

# SHAKEN AND STIRRED

INDIA INC'S CONFIDENCE IN THE PACE OF ECONOMIC REFORMS IS WAVERING, EVEN AS IRE RISES OVER STATE APATHY TO GROWING CORRUPTION. **AN EXCLUSIVE OUTLOOK BUSINESS-FICCI SURVEY.**

## SUDIPTO DEY

MAY 16, 2009: MARICO INDUSTRIES CMD HARSH MARIWALA could not suppress his excitement as television channels flashed news about the Congress-led UPA's triumphant return to power in the general elections. In a few minutes Mariwala was heard gushing in an interview to a news channel: "I am thrilled with the results. ....It is a clear mandate and they [UPA] have to perform now. Hope this UPA would be far more aggressive when it comes to reforms," he said on camera.

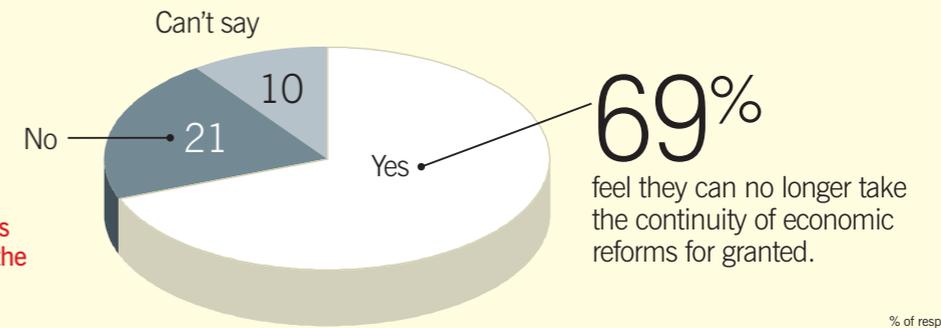
Two and a half years later, Mariwala's tone is sombre while responding to a pointed question—Has decision-making in government slowed down as corruption-related scams hogged the headlines, and a fasting Anna Hazare almost brought the government to its knees? "Yes," he says emphatically, "And it is a worry." More so as it comes on the back of assurances to industry by the government on bringing about speedy reforms. "I see a certain degree of impasse now," he adds. Interestingly, this is in sharp contrast to sentiments expressed by then Ficci President Harsh Pati Singhania that the electoral mandate would help the government to take quick and decisive action. Mariwala currently occupies the chair of President, Ficci.

On April 30, 2009, Harsh Goenka, Chairman, RPG Enter-

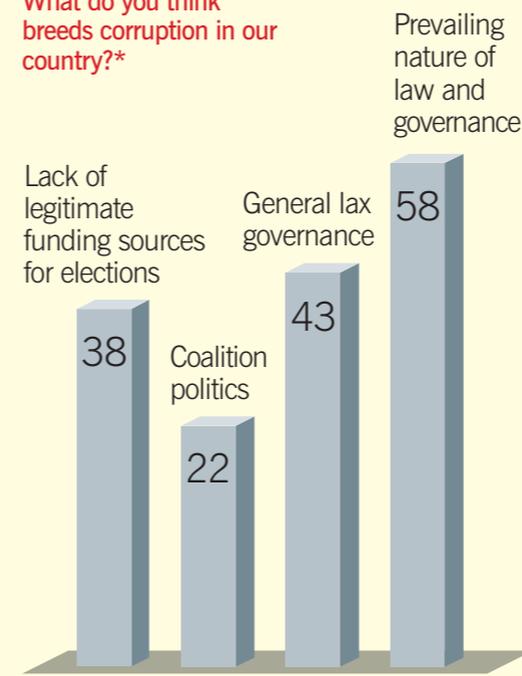
prises, made it a point to cast his vote in the prestigious South Mumbai constituency. Now, Goenka sounds despondent when he says Indian businesses find it easier to manage processes and operations in the United States and Europe, rather than within India. "Delivering results [in such a situation] is a matter of business strategy and efficiency," he adds. In contrast, in India falling levels of probity in public life, and rising corruption eats into top management's time. "If it remains unchecked, it is a matter of time before the India growth story is seriously impeded," warns Goenka.

In a matter of 24 months, India Inc's euphoria over an unfractured electoral mandate, the "vote for stability", and the prospect of quick reforms, has all but evaporated. A snap poll among CXOs from over 75 companies across the country shows Goenka's fears may well come true. Shaken and bruised by the current turmoil over corruption, an overwhelming 69% of respondents say they cannot take continuity of economic reforms in the country for granted. Just over 20% are confident that the reforms process will be on track, despite the setback over corruption. Kishore Biyani, Chairman, Future Group, is more categorical. "Sentiments today are definitely weaker than what they were a couple of years ago," he says.

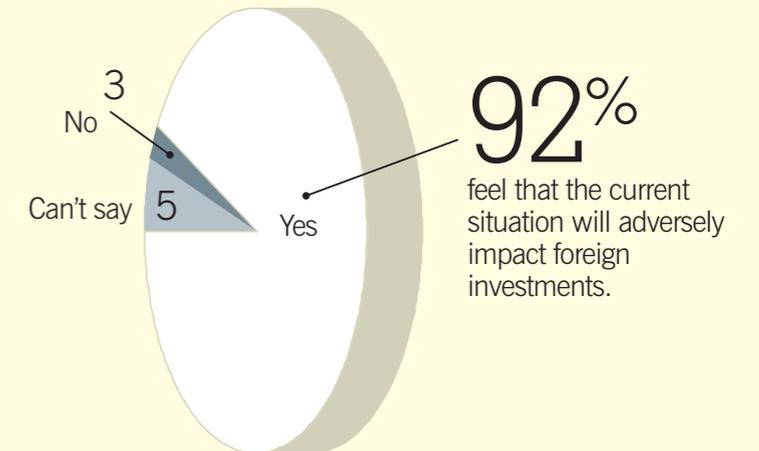
In September 2011, *Outlook Business* and Ficci conducted an



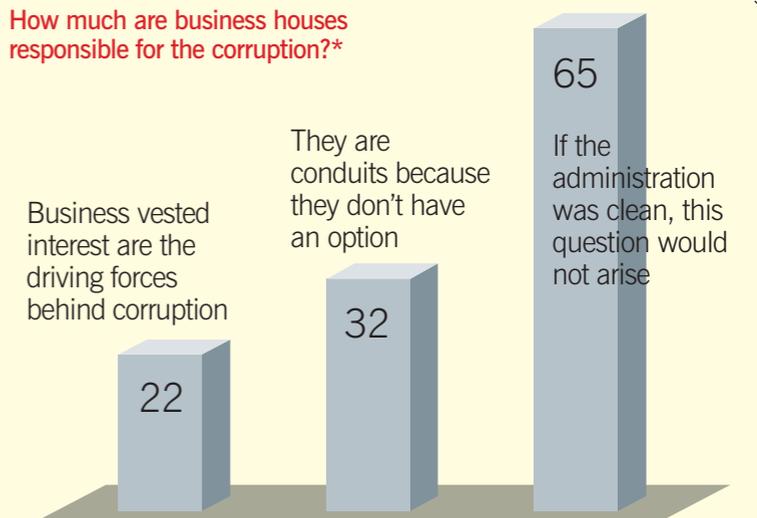
What do you think breeds corruption in our country?\*



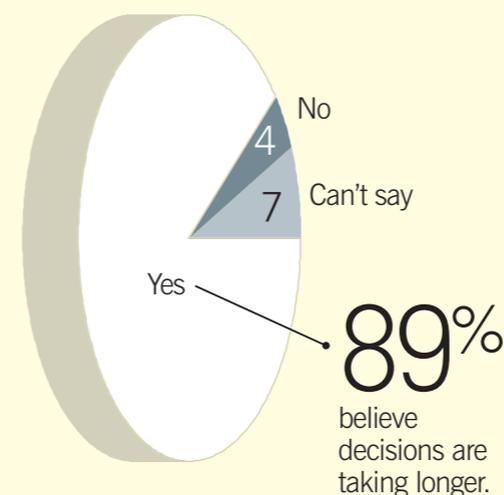
Do you feel the prevailing political situation has a bearing on foreign investor perception?



How much are business houses responsible for the corruption?\*



Has the government's decision-making slowed down?

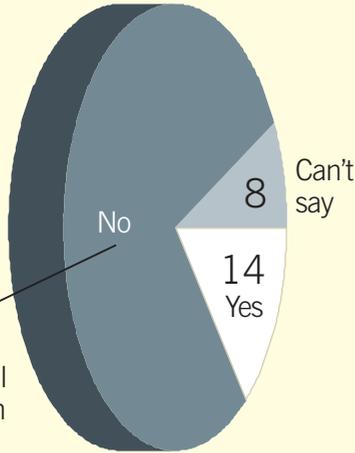


Source: Ficci Economic Affairs and Research Division and *Outlook Business* bureau

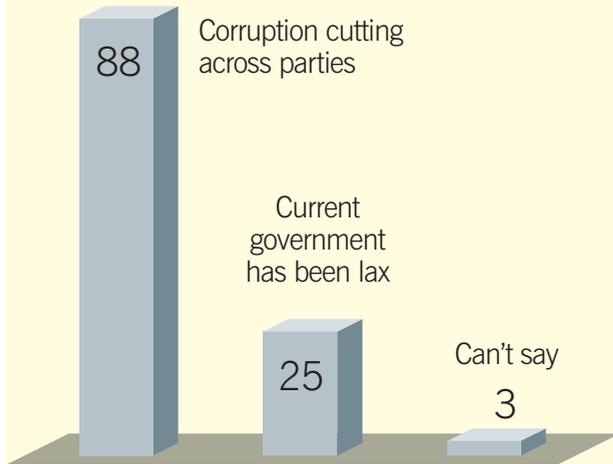
Anna says Jan Lokpal Bill would curb corruption by 65%. Do you think the Bill can deliver what it promises?

78%

feel the Jan Lokpal Bill is not the only solution to corruption.



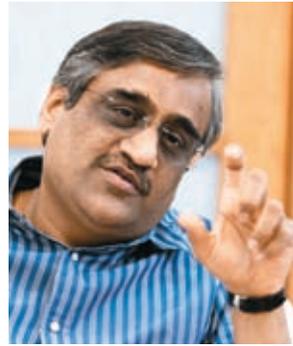
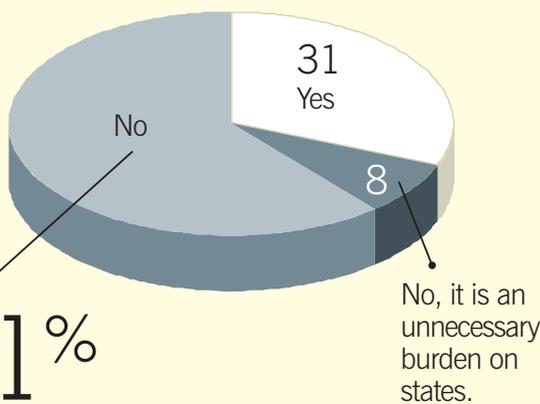
Do you think corruption is a big issue irrespective of the party that rules or would you say the current government has been guilty?



Would you vote for state-funded elections?

61%

will not vote for state-funded polls as it won't curb corruption.



“Sentiments today are definitely weaker than what they were a couple of years ago.”

—KISHORE BIYANI  
Chairman, Future Group



“Top management needs to put in a lot of attention in dealing with these issues [corruption].”

—HARSH GOENKA  
Chairman, RPG Enterprises

exclusive, joint survey to gauge India Inc's mood in the face of slowdown in growth, persistently high inflation and the spate of scams and corruption. As part of the survey, a structured questionnaire was prepared and disseminated electronically to companies across the country. Responses were roughly evenly distributed among the north, south and west, with less than 5% of the participants coming from eastern India.

Over 75 companies participated in the survey, representing a wide sectoral spread as well as a healthy mix of small, medium and large companies. Nearly 45% of the respondents were from heavy industries, including chemicals, pharmaceuticals, cement, infrastructure, consumer durables, construction, and oil and gas, while light industries such as food processing, packaging, paper products and textiles made up another 40%. The remaining was accounted for by the services sector.

The respondents were unequivocal in their disappointment with the current administration. They were nearly unanimous in their view (89%) that there has been a marked slowdown in decision-making within the government. “On contentious issues, historically, decision-making has been slow,” observes Biyani. That’s certainly true—whether it is the implementation of the Goods and Services Tax, policies relating to FDI in multi-brand retail and insurance, or clarity on a new manufacturing policy, industry is still waiting. Even the long-awaited corporate entry into the banking sector has only recently been announced, while the Companies Act is still languishing. Not surprisingly, then, India Inc concurs (92%) that the prevailing political situation will have an adverse bearing when it comes to attracting foreign investment.

Clearly, a crisis of confidence in UPAs “Dream Team” seems to be brewing among corporate houses as less than a fifth said it was still capable of delivering results. Nearly half the responses indicated clearly that faith has been lost.

All these raise a huge question mark over the continuity of



**“A fundamental change is required in aspects of discretionary powers and poll funding.**

—HARSH MARIWALA  
Chairman and Managing Director,  
Marico Industries

**“Unless the government brings the focus back on growth, there is a probability that confidence will dip.**

—DR RAJIV KUMAR  
Secretary General, Ficci

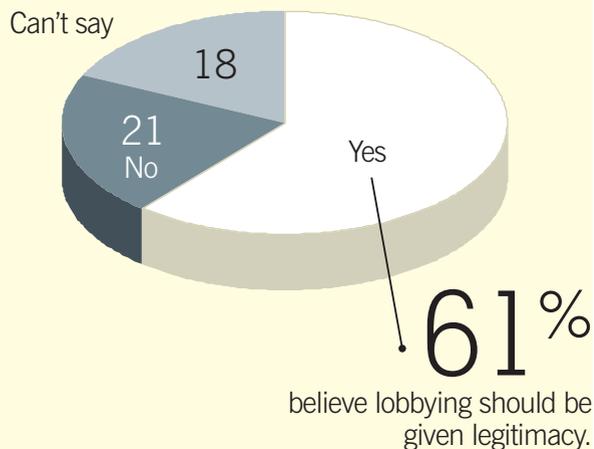
the India growth story, notes Dr Rajiv Kumar, Secretary General, Ficci. “Unless the government brings the focus back on reforms and growth, there is a high probability that business confidence will dip even further,” says Kumar.

It’s already on a slippery slope. While not too many (13%) are expecting a significant slowdown in business, the majority of the responses indicate that growth in business will definitely moderate over the next 12 months. Not that they’re allowing the current political impasse to deter them from continuing with their investment and expansion plans for the year. Nearly two in three responses indicated that companies in India are investing for the future, so expansion and investment plans are on track, still. But India Inc is clearly worried—about 3% of the responses rejected the idea of cash outgo in the current environment, while 27% opted to wait and watch.

### Concerns Over Corruption

When it comes to analysing the cause and effect of corruption, the majority in the corporate world (88%) agrees that the scourge cuts across party lines, while 25% feels that the current government has been lax when it comes to dealing with corruption-related issues. And what leads to corruption? The prevailing nature of law and governance is the biggest culprit, according to 58% of the respondents, while general lax governance and lack of legitimate sources of funding for elections are almost equally to blame, say others. Very few are willing to buy Prime Minister Manmohan Singh’s argument that corruption is the result of the “limitations of coalition politics” and the compromises it engenders. “Corruption was always prevalent in the system, but the depths to which probity in public life has fallen is extremely distressing and, indeed, shameful,” observes Goenka.

Do you believe lobbying should be legitimised like in the US?



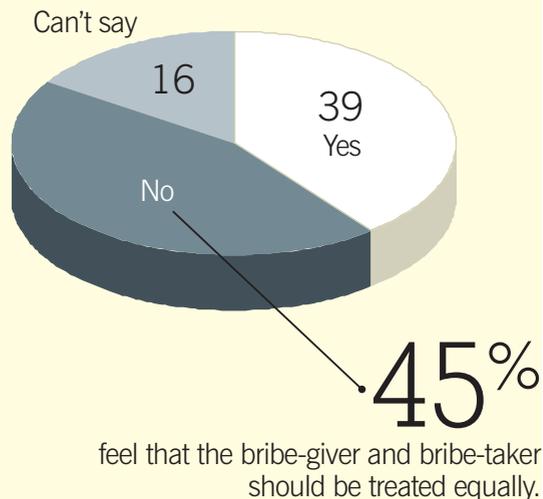
61% believe lobbying should be given legitimacy.

Have you ever paid or been asked to pay a bribe?



53% have paid or been asked to pay bribes for their businesses.

Should the bribe-giver and bribe-taker be treated at par when it comes to punishment?



45% feel that the bribe-giver and bribe-taker should be treated equally.

## UPA II REPORT CARD

- Near double-digit food inflation.
- Sailed through global recession, even though growth rates slipped. Stimulus packages helped.
- FDI in multi-brand retail and hike in foreign investment cap for defence production still to be pushed through.
- Kicked off Unique Identification programme.
- Reforms suggested by Second Administrative Reforms panel still to take off.

with no option but to pay. That's probably also why the majority (61%) of responses are in favour of legitimising lobbying—more transparency equals less chance of corruption, after all. India Inc appears to be a divided house on a number of crucial subjects, though. While over half the responses agreed to having paid or been asked to pay bribes to further their business interests, there were nearly equal numbers on both sides of the fence when it came to deciding whether bribe givers and takers should be at par when it comes to punishment, with a slight bias towards differing treatments. Similarly, opinion is divided on whether business houses are being treated harshly in the 2G scam, compared to politicians.

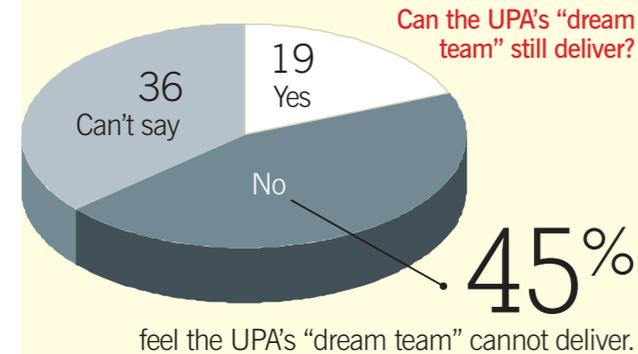
### Hush Money

If it is difficult to quantify the slush money circulating in the system, it's not easy to put a number to the toll that speed money management takes on CXOs' time and mind space. The only certainty: both are very, very high. Concedes RPG's Goenka, "Top management needs to put in a lot of attention in dealing with these issues." The end result—management time is diverted from operational efficiencies and strategies to dealing with these artificial hurdles and how to remove them, adds the CEO of an infrastructure company.

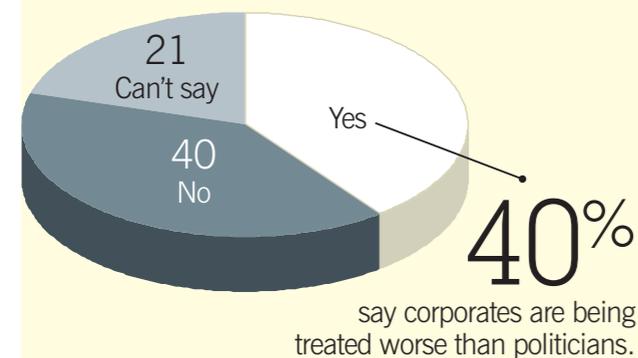
Amcham India Committee on Anti-Corruption Chairman Anand S Dayal agrees that the prevalence of corruption in India is a "business risk" many US companies face. A recently prepared note by the committee points out that American companies face two types of corruption risk in India—bribery demands in dealing with public offices, and undue influence in competing for licences and government procurement contacts. This leads to loss of business opportunity, higher costs of doing business, uncertainty in the business climate and exposure to Foreign Corrupt Practices Act, a US federal law that restrains any US company and its associates from indulging in corrupt practices.

The public debate around the Jan Lokpal Bill may have brought the issue of corruption on top of the national agenda, but most corporate leaders believe it is only the first step. As Goenka puts it, only a concerted effort by policy makers, the government, industry and people at large can help develop a holistic approach to curb the menace. A lot remains to be done.

(With inputs from Krishna Gopalan)



Do you think business houses are being treated harshly compared to politicians in the 2G scam?



Will State-funded elections help resolve the corruption issue? Opinions were divided, although nearly 70% of the responses were against the idea. "A fundamental change is required in aspects of discretionary powers and poll funding," says Mariwala. Respondents' reasons for the negative reply varied: while the majority felt it would serve no purpose in curbing corruption, others believed it would place an unnecessary burden on the exchequer.

Equally interesting is the reaction to the Jan Lokpal Bill—and it speaks volumes for the studied silence India Inc maintained during the entire Anna Hazare and fast-unto-death issue. Nearly 78% of the responses from the C-suites were categorical that the Jan Lokpal Bill is not the only solution to curb corruption; only 14% were convinced that the Bill can deliver its promised 65% reduction in corruption. "At the end of the day, how many cases can Jan Lokpal deal with?" questions the CEO of an FMCG company. The law alone cannot be the only answer to the problem of corruption, adds Biyani.

### A House Divided

How well does India Inc's own conduct stand up to scrutiny? Not surprisingly, respondents are eager to absolve themselves of any misconduct: most (65%) say if the administrative machinery were "clean", the question of business houses abetting corruption would not arise. Still business houses appear to be remarkably pragmatic. While 22% agree that business vested interests is the driving force behind corruption, 32% defend themselves by pointing out that corporates are just conduits

- Connecting all villages by broadband in three years: slower than envisaged, but progress in the right direction
- Subsidy targeting needs to improve still: little movement on direct tax transfers
- Black money: treaties have been inked, but nothing concrete to show, including implementation of revised Swiss treaty. When Supreme Court vented its ire at the government for not doing much, it appointed a Court-monitored committee.
- Lok Pal Bill: the government version paid lip service to the idea of an ombudsman against corruption. It took an Anna Hazare to get the government to change its stance.

- Land Acquisition, R&R Bill: the Bill is finally tabled after a long wait.
- Right to Education: landmark Bill passed, but implementation leaves much to be desired.
- Food Security Bill: landmark Bill promised and is still at drafting stages.
- A moderate goods and services tax (GST) from April 2011: states are still not on board. Deadlines come and go.
- New Companies Act: no movement for almost a year as government wary of hurting corporate sentiment through steps like CSR levy, independent directors for all companies and mandatory rotation of auditors.

# GROWTH PANGS

INFLATION AND INVESTMENT SLOWDOWN ARE HITTING INDIA'S GDP. THE END OF THE DOUBLE-DIGIT DREAM?

## KANDULA SUBRAMANIAM

IN LATE 2006, PRIME MINISTER MANMOHAN SINGH called some of his confidants to understand one point: Why was the media focusing only on controversies and not dedicating enough space to how well the economy was doing? Singh's gently-voiced concern did the trick. Very soon, articles started appearing regularly in the media on how the economy was clipping along at over 9%, how the next wave of reforms was about to be unleashed and how India was well on track to achieve and sustain double-digit economic growth.

But that was then. Now, there's no one willing to buy the government's rose-tinted vision of the future—indeed, the situation is grim enough for the government to have stopped trying to plug its achievements. Forget about double-digit growth, the story now is of an economy slowing down. Of how there is a freeze on policy decisions; how investment decisions are being held back; and how bank lending has become more difficult.

On August 30, CSO data on the first-quarter growth numbers reflected this sense, in numbers. After withstanding the global crisis of 2008, there's a 1.1% drop in GDP growth in the first quarter of this fiscal as compared to growth seen during the same period last fiscal—a 5.6 percentage point drop in mining, 6.5 percentage point drop in construction

and 3.4 percentage point decrease in manufacturing. Reacting to these numbers, Finance Minister Pranab Mukherjee made a guarded statement on that day: These numbers were "disappointing" and there were still uncertainties regarding the global scenario and the monsoon. And at a conference two weeks later, he went on to add that "factors behind recent price hikes are yet to be pinpointed."

For the FM, Q3 and Q4 growth will play a significant role in formulating the Budget for next year and achieving the fiscal deficit target of 4.6% of GDP. This year, unlike the previous, he doesn't have a cushion of spectrum auction monies. Also, this year, tax refunds have been frontloaded to the tune of ₹46,847 crore, compared to last year's Q1 refunds of ₹15,758 crore. So, while the FM seems confident of a recovery in growth, the question remains: where is this growth to come from? Manufacturing, services or a huge upswing in agriculture?

### Number Speak

The numbers do look a bit grim. In its latest report on the outlook for the current fiscal, the Prime Minister's Economic Advisory Council (PMEAC)—headed by Singh's close confidant C Rangarajan—spelt out the facts in no uncertain terms. The current inflationary situation, coupled with a slowdown in investments, had forced it, it said, to scale down the Janu-

## SLOWDOWN IN GOVERNMENT SPENDING

Government spending has slowed down when compared year on year.

|                                       | SPENDING IN Q1 OF 2010 | SPENDING IN Q1 OF 2011 | (DIP)/ INCREASE |
|---------------------------------------|------------------------|------------------------|-----------------|
| Transfer to states and UTs            | 12,839                 | 11,845                 | (994)           |
| Dept of School Education and Literacy | 12,369                 | 14,414                 | 2,045           |
| Power Ministry                        | 865                    | 182                    | (683)           |
| Ministry of Road Transport            | 4,474                  | 5,452                  | 978             |
| Ministry of Rural Development         | 23,292                 | 17,543                 | (5,749)         |
| Department of Land Resources          | 878                    | 151                    | (727)           |
| Department of Drinking Water Supply   | 3,168                  | 461                    | (2,707)         |
| Railway Ministry                      | 3,600                  | 2,924                  | (676)           |
| Total                                 | 61,485                 | 52,972                 | (8,513)         |

Note: in ₹cr  
Source: Finance Ministry

## SECTORWISE GROWTH

Growth too is on the downswing.

| SECTORS                                  | Q1 (2010-11)* | Q1 (2010-11)** | Q1 (2011-12) | 2011-12*** |
|--|---------------|----------------|--------------|------------|
| Agriculture, forestry & fishing          | 2.4           | 2.4            | 3.9          | 3.0        |
| Mining & quarrying                       | 7.1           | 7.4            | 1.8          | 6.0        |
| Manufacturing                            | 12.7          | 10.6           | 7.2          | 7.0        |
| Electricity, gas & water supply          | 5.6           | 5.5            | 7.9          | 7.0        |
| Construction                             | 7.7           | 7.7            | 1.2          | 7.5        |
| Trade, hotels, transport & communication | 12.6          | 12.1           | 12.8         | 10.8       |
| Financing, insurance & real estate       | 9.8           | 9.8            | 9.1          | 9.8        |
| Community, social & personal services    | 8.2           | 8.2            | 5.6          | 8.5        |
| GDP growth                               | 9.3           | 8.8            | 7.7          | 8.2        |

Source: MoSI, PMEAC  
Note: \*based on old series; \*\*based on new series of IIP; \*\*\*PMEAC's projections; all figures in %

ary 2011 growth projections from 9% to 8.2%.

The trigger for the scaledown could have been the putting on hold of some greenfield projects (ultra mega power projects in Orissa and Jharkhand and the Lavasa project), all of which have a huge multiplier effect on other segments of the economy. Still, it's a huge cut, especially coming within barely six months of the initial projection. It's even more significant considering that an upswing in manufacturing and related activities will happen only with a lag effect. That is, investment decisions taken today will take time to reflect in the growth numbers.

In fact, the committee states clearly that the government seems to have missed the bus by not cashing in on both, its thumping victory in the 2009 general elections (read: no coalition compulsions on the economic policy front) as well as having weathered the global crisis fairly well. Still, it softens the criticism with some consolation—even an 8.2% GDP growth will be “high and respectable”, given the “current world situation”.



“Our forecast on the GDP front is that the economy will grow at 7.7-8%.”

—DK JOSHI  
Chief Economist, Crisil



“There is too much negativity. There are investments into sectors like SME that will ensure a growth rate of about 7%.”

—PRONAB SEN  
Principal Advisor, Planning Commission

### Danger Ahead?

But the story is not about this fiscal alone. Are these the first signs of a secular decline in growth rates? Samiran Chakraborty, Regional Head of Research at Standard Chartered Bank, says the signals are that overall growth for 2011-12 will be under 8%, but clarifies it won't slip below an even more worrying 7%. That's a view seconded by DK Joshi, Chief Economist, Crisil. “Our forecast on the GDP front is that the economy will grow at 7.7-8%,” he says.

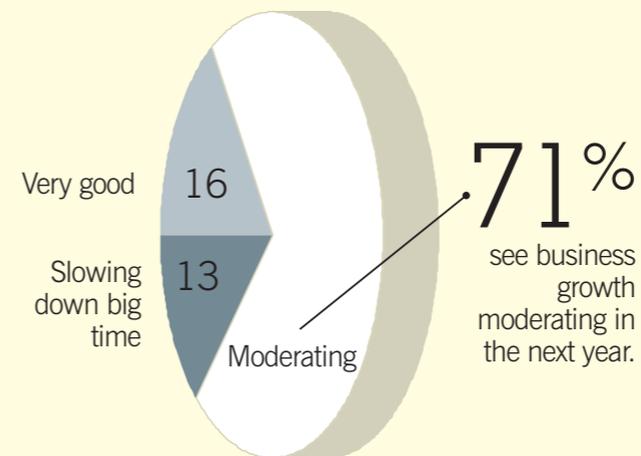
The government's projections aren't hugely hopeful either. Based on PMEAC projections and CSO actuals for Q1, major pick up is expected only in mining and construction, while other sectors don't show major variations in numbers. The gamble, though, is the 7% growth forecast for the manufacturing sector. While that is far lower than the previous years, it may still be a trifle too optimistic.

Of course, it's important to note that this year's GDP data is based on a different base (2004-05), capturing more realistic numbers in the index of industrial production. In other words, sales of, say, VCRs may not be reflected in the new database, which is why there is a major swing in some IIP numbers (the 2010-11 index for capital goods, for instance, nearly halved from 31.9 to 17.2 with the new base, while the consumer goods index went up from 9.2 to 11.5). Going by the old data, the dip in GDP growth is even starker.

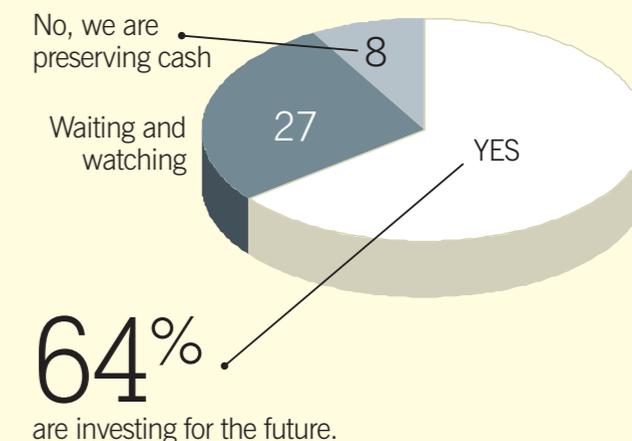
### Where Are We Headed?

Pronab Sen, Principal Advisor in the Planning Commission, isn't too worried about the manufacturing sector. “There is far too much negativity” regarding those growth rates, he says. “There are investments happening in sectors like SME that will ensure a growth rate of about 7%,” Sen adds. Will that

How do you see growth in your business in the coming 12 months?



Are you moving ahead with your investments/ expansions for the year despite the current political impasse?



suffice? Sen believes the bigger issue is when will the new investment cycle start that will bring in big-ticket investments. “If this doesn't start happening by the end of this year, there is reason to be concerned for the next fiscal.”

The Keynesian-Joan Robinson theory suggests that the government has a major role to play in reviving the economy. The government has done that in the past through the various stimulus packages. But now, the numbers on government spending are a little worrying. According to finance ministry documents, the Plan expenditure of ₹84,124 crore during April-June 2011 represents a negative growth of 4.5% compared to the same period the previous year, when spending was ₹88,060 crore. There's also been a significant dip in spending on water supply, rural development, railways, power, etc. (See table)

What's more, recent reports suggest that even CMIE has projected a 55% fall in fresh investment announcements during Q1FY12 compared to Q1FY11. While the impact of that will show up only in next year's numbers (CMIE data is based on announcements), it is cause for some concern. The PMEAC report points out that even a shave of 2-3% of gross fixed capital formation (the rate of asset creation or investments in a given year based on announcements actually bearing fruition) can result in a 0.75-1% drop in economic growth.

The Reserve Bank's stance to contain inflation and prevent

the economy from overheating hasn't helped investor sentiment. Since October 2009, the central bank has raised the repo rate 11 times, a cumulative 325 basis points. The impact of that shows in the significant dip in construction activity, which is perhaps why Chakraborty says the 7.5-8% overall growth “actually feels like 6% in urban centres”. The Finance Minister says that all over the world “central banks have been forced to raise policy rates repeatedly, potentially compromising growth in the short-term.”

So, what is the mainstay for growth? In the fine print is an assumption that the government expects the services sector to grow at 10% this fisc. Is there a chance that that may not happen, especially given the decline in construction and fresh investments as well as the US' own job creation plans? Economists such as Crisil's Joshi believe contraction in the construction industry won't have a multiplier effect on the sector, so it should be secure. If that happens, and industry (as a whole) grows at 7.1% and agriculture at 3%, then the 8.2% target is achievable. That is, assuming the monsoon stays its course and nothing happens to throw things off track. Joan Robinson was more right than she knew when she remarked that “whatever you rightly say of India, the opposite is also true”.

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