

Where are the apps? Needed, India-Specific Strategy

A HUGE business opportunity is passing India by: India-specific applications for smartphones and tablet computers. Smartphones are going to replace the basic mobile phone sooner than people imagine, and not just in urban centres. The rate at which the price of these gadgets is falling had not been foreseen even 10 months ago. While the Apple iPad is an expensive device and will remain beyond the reach of most Indian consumers, what it does is to trigger the launch of thousands of computing tablets, some more capable than the iPad, and some very, very affordable. What these smartphones and tablets have in common is an appetite for applications, known only as apps, developed by third parties and made available for download and installation at the consumer's choice on his device. The majority of apps on the Android platform are free, while you have to pay for the majority of apps meant for Apple's iOS operating systems. The vast majority of the apps now available cater to the lifestyle needs of post-industrial, urbanised societies, with a bias towards entertainment or self-engagement. While a tiny section of Indians, too, would be completely at home with such apps, the much larger market looking for practical utility is badly underserved. Indian companies need to come up with apps that will have a direct connect with the daily lives of Indians and meet needs they are not even aware can be met through a gadget. Nursery school or college admissions in Delhi, planning weddings, tracking traffic jams and alternate route possibilities in any town in India — the possibilities are endless. App developers lure customers by giving stripped-down versions free and then charging nominal sums for value-added versions. Millions of downloads make for serious moolah. The apps that are developed for India would lend themselves to customisation for much of the developing world as well.

Telecom companies that are looking at bleak growth from call revenues have every reason to take the lead and encourage app developers and operating system developers to work together. Developing apps by the thousands would pave the way for Indian IT entrepreneurs to bridge the gap between services and products as well.

ADRs no substitute for FDI Clean Up The Domestic Policy Act

THE government's proposal to allow Indian companies easier access to US equity markets through American Depository Receipts in order to counter the slowdown in foreign direct investment (FDI) smacks of a dogged refusal to address what really ails FDI flows into India: lack of policy clarity, policy flip-flop, procedural delays, corruption, in short, all the reasons listed in the World Bank's Report on Doing Business in India where we are ranked a low 134, below Cape Verde and Malawi and just above West Bank and Gaza. ADRs do make some investible resources available to domestic industry, but is devoid of the specific benefits associated with FDI, namely, strategic vision for business growth in the country, technological know-how and managerial expertise. If the government is seriously concerned about our rising current account deficit, estimated at about 3.5% of GDP, an issue that the Reserve Bank of India has also flagged, it needs to look for ways to increase genuine, rather than sham, FDI flows. FDI, unlike foreign institutional investment (FII) flows that are easy-come-easy-go, is not only sticky but also has huge positive externalities in the form of ancillary industries and employment opportunities. Today, it is hard to think of, say, Suzuki exiting India, certainly not with the ease of some foreign institutional investor. All the more reason why the government should try to reverse the recent trend in overseas capital flows characterised by a decline direct investment and a rise in portfolio flows.

But ensuring reliable funding of our current account deficit (CAD) is only one side of the problem. Getting our CAD/GDP ratio under control is vital. This means getting our fiscal deficit or excess government spending under control. A current account deficit represents the extent to which a country draws on resources from the rest of the world. For a developing country like India, it supplements available domestic resources. However, a CAD beyond a certain point, say, 3% of GDP, might prove unsustainable. Hence, even as we try to alter the composition of flows in favour of FDI, we must also work at reducing the size of the CAD. Reducing the current account deficit essentially means raising the level of domestic savings to account for a larger share of investment. A two-pronged attack and a search for genuine solutions is the only way forward.

Kadhai colleges Business Opportunities Aplenty

INDIA is now quite used to certain uniquely *desi* business phenomena giving western universities plenty of food for thought, but a look across our eastern border should give us something to chew on too. Egged on by claims that it's tougher to make it to the burger school than conventional business school — only 1% of applicants make the cut — the evocatively named Hamburger University in Shanghai has been drawing in the creme of Chinese youth for the past 10 months. The company's original burger school back in the US has apparently rolled out some 80,000 top-grade MCMangers in 50 years, but there is every chance that China's billions will soon make mincemeat of that figure. The idea, presumably, is to mould well-ground(ed) managerial Mccadre who will never think out of the bun, let alone fly the coop to the competition. And that may mean that Ronald McDonald could come within sniffing distance of Colonel Sanders in the race to capture mainland China's fastfood market.

So far, there has been no indication of a similar institution being contemplated here, but there is nothing to stop Indian entities taking the cue. Even though Indians have shown a tendency to (ca)noodle with Chinese food, the *desi* palate has tended to throw all international recipes for success out of the window. So, with the world increasingly warming to Indian flavours, there could also be a sizzling market for a Curry College or a Tandoori Tech, a Chaat School or an Annam University, with both local and external campuses. There is enough temptation for potential entrants into the Indian market — and for those who wish to cash in on the *masala* boom abroad — to flock there to study what's really cooking.

Infrastructure & global rebalancing

By channelling their high national savings into national and cross-border infrastructure projects, developing countries like India can address the growing development imbalances, says Alok Sheel

THE imperative of global demand rebalancing requires domestic demand in emerging market economies (EMEs) to grow faster, and structural reforms to be implemented in both developed and developing countries, if the world is to return to pre-crisis levels of growth.

In this context, the Indian Prime Minister's suggestion at the Seoul G20 Summit that global imbalances could be leveraged to address developmental imbalances, including, *inter alia*, bridging the infrastructure deficit in developing countries, was widely welcomed.

There has been large, but uneven, investment in infrastructure in developing countries. However, the big gap with advanced countries, especially in urban infrastructure, needs to be quickly bridged. Over the next few decades, more people would move into urban areas in developing countries than the number residing in cities presently. By any measure, the financing requirements for urban infrastructure are mind-boggling. Several trillion dollars of investment is needed for orderly and environmental-friendly urbanisation.

Cross-border infrastructure — broadly defined to include wholly nationally-owned infrastructure with cross-border connectivity to contiguous countries — is also particularly deficient mainly due to the difficulties of burden-sharing in international cooperation and the problem of political risk. Since intra-regional trade (especially in Asia) is growing faster than the total world trade, greater cross-border connectivity is needed, particularly in South Asia, which is the least integrated region in the world.

The absorptive capacity of several developing countries, including those in Africa, which have been growing at much faster rates than before, has increased of late. Large infrastructure investments will increase national income and also make higher developing country growth rates more sustainable. This would also help converge national per capita incomes and help bridge the development gap.

Infrastructure development typically



SALAM

requires huge public investment. While the fiscal position of EMEs is now generally better than those of advanced countries, national budgets would nevertheless need to be substantially augmented to meet the huge demands for infrastructure. There is a basic difference between public investment in infrastructure and most other kinds of public expenditure. The latter tends to deprive the private sector of resources that could be invested to boost growth, except during economic downturns, while public investment in infrastructure actually 'crowds in' more private investment by increasing investment opportunities and returns. It frequently involves building ahead of demand, on account of its multiplier, productivity and crowding-in effects. Public borrowing for infrastructure is consequently eminently justified as it will pay for itself through higher growth and revenues.

The challenge is to direct the large savings available in the global economy, which were in the recent past directed towards unsustainable leveraged consumption in developed countries, to infrastructure, especially urban and cross-border infrastructure, in developing countries.

However, historical experience and

current trends suggest that infrastructure investment is a big challenge in the best of circumstances. With many an advanced economy facing recession, their national budgets are in disarray and foreign aid is likely to shrink in real terms.

SINCE most of these excess global savings are generated in developing countries themselves, rebalancing also requires an 'enabling environment' for investment so that these savings are spent on infrastructure and not exported, especially since most accumulated savings in the EMEs remain with central banks rather than with governments.

To direct savings towards developing country infrastructure, public expenditure patterns must shift from subsidies to allocating more taxpayer funds for infrastructure investment.

Secondly, more private savings need to be attracted to infrastructure through public-private partnerships. This would entail a more enabling investment environment, especially greater political support for user charges to facilitate cost recovery, and development and deepening of financial markets, including long-term finance.

Thirdly, it must be recognised that the

bulk of such investments would have to be publicly funded or guaranteed, as has been the case in the past. Private investment is likely to be limited to some sectors such as telecom, transport and power. Therefore, residual, unabsorbed, private savings would need to be redirected to government debt for investment directly or indirectly in infrastructure. What level of public debt is sustainable? While this depends on potential growth and interest rates, the Domar debt sustainability equation indicates that given higher levels of growth, the public debt bearing capacity of developing countries is higher than that of developed countries.

Fourthly, while a greenfield international investment fund is a possibility, this would be akin to existing multilateral development banks (MDBs). MDBs have a wealth of experience and expertise in the area of infrastructure financing to channelise global surpluses productively into financing infrastructure in developing countries. They can mop up the global savings glut and redirect the resources to infrastructure investment, thereby shifting the utilisation of these savings from leveraged consumption to leveraged investment. This will require massive recapitalisation of MDBs, currently being resisted in certain quarters. Only a small proportion of this, however, needs to be paid up; the balance could be in the form of callable capital against which MDBs could borrow from governments and international markets, giving returns slightly higher than US Treasury Bonds.

The advantage of MDB intermediation is that this would address political and repayment risks, since governments would generally be more willing to lend to and counter guarantee MDBs than individual countries. MDBs need not pass on such large funds as project finance, as this would require huge expansion of MDB staff and capacity. The same objective could be achieved through national budget programme support.

An earlier version of this article appeared as G-24 Policy Brief # 61 (The author is a civil servant. Views are personal.)

Citings

OUTRAGEOUS FORTUNES: THE TWELVE SURPRISING TRENDS THAT WILL RESHAPE THE GLOBAL ECONOMY
Daniel Altman

THE global economy is changing more quickly than ever before in its history. The technologies that have made it more integrated — primarily those that have improved transportation and the exchange of information — continue to develop, and the number of interactions among people from all parts of the world is growing exponentially. These changes are having a profound effect on our lives. In the past two decades, we have seen hundreds of millions of people escape poverty, but we have also seen a severe deterioration in our natural environment and the bursting of huge financial bubbles.

Despite the refinement of economic policies designed to manage the business cycle, the volatility of commodity prices, trade flows, government budgets, and many other important indicators of the global economy continues to increase. As a result, it is easy to get caught up in the stream of numbers that spew out every second and to lose sight of the long term. That's a problem for our future. Personal fortunes may be gained and lost in a day, but national fortunes are gained and lost because of deeply ingrained economic factors that take years to develop and, if necessary, to change. Certainly, idiosyncratic events can push countries to one side or the other of their long-term economic paths. But over the course of decades, those paths tend to be determined by economic factors with very deep roots indeed.

CHAT ROOM

Lokpal no-gooder

THIS refers to 'Remove the shield of the corrupt' (ET, Jan 27). The Lokpal Bill is simply an exercise to burnish the image of the scam-tainted UPA-II government. The Bill gives the false impression that the government has nothing to hide, as even the Prime Minister's conduct will be open to public scrutiny. But it is all poppycock. Like many such cosmetic attempts made in the past, this one, too, does not inspire hope.

One clause of the Bill relates to the punishment for those

complainants who file 'frivolous' complaints. But who will decide the frivolity? Only government officials. This condition is really a dampener on citizens who may otherwise come forward willingly to file complaints against officials. And it would have contributed to making our polity and society free of corruption. You bet, nothing good to people and community at large will emerge from this Bill.

KVRAO

BANGALORE, JANUARY 28

Be transparent

THIS refers to the edit 'Wipro, be nimble' (ET, Jan 25). Why should the yardstick of performance apply to the CEOs alone, and not to Azim Premji himself? Premji should at least be honest, if he wants his son to step in. This is natural and nothing wrong. But why discredit the CEOs? Sophistication should be used to bring in one's son/daughter to head a company. Suresh Vaswani and Girish S Paranjpe have shown grace by saying that they quit voluntarily, and Wipro should give credit to them for good performance when they were at the helm of affairs. We need more transparency in the running of companies.

DEENDAYAL M LULLA
MUMBAI, JANUARY 25

Letters to the editor may be addressed to editet@timesgroup.com

BLINKERS OFF

SALAM



They are discussing the hidden agenda...behind the company's new open door policy of communication...

Adhocracy to contain food inflation

IT HAS become abundantly clear in January 2011 that the government has no viable prescription to tame the food inflation of 16-18%. Vegetables, milk and pulses are now a prime headache, while prices of grains, oilseeds and edible oil are within manageable limits. Though the authorisation of January 1 for export 5 lakh tonnes of sugar was fundamentally flawed, no one expected that panic reaction on onion prices will derail this export policy. Instructions to income tax officers to raid onion traders were weird. The announcement on the continuation of the ban on non-basmati rice or halting export of wheat products (wheat flour) is irrelevant to inflation. The pressure on food prices will continue.

Though the current level of Indian food inflation is precariously alarming, this is moderate when compared with the rest of world. Internationally, wheat/corn have spiked by 60-70%, soybean 80-90% and sugar almost 90-100% during last six months. The wrath of weather gods has shrunk production prospects in Argentina, Australia, Brazil, Russia and the US, while China is importing more corn and soybean in a rising market. Nevertheless, inflation in India is sending warning signals.

Forecasting of food pricing has undergone a paradigm shift and old remedies for containment of inflation cannot be applied. The arithmetic of 'today's' supply/demand and stocks cannot be the sole criterion for policy formulations. Severe volatility in futures markets due to the lightning speed of information, diver-

sion of agro products for ethanol/biodiesel and their linkage to crude oil price, increased weather unpredictability, interventionist and monetary policies of governments, turbulence in stock markets, aggression of hedge funds in commodities, speculation on certainty/uncertainty of coming harvests, seeking political arbitrage due to the media and communication revolution, complexity in Centre-states relationships, coalition compulsions — all this and much more have outdated the task of reining in prices by the traditional bureaucratic apparatus.

According to sociologist Max Weber,



bureaucracy follows rational and systematic means of operation at the expense of speed and efficiency. Bureaucracy cannot provide rapid response in new high-paced economic jungle. Alvin Toffler, the futuristic sociologist, opined 30 years ago that the bureaucratic system will not be workable in the 21st century as it is 'precedent based' for decision-making. Rate of change in the era of 'future shock' has no room for precedents. He anticipated 'adhocracy' to be more effective than bureaucracy. Handling of voluminous information hitting computer terminals at electronic speed de-

mands 'fire-fighting' reactions. The procedure has to be simply bypassed for lessening hierarchical ladders.

In the Indian context, while long-term plans can be assigned to bureaucratic structure, short-term market response (domestic/international) requires 'adhocracy'. Neither bureaucracy nor 'adhocracy' can be trusted with the ethics of nobility. But 'adhocracy' carries the merit of speed and efficiency.

On January 21, China partially secured itself for the 2011-12 requirement of soybeans by a making a single non-tendered adhoc purchase of 11 million tonnes (worth \$7 billion) from US agro giants Cargill, Bunge and ADM. (Annual Chinese import of beans has escalated to more than 50 million tonnes.) This could be an advance exercise of stockpiling to meet the growing demand. This is the new world order emerging, buying in rising market, and China showing the way of adhocracy.

Such situations/contingencies might arise in India, too. Political will needs to be mustered for framing a code of conduct of 'adhocracy' for bureaucrats, identifying in advance players/departments that will run this adhoc mechanism and naming the institution to whom such a system will be accountable. It can become operational for 'action' whenever emergency arises and will not be subservient to craziness of antique rules. Research in 'adhocracy' calls this as the bureau-adhocracy. And such a system cannot be termed 'scam' as this will operate under an authorised adhoc procedure.

TEJINDER NARANG
FORMER DIRECTOR OF PEC LTD

Inflation will crush middle class

LAST week, we met Mrs Soma Mukherjee in rural Bengal. She lives in a two-room home with her six-year-old daughter, her mother-in-law and her husband, who works as a mason. Her daughter goes to the school nearby. Her house has basic furniture, a colour TV, a DVD player and represents what we would call Middle India. Mrs Mukherjee's household expenditure has spiralled out of control in recent months. As a result, she has cut back on eggs, has switched to a coarser rice that costs less, consumes less cooking oil, uses the same washing powder for utensils that she washes her clothes with and has stopped using the cosmetic cream that she loves. Despite these sacrifices, she is unable to save any money.

Take a look at the data. NCAER-CMCR has divided the country into five income quintiles based on the National Survey of Household Income and Expenditure. The top quintile (20% or about 45 million households) accounts for almost 52% of aggregate income and 39% of consumption. However, they account for an even larger 45% of aggregate non-food consumption. This is the upper class that has driven a bulk of the incremental consumption in India. They have adopted a whole set of new categories and their consumption baskets have widened dramatically. This set of consumers epitomises the surging confidence of India having arrived. Considering that this quintile contributes almost 93% of aggregate savings, food inflation will have no impact on it.

Then there are the bottom two quintiles (40% or 90 million households) that account for 14% of income and 22% of consumption. Their share of food consumption is 26% and non-food consumption 17%. They spend a bulk of their income on food (63) and buy the bare necessities in terms of non-food items. Given their massive spend on food, these are households that are being squeezed with inflation. They are being forced to make even greater sacrifices than they are normally used to. However, there is no impact on their savings since these households did not save money anyway.

GUEST COLUMN

GOPAL VITTAL & RAJESH SHUKLA



- The most transformative impact of food inflation will be that it could leave a lasting toll on the middle class
- This will have a seriously adverse impact on consumption, consumer confidence and social equity
- The shift in savings and consumption patterns is bound to have implications for both companies and the government

The most transformative impact, however, is felt by households like Mrs Mukherjee's. These are households that fall in the middle two quintiles (40% or 90 million households). These households account for almost 34% of aggregate income and 39% of aggregate consumption. They spend about 54% of their income on food and about 5-7% each on housing, education, clothing, durables, health, transport and other non-food items. Their spend on food has now spiralled up to 65-67% of their income. To cope with this, they are the ones that are likely to cut back consumption where possible, buy cheaper products given alternatives, postpone the purchase of little indulgences and cut out discretionary spend altogether. With food sucking up more of their incomes their savings is likely to disappear altogether.

What happens to Middle India will affect the Indian consumption story. Many categories that form a part of routine consumption

could see a slowdown in growths. Equally, there could be downtrading with consumers buying cheaper products as they seek to cope.

However, what is even more significant is the impact on consumer confidence. After all, the Indian consumption story is not just based on what happens today but the confidence and the hope of a better tomorrow. Middle India today accounts for only 15% of aggregate household savings. With burgeoning spend on food, savings will evaporate. Tragically, this drop in savings will be invisible at the aggregate level given the relatively low contribution of this consumer class to overall household savings.

While consumption attitudes may be severely affected in Middle India, life will continue as usual for the top quintile of households. Their attitudes will continue to remain positive since they will see little or no impact on their disposable incomes due to inflation.

As a result of the difference between the impact on the top quintile and the middle quintiles, the structure of consumption could become even more polarised. We could see a schizophrenic situation with a widening disparity in consumption and attitudes amongst the top and middle.

This volatility and structural shift in consumption will have consequences for both companies and policy-making. Companies will need to be far more flexible in understanding and navigating this new reality. The need for clarity on which consumer to target, how to play the product portfolio, clarity on what will drive growth, the role of pricing and innovation, and the need to weed out all unwarranted costs will be ever more important.

From a policy perspective, however, it is clear that food inflation is a national crisis of economic, social and emotional well-being that will affect not just the poor but also Middle India. If this is not addressed with urgency, there could be a slow down in consumption. But the real damage will be to confidence, well-being and social disparity.

(Vital is executive director and a member of the board of HUL. Shukla is director of NCAER-CMCR.)

Clarity within and time management

DRIFT and procrastination and the consequent listlessness and drag can be counted as the major causes for poor time management. Often, this state within manifests without as hurry, frenzy and busy-bee living. The concerned persons constantly complain of the problem of 'no time'. Some even go to the extent of finding alibis and excuses for inaction in the claim that their 'commit-

ments' and 'problems' are more than those of others! Such exhibitions are classic examples of drowning oneself in mere 'activities' instead of doing so in real 'action'!

Analysis of such pathetic state of affairs would reveal the causes of this malady. These would vary from case to case. Tendencies to escapism from having to face oneself square on; morbid obsession to impress others by becoming a 'workaholic' through managing to find something to be occupied with always; lack of assertiveness, ending living by others' priorities, trying to please all, though, finally ending up pleasing none; inability to plan, organise, control and review — the list would go on thus. The unfortunate victim would be afflicted by one or more of such 'bugs'!

In short, the situation is that



COSMIC UPLINK

supreme freedom — that freedom from the three 'Cs' and the three 'Ds' and various other afflicting aberrations. The *Bhagavad Gita*, referring (2,45; 5-3, 25) to conflicts (*avanda*), also conceives (5-27, 28) of being thus liberated (*mukta*) from various 'enemies within'.

This liberation and clarity also lead to the portals of those virtues of briskness, efficiency, effectiveness and *joie de vivre*. In these lie the capacity to pack much real work into one's limited time. This joyful clarity, and this alone, is worthy time management!

■ K VIJAYARAGHAVAN