

Time to conquer the great wall of worries

As commodity prices are expected to cool down, it is only a matter of time before inflation falls to moderate levels in India and our country resumes its high growth trajectory



Dinesh Thakkar

Emerging markets will, no doubt, overcome the great wall of worries and begin to appreciate — and this will happen sooner than anticipated. Hence, let us focus on the bright future rather than be influenced by the current pessimism.

MARKETS have risen from their panicked bottom, but this frail momentum has not changed the minds of skittish investors. Most investors — not yet convinced of the sustainability of the move — are searching closely for cues in the next oil price move, next week's inflation figures, and money inflows from FII. Although it's difficult to predict immediate price trends, we all know that the markets are a reflection of future facts and durable trends; and amidst volatility, will move in tandem with such facts. We will peek inside and try to foresee some of the facts — the unrevealed extrapolations that lie beyond the present dark facts.

To start the expedition, we will surmount the existing wall of worries one by one. We will start with crude oil. Although recently prices have cooled to \$103/barrel, shaving 29% of its gains from highs of \$147/barrel, the million-dollar question on every fund manager's mind is, will this downtrend continue?

Notwithstanding the lack of clear consensus on this issue, I believe the downtrend will continue in crude oil prices. To elucidate the same, let's do some number crunching and extrapolate facts to understand the global crude oil equation. Currently, OPEC (mostly only West Asian countries) — with 61% of the world's oil reserves — controls 31% of the overall supply. Thus, the key to future crude oil prices lies in OPEC's hands. However, OPEC cannot hold the world to ransom on the back of its positioning. I feel a solution exists, and a look at the current energy basket will substantiate it.

In the current global energy pie oil share amounts to 36%, considering that OPEC accounts for 31% of world-wide crude oil output, its share in global energy boils down to just 9% — not a significant share despite perceptions otherwise. Further, as oil prices increase, inflation is induced, eventually leading to economic slowdown; the net result is reduced demand. Such a scenario would not be desired even by oil-producing countries and the very fact that OPEC had increased its supplies by 0.7 million barrels/day when crude was ruling high is testimony to this fact. In addition, unlike earlier oil shocks, the world's largest oil guzzler — the United States, accounts for 25% of overall oil consumption — is already facing a tough macro-environment. Thus, I believe that even as the demand from the world's emerging economies will continue, higher crude oil prices are unlikely to sustain in an overall weak global macro-environment.

The question that arises then is: what does current oil economics hold for our country, where oil represents 30% of our overall energy consumption? As in any other major economy, crude oil is a major growth engine for India also, which imports 70% of its crude oil requirements. Thus, crude prices hold the key to our country's inflation and fiscal deficit. However, in the near future — starting from the second half of FY2009 — India might just be in a sweet spot. During that period, due to the commencement of the commercial production of indigenous gas, our dependency on oil will decline. These inflows will

progressively move downwards. Eventually, we will see interest rates come down as well, which will set the demand rolling once again and benefiting corporate earnings growth in the process.

While crude oil prices have been a major culprit in rising inflation, another aspect to be borne out is the excess fund flows. To put it in perspective the global GDP, which grew at an average of about 3% for over a decade since 1991; accelerated to an average of about 5% in the past five years, largely on back of strong growth in economies like China and India. These economies witnessed an accelerated growth pace as a re-

liquidity. To put this in perspective — in the global economy of \$70 trillion, gross savings are about \$14 trillion. Although thus far, while this liquidity has chased safe havens like the US, concerns with respect to the growth of this giant; the money — particularly global money — will chase other growing economies like the emerging markets. We have already witnessed this in Japan, where funds outflow happened after the economy fell into a recession and money found its way to growing economies like the United States. Now, while key economies like the United States and Japan are in a recession, they are still



SAURABH DEB

help double our overall gas availability, reducing a significant amount of oil consumption and consequently oil imports. To put this in better perspective, 80 mmm-smd of gas is equivalent to 23% of crude oil import per day. Assuming that gas will replace oil consumption, it will positively impact our country's fiscal health and, in turn, the improved fiscal deficit will mitigate many investors' present major concerns, which are looming over our market.

The next major wall of worry to consider, relevant to the current issue, is inflation. India's inflation recently made headlines by surging to 12.63%. Unfortunately, we may see headline inflation hit a high of close to 15% before it starts to cool off. We presently derive comfort from the fact that the month on month (MoM) inflationary numbers have cooled to single digit annualised 8.5%, after being in double digits for the past few months. Thus, while the headline inflation will continue to occupy many people's thoughts, it is advisable to shift focus to the MoM annualised inflation rate, which — at the current juncture — has lost its momentum. According to our estimations, December would likely be the tipping point and we will subsequently see infla-

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generating cash surpluses, with cumulative gross savings of some \$3 trillion, seeking investment alternatives. We believe that emerging markets will offer the growth potential to its wealth seekers.

It is my firm belief that India is currently at an inflexion point and has all the ingredients it needs to emulate the success generated by the Americans. In fact, half of the global population has a per capita income of less than \$5,000 — a stark contrast to the per capita income of the US. The potential here is so immense that developed nations can continue to pour their entire investments into emerging markets for many decades to come and enrich themselves in the bargain.

Ultimately, it is essential to recognise that, as the market has matured over the years, so has the number of knowledgeable investors, making it difficult for the market to bottom out at cheap valuations. Hence it is just a matter of time before markets will overcome the (great) wall of worries and begin to appreciate — and this will happen sooner than anticipated. Hence, my advice is to focus on the bright future rather than be influenced by the current pessimism. (The author is CMD, Angel Broking)

NEURAL NET

Getting edgy over value perceptions



AMAZINGLY FOR THOSE IN THE WEST SOLD ON THE famous poverty line of "less than a dollar a day", millions of Indians have moved beyond Oliver Twist's extra bowl of gruel simile. *Zyaada ka Iraada* — that innate desire to want more — has been evoked beautifully in a recent advertisement, with mundane but telling storyline of a tousle-haired young pedestrian coveting a motorcycle, the man on a motorcycle dreaming of a woman in his life, a woman pillion-rider dreaming of marriage and motherhood and so on, underlining that aspirations are relative to a person's situation in life.

Even as hopes soar in India, however, it would be stretching it to posit that the average Indians — rural and urban — now dream of \$200 umbrellas instead of a good education and jobs for their children or \$10,000 handbags instead of a safe drinking water supply and uninterrupted electricity when they need it most. So the "lighten up" admonition by the editor of the Indian edition of an international fashion magazine in defence of a photo-feature that had luxury accessories draped on Indians who obviously could not afford them — let alone understand what their supposed value is — rings a bit hollow.

The western press has focused its outrage about the shoot on the perceived 'insulting' contrast of a man and woman outside a mud hut holding an expensive umbrella and a handbag respectively. The Indian media, not surprisingly, didn't even notice the shoot, as it has pragmatically internalised that glaring contrasts are a fact of life in India as in most parts of the world. Meanwhile, a truly edgy initiative remained unexplored: to know what these picturesque amateur 'models' thought about the objects they were being made to flaunt, much like professional clotheshorses are asked about the brands they wear for the cameras.

The magazine's idea was to be "edgy", that favourite word in the fashion lexicon which actually denotes the industry's perennial endeavour to battle consumer boredom with new and hopefully exciting imagery. If the magazine had been brave enough to not only name those Indians (and thereby give a nod to their individual dignity instead of reducing them to mere mobile props) but also ask their opinion about the objects they were asked to model, the revelations may have been truly edgy. Because if aspirations are relative, so are perceptions of value.

Would an umbrella more suited to the drizzles of London and New York than a monsoon downpour be considered more covetable by an ordinary Indian than a tough tarpaulin? Would any Indian mother want a bib that won't stand up to the usual vigorous desi handwash? Of course, utility is not the point when it comes to luxury products, aspiration is. But if aspirations depend on people's situation in life, by keeping these Indians silent and nameless, the magazine has ensured that the luxury brands image of being universally coveted remains undented.

An even bigger angle that remained unsaid in this silent spectacle was whether the cute turn of getting rustic Indians to apparently thrill at the thought of owning a luxury accessory negates the deadly truism that elite Indian consumers rarely want what the rest of India can also access. It would not be farfetched to say that no one among the magazine's target audience would imagine even in their worst nightmare that someone from the wrong pin code would aspire to or actually show off the same dress code as theirs. Nor is it usual for luxury brands to aspire to universal accessibility — otherwise why would a Birkin bag still have a waiting list so many years after it debuted?

Now, if the idea was to say that India has truly globalised to the extent that a villager in Rajasthan has the same aspirations as a Wall Street bond trader or a Grovenor Square socialite, it would have been a truly edgy argument to put to a bored world! But that's where the magazine was as silent as the *aam* Indians in the photographs!

RESHMI DASGUPTA

PERSPECTIVES

The left end of history



Alok Sheel

Dickens ('Coketown') and in (slavery) abolitionism. Socialism and communism were merely the culmination of this critique. The Left critique has nonetheless succeeded in permanently reforming the capitalist system, providing the correctional shift towards 'right to a basic standard of living' through comprehensive social security systems. These corrective forces are still extant in mainstream forces like Social Democracy in Europe and the Democratic Party in America.

Right until the Industrial Revolution practically everybody was poor, with GDP per capita creeping up very slowly over the centuries. Capitalism created opportunities for unprecedented rise in GDP per capita, occasioned by sharp increases in growth, productivity and investment, propelled by the forces of technology, trade and market on the one hand, while opening up inequalities in wealth on an unprecedented scale on

mainstream was in rejecting private trade and markets altogether as engines of growth and investment. It did not reject the basic premise of the need for growth and investment. The ambitious Five Year Plans of Stalin did, after all, eliminate absolute poverty within a remarkably short period by enforced spikes in savings and investment. But like all monopolies, state monopoly risked becoming inefficient in the absence of competition; hence it could not sustain the real growth necessary through efficiency gains to continually improve standards of living. Shortages of even basic commodities like bread and shoes soon became common. After all you can distribute, or redistribute, only as much bread as comes out of the oven.

Even before the collapse of the USSR, the second bastion of Communism had come to the conclusion that unless the powerful forces of trade and market were harnessed for optimising growth, the communist party risked self-destruction. This meant, *inter alia*, dismantling the apparatus of state-controlled division of labour. Since growth was a necessary condition for attaining the "something else", it did not matter, in Deng Xiaoping's classic statement, whether the cat was white or black, as long as it caught the mice. China, then, harnessed the forces of trade and market with a vengeance to attain rates of real growth unparalleled in the capitalist world, with the national loaf growing by almost 10% annually. Communism in China became indistinguishable from western capitalism bar the democratic deficit.

What lessons does recent global experience hold for leftist parties in general, and for the Indian Left in particular? Given its poor record in poverty alleviation, universal health care and literacy, and the absence of any social security net, the 'socialist' epithet in the Constitution notwithstanding, India's development experience, as Amartya Sen keeps reminding us, has focused more on 'means enhancing' rather than on 'means usage'. In this respect the core Left critique of Indian 'capitalism' is spot on. The problem, however, lies in the mechanisms advocated for 'means enhancement', for it seems to have learnt little from global experience, including that of other socialist countries like China, in harnessing the forces of market globalisation to increase the size of the cake. (Ironically, communists were amongst the earliest globalisers before they settled for 'socialism in one country'.) The Indian Left needs to evolve into some kind of western social democracy to constitute a serious mainstream political challenge.

(The writer is a civil servant. Views are personal.)

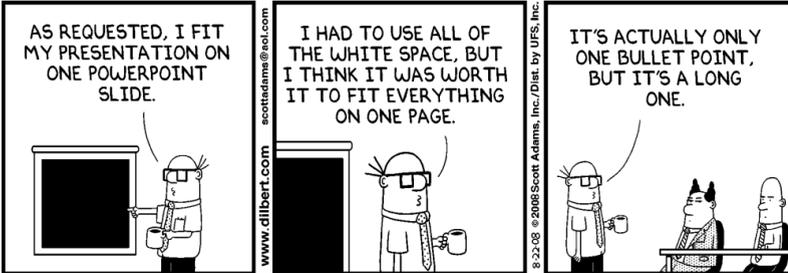
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the other. The wealth dividend of capitalism therefore merely created the 'means' for broader ultimate human goals articulated as early as classical antiquity. "Life of money making", Aristotle had observed, "is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else". Whatever may have been Aristotle's "something else", this was most powerfully expressed by the Left, the echoes of which could be heard in the British 'condition of the working class' debates of the nineteenth century. Put simply, sharp increases in GDP per capita created historical opportunities for the elimination of absolute poverty and a general rise in standards of living through a combination of state regulation and tax-based income transfer. State regulation and income transfers over time came to supplement private enterprise through trade and markets as the bedrock of modern capitalism.

Where communism diverged from the capitalist

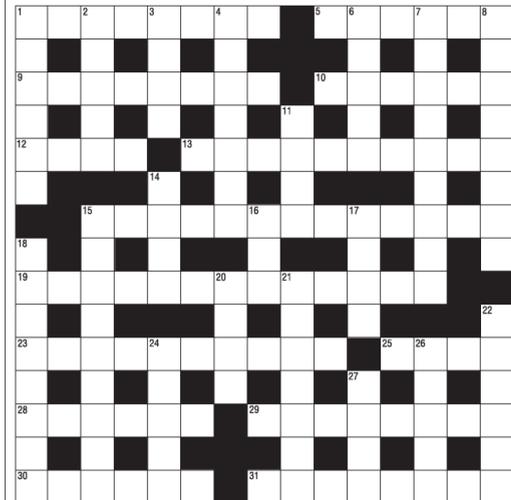
DILBERT

by S Adams



THE CROSSWORD

3471



ACROSS

- 1 Hike to support hounds (8)
- 5 I'm accustomed to be entertained (6)
- 9 Those that can fly on to good country sound (8)
- 10 River turning sour and spongy (6)
- 12 White flower girl (4)
- 13 Idle one turning to employment after a time outside (5-5)
- 15 Consents to provide drink where bargains are to be had (9,4)

- 19 Joined in upright declaration of strength together (6,2,5)
- 23 Tennis ties arranged for some insiders (10)
- 25 Stern work for RAF officer (4)
- 28 Listed as having been sole associate (6)
- 29 Wanting to feel better, one takes it (8)
- 30 Run to get a big drink (6)
- 31 Point to present fall in plant life (8)

DOWN

- 1 Talk of bed and breakfast being included in the package (6)
- 2 Song vehicle achieving original ends (5)
- 3 You've had it! (4)
- 4 Many moving around line on map (7)
- 6 Some difficulty about finding ring for an animal (5)
- 7 Diminutive employee providing quick note (9)
- 8 One taking off for the Sahara? (8)
- 11 Finally get run out in an act (4)
- 14 Present the lady with some dope (4)
- 15 Money needed for a true mixed drink (9)
- 16 Wonder what's in the top drawer (3)
- 17 Animal not dead showing vigour (4)
- 18 Word play one dropped when given correction (8)
- 20 A little bit slow to end with success (4)
- 21 That woman called to get a drink here? (7)
- 22 Preservation with no falling back (6)
- 24 Time needed to provide appropriate letters (5)
- 26 Rosie's willow form (5)
- 27 See if you can compete and start winning (4)

Solution to 3470

- ACROSS: 6 Hundred per cent. 9 Spread. 10 Patience. 11 Filament. 13 Unduly. 15 Grouse. 17 Bedaub. 19 Pronto. 20 Arguable. 22 Calendar. 24 Refund. 26 Leave well alone.
- DOWN: 1 Shopping arcade. 2 Knee. 3 Cradle. 4 Gertrude. 5 Ache. 7 Deputy. 8 Nicely balanced. 12 Acorn. 14 Drama. 16 Showdown. 18 Barrel. 21 German. 23 Envy. 25 Fool.