement the EU-India free trade agreement (FTA) this year as it could help the two sides in overcoming challenges in a post-crisis world.

"The downturn does not reduce the value of a bilateral trade deal, it raises it. The EU and India should call the deal what it would be – a confidence-building economic stimulus package — and sign it before the end of the year," said Mr. Mandelson who is currently the British secretary of state for business, enterprise and regulatory reform.

Europe is India's biggest market, and the top export market for its ten biggest exports. EU-India trade rose from •28 billion in 2003 to •55 billion in 2006-07, pushing the two to start negotiations on a bilateral trade agreement in 2007. The proposed agreement, called the bilateral trade & investment agreement, seeks to liberalize trade in agriculture and industrial goods, services and investment norms.

There have been three rounds of talks so far in which negotiators from both sides have been attempting to iron out differences on issues of intellectual property rights, competition, market access, transparency, rights of foreign investors, environmental, social and human rights issues.

Speaking at the 15th CII Partnership Summit 2009, Mr. Mandelson emphasized the need to keep trade flowing during the present financial crisis. The World Bank has forecast that world trade growth will go into reverse in 2009, for the first time since 1982.

Fearing that plummeting investments from the developed to the emerging economies will effect global demand that drives international trade, he asked the world to take a cue from the economic slump of 1930s, where reservation towards openness for each other's economies had caused a global slump. "The pressure to reach for trade barriers or other forms of protectionism is stronger during a downturn – but all the more important to resist," he said.

He noted that Europe and the UK can be a good source for India's industrial growth and appreciated the Indian government's commitment to liberalization as an important step in luring foreign investors for infrastructure projects.

He also pointed out that the expansion of Indian manufacturing will be dependent on its openness to industrial imports. Mr. Mandelson was heading a 20-member delegation which was looking at closer cooperation with India in nuclear technology and manufacturing.

(*The Economic Times*, 20 January 2009)

Services Sector Eased Somewhat

AMERICA'S services sector continued to contract last month as the recession deepened, although at a slower pace than a month earlier, according to a report released by the Institute for Supply Management, a trade association.

The non-manufacturing index rose to 40.6 per cent in December, 3.3 percentage points higher than its November levels of 37.3 per cent, according to the Institute. Levels below 50 indicate economic contraction while levels above 50 are a sign of growth.

"This report was a positive way to end a terrible quarter," said Ryan Smith, senior economist at Moody's Economy.com. "It suggests that the negative momentum maybe easing as we go into 2009."

But Mr. Smith added that economic contraction at a slower rate is still economic contraction, and that the report points to additional job losses and payroll cuts.

The US economy shed two million jobs in 2008 according to some measures, and economists say the current unemployment rate of 6.7 per cent could scrape 7 per cent when new jobless numbers are released. Congressional leaders and President-elect Barack Obama are preparing a stimulus package of tax cuts and spending projects to address one of the most severe economic downturns since the Depression.

"The economy is still in a severe recession, layoffs are accelerating and it seems that the troubles are shifting from consumers to businesses," Mr. Smith said.

While the December numbers marked a slight improvement, the report signaled that the economy is still contracting and that more trouble lies ahead for a number of business sectors, including retail, real estate, trade and finance companies.

New orders and the backlog of orders contracted across a range of sectors, as did employment, imports, export orders and overall business activity. However, all of those indicators of economic activity were up slightly from November.

In a sign of more hard times for America's housing market, pending home sales fell to their lowest levels in seven years, the National Association of Realtors reported. Home contracts signed in November fell 4 per cent from October and were 5.3 per cent below last November, according to the association's Pending Home Sales Index. "It's going to be very weak," said Lawrence Yun, the industry group's chief economist, of the housing market in the next few months. "With very few contract signings naturally means fewer closings. The housing market, without a doubt is down, painfully down."

Signed contracts, an indicator of future sales, fell the farthest in the Northeast, dropping 14.6 per cent in November from the same time last year. Pending home sales in the South and Midwest also fell, but pending sales in the West were 20 per cent higher than last November, a sign that a blitz of foreclosure buying has made ripples in the broader market.

"People are taking advantage of the rock-bottom prices," Mr. Yun said.

Homes sales have slumped across the country as the housing boom imploded, spreading turmoil through the financial world and the broader economy. Existing home sales in November were down more than 10 per cent from a year ago, and home prices have fallen faster and faster as the recession deepened.

The Commerce Department reported that factory orders for manufactured goods slipped 4.6 per cent in November as energy prices fell and businesses pared production to address declining consumer demand and halted economic growth.

(*The New York Times*, 6 January 2009)

IT, BPO Market in for 'Slowest' Growth

New, Innovative Services to drive Phase 2 Growth: IDC

ACCORDING to market intelligence firm, IDC India, the local IT and BPO market is expected to grow at 13.4 per cent in 2009, the slowest since 2003. This will come largely on the back of slower IT consumption in some key verticals including retail and financial services.

In fact, the Indian domestic IT and BPO market is slated to see 16.4 per cent CAGR in the coming five years leading to 2013, compared with 24.3 per cent growth recorded between 2003 and 2008.

The forecast also suggests that key structural changes taking place on the back of a global economic slowdown would propel a new 'market order' in the domestic IT and BPO industry.

Phase 2

IDC said that the next phase of growth would be different from the earlier phase, in which the domestic market had witnessed unprecedented growth, nearly tripling the market size from Rs 34,000 crore in 2003 to Rs 101,031 crore in 2008, a CAGR of over 24 per cent.

The new growth Phase (2.0), expected to evolve from 2009 onwards, will be built on the back of new and innovative services sought by consumers and enterprises alike. The technology behind these services — infrastructure, applications and connectivity — would need to orchestrate and re-orient completely in order to support their mass adoption.

IT, BPO MARKET SIZE

(Rs crore)

Market segment	*2007*	*2008*	*2009**
Software	7,823	9,628	11,300
Services	20,920	25,092	29,934
Hardware & others	52,890	59,465	63,703
Total IT market	81,633	94,185	104,937
Total BPO merket	4,468	6,846	9,637
Grand total	**86,101**	**101,031**	**114,574**

*Projected

IDC said that the combined domestic IT and ITeS market grew by 17.3 per cent in 2008. The IT market grew at 15.4 per cent in 2008 to Rs 94,185 crore; and the BPO market grew 53.2 per cent in 2008 to report revenues of Rs 6,846 crore.

Revenue Growth

However, the overall IT and ITeS revenue is expected to grow at a slower 13.4 per cent in 2009 to Rs 114,574 crore. While the IT market is projected to grow at 11.4 per cent, the BPO market is likely to notch 40.8 per cent growth.

"The issues in the short run, more pronounced throughout 2009, will be productivity, cost savings and customer retention. This would eventually pave way for innovative services (for both consumers as well as enterprises) by leveraging the existing infrastructure built so as to align with emerging opportunities," Kapil Dev Singh, Country Manager, IDC India, said.

Product Categories

The major product categories expected to grow at a rate higher than the industry average include collaborative applications (23%), storage software (19%), system and network management software (19%).

Within the ambit of IT services, segments reporting higher than average growth include desktop management (22%), information systems outsourcing (32%), network management (23%) and application management (20%).

Within the IT solution categories, the faster growing ones would be virtualization (28%), unified communications (25%) and business continuity services (20%). All these categories point towards the need for better management of IT infrastructure for their most optimal deployment and use in achieving enterprise business goals, it said.

(*The Hindu Business Line*, 1 January 2009)

Legal Outsourcing Industry Set to Boom in 2009

AN Indian legal professional who takes home Rs 25,000 a month earns a tiny fraction of the Rs 10,000 an hour that his counterpart in the US earns. But with Indian legal process outsourcing (LPO) industry poised to increase its hiring, amidst a whirlpool of cost cutting measures being embraced aggressively by the US and the European firms, things could change. Mathematically, this translates into 20 per cent rise in salary packages of LPO employees and bonuses of up to 25 per cent to experienced lawyers employed by various outsourcing outfits.

Bhaskar Bagchi, Country Head, CPA, leading provider of outsourced legal support services and intellectual property management specialist, claims that CPA would double its headcount from the existing 500 employees, in the next 6 months. "We are targeting a headcount of 2,000 employees by 2010," he said. Industry sources assert that the average salary benchmark would follow the increase in outsourced legal project revenues, which is rising at an average 30-45 per cent.

Numerous foreclosure-related assignments from US banks and law firms have been keeping Indian LPOs occupied, besides the usual assignments like indexing and coding to database maintenance, patent support, contract review and management, litigation support and legal compliance.

Most LPOs employ an eclectic mix of lawyers, paralegal professionals and engineers for various outsourced functions.

Soumitro Chatterjee, CEO of Legal Circle, a recent startup and subsidiary of the leading law firm Fox Mandal Little feels that salary packages of experienced lawyers would get better by up to 30 per cent in 2009. According to him, "As complexity and volumes of outsourced legal work increases, lawyers from LPO firms would be the most prized professionals leading to a compensation scramble among the growing Indian LPOs."

Legal Circle is looking to hire 15 lawyers in legal and compliance verticals, and expects the headcount to cross 100-mark by 2009 end.

Attrition rates are on an upward curve for the Indian LPOs and most players agree that employee benefits like bonuses and increments would be the key retention tools in 2009. Average attrition rates in the industry vary between 25-35 per cent. Shri Bagchi says, "At CPA, we handed out bonuses and increments, starting at 15 per cent and upwards. For 2009, we have a healthy order book and the benefits will only get better for employees."

Mindcrest, another offshore legal services firm, earlier this year announced that it will build on its current 525 attorneys by adding a 450 seat center in Mumbai in the first quarter of 2009. Rohan Dalal, MD of Mindcrest, says, "The deal sizes are going up and we are growing by 50 per cent year on year."

(*Business Standard*, 28 December 2008)

Services Ind Maintains Growth: FICCI

AMID the prevailing global economic scenario, the services industry has managed to maintain growth momentum, though at a lower rate, according to a FICCI survey. The growth registered in the increase in the number of wireless subscribers, internet subscribers, earnings of the railways through passenger and freight traffic, foreign tourists are some of the categories that have posted a reasonable growth during April-November 2008 as compared to the previous fiscal, said the FICCI survey on services industry.

The report notes that the number of wireless subscribers during April-November grew by almost 50 per cent as compared to 58 per cent during the last fiscal. Internet subscribers numbers too surged, posting a 26 per cent increase as against the 20 per cent, it recorded last year. The highest surge has been in the number of broadband subscribers which jumped almost 87.7 per cent during April-November this year as against 23.6 per cent previous year.

"Although the slowdown is expected to make a further dent in the growth of some segments of the services sector, given its overall contribution of 63 per cent to GDP, the services sector growth is expected to help maintain a healthy GDP growth this fiscal," the chambers has said.

Among the other service industry sectors that continued to grow were railway earnings through passenger traffic which stood at 12.2 per cent, marginally lower compared to the 14 per cent last year. Railway earnings through freight increased to 15.7 per cent during this fiscal up to November, up from 14 per cent that it recorded last year. Franchising, exchange earnings through foreign tourists, entertainment and media industry, software services are few of the other sectors that posted between 10-16 per cent growth.

According to the survey, the sectors that grew in single digit were cargo movement by roads, air, ports, retail trade amongst others. However, the sectors which saw a negative growth included air passenger traffic, fixed line subscribers, insurance premium and assets mobilized by mutual funds.

(*The Hindu Business Line*, 28 December 2008)

DHL Launches Trade Advisory Services

DHL, the world's leading express and logistics company, announced recently the introduction of trade advisory services, which provides a host of facilities that will expand the comprehensive suite of products under the DHL Global Trade Services (GTS) platform.

The new services complement other key features of the DHL Global Trade Services, which comprises importer and exporter of record services, customs brokerage services, and trade automation services, said a DHL release.

Since its launch in late 2006, Global Trade Services — used widely by both first time and experienced international shippers — has helped to facilitate cross-border trading by aiding businesses manage complex duty regulations, shorten lengthy business processes, and lessen the stress of global trade management.

Trade advisory services comprises four distinctive features covering supply chain security services, trade opportunity services, customs and trade capacity building services, and goods classification services.

Supply Chain

Supply chain security services focus on two major security initiatives, including the US Customs and Border Protection Authority's C-TPAT (customs-trade partnership against terrorism) and AEO (authorized economic operator), which is initiated by the World Customs Organization.

Trade opportunity services leverages DHL's network of customs professionals and experience of operating in different markets to simplify trade processes.

It includes providing assistance, advisory and management activities for duty preference and origin programmes such as duty reduction and duty deferral schemes.

Capacity Building

Customs and trade capacity building services help customers modernize the existing customs or import/export systems and procedures, as well as offer customs training programme to businesses to equip their staff with relevant technical knowledge to handle customs compliance issues and trade complexities.

Goods Classification

Goods classification services leverage DHL's extensive global network of experienced customs clearance professionals to provide expert advice to businesses.

(www.thehindubusinessline.com, 17 April 2007)

Meltdown May Hit Export Sector this Fiscal: ESC

THE country's export sector might register a slowdown during the current financial year and the growth targets for 2009-10 might have to be revised under the current financial situation and global meltdown, said D.K. Sareen, Executive Director, Electronics and Computer Software Export Promotion Council (ESC).

The last three months of the current fiscal are crucial for the export sector, Shri Sareen observed. "The last three months are very crucial. There is a spill off effect of the global meltdown on the Indian export sector, we need to wait and watch to what extent we will be impacted. We will take a relook at the growth targets of 2009-10 and might revise it based on the figures we get at the end of the current financial year," he told newspersons on the sidelines of a curtain raiser press conference on IndiaSoft 2009.

India's software exports grew by 30-33 per cent at $43 billion in 2007-08. ESC had set a growth target of $58 billion during the current year in the export sector. "In the first six months period beginning April-September, we have achieved a growth of $25 billion of which $2 billion came from the electronics and hardware sector while the rest was comprised by the software services sector," he said.

Emerging Markets

Highlighting the need of venturing into new and emerging markets, Shri Sareen identified Latin America and South Africa as two key markets for Indian exporters. "Our export share to the US is 62 per cent while that to Japan is just three per cent, we need to tap the new and emerging markets," he said.

Of the total exports of $43 billion, exports to Latin America stood at $150 million, while that to Africa was at $335 million, Shri Sareen pointed out. "E-commerce, e-governance, IT training, banking and financial services, software networking are some of the areas that countries such as Latin America and Africa might be interested in and India should tap these markets," he said.

At a time when global recession was affecting the country it was time to build necessary resources and infrastructure, said Shri Debesh Das, State IT Minister. "We should prepare a talent pool and build resources in order to progress during these difficult times," he said.

(*The Hindu Business Line*, 24 December 2008)

US Recession to Drive Offshoring: Gartner

THE current US economic slowdown will lead buyers of IT services to consider increasing their offshoring to lower-cost locations. However, a prolonged recession would see non-critical projects being delayed and discretionary IT spending getting cancelled, according to a report from research firm Gartner Inc.

India is expected to continue being a dominant location for IT offshore services. "Factors that will give India the edge over other offshore locations are scale and quality of labour.

North American and European buyers of IT services have been the force behind a growing offshore services market and India is central to almost any discussion of offshore services delivery for these buyers", said T.J. Singh, Research Director, Gartner. Ms Allie Young, Vice-President, Gartner, believes that buyers will be more aggressive with external service providers to have greater clarity on costs.

Moreover, clients will seek immediate savings from their offshoring vendors. However, a prolonged recession in the US and possibly other global economies, will lead to some kind of cut in IT budgets.

(*The Hindu Business Line*, 27 April 2008)

How Much will US Recession Cost India?

THE question is no longer about whether the US financial woes will impact Indian companies. The anxiety is to know the extent to which our economy is vulnerable when the US sneezes.

But wait. Are we talking about a "fear" of US recession? We were, but now the fears have been "borne out," says Dr. Shanto Ghosh, Principal Economist, Deloitte Haskins & Sells, Bangalore.

"The International Monetary Fund (IMF) recently released its *World Economic Outlook*, which is widely regarded as the most authoritative report on the world economy," he added.

The Report states: "The financial market crisis that erupted in August 2007 [in the US] has developed into the largest financial shock since the Great Depression, inflicting heavy damage on markets and institutions at the core of the financial system."

Given that the US contributes almost one-fourth of the world's GDP, it would be naive to assume that this slowdown will simply peter out without creating a ripple, opines Dr. Ghosh.

So where does this leave us? "A bit on the back foot," he fears. "We should prepare ourselves for lower growth rates, and slowdown in the services sector growth, over the next few years. There is likely to be pressure on the rupee to appreciate further which would further adversely impact the export-oriented sectors."

A globalized India will have to gear up to face the turmoil expected to rock the financial world and those days are approaching with great force, observes Dr. Ghosh.

Excerpts from the interview:

What are the global forecasts that are of concern?

The *World Economic Outlook* predicts that global growth would slow to just 3.7 per cent this year — the slowest in five years — and forecasts US growth to remain very sluggish (less than 1 per cent) for the next two years.

The US lost jobs for a third consecutive month in March and the unemployment rate rose to the highest level since September 2005. The chairman of the Federal Reserve Bank, Ben Bernanke, reported to the US Congress on 2 April: "It now appears likely that real gross domestic product will not grow much, if at all, over the first half of 2008 and could even contract slightly."

Consumer spending has considerably slowed down and all polls indicate that a large share of the American population holds bleak prospects for the US economy in the immediate future. Even though interdependencies between the US economy and emerging economies like India and China have reduced considerably over the last two decades, it would be simplistic to imagine that this recession will have no impact on the Indian economy (as some people have suggested).

Can you explain the linkages to our financial markets?

The first of the two linkages is the impact of the US recession on our financial markets. The sub-prime crisis has revealed the lack of soundness in the US financial market.

As economist Paul Krugman puts it: "US financial markets, it turns out, were characterized less by sophistication than by sophistry, which my dictionary defines as 'a deliberately invalid argument displaying ingenuity in reasoning in the hope of deceiving someone.' e.g., repackaging dubious loans into collateralized debt obligations creates a lot of perfectly safe, AAA assets that will never go bad."

Analysis of banking system data shows that the US financial system, and that of a large part of the world, is lethally hurt. US banks have no more money; it is as simple and dramatic as that.

Some economists have predicted that the contagion will enter a second phase of development, generating a new series of bank failures by August 2008 entailing a dislocation of the global financial system in the latter half of this year.

In what ways will such a grim scenario affect the capital flows?

We should fully expect major capital outflows from the US and investors will look to invest in other markets. This is true not only for money sourced from the US but also the glut in funds that other country governments have hoarded in US dollar-denominated financial assets.

India will be a destination for these funds and the inflow of dollars will again put pressure on the rupee.

Exporters will be hurt and this is also true for real exports to the US with whom India enjoys a trade surplus. The RBI may want to sterilize the inflow of funds but this is likely to create an inflationary pressure within the economy. The bottom line — our growth rate is likely to fall by at least three percentage points!

And the second linkage?

The second, and a more direct, linkage is with respect to the services sector. Corporate profit outlook in the US is bleak. In the face of a recession, we should expect companies to announce postponement in their capital expenditures as well as information technology budgets.

The fact that the political climate in the US is currently biased against the outsourcing of jobs from the US will have a direct bearing on the amount of dollars that are likely to flow into India as payment for the outsourced jobs. This is again a negative stimulus for the services sector which has been the engine of growth for India over the past few years.

Aren't some people arguing that the pressure to retain margins will actually result in a higher amount of outsourcing from the US to countries such as India?

There is a subtle fallacy in that argument. A recession is characterized by higher levels of unemployment. Moreover, it is a politically sensitive issue.

How likely is it that, while joblessness and job cuts attract media attention, a US company will announce further job cuts and start outsourcing jobs outside the country? In my humble opinion, such speculations are nothing but wishful thinking.

(*The Hindu Business Line*, 17 April 2008)

Will a US Recession Drag India Down?

FEARS of a marked slowdown, even a recession, in the US economy have increased in the past couple of months. The signs are not conclusive as yet. The GDP grew at 3.9 per cent annual rate in the quarter ended September and the Federal Reserve expects a three per cent growth in 2008.

However, housing prices have fallen by five per cent in the past 12 months and could fall more, if the glut of unsold houses is any indication. That, coupled with tighter credit conditions, means that householders can no longer borrow against capital gains to keep up their spending. Pricey fuel has put further pressure on them. Consumer confidence has dipped and consumer spending is likely to decline soon, hurting companies' profits and investment. Exports may get a boost from a weak dollar, but it cannot make up for a lower consumer spending which accounts for 70 per cent of GDP, as against 12 per cent contributed by exports.

All this suggests that the US economy may stagnate in the current quarter and jobs and output may be shrinking by the next quarter. Goldman Sachs recently said that there is a 45 per cent risk of a recession in 2008.

If it materializes, how will this scenario affect the emerging market countries in general and India in particular?

In the rest of the world, Europe and Japan are likely to keep growing, though not at a great pace, what with their strong currencies and the impact of sub-prime crisis on European banks.

In contrast, the emerging markets offer the best hope that global growth may remain strong. They have been growing at a rate of seven per cent in recent years, and will be contributing half of the global growth in the current year, far more than the US. The bigger ones among them, China and India, are driven mainly by strong indigenous demand, and are less dependent on exports to the US.

Indeed, it could be argued that America is no longer the engine of the world's economic growth. Since 2000, its share in global exports has come down from 19 to 14 per cent. Although its current account deficit is shrinking (which is good news), the emerging economies have managed to register speedy growth.

No doubt, a recession in US will reduce the exports of the emerging economies, but they are far less vulnerable to it than they used to be. These economies have large reserves of foreign exchange (about 75% of the global total) and many of them have relatively small budget deficits, giving them the wherewithal to withstand external and internal shocks.

Most of them, including India, may slow down a little in the current year. Their growth will not be able to fully offset the fall in America's output. Still, they could manage to keep the overall global growth higher than its 30-year average of 3.5 per cent.

The slowdown in US domestic demand will be transmitted to other economies through lower export demand and a weaker dollar. Therefore, the larger the share of US-bound exports in a country's GDP, the greater the effect of a US slowdown on its national income. So, it is pertinent to ask: what is the extent of India's exposure to the US economy?

In the immediate context, it may be pointed out that the exposure of India's banking sector to the US housing market, direct and indirect, is very close to zero. Indian banks and other financial entities, therefore, are unlikely to be hit the way some European and other banks would be.

From the viewpoint of trade, a US slowdown could mean a further appreciation of the rupee against the US dollar and a darkening of business outlook for sectors dependent on US companies.

Over the last 15 years, Indian economy has experienced a progressive integration with the world economy. The share of exports in GDP has increased from 5 to 14 per cent. The share of goods directly exported to US was 15 per cent in 2006-07, which works out to a little over two per cent of India's GDP.

Services exports from India in 2006-07 (including remittances) stood at $119 billion. At 13 per cent of

GDP this is nearly equal to goods exports. Of this, software exports, BPO, financial services and communications, which are regarded a particularly sensitive to the US market, accounted for $62 billion or 7 per cent of the GDP. Software exports accounted for 3.4 per cent, and BPO exports for 2.6 per cent of GDP. Official data of services exports do not give the country of destination.

Never before has India experienced of the impact of a US slowdown on large scale services exports. It is, therefore, difficult to know whether large US corporations will outsource more work to India in order to cut costs, or reduce work in India as business shrinks at home.

Some general observations can, however, be made. India's exports of goods and services account for 27 per cent of its GDP. Any slowdown in global trade and exports is most unlikely to leave India unscathed. As it is, 2 per cent of India's GDP (merchandise exports to US) is directly affected by a US slowdown and another seven per cent (services exports which are predominantly dependent on US market) may be affected as well. Moreover, a slowdown in the US economy, with its global impact, will affect other countries' demand for Indian goods and services, too.

Even then, India's exposure to the US economy must be judged to be much smaller than many other countries'.

The overall impact of a US slowdown on India would be minimal as the factors driving its growth are more local in nature. Strong growth in domestic consumption and significant spending on infrastructure are the two pillars of India's growth story. In the current year, India emerged as a trillion-dollar economy, and in the next six years it will add another trillion dollars to its GDP. In almost every sector, there are significant opportunities and these are reflected in corporate earnings. Over the past few years, earnings have grown at a compound annual growth rate of about 25 per cent and are expected to grow at 18-20 per cent for the next couple of years.

For better or worse, no single industry or sector has a dominant influence on India's economic growth. This diversification gives the economy resilience to absorb shocks. Meanwhile corporate India is gradually mastering the art of efficient capital management, reduction in costs and delivery of value-added services to sustain profit margins. Further, interest rates are expected to be stable as inflation is under control.

This explains why despite the recent outflows after the new P-note norms, most investors remain very positive and are queuing up with the Securities and Exchange Board of India (SEBI) to get registered. Investors have a better understanding of which countries are safe, and which are not. India clearly falls in the safe basket.

At the same time, globally, markets have come off from their highs. The benign liquidity environment, the most important driver of the boom in global equities, many not continue. Any liquidity squeeze would further impact global equities and India would find it difficult to be an exception. However, the medium- to longer-term outlook for Indian equities remains exciting.

Overall, a US recession would not drag India down. India's economy and companies still have sufficient momentum to achieve a growth strong enough to retain India among the fastest-growing economies of the world.

(*Khaleej Times*, 10 December 2007)

Growth Slows in Services, but a Recession is Doubted

THE shriveled housing market was a drag on American business activity last month, with service industries slowing but still showing some growth.

The Institute for Supply Management, a business trade and research group, reported that its services index registered 54.8 in September. That was down from 55.8 in August and below the 12-month high of 60.7 reached in June, but above 50 — the threshold between expansion and contraction.

The services sector has not had a month of contraction in four and a half years, according to the Institute's monthly reports.

Mark Vitner, a Wachovia economist, commented: "I really think it throws some cold water on the notion that the economy is going to fall out of bed. None of the numbers we've seen on the economy point to recession. It points to moderate economic growth."

The index, now at its lowest point since March, was in line with economists' estimates.

The services sector makes up a majority of American economic activity, and the Institute reported slower growth in manufacturing. With both sides of the economy thus losing some momentum, some contend, the Federal Reserve may be inclined to lower interest rates further.

On 18 September the Fed reduced benchmark rates by half a percentage point. It meets again at the end of October to decide whether to make borrowing cheaper and, perhaps, stoke spending.

Within the services-sector report were items that might give the Fed pause: expansion in employment and accelerating prices — signs that price increases might not be easing. The employment index for September registered 52.7, up from 47.9 in August.

The Institute for Supply Management's prices index rose to 66.1 last month from 58.6. In August, prices for commodities like oil, metals and grains declined amid a broad sell-off in the financial markets, and in September they bounced back.

(*The New York Times*, 4 October 2007)

General Agreement on Trade in Services

GATS at MAI

THE General Agreement on Trade in Services (GATS) at the WTO is seen as the next MAI (Multilateral Agreement on Investment, that was successfully derailed by enormous protest at the impacts it would have on people's lives).

Its goal is to basically further liberalize services in the public domain. While private businesses providing public services can have its merits, the concerns with something like GATS has been along the lines of concentrated ownership, foreign ownership by large transnationals and rules limiting or affecting the ability of national governments to appropriately hold companies providing these services sufficiently accountable. On a broad range of "services" this therefore has a wider impact than many other (often also undemocratic) international trade and investment agreements.

Transnational corporations [TNCs] and their strong business lobby groups have helped make the US and European Union (EU) push the GATS hard to developing countries. If given the go ahead, it too would be seen to have a "devastating effects on the ability of governments to meet the needs of the poorest and most powerless of their citizens" according to the World Development Movement's report, titled *In whose service?*. The report goes on to show that there are concerns on a number of fronts including the following:

1. GATS covers basic services like water, health and education. These are basic necessities – not things that can be left to the market. It should be the duty of governments to ensure that even the poorest have access to such services, whether or not they can afford to pay. Yet, water supply in developing countries appears to be a major target for European companies in the current negotiations.
2. GATS rules are not just limited to the cross-border trade in services. They also prevent some forms of government regulation of foreign investors, that is, of multinational companies setting up shop in their country. The GATS therefore extends beyond other trade agreements, preventing governments from following their own national development strategies and ensuring that local people actually benefit from the presence of multinational corporations.
3. Commitments made by governments under GATS are effectively irreversible. The privatization and deregulation of service provision is highly controversial, yet governments are not only signing away their own right to regulate – but the right of future generations to implement different policies.

The scope of GATS is breathtaking. Almost every human activity is designated a "service", from transport and tourism to water, health and education. Foreign corporations will be allowed to take over almost any public service on the basis of a secret "agreement" that is irreversible. The EU website describes GATS as "first and foremost, an instrument for the benefit of business". A prototype is well under way in Britain with the coming privatization of the London Underground, air traffic control and sections of the health service and education.

(www.globalissues.org)

WTO and India's Trade in Services

THE tough task for WTO is to decide the future of trade in services, while taking the interests of all member countries in due consideration. This trade has become an important constituent of international business and has a big potential to become a roadblock in the process of globalization, as well as to change the direction of international trade, if not attended properly. The significance of this sector becomes evident from the fact that services have become a major source of export earnings for a number of countries. The WTO has estimated that over a fifth of world exports and imports are accounted for by commercial services.

In developed countries it has started to replace goods sector. On the other hand, developing countries like India have a competitive edge in the movement of natural persons – one among the four modes of service supply defined by GATS. Even the movement of natural persons is highly unorganized and at its initial stage. The current approach of developed countries is to take service issue in a piecemeal manner; they are interested in the negotiations on trade in basic telecommunications and financial services. India stands for free movement of Indian workers in developed countries of the world. The competitive advantage in the movement of natural persons is not allowed to exploit even as there is an unabating pressure on India to open its market for other modes of services. This double standard adopted by certain countries needs to be gauged carefully and, at the same time, there is an immense need for developing countries to change their attitude towards services sector.

It becomes imperative for developing countries like India to strengthen their service industries at domestic level so that they can compete with international service providers – as the service needs in different countries are by and large similar – which has fostered the growth of global service providers. With greater exposure of local customers there is great pressure on service providers to innovate, reduce costs, complete projects in less time and communicate and coordinate with a myriad of stake holders. It means in other words that there is a tremendous need for domestic service providers to change as per the requirement of the market. This change can help them to compete with foreign companies. The other point that countries like India need to take care of is to protect the interests of domestic service providers through organizations like the WTO. Else, the potential service providers from developed countries by dint of high technology utilization may provide these services at a low cost. The technology has reduced the element of fixed cost in service provisions, which means that many services can be provided cheaply if supplied at a global rather than domestic scale. The third area that needs attention is to create a proper regulatory setup for different types of services in the country.

(www.iimk.ac.in)

International Trade in Services

INTERNATIONAL Trade in Services has grown, year after year, in importance in the world economy. Consequently, the United Nations Statistical Commission (UNSC) grew more concerned about the adequate measurement of statistics of international trade in services (SITS). Only recently was SITS added as a separate field to the Trade Statistics Branch of the United Nations Statistics Division (UNSD).

The principal objectives for UNSD in this area are

(i) the establishment of a world-wide database on SITS,

(ii) the creation of database of country practices in the compilation and dissemination of SITS, and

(iii) the further development of the methodology of SITS together with the other members of the Task Force of SITS.

(http://unstats.un.org/unsd/tradeserv)

Trade in Services

TRADE in Services refers to the sale and delivery of an *intangible* product, called a service, between a producer and consumer. Trade in services takes place between a producer and consumer that are, in legal terms, based in different countries, or economies, this is called International Trade in Services.

International trade in services is defined by the *Four Modes of Supply* of the *General Agreement on Trade in Services* (GATS).

- (Mode 1) Cross border trade, which is defined as delivery of a service from the territory of one country into the territory of other country;
- (Mode 2) Consumption abroad - this mode covers supply of a service of one country to the service consumer of any other country;
- (Mode 3) Commercial presence - which covers services provided by a service supplier of one country in the territory of any other country, and
- (Mode 4) Presence of natural persons - which covers services provided by a service supplier of one country through the presence of natural persons in the territory of any other country.

A "Natural Person" is a human being, as distinct from legal persons such as companies or organizations. Countries can freely decide where to liberalize on a sector-by-sector basis, including which specific mode of supply they want to cover for a given sector.

The tourism sector, the financial services sector and the telecommunications services sector are examples of services sectors.

During the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services was drafted, and became enshrined as one of the four pillars of the international treaty comprising the WTO Agreement in 1995.

Regional trade in services agreements are also negotiated and signed between regional economic groupings such as CARICOM, North American Free Trade Agreement (NAFTA) and ASEAN.

Some examples of trade in service would be: banking, check-ups done by a doctor and IT (information technology).

http://en.wikipedia.org/wiki/trade_in_services)

Global Recession Hurting India Inc.

A lethal cocktail of the falling sales, rising inflation, increasing input costs and drying cash flow topped with US economy slowdown is hurting Indian industry hard.

Although a CII survey saw nearly 50 per cent of CEOs disagreeing that their growth would be hampered by the slowdown, 18 per cent said that it would affect their prospects tremendously. *SME Times* tries to find the impact of global recession and the prospects of India Inc.

When asked, Jasjit Sawhney, CEO, net4India Ltd about the impact of global slowdown in the IT sector, he said: "The major impact of recession or economic slowdown is with the small exporters and importers in the country as most of them are facing the problem of heavy duties."

"The US slowdown will immensely hit the mid-sized IT companies and also the big players to some extent. On the higher end, you have scenarios where people are cutting back on contracts. They are reducing the fees per manpower in their contracts. But at the same time they are using IT as a tool to reduce their overall costs. Perhaps, it is balanced out. There are people who have gone up to that stage and used IT to reduce their costs because IT is the best way to be used as an eminent tool for cutting down monetary burden," he tells *SME Times*.

He said that the service sector in the IT industry has been the victim of global downswing as the profitability in most of the segments has reduced a lot.

"However, this is one aspect and a similar argument goes for the BPO industry. The BPO sector is somehow benefited as the rupee has depreciated against the dollar at present , which gives 7 to 8 per cent leverage in terms of their margins."

"At the same point in time companies previously those who were not cutting costs for geo-political reasons and farming out jobs to India from various countries are perhaps in a scenario where there is no choice and have to give those jobs to Indonesia, Malaysia and other developing countries for acquiring significant amount of BPO business," Shri Sawhney added.

He also said, "For them it would probably end up as a positive impact while for larger IT companies it would get balanced out by reduction of outsourcing and increase for companies who actually are going to cut costs in order to meet the criteria of not going into loses for the impending slowdown."

The problems of US slowdown has not only impacted the IT sector on all edges, it has perhaps made the Indian manufacturing and energy sector worrisome too. The challenges that Indian industry is encountering with is a universal problem of rising energy and fuel cost. It is always followed that as the energy prices go up there is a probability of recession. The second factor that we see today is the global developments in India.

In this context Ajay Shankar, Secretary, Ministry of Commerce & Industry opined that, "We take pride in saying that Indian economy is insulated to some extent from the global environment, which is really not true, because we can very clearly see the impact of that for the past few months where there is definite indication of economic slowdown in the country. The slowdown is taking place as the result of rise in the costs of the materials all over the world, surging commodity prices, the impact of surging foodgrain prices."

(http://smetimes.tradeindia.com)

Is Recession Coming In Software Industry?

THE recent report released by the Reserve Bank of India (RBI), has raised eyebrows of many economic pundits. The impact of slowdown in world economy is slowly making its jitters felt in India also.

The report suggests that the rate of inflow of FDI is fast decelerating in a couple of months. For instance, it has reduced from Rs 283 crore in September 2008 to Rs 112.52 crore in October 2008, recording a 30 per cent decline. In fact, the total FDI had risen from Rs 95,639 crore in 2003 to a spectacular Rs 654,949 crore in 2007. This massive inflow of FDI has contributed a lot in accelerating the overall growth rate of the Indian economy.

But the slump in the bourses, which started in September 2008 is slowly but steadily spreading in the world market. Now when the US, the UK, France, Japan and many other G-8 nations have officially entered into recession, this contagion have started engulfing many nations hitherto unaffected.

In India, two sectors which are likely to be affected most are software and services sectors. For instance, whereas, in 2007, the total FDI in software sector was Rs 10,215 crore, it has reduced drastically to Rs 5,727 crore only (in seven months of 2008) registering a decline from 15.6 per cent in 2007 to 5.8 per cent in 2008.

The external commercial borrowings (ECB) are also likely to go down in a couple of months. This would manifest in the downward trend of export also which was US$8.4 billion in 2007-08 in this sector.

Many software industries have started giving "Pink Slips" to the senior officials of their company. The exact figure of such retrenchment is not known, but this decline in inflow would dwindle the job opportunities in IT sectors, which have given direct employment to 5.6 lakh IT professionals.

The services sector, however, don't show any sign of recession right now, because the report of RBI suggests that flow of FDI in this sector has risen from 22 per cent in 2007 to 23.2 per cent in 2008. This sector, which contributes about 50 per cent to the gross domestic product (GDP) has emerged as the saviour of giant economy of India.

As a matter of fact, this sector has attracted Rs 13,903 crore FDI in 2003 and has spectacularly swelled to Rs 143,776 crore in 2007 registering about 20-22 per cent annual growth. But it too would be affected by this downward trend of FDI and ECB. Timely intervention of RBI and Ministry of Finance has so far been producing encouraging results, but these stop gap arrangements would have to be institutionalized financially.

The heavy dependence on FDI and ECB would not help our economy to stay protected from contagion for a long time.

(http://www.igovernment.in)

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BOOKS/ARTICLES NOTES

ARTICLES

Asian Face of the Global Recession
by C.P. Chandrasekhar, Jayati Ghosh, *The Hindu Business Line*, 10 February 2009.

THE article at its outset describes the worst impact of global economic crisis through the damaging projections presented by different international economic organizations and many other government institutions on the purchasing power parity and fall in non-farm employment in the US in the recent months. Through different figures and graphical representation the article locates the declining tendency in the non-farm employment and its impact on the global demand. It also projects that the export growth in the advanced economies will fall from positive to negative level and developing economies will face the same consequences.

The next section named "growth engine hit" puts the figures related to the economic growth of Japan and three growth engines in Asia, the Asean-5, China and India which are badly affected by the crisis and projects immediate damaging future for South Korea with projected contraction of its economy by 4 per cent this year. The article also points out the biting effect of recession on employment in Asian countries including China, where 20 million rural migrant workers lost their jobs. A sample sector survey by the Labour Bureau in eight sectors indicates a decline in all industries at an average rate of 1.01 per cent per month. The article states that these trends in Asia are of significance because there was an optimism that Asian economy due to its market-friendly policies will act as the shock absorber and would buffer the global downturn. There is optimism that the phenomenon would be restricted to the developed countries without having a damaging effect on global growth.

While taking the reference of the East Asian financial crisis the article views that 1997 was an aberration that resulted from "cronyism" and not from liberalization and global integration. The economic crisis in the US and other developed countries in the past have dragged Latin American countries down to degrees far greater than the crisis in the developed countries. The article points out that the poor performance of much of Africa and Latin America was due to the emergence of the Asian economies and this emergence happened because of shift to a regime that opened Asian economies to trade, foreign direct investment and intensified financial flows. The article views that more than the last two decades has witnessed a transformed Asia's relationship with the rest of the world due to regional integration through trade and investment flows and creation of an export platform in which multi-country production network created products that were targeted at world markets.

The article elaborates that the impact of the process of liberalization and integration witnessed a sharp increase in foreign investment flows to the region with the liberalization of rules regarding the presence and operation of foreign firms, including financial firms like banks, merchant banks, insurance companies, hedge funds and private equity firms. Finally, the article describes the impact of the global financial and economic crisis on the Asian economies. It states that unwinding of foreign financial investors from Asia has resulted in the form of collapse and steepest fall of stock markets. It also mentions that slow export growth in export-driven economies and outflow of capital has forced central banks to release more liquidity in pressure of their corresponding currencies.

More Measures Likely to Pump up Economy

by Oommen A. Ninan, *The Hindu*, 27 January 2009.

FIRST part of the article describes the reasons behind the falling inflation, which is driven by the declining international commodity prices of crude oil, steel, select food items and slowing domestic demand. Taking the Reserve Bank of India (RBI) statement as reference the article states that inflation is expected to come down but the economic recession would continue due to global meltdown. The article also takes a survey conducted by RBI and various business expectation surveys, into account and indicates a further softening of the domestic prices and moderation in economic activity for 2008-09.

The RBI's Industrial Outlook Survey of manufacturing companies in the private sector show a substantial decline in business expectation indices in 2008 and 2009. The article also represents the global economic outlook which has deteriorated due to the recession in the countries like the US, the UK, Europe and Japan. While India is witnessing a slow-down in economic activity, some factors like expected increase in consumption demand mainly reflecting rise in basic exemption limits and tax slabs, Sixth Pay Commission awards, debt waiver for farmers and pre-election expenditure are positive developments.

The next part of the article explains about the satisfactory agricultural outlook, sharp deceleration in industrial growth and slowing down in the services sector. It says that the economic slowdown, during the 2008-09, was primarily driven by a moderation of consumption growth and widening of trade deficit. It mentions that balance of payments for the first half of 2008-09 reflects widening of the current account deficit and moderation in capital flows. The article also puts the estimates by Central Statistical Organization and states that the real gross domestic product growth has declined from 9.3 in 2007-08 to 7.6 per cent in the 2008-09.

Finally, the article compares the industrial production during 2007-08 and 2008-09, where it recorded year-on-year expansion of 3.9 per cent in 2008-09 compared with 9.2 per cent during 2007-08. The article mentions similar decline in the manufacturing and the electricity sector, while leading indicators of services sector activity during the same period recorded some growth in respect of several indicators such as railway revenue earning and freight traffic and export cargo.

Has the US Slowdown Hit IT Sector?

by Siddharth A. Pai and Deepak Khosla,
The Economic Times, 25 April 2008.

THE article explores the possibilities in the outsourcing business at the current juncture of the economic recession and mentions that it is strong business formula despite good or bad time. The article suggests that disappointing earning announcements of the last quarter presents an opportunity to understand the characteristics of ungloblized Indian heritage service providers and the types of risks required for longer-term outsourcing transactions. It mentions that after a clear picture of long-term impact of the recession the financial services will rebound with stronger outsourcing contract values.

The article, in order to justify its claim, presents some examples and views taking banking sector as a reference. It says that after prosperous financial sectors subprime bubble burst in mid-2007, the banking sectors have changed their growth-driven strategies into profitability-driven approach that requires the help of outsourcing industry for its offshore operations. Current economic climate for corporations also enhances opportunities for the outsourcing industry that delivers variability in costs and lower overall expense. It also points out the expectations that the back-end return to growth is possible through the outsourcing industry.

The next section of the article states that the Indian IT sector which is dependant on the US economy will have the impact of the economic slowdown. At this juncture the importance to understand the gravity of subdued demand in the given financial uncertainty and the issues like changing rupee-to-dollar currency parity, talent supply challenges, salary inflations and disappearing tax holidays will determine the impact of recession on IT industry. It suggests that the short-term measures like decreasing the US exposure through geographical diversification, adapting a hybrid model of off-shore and on-shore/near-shore, increase in utilization levels, and renegotiation of contract pricing may be good for the time being. The article also suggests that in the changing environment industry has to focus on differentiation.

Finally, the article describes outsourcing as an irreversible trend and states that India will remain the 'nerve-centre' for global outsourcing due to its demonstrated ability to overcome the challenges and will continue on its strong growth trajectory.

Measures to Drive out of Recession and Economic Low by Debasish Roy, *The Economic Times*, 30 November 2008.

THE article puts the views of Dr Shankar Acharya, formerly chief economic advisor to the Union government. The article forecasts that India will manage 7 per cent of the growth in the current fiscal year but it has to tolerate a slower growth for two or more coming years. The recession has little direct effect on Indian Economy due to the conservative policies followed by Indian banks and lesser inter-bank borrowings in India as compared to countries in Europe and the US.

The article points out the impact of recession in the form of decline in exchange rate, negative growth in Indian exports, cyclic downturn in industries, stalled investment plans and squeezed domestic liquidity. In order to minimize the impact of recession the article suggests that despite bailing out attempt, India should continue a careful management of domestic liquidity and exchange rates and should also revive the investment mood through economic reforms. It suggests about the measures to be adopted in order to fight recession at global front and also points out reasons for the US recession, where it mentions that despite the great liquidity, prices of goods or services, in the US did not rise or rose marginally. The article outlines that increase in household debt from 45 in 1982 to 100 per cent in 2007, increase in financial sector debt from 20 per cent in 1982 to 115 per cent in the 2007, over a trillion dollars loan by US banks and weak financial regulation across entire financial sector were the reasons for the economic recession in the US.

Finally, the article states that after the house prices began to drop across entire Europe including US, subprime mortgages and other mortgages became bad loans and the US and European banks announced huge loses and the US and Europe launched massive bailouts of banks or financial institutions. The article also views the US will witness a sharp negative decline in its GDP from 1.4 in 2008 to -0.7 per cent in 2009 whereas India's GDP will decline to 6.3 per cent in 2009 but it will not witness the downfall in negative sense.

Now, It's Services vs. Recession by James Cooper, *Business Week*, 7 May 2008.

WHILE recession hit economy of the US is trying to find out the ways to fight the economic slowdown the article in the beginning questions the ability of the country's attempt to avoid the knockout through the help of the services industries powerful counterpunch, due to the hits from homebuilding, autos, and other goods-producing businesses.

The article points out few services sectors like housing, medical care, and other services, where increasing spending tendencies have been noticed despite the economy's tepid 0.6 per cent growth rate. It also states that there are prospects for further growth in service sector activity even after the job shrunk in the same sector and weaknesses in the manufacturing sector. Although the article recognizes the claims of the services sector on the economic trends, it says that important engines of the business cycle like goods-producing sector and construction are in bad shape due to dropping demands for goods. The shrinking household wealth and higher prices for energy and food are killing demand for consumer goods such as homes, cars, and other discretionary purchases and the resultant effect is seen in the form of downturn in auto manufacturing, construction and other goods-producing sector.

In the backdrop of job lost in services sector, goods producing sector and the rise in the number of part time workers, the article finally views that if household wealth falls along with credit availability, consumers may soon be forced to save more of their incomes, which will hit outlays for both goods and services. It states that stronger recession forces will put more pressure on the goods sector but the service sector's resilience might keep the recession mild.

Efforts to Reverse Growth Recession
by P.A. Seshan, *The Hindu*, 2 February 2009.

THE article at its outset mentions that the UPA government and the Reserve Bank efforts to fight the recessionary trend and steps taken by developed countries to revive their economies have not yielded the desired results. The article questions the claim, of the US relief package and relief packages of various countries, for a favourable impact on the economies when IMF has lowered the growth of the world economy to 0.2 per cent in the current fiscal.

The next section of the article points out the policies adopted by current government and the challenges for the next government in order to bring about a reversal of the trends in industrial production as well as in the developments on the foreign trade front. It mentions that government has already announced numerous tax concessions and further concessions for more budget proposals cannot be granted by the present government due to end of its tenure. It states that there will be a careful scrutiny of revised budget estimates for 2008-09 by experts and additional expenditure will be fixed to have an impact on the economic growth. The article states that despite a decline in foreign exchange the banks have enough liquidity and option to extend credit liberally at lower rates and agriculture sector has also performed well.

Finally, the article views that contribution of the services sector in the GDP may be slightly low than its earlier contribution during 2007-08, but the inflationary pressure will be under control due to price cut in petroleum products. It states that the Indian economy will stand to substantial benefits because of less than 70 billion dollar outgo on the oil bill in next one or two years. It views that with cheap non-oil imports, trade deficit may contract significantly and the resultant effect may reverse the downtrend in foreign exchange assets.

Life Without Bubbles by Paul Krugman,
The New York Times, 6 January 2009.

THE article has nailed the central question about the current collapse and views that the economic recovery plan of President Obama for stabilizing economy may take some more years against their next year expectation. It states that terrific profits which depended on the housing bubbles and the spending that sustained the economy in pre-crisis years will not come back again due to burst of deficit spending.

The article questions that in the time of nearly a zero rate savings and consumers changed attitude in favour of savings, what will support the economy if consumers and humbled homebuilders aren't up to the job? Taking the reference of a satirical newspaper the article views that generating boom in business investment that can raise it to unprecedented percentage of GDP in order to fill the hole left by the consumer and housing pullback could happen but it is not something to count on. The article suggests that the US needs to drastically reduce its trade deficit which occurred also due to burst of housing bubble and mentions that full employment can be achieved by selling more to other countries and spending more on US-produced goods.

The stalled export growth and priority of international investors in other currencies against dollar is making US production much less cost-competitive. The neglect of manufacturing sector and favour of real estate and the financial industry, while most of world trade is in manufacturing goods, are the problematic areas which the article points out clearly. Finally, the article states that without fiscal support the US economy cannot flourish and with such a declining trend in economy the Great Depression II is very much possible, if Obama administration pulls back its support from its economic recovery plan.

Is It the End of India's Rave? by Shreekant Sambrani, *Business Standard*, 5 December 2008.

THE article raises the questions regarding the assurances made by the government about the economic crisis and the relevance of the corrective measures adopted to fight it out. It describes the three distinct epoches of India's economic growth, namely traditional Hindu growth rate (1947-80), secular era (1981-2002) and post-modern golden age (2003 onwards), when growth rate rose from a 3 to 7 plus per cent per year.

The article mentions that three-fold growth in export in last three years and services sector growth comprising of software, business and financial services had a multiplier effect on the GDP and views that this high growth phase was not due to our intrinsic strengths but due to the star performance of one specific sub-sector which provided opportunity to a small minority to afford and realize its aspirations. While there was a substantial growth in automotive, textile sectors and consumer durables which grew at double-digit rates, the housing market boomed and prices touched astronomical levels in the metros and tier two cities due to availability of the finance capital. The article mentions that impact of the recession has forced international banks to defer software purchase and outsourcing while automakers have cut back their component orders. Voluntary pay cuts by star corporate; encouraging employees for sabbatical and discretionary contraction in expenditure are the other impacts of the economic recession.

The article finally mentions that whole gamut of financial sector incentives and packages will address the problems of the manufacturers which can restore the momentum of a demand-driven economic growth. It also suggests building a pyramid for a more equitable growth which caters to not only the high-income gated enclaves but also squalid slums, farmers and their dependants is difficult to happen. Because the gap cannot be fulfilled having focus on the mode of development that aspires for two-digit growth rates per year without realizing our sound fundamentals.

A Lucid Statement on Macro Economy

by C.R.L. Narasimhan, *The Hindu*,
2 February 2009.

THE article is divided into four parts. The introductory section of the article welcomes the RBIs annual monetary and credit policy on the macro economy, which has not reduced policy repo rates or the cash reserve ratio. Different sectors including small and medium enterprises and exporters are not getting the support due to reluctance of banks to lend at a time of economic slowdown. The article views that at current juncture when even existing loans are turning bad, no banker will risk his career for lending to shaky sectors due to the accountability factor and vigilance oversight in public sector banking.

This section also elaborates that the diagnosis of problem of credit delivery will be incomplete unless the RBI and the government explicitly recognize the existence of blocks like accountability and vigilance lapse to commercial decision making and therefore the remedial measures such as flooding the system with liquidity or massive interest rate cuts will have very little impact on the system. Next section of the article mentions that massive cuts in the repo rate, the reverse repo and the CRR are seen as the loosening of monetary policy by the Reserve Bank of India. The section also points out that due to higher revenue deficit, gross fiscal deficit, huge amount of the liquidity released by RBI to system and release of liquidity through reduction in CRR, Reserve Bank of India has not changed the interest rates but it still has some elbow to lower rates. It says that the perception of non-availability of bank credit is due to reduced flow of the funds from non-banking sources notably the stock market and external commercial borrowings. The article also views that while shares of foreign banks and private sector banks in deposits and advances have declined the public sector banks have been in the forefront of both making loans and mobilizing deposits. Section three of the article provides in detail the reason for slow response to interest rate changes by pointing out multiple factors involved in the process of setting or resetting of the interest rates.

Final section of the article named ‘inflation and growth’ presents the Reserve Bank of India’s estimates on the growth and inflation. The estimates by RBI’s review of the monetary policy suggest that the GDP growth will be 7 per cent and warns for the possibility of a further lowering in growth due to slowdown of industrial activity, lower exports and deceleration in services sector. The article views that inflation which is measured by the various consumer price indices, is expected to come down moderately below 3 per cent by end-March.

Services Won’t Save us from Recession

by Swaminathan S. Anklesaria Aiyar,
The Economic Times, 14 January 2009.

THE article analyzes the Indian claim that the economy will prove more resilient than other countries, in the backdrop of the global recession that is worsening than the expected level. Through the figures the article points out that India’s share of services in GDP is far behind the global average and many other countries in South Asia.

Comparing India's position with China the article says that though China has the lowest share of services in GDP, it has dominance of its industry that accounts for 48 per cent of GDP as compared to 29 per cent of India. The article also mentions that due to low services share India is more vulnerable to a global downswing than others. While appreciating the contribution of Indian services sector export the article states that the IT services hardly figure in the national accounts and are counted in the GDP of the importing countries. The earlier growth in the sectors like trade and hotels; transport and communications; finance, real estate and housing; and community services, were also included in the IT services. The article mentions that decline in export, import, industrial production, hotel occupation and tourism suggests that trade and hotels will not be resilient in the recession. Although transport and communication industry has shown mix picture due to good performance by the port and rail traffic the projections for the future are not that much exciting.

The article also elaborates about the sectors like telecom and community services that are going to boost GDP growth due to fast expansion and boosting of the rural telephony and full implementation of the Pay Commission award respectively, which is a clear indication that communications and community services will be resilient in the downturn. Finally, it views that the agriculture sector has protected us from the global downturn and only some services will remain resilient and parts of it will be hard hit by the recession.

Totally Spent by Robert b. Reich, *The New York Times*, 13 February 2008.

ROBERT REICH presents an insightful commentary on the issue of current economic slowdown, where he states that current slowdown is culmination of three decades spending pattern of American consumers and remedies like accepting lower standard of living, business support to smaller economy and giving permanent buying power to the middle- and lower-income Americans may reverse the economic downturn.

The article further points out that the reluctance of companies to invest in factories or equipment due to dropping demand for products and services, possible change in the attitude of consumers for savings despite stimulus package, dropping values of houses and other assets are some of the issues, which are going to impact the current slowdown. Although most of the earnings in last three decades have gone to the 5 per cent richest peoples, who invested their income around the world in order to get highest returns, the America's median hourly wage barely increased and the income of a common man has lowered by 12 per cent in last three decades. Due to income inequalities middle- and lower-income Americans found ways to live beyond their wages by sending more women into paid work and by working more hours than the Europeans and Japanese in order to prop up family incomes. The article also points out that in order to spend beyond their wages they turned their homes into piggy banks by refinancing home mortgages and taking out home-equity loans but after burst of housing bubble the spree seems to be over.

The article suggests that for sustaining economy over long run, the wages of the bottom two-thirds of Americans needs to be increased, at the same time there is need for stronger unions, especially in the local services sector that's sheltered from global competition and a substantial fine to the employer who fire workers for trying to organize. The article also advocates the enlarging of the tax credit, which will in turn support the workers at the bottom in form of bigger wage supplement and will phase it out at a higher wages. Finally, the article suggests that better schools for children in lower- and moderate-income communities and better paid teachers in such schools can reverse the inequality in longer term.

The Urgency of Reforming Financial Regulation Now by Stephany Griffith-Jones, *Economic & Political Weekly*, 13-19 December 2008, Vol. 43 No. 50.

THE article points out that even as national governments seek to take steps to halt and reverse the financial crisis and the downturn in the real economy, the issue of future crisis avoidance should be an integral part of the policy response. The growing concern of world leaders to fight out the economic downturn and prevent future crisis seems to have consensus on effective financial regulatory measures.

The present crisis and numerous previous ones that hit developing countries demonstrate that crises are inevitable in deregulated financial systems. The article elaborates about the two broad principles for future financial regulation. The first principle known as counter-cyclicality, corrects the main market failure of banking and financial markets. The positive experience of this principle has shown strong results in Spanish banks than in other countries. The article also elaborates that this key idea strengthens banks in boom times, and discourages them from excessive lending. The second principle, comprehensive regulation, elaborates that there should be an effective regulation and the domain of the regulator has to be the same as the market to be regulated. The article mentions that a system of regulation that focuses on parts of the banking industry like Structured Investment Vehicles (SIV) did not worked clearly and caused for largest problem. That's why the article supports for the comprehensive and equivalent transparency, as well as regulation of all financial activities, instruments, and actors.

Finally, the article mentions that both minimum liquidity and solvency requirements need to be regulated and the technical obstacles to define equivalent regulations for different activities or actors can be overcome. The solvency requirements are linked to the maturity structure of assets and liabilities and could help encourage diversity of behaviour by heterogeneous institutions, whilst trying to avoid regulatory arbitrage. It finally suggests that the magnitude of the crisis, and the damage caused by the crisis should make desirable changes in financial regulation far easier and urgent.

US Financial Hegemony on Declines
by Deepak Lal, *Business Standard*,
24 February 2009.

At its outset the article states that despite the promise of the US government to spend unimaginable sums in trillion dollars for stimulus package, which may be even more than the Indian GDP, the difficulty of the US government to control the economic downturn and maintain the sinews of the forces responsible for global order together will portend important changes in the global economic environment.

The article takes the reference of the J.M. Keynes statement on earlier British financial crisis and questions that in order to maintain the process of globalization, which among the three high saving countries, viz. China, Japan and India will replace or help the US hegemony? It presents different arguments while exploring the claim of Japan, China and India, to take over the US hegemonic role in future. It says that Japan is out of the race due to its reluctance to match the economic with military power, stagnant economy and demography while India's economic and military power at present is dwarfed by China's. It also mentions that at the moment China along with the Gulf state sovereign funds can be the most likely source of finance for the exploding US budget deficit and therefore it can have more leverage over US foreign and domestic policy as the financier of the US but at present it is impossible for China to take over to the US hegemonic role.

The article also mentions about the US difficulty in combating the Islamic terrorism due to China's relationship and dependency on the many natural resource-producing countries, like Iran and Sudan, who continue to aid and abet international terrorism. It suggests that China's support to Pakistan to counterweight India in the region leaves no option for India other than to ally with the US in order to get technological wizardy of the US military for its large army. But it questions India's participation in sharing the US imperial burden in order to maintain global order like European countries, which have refused to send more troops to Afghanistan.

Finally, the article draws the parallel between Rome and the US and says that the causes of Rome's decline were ultimately economic. It also suggests that policies like eliminating earmarks, wiping out fraud, ending the Iraq war or cutting defense expenditures, restraining discretionary spending or letting the Bush tax cuts expire, will not reverse the exploding future deficit. But reductions in military spending, will find it difficult to maintain the global order, which is essential for the processes of globalization to work and therefore may have most serious long-term consequence of the global financial crisis.

Can Global Financial Turmoil Derail India's Growth? by Rajeev Malik, Ajit Ranade, Nagesh Kumar, *The Economic Times*, 25 March 2008.

THE article is divided into three parts in the form of three different views on the issue of global financial downturn and its impact on India. First view of the article says that in the midst of economic slowdown India may face a mild slowdown in economic activity due to its tighter domestic monetary policy and a sudden appreciation of rupee against the US dollar. But further intensification of the global economic and credit woes may further increase the downside risk to India's growth outlook. Part one of the article points out that Indian economy will be least affected by the recession due to its lower exposures to variations in global growth dynamics. It also mentions that IT sector will be hurt from recession due to its direct exposure to the US, which will have an impact on the overall economic growth. The article also states that the economy, which is hit by the drying up of the capital inflows is somewhat less worrying because the RBI will offset the hit from significant shrinkage in full year net capital inflows. Finally the views expressed in the first part of the article argue that reversal in the expectation of near-term policy rate cuts by RBI, tight monetary policy, further boost in spending due to sixth pay commission and strong investment spending will probably fail to derail the Indian growth momentum. It suggests that at worst Indian economy will suffer from mild economic recession in coming fiscal years.

The second part of the article points out about the panic that has created due to debt defaults, decreasing asset prices and many other issues in the current financial turmoil. It states that the higher value of currencies like yen and euro in last few years, higher commodity prices and higher food prices finally resulted in higher inflation. The central banks have provided liquidity to investment banks for credit market but now they are accepting mortgage-backed securities as collateral to lend more funds to beleaguered banks. Under the severe credit crunch and declining prices of the assets, only rate cuts will not be helpful in the US and it needs to be bolstered by more liquidity. It mentions that in order to meet the capital obligation back home many foreign investors are taking out their cash that has badly hit the equity market. The banks, who have suffered the losses, will be reluctant to provide credits to the non-blue chip borrowers. Despite numerous factors, the RBI has plenty of ammunitions to deal with liquidity requirements like unwinding of the MSS bond or keeping dollar inflow unsterilized or reducing the CRR. The view also suggests that the financial crisis will impact the economy but GDP growth will be lowered by the marginal percentage. It further suggests that infrastructure investment should be a policy priority, as it has cascading impact on the demands for materials, goods and services. Finally it views that subsidy on diesel and petrol needs to be capped and resources needs to be diverted to investments as subsidies provide costly safety nets, but investments provide future growth. It also states that credit crunch world requires extra attention for uninterrupted credit flow and vigilance prices.

The view in the third part of the article mentions that due to deepened economic integration with the world economy in past two decades, India will also suffer from the global slowdown, which is already visible in the Indian stock markets due to sudden pullout by the FIIs. It also mentions that impact of the crisis on real economy will be moderate due to its low dependency on growth by exports. It says that India's services exports especially software and BPOs are still dominated by the US and the US recession may force the US companies to cut costs in order to be competitive, which may actually increase the outsourcing of business processes, benefiting Indian service providers. The article also elaborates that the outcome of the US slowdown may be limited to FII inflows and Indian economy will attract the attention of MNCs for FDI inflows due to its fast growing characteristic. The variables like domestic consumption and investment in India will not be adversely affected by the financial turmoil in the US. It suggests that in order to insulate economy from the ill effects of crisis; increase in domestic demand in infrastructure deficit through the mobilization of foreign exchange reserve at regional level is required. The article also mentions that generating demand in Asia through mobilizing foreign exchange reserves for infrastructure development would also assist in orderly adjustment with the global imbalances while sustaining Asian dynamism and resurgence. It also suggests that India may take steps to foster regional financial cooperation to reduce vulnerability of the region's economies to global turmoil.

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