

# 1. KNOW-HOW OF GLOBAL RECESSION AND SUGGESTIONS TO OVERCOME IN THE CONTEXT TO INDIAN INDUSTRIES & ECONOMY

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## Abstract

*"The world is likely headed for a deep recession" says Paul Krugman 2008 Nobel Prize Laureate for Economics. Textbooks define recession as a period of two consecutive quarters of negative economic growth as measured by a country's GDP and is expected to last anywhere between six and 18 months. Are we facing a recession or not? Yes, for the simple reason that not only our neighbors but our friends are unemployed. There is less of business talk and more billing worries. There is a saying, 'when it's tough the tough get going'.*

*Is India vulnerable to a recession too? As of now, evidence points only to a slowdown in growth and not to recession. Though India is not an export-reliant economy, the impact of inflation and global recession is being felt here too. By identifying the need and feeling pinched with its impact, present paper tries to focus on know-how of recession and provides certain remedial measures and suggestions to overcome in context to Indian Industries to make national economy more focused, reliable and sustainable.*

## Key Words:

*Slow down or Recession, Macro-economic Model of Recession, Possibility of Global Recession in 2009-2010, Impact of Recession on Indian Industries, Points to consider for making sustainable Decisions, Indian Initiatives to Minimize Recession, Steps taken to minimize impact of Recession.*

## INTRODUCTION

World over the impact has diversified and its impact can be observed from the very fact of falling Stock market, recession in jobs availability and companies following downsizing in the existing available staff and cutting down of the perks and salary corrections. Globally the financial sector sacking the existing base of employees in high numbers in US the major example being CITI Group same still followed by others in hospitality industry Jet and Kingfisher Airlines too. The cut in salary for the

pilots being 90 % can any one imagine such a huge cut in salary.

At present the badly hit sectors are being the financial sector, IT sectors with a major issue being the "LIQUIDITY Crises" in the market.

Global recession is a period of global economic slowdown. The International Monetary Fund (IMF) takes many factors into account when defining a global recession, but it states that global economic growth of 3

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percent or less is "equivalent to a global recession". By this measure, three periods since 1985 qualify: 1990-1993, 1998 and 2001-2002. Whereas a national recession is identified by two quarters of decline. Defining a global recession is more difficult, because developing nations are expected to have a higher GDP growth than developed nations. According to IMF, the real GDP growth of the emerging and developing countries is on an uptrend and that of advanced economies is on a downtrend since late 1980s. The world growth is projected to slow from 5% in 2007 to 3.75% in 2008 and to just over 2% in 2009. Downward revisions in GDP growth vary across regions. Among the most affected are commodity exporters, and countries with acute external financing and liquidity problems. Countries in East Asia (including China) have suffered smaller declines because their financial situations are more robust. They have benefited from falling commodity prices and they have initiated a shift toward macroeconomic policy easing

### **SLOW DOWN OR RECESSION?**

How did this happen? Trouble started with the sub-prime crisis in the US. Lending against homes to borrowers of doubtful quality resulted in debt defaults to collapse. The defaults led to a fall in property prices as home loans were foreclosed and the property was put on sale. This set off a chain reaction. Securities that were based on repackaged loans and held by a wide range of financial institutions lost value, triggering massive losses and finally bankruptcies. The final blow came in the form of Lehman Brothers' bankruptcy. These apart, since the beginning of 2008, Dow Jones and NASDAQ have seen a 29 per cent fall in their respective values.

A vicious cycle of fall in sales, fall in profits and decline in economic growth, ultimately results in unemployment and lower consumer spending, the key reflector of recession. "The world is likely headed for a deep recession"

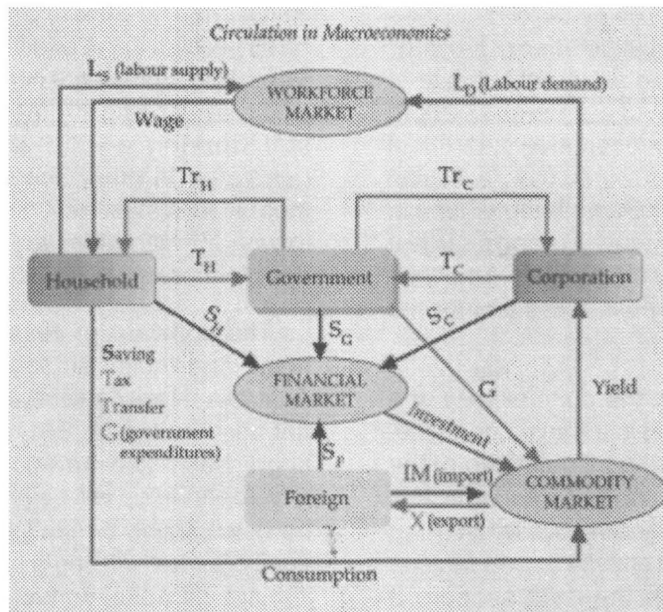
says Paul Krugman 2008 Nobel Prize Laureate for Economics. But what is recession? Many mistake economy slowdown for recession. Textbooks define recession as a period of two consecutive quarters of negative economic growth as measured by a country's GDP and is expected to last anywhere between six and 18 months. Slowdown, on the other hand, is just a slower growth in economic activities. While a slowdown is industry specific, a recession results in a wide ranging impact.

### **INDIA'S POSITION**

Is India vulnerable to a recession too? As of now, evidence points only to a slowdown in growth and not to recession. Though India is not an export-reliant economy, the impact of inflation and global recession is being felt here too. Inflation is now hovering at over 11 per cent. There are concerns that infrastructure spending may see delays. Worries about earnings have seen the SENSEX plunging to new lows in this period. But it is early days, yet to call it a recession in India, because companies still boast of decent profit growth.

### **MACRO-ECONOMIC MODEL OF RECESSION**

Macroeconomics is a branch of economics that deals with the performance, structure, and behavior of a national or regional economy as a whole. Along with microeconomics, macroeconomics is one of the two most general fields in economics. It is the study of the behavior and decision-making of entire economies. Macroeconomists study aggregated indicators such as GDP, unemployment rates, and price indices to understand how the whole economy functions. Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, international trade and international finance.



**Fig.1 Macro Economic Model of Recession**

(Source:- <http://www.rbidocs.rbi.org.in/rdcs/publications>)

In contrast, microeconomics is primarily focused on the actions of individual agents, such as firms and consumers, and how their behavior determines prices and quantities in specific markets. Macroeconomic models and their forecasts are used by both governments and large corporations to assist in the development and evaluation of economic policy and business strategy. **Figure 1** shows the Macro-economic model of Recession.

## POSSIBILITY OF GLOBAL RECESSION IN 2010

According to the IMF's World Economic Outlook, October 8, 2008, the world economy is "entering a major downturn" in the face of "the most dangerous shock" to rich-country financial markets since 1930s. IMF expects global growth (measured using purchasing-power parity), to come down to 3% in 2009, on the verge of what it considers to be a global recession. The World Bank said in December 2008, that the global economy will enter a recession for the first time since 1982.

International trade will decline from 2007 levels. The bank said it expects global GDP growth to decline to 0.9% in 2009 from 2.5% in 2008. Any global growth rate under 2.0% is tantamount to a recession according to economist David H. Wang. Global trade is expected to decline 2.1% in 2009, the first decline since 1982, on reduced global demand and export credits.

The Eurozone economy, made up of the 15 countries that use the euro contracted by 0.2% in the third quarter of 2008 following a 0.2% fall in GDP in the second quarter. In USA, GDP dropped 0.5% in the third quarter of 2008. A number of economists surveyed by Wall Street Journal expect gross domestic product to decline at an annualized rate of 3% in fourth quarter this year's r and 1.5% in the following quarter.

Despite the global economic forecast for 2009, the annual growth in greenhouse gas emissions of 3% is only likely to slow modestly. It may even rise over the long term because

of the downturn's impact on global climate talks and the funding of renewable energy projects. Japan's GDP contracted at an annual rate of 0.4 percent from July to September 2008, marking the second consecutive quarter of negative growth. Japan's previous recession was in 2001, after the dot-com bubble burst in the United States. Germany, Europe's largest economy, contracted by 0.5 percent in the third quarter of 2008, putting it in recession for the first time in five years.

If you look at it from the point of view of a businessman, recession is a transitory phase. The Business Cycle Dating Committee of the National Bureau of Economic Research has another definition. It profiles the businesses that have peaked with their activity in one season and it falls naturally in the next season. It regains its original position with new products or sales and continues to expand. This revival makes the recession a mild phase that large companies tolerate. As the fiscal position rises, there is no reason to worry. Recession can last up to a year. When it happens year after year then it is serious.

Are we facing a recession or not? Yes, for the simple reason that not only our neighbors but our friends are unemployed. There is less of business talk and more billing worries. Transitory recessions are good for the economy, as it tends to stabilize the prices. It allows run away bullish companies to slow down and take stock. There is a saying, 'when it's tough the tough get going'. The weaker companies will not survive the brief recession also. Stronger companies will pull through its resources. So when is it time to worry? When you are facing a foreclosure, when the chips are down and out and creditors file cases for recovery.

## **IMPACT OF RECESSION ON INDIAN INDUSTRIES**

In the first place, is the 2008 recession coming at all? If the rest of the world recession impacts other nations, how can India remain

insulated? The crisis of US recession is looming on its policies in the Middle East and home turf. There is no immediate concern for Indians. The jobs are not being threatened as yet. BPOs are still working 24 X 7 and jobs are being generated in other sectors. Real estate has more or less stabilized in many cities and small towns. Infrastructure activity has not slowed down either.

The software professionals are returning home and Indian students prefer to study in Australia, New Zealand and Britain. India can get affected by the BPO units becoming less aggressive. The American food chains that have opened up will be impacted. There could be down sizing on staff and advertising. The equity market will see a slide in a few months, if things go out of control. Consultants across the world are hoping that they will be able to keep their clients upbeat in the face of recession. The prolonged recession is likely to result in further weakening of the dollar. According to the World Bank officials, the credit crunch will reflect on decline in business development, unemployment, weaker consumer outlays and longer period of depressed consumer prices. In India strong technological advancement have engineered a buoyant growth rate. There is still time for the storm to come to India. Is a recession coming so soon that everyone has to tighten their belts? The world's largest economy America is facing an unprecedented crisis and chances are that this time it is for real. Surviving recession in the past was easier. Now it will be tougher. Chances are, that in the recessive tsunami conditions, some big businesses will also be gobbled up along with many smaller ones. That's not all; survival of the fittest will be telling unique stories.

Points to consider for making sustainable Decisions:

As an individual how will recession affect you and how will you survive it. There will be a global impact on the recession in US and

survival will be challenge. These are the brief points you should be thinking about and making sustainable decisions.

1. Are you an employee in a big or large company that has decided to layoff staff?

Either way you have to save your skin especially if you have a family to look after. Are you valuable enough to survive the lay off? If not, start hunting for alternate career or safer companies, if you feel the axe coming down. Networking with friends (even overseas) will be helpful. It may take six months or more but it will give some leads.

2. Are you running a small business? Scared you may have to wind up after all these years of sweat and toil?

Don't just lay off the staff yet. They are equally scared. This is the time they need assurance that they are valuable. Remember, 'be together in good and bad times'. May be you could halve the salaries. They will understand. Be lenient with the sales and marketing staff. They have met targets and brought revenues in the past. They are the very apparatus that the business has survived. They can write off their commissions in these times.

3. If you are an independent professional back up the resources keeping in mind the family you have to support. Sounds bad, but can you look for a job in the Middle East, India or New Zealand. That's where most professionals are making good money. Your consultancy may not be required for quite sometime and even if it is, the fees will be a pittance.
4. Evaluate your current position in the industry. This will give you an idea if you want to shut shop, go aggressive or stay calm. This is the time to pay off all the debts. You don't want creditors sealing your property or hard earned valuables.
5. Be proactive and get a plan to stay afloat.

How did you managed all these years? You have to really think hard to get out of the credit crunch.

6. Are you involved at the stock exchange? You probably need really good shock absorbers. You will have to reshuffle your portfolio and get some liquid cash stashed for the future.

Even the strongest feel the cracks in the face of an earthquake. The cracks are visible even during a brief recession. When the markets are disrupted the effect shows. Unemployment is the greatest dread of any man. How will he feed his family now? Expatriates are being shown the doors.

## INDIAN INITIATIVES TO MINIMIZE RECESSION

Prime Minister Man Mohan Singh in Union Budget 2009-10 mentioned his interest in minimizing the "impact of the global recession" and achieving 8 to 9 per cent growth in the medium term.

Describing the budget as rural-development-oriented, Singh said its focus was to ensure that short-term requirements of the economy as well as medium-term goals were achieved. "The Finance Minister has done an admirable job," the Prime Minister said minutes after the Union Budget for 2009-10 was presented in the Lok Sabha by Finance Minister Pranab Mukherjee. Singh said right now the major concern was to minimize the "impact of global recession" on the Indian economy. "We should aim to achieve 8-9 per cent growth in medium term," Singh said. He said handsome additional allocation has been made for inclusive growth and other flagship programmes like Urban Renewal Mission and National Rural Health Mission. "It is essentially a rural development-oriented budget," the Prime Minister added.

Indo-US bilateral trade has been upbeat, except for the nuclear deal that is facing a stormy period. According to the Indian Finance Minister, USA will not go through the impending



recession. Even if it does, it is not likely to impact India. Having said that, in the last week of January 2008, the actual story seems to be different. But trade and commerce, is affected. Investors are aggrieved at the trading activity coming to a grinding halt frequently in the last three months. Indian exports to the US are less than earlier and dependence is less as it is also exporting to rich European nations, China and Japan. Asian markets have also felt the slump when Dow Jones hit the low notes. How much can India withstand the impact?

Since US is one of the major super powers, a recession—mild or deeper will have eventual global consequences? USA may cut their capital investments into the country if they have to control recession at their end. The year 2008 has not started on a good note for the US economy. Till the stocks don't climb upwards chances are that investors will lose more money. Despite world recession and India's optimistic outlook, the results will not show at least in the next two years. Is a recession coming to Indian shores? Highly unlikely. The rupee may have appreciated against the shrinking dollar. But Indians are enjoying the new found material wealth and flaunting it. The reins have to be tighter at the US end till the economy becomes buoyant.

## **STEPS TAKEN TO MINIMIZE IMPACT OF RECESSION**

In total the recession have turned down the growth process and have set the minds of economists and others for finding out the real solution to sustain the economic growth and stability of the market which is desired for the smooth running of the economy.

Complete businesses/ industry is in doldrum situation and this situation persist for a longer duration will create the small business to vanish as they have lower stability and to run smoothly require continuous flow of liquidity which is derived from the market.

In present situation down fall in one sector

one day leads to a negative impact on the other sector thus altogether everyone feel the impact of the Financial crises with the result of the current recession which started in US and slowly and gradually due to linked global world have impacted everyone.

Solution for the problem still remain at the top of the mind of every one, still everyone facing the impact of recession but how long is the major question which is of great importance.

Various steps taken by RBI to curb the present recession in the economy and counter act the prevailing situation. The sudden drying-up of capital inflows from the FDI which were invested in Indian stock markets for greater returns visualizing the Potential Higher Returns flying back is continuing to challenge liquidity management. At the heart of the current liquidity tightening is the balance of payments deficit, and this NRI deposit move should help in some small way.

To curb the liquidity crises the RBI will continue to initiate liquidity measures as long as the current unusually tight domestic liquidity environment prevails. The current step to curb these being lowering of interest rates and reduction of PLR. However, the big-picture story remains unchanged – all countries in the world with current account deficits and strong credit cycles are finding it difficult to bring cost of capital down in the current environment. India is no different. New measures do not change our view on the growth outlook. Indeed, we remain concerned about the banking sector and financial sector. The BOP- Balance of Payment deficit – at a time when domestic credit demand is very high – is resulting in a vicious loop of reduced access to liquidity, slowing growth, and increased risk-aversion in the financial system.

## **CONCLUSION**

Jobs are being outsourced to other countries while Americans are themselves jobless. As Asian countries are getting more employment, even expatriates are returning home. India and

China are major outsourcing backyards for the US. Cheap goods manufactured in China, Thailand and other poor countries have hitherto relied on the dollar power for sustenance. As the value of the dollar falls, the American dream is going bust for many. Whether it is the shoe maker or the food chain or cola giants or even real estate developers, the earning potential has been cut.

The slowdown in India's outsourcing industry, the mainstay of Bangalore's economy, is showing up in unexpected ways. The city's restaurants and drinking lounges are reporting a 30 to 50 per cent dip in revenues. A publicly-listed real estate firm has slashed prices of apartments. Others have introduced low-end options. Rush-hour commuters are even talking of de-clogging in the roads during peak times as outsourcing workers prefer taking the company bus or riding a two-wheeler to driving their cars.

Present Paper Described the know-how of recession and suggested few remedial parts and Indian initiative taken to curb it and to sustain its impact. The Authors would like to mention specifically that even pitfalls were observed at global level due to major impact over US economy, still India is doing well at all levels to overcome the slowdown. It shows the visionary approach of Indian Government and Industrialist and people all stood firmly and still standing strong against the wave of recession. Is it not enough to indicate that we are marching at successive rate towards becoming super powers in 2020 AD and fulfilling the Dream seen by our most popular Ex-President of India, Honorable Dr.APJ Kalam? Well we don't want to say some thing, it's the global scenario which will reflect the outcomes to whirl "We are proud to be Indians!"

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