Impact of Global Recession on Indian Economy with Special Reference to India's Exports

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ABSTRACT

The ripples of crumbling USA market can be witnessed all over the world. Whatever happens in America, its impact can be felt way beyond the United States. Indian economy is no exception to this rule. World over, companies are biting dust including lions of financial world like, Lehman Brothers, Bear Sterns, AIG, Merill Lynch etc. It has been an unprecedented collapse of financial giants of American economy. India, on the other hand, is far more fortunate. Many factors are responsible for relatively less negative impact on Indian economy. In the age of globalization, no country can remains isolated from the fluctuations of world economy. Heavy losses suffered by major International Banks is going to affect all countries of the world as these financial institutes have their investment interest in almost all countries.

The present study takes into account the impact of global recession on India with special reference to India's exports. The study tries to present certain measures or steps to tackle recession in India. The study highlights the impact of recession on India's exports from different industrial sectors. The paper highlights the measures taken by the Centre to curb recessionary pressures.

AN OVERVIEW

The fear of a recession looms over the United States. And as the cliche goes, whenever the US sneezes, the world catches a cold. This is evident from the way the Indian markets crashed taking a cue from a probable recession in the US and a global economic slowdown. Weakening of the American economy is bad news, not just for India, but for the rest of the world too.

An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.

The defaults on sub-prime mortgages (home loan defaults) have led to a major crisis in the US. Sub-prime is a high risk debt offered to people with poor credit worthiness or unstable incomes. Major Banks have landed in trouble after people could not pay back loans.

The ripples of crumbling USA market can be witnessed all over the world. Whatever happens in America, its impact can be felt way beyond the United States.

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Indian economy is no exception to this rule. World over, companies are biting dust including lions of financial world like, Lehman Brothers, Bear Sterns, AIG, Merill Lynch etc. It has been an unprecedented collapse of financial giants of American economy. India, on the other hand, is far more fortunate. Many factors are responsible for relatively less negative impact on Indian economy. The slow pace of financial reforms taking place in India, cautious approach towards permitting foreign investments in Indian business sectors, numerous bureaucratic hurdles and regulatory constraints have turned out to be advantageous for India.

PAST RECESSIONS IN USA

The US economy has suffered 10 recessions since the end of World War II. The Great Depression in the United was an economic slowdown, from 1930 to 1939. It was a decade of high unemployment, low profits, low prices of goods, and high poverty.

The trade market was brought to a standstill, which consequently affected the world markets in the 1930s. Industries that suffered the most included agriculture, mining, and logging.

In 1937, the American economy unexpectedly fell, lasting through most of 1938. Production declined sharply, as did profits and employment. Unemployment jumped from 14.3 per cent in 1937 to 19.0 per cent in 1938.

The US saw a recession during 1982-83 due to a tight monetary policy to control inflation and sharp correction to overproduction of the previous decade. This was followed by Black Monday in October 1987, when a stock market collapse saw the Dow Jones Industrial Average plunge by 22.6 per cent affecting the lives of millions of Americans. The early 1990s saw a collapse of junk bonds and a financial crisis. The US saw one of its biggest recessions in 2001, ending ten years of growth, the longest expansion on record.

From March to November 2001, employment dropped by almost 1.7 million. In the 1990-91 recession, the GDP fell 1.5 per cent from its peak in the second quarter of 1990. The 2001 recession saw a 0.6 per cent decline from the peak in the fourth quarter of 2000.

The dot-com burst hit the US economy and many developing countries as well. The economy also suffered after the 9/11 attacks. In 2001, investors' wealth dwindled as technology stock prices crashed.

The paper looks in to the impact of US recession on India's exports. The worries for exporters will grow as rupee strengthens further against the dollar. But experts note that the long-term prospects for India are stable. A weak dollar could bring more foreign money to Indian markets. Oil may get cheaper brining down inflation. A recession could bring down oil prices to $70.

Exports in October 2008 were contracted by 15 percent on a year-on-year basis. This should not surprise as the OECD economies that account for over 40 percent of India's export market have been slowing for months. With the US and EU already entering a phase of recession, India's export growth had to fall sharply. It must be noted this growth contraction has come after a robust 25 percent-plus average export growth since 2003. A low-to-negative growth in exports may continue for sometime until consumption increases in the developed economies.

IMPACT ON INDIA

In the age of globalization, no country can remains isolated from the fluctuations of world economy. Heavy losses suffered by major International Banks is going to affect all countries of the world as these financial institutes have their investment interest in almost all countries.

As of now India is facing heat on three grounds:

- The Share Markets are falling everyday, (However on the last day of September 2009 the Sensex was above 17000)
- Rupee is weakening against dollars and
- Our banks are facing severe crash crunch resulting in shortage of liquidity in the market.

Actually all the above three problems are interconnected and have their roots in the global crisis.

1) According to Tata TD Waterhouse, in the aftermath of latest events, investment decisions are delayed and FDI and FII flows are seen being impacted. The U.S. is a major investor in both portfolio investments as well as FDI.

2) 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.

3) The US slowdown has immensely hit the mid-sized IT companies and also the big players to some extent. On the higher end, we 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.

4) The problems of US slowdown have 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.

5) A global depression is likely to result in a fall in demand of all types of consumer goods. In 2007-08, India sold 13.5% of its goods to foreign buyers. A fall in demand is likely to affect the growth rate this year. Our export may get affected badly.

6) The impact of global slowdown on India's economy is impacting the employment scenario in India. In fact the rising joblessness in India has assumed worrisome proportions. With overall economic growth sharply slowing down, the ranks of those without work are growing by the day. Five hundred thousand people were rendered jobless between October and December 2008, according to a first of its kind survey conducted by the Ministry of Labour and Employment. With the global slump, the fortunes of those who work in the export industry have become equally bleak. India lose up to 1.5 million jobs in this sector in the six months to March 2009.

7) Financial meltdown has already started showing its impact on Indian Textile Industries. Many export orders are getting cancelled and labourers depending on this Industry are almost in the verge of loosing their livelihood. Over 90 percent units in the textile and clothing are in the SME sector, which is also the most labour intensive sector in our manufacturing industry as a whole. The entire textile value chain is currently undergoing a grave crisis. If this situation continues, lakhs of workers who earns their living through

this industry will be pushed into BPL and it's high time that the impact of recession on labour and livelihoods in textile and clothing sector in general and Handloom sector in particular should be discussed and necessary policies and practices should be put in place to prevent further damage

8) Indian car industry is one of the most promising car industries across the globe. It has gradually strengthened its foothold in the international arena as well. The country is dealing with many car manufacturers, dealers, and associations in various different countries including U.S. From some countries, India imports cars and car components and to some India exports. With this, the global recession is obvious to have its impact on the Indian car industry. Though India has witnessed a growing customer base, it has not inoculated them from the global crisis. The crippling liquidity and high interest rates have slowed down the vehicle demand. However, the fall down started in July with a decline of 1.9 percent and thereafter the industry saw a major slowdown in October 2008. Business Analysts reported that Indian car market had recorded a continuous growth of about 17.2 percent over the last few years but this year the recession has brought the growth to about 7-8 percent. Be it Tata Motors or Maruti Suzuki or even Mercedes-Benz, the car market has gone down to a tremendously negative terrain. Tata has reported that its profit fell from 34.1 percent to 3.47 billion rupees because of the slower growth in the industrial production. Further, the company has also recorded a 20 percent decline in the sales as compared to last year. Maruti Suzuki reported a 7 percent decline in sales due to rising cost of the materials and a falling rupee value. Even Mahindra & Mahindra, the India's largest SUV and tractor manufacturer, is not immunized, showing profit fall of 20.6 percent.

9) In the recent months, banks and car financers have disbursed the approved loan because of the cash crunch. Payments from the OEMs (Original Equipment Manufacturer) have also been delayed and in most cases banks have deferred or disbursed the approved loan. OEMs take this loan from banks and financers for establishments, capacity expansions, or even for the requirement of high-end equipments for car designing and production. In short, the present global recession has bang the Indian car industry with a heavy storm

10) The tourism sector has been affected, too. Hotels have already reported 20-25 percent cancellation from international tourists who were booked to visit over the next one year

WORST FOR INDIAN EXPORTS IS SEEMS TO BE OVER

The contraction in exports following recession in major markets in the US and Europe was 29.2 per cent in May 2009, while it was 33.2 per cent and 33.3 per cent in April 2009 and March 2009, respectively.

The Sensex is on rising trend. In the first week of August 2009, the Sensex was 14 months high on strong global cues.

The steps taken by the Government has helped the embattled exporters and the contraction in overseas sales is bottoming out. The Government had announced measures like two per cent interest subsidy, enhanced insurance cover and service tax exemption on foreign agent commission. In the Budget 2009, too, the Centre announced more measures like enhanced allocation for Market Development Assistance scheme and abolition of fringe benefit tax.

India's exports were estimated at USD 168.70 billion in 2008-09 showing an increase of 3.4 per cent over the previous fiscal, largely because of a good showing in the first six months of FY'09. For instance, Export of organic spices to Europe is seen withstanding the recessionary pressures and growing, while exports to US market have slowed a bit, traders said. Turning organic seems to have helped spice farmers resist the recessionary pressure in pepper, coffee and cashew, while cocoa has tanked a little due to lower demand for chocolates

MEASURES TAKEN BY CENTRAL GOVERNMENT TO CURB RECESSION

Seeking to address the problems being faced by the exporting community due to continued global slowdown and recession especially in the U.S. and European Union markets, Union Finance Ministry came out with a 'package of sops' for exporters including extension of tax holiday for one more year for export oriented units (EOUs), software technology parks (STPs) and electronic hardware technology parks (EHTPs) and extension of the interest subvention scheme till March 2010.

The Government extended the time period for two per cent interest subsidy and insurance cover up to March 2010, besides raising the market development assistance allocation. The interest subvention on pre-shipment credit for seven sectors, including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products as also the small and medium exporters will now be available till March 31, 2010. The scheme was to end in September this year. The allocation for Market Development Assistance scheme has been enhanced for the current fiscal by 148 per cent over 2008-09 to Rs. 124 crore. The adjustment assistance scheme of the Export Credit Guarantee Corporation (ECGC), which covers 95 per cent of the badly hit sectors, was extended till March 2010. The government had earlier announced Rs. 350 crore scheme for the Export Credit Guarantee Corporation (ECGC), which expires on June 30. to support the micro, small and medium enterprises sector, which was affected by the slowdown in exports, the government would facilitate the flow of credit at reasonable rates, by providing a special fund out of Rural Infrastructure Development Fund to the Small Industries Development Bank. This fund of Rs. 40,000 crore will incentivise banks and state finance corporations to lend micro and small enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.

The fiscal and monetary measures taken under the second package are targeted to increase liquidity for pushing up demand, addressing the concerns of the industries and provide incentives to exporters that have been hit by the recessionary conditions.

- The first objective is aimed to be met by reducing the key interest rates further the CRR has been cut by point 5 percent, bringing it down to 5%. The repo and the reverse repo rates have been reduced by1% each, bringing them down to 5.5 % and 4% respectively. All this will leave more funds with the banks to enable them to lend more at lower rates of interest.
- The second objective will be met by curbing cheap imports. That explains why certain duties on import of cement, Zinc and Ferro-alloys, TMT bars etc.

which were removed earlier to fight inflation, have been restored.

- The third objective to boost exports is hoped to be met by a twin stroke-increasing duty drawbacks, which the exporters claim against the taxes paid on inputs needed to manufacture the item for export and extend the duration of the scheme up to the end of December this year.

The second package will increase availability of funds with banks and non-banking financial companies by 75,000 crore. The state governments too have been allowed additional market borrowings of Rs. 30,000 crore. It is now for the Banks and the big industries to fulfill their share of responsibilities and ensure that the measures taken are effective. They need to move hand in hand with the government.

IMPACT OF RECESSION ON EXPORTS IN DIFFERENT SECTORS OF INDIAN ECONOMY

The industries most affected by weakening demand were airlines, hotels, real estate. Besides this,Indian exports suffered a setback and there was a setback in the production of export-oriented sectors.

1) Merchandise exports : The country's exports fell by 9.9 per cent to $11.5 billion in November 2008, as compared with $12.76 billion in the same month in 2007. In October 2008, exports declined by 12.1 per cent for the first time in more than five years. Higher base effect, as exports grew at 30 per cent in November 2007, is also cited as another reason for the dip in exports, Economists expect that the slowdown in exports will continue in the coming months. However, in rupee terms, overseas sale of Indian goods expanded 12 per cent, which could be attributed to the 26 per cent depreciation of the Indian rupee against the US dollar in the 12 months up to November 30, 2008. Dip in India's exports comes at a time when other Asian economies are also having difficulty in maintaining a healthy growth rate in selling goods to overseas markets. China, Asia's fastest growing economy, recorded a 2.2 per cent dip in exports for the first time in seven years. Singapore's exports also posted the biggest contraction in six years during November, news agency Bloomberg said.

2) Iron Ore Mine Exports : According to data collated by the Federation of Indian Minerals Industries (FIMI), India's iron ore exports declined 13.31 per cent as economic recession affected global demand for the ore as demand for steel fell. Total exports plunged to 55.8 million tonnes during April 1 - December 15 of the current fiscal compared to 64.38 million tonnes during the corresponding period last year. Shipments, however, witnessed a marginal decline of 3.81 per cent to 5 million tonnes during the first fortnight of December from 5.2 million tonnes seen during the same period last year. Total shipments from Mormugao port in Goa during the first fortnight of December dipped 27.18 per cent to 20.84 million tonnes over that seen during the corresponding period last year. Exporters in Goa ship mainly low grade iron ore from Karnataka and Goa to Chinese steel mills.

3) Shrimp Exports : Recession in Europe has taken a toll on 'luxury' shrimp consumption during 2008, which could have serious implications for Indian seafood exports in one of its biggest export destinations. The retail chain segment has reduced its orders significantly across Europe and shrimp stocks are said to be piling up as a result of consumers' lessening purchasing power and reluctance to buy comparatively expensive products. According to the report of Seafood Exporters Association of India

(SEAI) demand is decreasing in all major shrimp import markets. Shrimp, a major component in the seafood export basket, seems to be the worst hit. Shrimp exports account for more than 50 percent of the total seafood exports in both volume and value. Export of shrimp has fallen by 6 percent in volume and 15.5 percent in value during the first half of 2008-09. Unit realization of the species has fallen to $6.8 per kg as against $6.9 per kg registered during the first half of 2007-08.

4) Handicraft Exports : Exports of handicrafts from the country have been continuously witnessing a sharp dip, more so since December 2008 and the plunge has continued in the months of January and February, more so to do with economic turmoil and the resultant recessionary trends. For the current fiscal (2008-09), beginning from April to February, exports of handicrafts have fallen by a staggering 54.73 percent to US $1.35 billion. From amongst handicrafts, the highest negative growth generators are textile, scarves and embroidered goods. Export of hand printed textiles and scarves fell sharply from $422.51 million to $208.06 in the same period of the previous fiscal to fall by a drastic 50.76 percent. Shipments of embroidered and crocheted goods also fell from $1,031 million to $427.38 million, down 58.55 percent. This drastic fall has taken place despite the government having announced a number of measures for the handicraft industry which employs around seven million craftsmen and ships 50 percent of its exports to the markets of the US, which is its biggest overseas market.

5) Leather Exports : The economic slowdown in US and Europe has hit the Uttar Pradesh leather industry hard. In spite of a cheaper rupee, the demand is falling, leaving the exporters petrified. So far, the leather industry, concentrated in Kanpur and Agra, had annual revenue of Rs 4,500 crore and enjoyed an annual growth of 18 to 20 per cent. But this year, there is an altogether a different story with the industry sliding down. In many cases, goods are lying at ports and the buyers are not releasing the consignments," he added. The sudden drop in demand has led to accumulation of stocks which can't be sold. The products are made according to standards and specifications in Europe and America, of which there is not much demand in India. Other export industries of Uttar Pradesh like silk, carpets and brassware are also facing a similar situation.

6) Car Exports : According to the figures of Society of Indian Automobile Manufacturers (SIAM), Indian car exports recorded a substantial year-on-year growth of 57% in FY 2008-09. In FY 2008-09, 331,539 cars were exported from India as compared to the export of 211,112 cars in FY 2007-08. Hyundai, the largest car exporter of India, exported 235,345 Units and thus, recorded a growth of 63% in exports against 144,440 Units in FY 2007-08. Maruti Suzuki, the market leader in India, stood at the second spot, recording merely 32.58% increase in its exports which were at 68,834 Units. The prime reason for the car exports from India was the launch of new models by the car makers. In 2008, Hyundai and Maruti introduced their new models which include Hyundai's i20 and Maruti's A-Star. The decline in the value of rupee that declined over 20% in FY 2008-09 made the Indian cars relatively inexpensive in the overseas market; thereby, further boosting the car exports from India.

7) Two Wheeler Exports : Indian two-wheeler segment also saw substantial increase in exports. In FY 2008-09, total 1,004,174 units of two wheelers were exported, representing an increase of 22.50% from 819,713 units in FY 2007-08.

As a result, total vehicle exports from the country during the year surged by 23.60% at 15,30,660 units whereas in FY 2007-08, the export figure stood at 12,38,333 units.

8) Spices Exports : Spices exports from India suffered in the second half of the last financial year due to recessionary conditions in importing countries and higher prices. According to sources, the impact will be more severe in the coming months, especially in the first half of 2009-10. The present global turmoil has badly affected the Indian spices export sector especially to Europe and USA. Traditional importers of Indian spices like Canada have considerably reduced their off take, while there had been an improvement in exports to non-traditional countries like Japan, Korea and Taiwan. The much higher prices of Indian items is also a major reason for the setback in quantitative terms. It is noteworthy that 105.5 per cent of the target set by the board had been achieved in value terms, while the volume wise achievement was 93.1 per cent. The board had set a target to export 425,000 tonnes of spices valued around Rs 4,350 crore in 2008-09.

9) Fish Exports : The worldwide recession has also taken a toll on the fishing industry of Veraval in Gujarat. Veraval, which is considered to be the hub of fishing exports, is now going through its worst possible phase as fish traders report a dip of almost 30 percent in overseas demand. Fisheries are one of the main export oriented Industries in India, as it earns billions of dollars from world markets through its fish and other seafood exports

10) Coffee Exports : Indian coffee is losing its competitive edge in the global market on account of exorbitant prices. It is commanding a high premium which global buyers, hit by the ongoing recession, are unwilling to pay. As a result, coffee exports have declined over 21 per cent during the first 10 months of the current coffee year (October 2008-September 2009). Exports between October 2008 and July 2009 stood at 152,681 tonnes, as against 194,058 tonnes in the corresponding period of the previous coffee year.

11) Textile Exports : Releasing the study, "India Textile Scenario", Assocham president Mr Sajjan Jindal said that about one million jobs were lost in last few months as orders from the recession-hit markets like Europe and the US fell. Textile exports during April-March registered a decline of 1.71 percent to $21.75 billion as compared to $22.13 billion in the like period last year.

12) Apparel Exports : The Indian apparel industry is no longer feeling buoyant with exports falling sharply following weak demand in the US. Garment exports are estimated to fall short of the targeted $9 billion by at least $1.5 billion this year. Exports of readymade garments from India tumbled 6.59% in September 2008 over the same period last year as a direct consequence of the global economic slowdown.

13) Cashew exports : Cashew exports have dipped by over 20 per cent in June to Rs 237 crore due to fall in demand from the US and the European Union amidst the global economic slowdown. According to the data provided by the Cashew Export Promotion Council (CEPC), the country exported cashew worth Rs 237.01 crore in June compared to Rs 297.13 crore in the same month last year. India exports about 45 per cent of cashew to America. The slowdown has also resulted in a fall in cashew prices from Rs 276.81 per kg in June last year to Rs 262.32 per kg in June this year. In terms of volume, the exports declined by nearly 16 per cent to 9,035 tonnes compared to 10,734 tonnes in June 2008. In the first three months of the current fiscal, the exports were down by 11.57 per cent to Rs 698.46 crore against Rs 789.89 crore during the same period last year.

14) Cotton Exports : India's cotton export falls below the estimates due to sluggish demand across global markets In 2008, the biggest importer China bought about 60 percent of the total Indian cotton export, but this year it has marginalized its contracts and is buying from internal traders due to higher prices in India.

15) Pharma Exports : The adverse impact of the recession has started showing on the pharma industry with the value of exports in dollar terms down 2 per cent, perhaps for the first time in recent years, during October 2008. According to monthly analysis of India's pharmaceutical exports between April and October 2008 prepared by the Pharmaceutical Exports Promotion Council the exports of pharmaceuticals and fine chemicals stood at $646.41million at the end of October 2008 compared with $659.21 million in the year-ago period. This marked a 1.9 per cent decline.

16) Diamond Exports : The Indian diamond export industry has been growing at 5 to 6% over the last few years, but has dropped by 8% in 2008-09 when compared to 2007-08 (US$ 13.02 billion to 14.2 billion).This drop has been attributed to the fall in demand in the United States and Europe due to the global economic meltdown. Diamond exports account for over 75% of the total income from the gem and jewellery sector.

17) Idol Exports : Durga Puja, a festival of Hindu Goddess Durga, which begins generally in September, is the main religious festival of Bengali community. Every year Bengalis living overseas place orders months before the festival but this year the orders have declined. This year sales have declined. Some of the orders have been cancelled. Previous years Bengalis idol makers received export orders of 40-42 idols but this year they have received orders only for 31-32 idols as per Kumartuli Mritshilpa Sanskriti Samity, an association of idol makers.

INDUSTRIES WHICH ARE NOT OR LEAST AFFECTED BY RECESSION

There were certain industries which attained new heights even in the period of recession. Some of them are listed below:

1) Railways : The freight traffic of Indian Railways has continued to grow in the last few months, albeit at slow pace, indicating only marginal impact of the global recession on the Indian economy. The Railways registered 13.87% growth in revenue to Rs 57,863.90 crore in the first nine months ended December 31, 2008. While total earnings from freight increased by 14.53% at Rs 39,085.22 crore during the period, passenger revenue earnings were up 11.81% at Rs 16,242.44 crore. The Railways have enhanced freight revenue by increasing its axle loading, improving customer services and adopting an innovative pricing strategy.

2) Public Sector Banks : As seen in the private sector much of the job cuts due to global slowdown, its the PSU sector Banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security.

3) Health Care : Healthcare, which is a US$ 35 billion industry in India, is expected to reach over US$ 75 billion by 2012 and US$ 150 billion by 2017. The healthcare industry is interestingly poised as it strives to emerge as a global hub due to the distinct advantages it enjoys in clinical excellence and low costs

4) Luxury Products : According to recent research on luxury trends, the number of families with annual incomes of more than $230,000 will have more than doubled from 20,000 in 2002 to 53,000 by the end of 2005 and will grow to 140,000 by 2010. So luxurious product market will not be affected and in fact to maintain the lifestyle those affluent will spend more for it.

5) Telecom : Telecom sector, according to industry estimates, year 2008 started with a subscriber base of 228 million and will likely to end with a subscriber base of 332 million – a full century! The Telecom industry expects to add at least another 90 million subscribers in 2009 despite of recession. The Indian telecommunications industry is one of the fastest growing in the world and India is projected to become the second largest telecom market globally by 2010.

6) Education : Huge government as well as private investment is likely to flow into the Indian educational system. D E Shaw, a US$ 36 billion, global private equity firm is planning to invest around US$ 200 million in the Indian education sector. We will see more and more foreign educational institutions to come up in India in recent coming years.

FEW EXAMPLES OF RECESSION

- Tata Motors owes more than Rs 1,200 crore in unpaid dues to its suppliers accumulated over the past few months
- Gems & jewellery sector witnessed the maximum decline in employment with 11.9% of their work force losing jobs.
- India Inc's fund raising via IPO in 2008 dips to 3-yr low. India Inc's capital mobilisation through initial public offering has hit rock bottom as the total amount raised via this route in 2008 aggregated to $4,509 million, the lowest in the last three years, says a report. The total fund mopped up through IPO in 2008 was $4.51 billion, 18.34 per cent lower than the amount raised in 2005. Compared with 2007, fund raising has dipped by 54.55 per cent. Fund raising activity through IPO reached its peak in 2007, when a whopping $9,920.65 million was garnered.
- NASSCOM lowers IT services exports growth to 17% in FY09. NASSCOM said software and service exports will grow 16-17% in 2008-09 to $47 billion, lower than earlier estimates of $50 billion as the global economic slowdown dampened demand.
- Truck sales plunged 65% to 9,258 units against 26,564 units in the same period last year, as truckers were unable to expand their fleet due to deepening economic slowdown

NECESSARY STEPS TO BE TAKEN TO REDUCE THE EFFECTS OF RECESSION

The time has come to take some concrete steps to tackle recession so that the effects of recession could be reduced. The important steps which can be taken to curb recessionary pressures are mentioned herein below:

1) Reduce Operating Costs : A recession is the time for a stock-taking of your operational costs, and it is almost always possible to ring-in more cost efficiencies in an organisation on the operations side. Adequate controls on spending limits can be enforced and the number of people authorized to make purchases can be limited to make accountability easier.

2) Restructuring : A recession is a period of dormancy for businesses, so they can take advantage of the time available to restructure. According to economist Joseph Schumpeter, recessions are ideal times to undertake 'creative destruction'. Restructuring could mean reducing unproductive jobs, reorganizing plants and upgrading equipment. Restructuring during recessions can prepare organisations for taking advantage of future expansions.

3) Relationship Marketing : Relationship Marketing helps to build up customer retention for any business there by increasing customer loyalty. Relationship Marketing facilitates to more customer satisfaction which results in improved customer acquisition rates.

4) Ramp us Scale Economies : The manufacturing sector has to ramp up scale economies, and improve productivity and operational efficiency, thus lowering prices, if it wishes to offset the loss of revenue from a possible US recession.

5) Reduce Capital Investments : Reducing capital investments, though not advisable, can be done in non-critical areas. Some capital investments, especially in IT, that are not business-critical can be postponed. Businesses in India are already looking at reducing capital expenditure in 2009, according to an RBI study released in August this year.

6) Increase Productivity : Reviewing your employees' working habits and helping them raise their productivity will go a long way in raising the productivity bar, rather than devising grand plans that sound great but actually fail to work.

7) Seek M&A Opportunities : Recessionary periods can create opportunities to undertake new acquisitions and form strategic mergers. As they say in the stock markets, 'buy the lows and sell the highs'. Acquisitions may provide more synergies, increased market share, greater leverage with suppliers and so forth.

8) Hire Talent Otherwise Unavailable : If there is one silver lining in the dark recessionary clouds, it is the availability of talent in the job market. Financial constraints compel many organisations towards retrenchment of their key employees. External environment, and not performance, forms the basis of these retrenchments, thus creating a substantial pool of talented professionals available on reduced overheads.

9) Introduce New Products And Services : We are no longer in an era where companies competed and differentiated themselves primarily on the basis of price. Today companies try various strategies like segmenting the market, creating niches for themselves by introducing new products.

10) Product Innovation by ITES : Instead of looking at the recessionary scenario as a threat, the sector would do well to focus on product innovation (as opposed to merely providing services). If this is done, India can emerge as a major player in the IT products category as well.

11) Aggressively Promote Health Tourism : Now is the time to aggressively promote health ***tourism.*** Given the availability of talented professionals, and with a distinct cost advantage, India can be the destination of choice for health tourism.

CONCLUSION

It would be naïve to imagine that a recession in the United States would have no impact on India. The United States accounts for one-fourth of the world GDP and any significant slowdown is bound to have reverberations elsewhere. On the other hand, interdependencies between the US economy and emerging economies like India and China has reduced considerably over the last two decades. Thus, the effect may not be as drastic as would have been the case in the 1980s. India and China have inherent strengths as they are large economies with huge domestic markets. With tremendous resources at their disposal, they can continue to grow under any circumstances that the world is facing today. But both of them manage it differently.

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