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Newsletter for the month of December 2015

The onset of New Year always brings in fresh ray of hope and aspirations, as the old gives way to new and the vicious cycle of life continues. The IMD has reported that the year 2015 was the warmest year since the records have been maintained at that department. I am not going to recall the happenings of the last year as those events have a tendency to repeat themselves in our life. What I am going to dwell upon is the way forward as the past is history and can not be undone by any way or means.

The way forward is inextricably linked to our thoughts first and then to our actions. Frankly speaking, the past actions have a profound impact on our future as they are the results of our thoughts.

The decision of forming a **currency union at EU** is still reverberating at the level of **Greece, Spain, Portugal and Italy** as well. On the other hand, the open border movement policy of **Schengen countries** has increased the heart beat of their administration due to large **influx from Syria**. **USA** for that matter is still reeling under pressure of toxic assets created out of sub prime mortgage due to **liberal use of derivatives allowed** in the financial sector. **Middle East countries** are caught in their **own trap of terrorism** that is exacerbated by the slump in oil prices below their cost of production. **Russia** has been hurt severally after being put under trade sanctions by the Western countries due to its **Crimea annexation** and Ukraine policy. **China** has to come to terms of slowing economic growth and the **asset bubble** created due to artificial jacking up of prices. The **depreciation of Yuan** in the aftermath of slow growth has impacted the whole bunch of economies pursuing export led growth. **India** is the bright spot as the malaise of the world has not impacted it much but is unable to bring necessary reforms due to **parliamentary logjam** as the actions of the ruling party are replicated from the time when they were in opposition. **The South American nations** are in turmoil due to fall in oil prices and the **lopsided policies** followed at the behest of the USA.

The facts and analysis boil down to the fact that the past actions design your future. As discussed, the other part that makes up the way ahead is the thought and orientation. Despite all that has happened, the exhibition of thought process while framing the policy is still mired with the short term measures. The Europe and Japan are still following the easy money policy to boost up the demand, although nothing much could be achieved over the last years. Although, the US Federal Reserve has given a hike to the interest rates recently; it was only marginal in nature. Russia is hard nosed on its yesteryears policy while China is fighting an egoistic war with the rest of the world on its expansionist policy.

In the post World War-II arena, the supplier of capital has been the developed world to generate aggregate demand. However, those policies are no longer effective due to many a factors (Some of those will be described herein).

The huge capacity creation at the global level has been under utilised due to low demand. The excess production has increased the dumping activities and ushered in non tariff barriers by the importing countries to save their domestic industry. The employment generation has been curbed due to wide prevalence of technology that has replaced the humans. This has put further curbs on the demand levels. The changed scenario indicates that the employment has to be generated in the services sector for the uplifting of demand. Since services are knowledge driven, the necessary infrastructure to equip people with desired knowledge has to be created and upgraded at regular intervals. The state has to spend and guide investment in the infrastructure sector that can generate aggregate demand levels through knowledge economy. The physical infrastructure has to be upgraded as per the changed requirements and new pace of life. The supply of capital thus has to be arranged for a longer period of 15-25 years. The enterprise has to accept multiple partners as the option of debt is fast losing its charm and effectiveness and the owned capital is the way to meet the risks of the business.

With the knowledgeable people as an electorate, the rhetoric has to give way to logic and reason; the intolerance has to die down a natural death and the tendencies of obstructionist politics has to cave in the wake of development. Alas! The signs of new thinking are still oblivious and one can only hope that the New Year will bring in this desired change at macro level.

On the micro front, various industries have been troubled in the last year. The downstream oil companies are the obvious one to suffer the turmoil in oil prices. The commodity and natural resources players are also on the fringe due to lack of consumer demand in turn affecting the industrial output that are the users of these natural resources and commodities. The exports sector is badly affected and thus the revenue earners like that of Gems and jewellery, IT and ITES, Textiles are all tottering. The prices of coal have come down due to low demand from China and also due to climate change pact that is forcing nations to shift to renewable and clean energy.

In this environment, the preservation of value has become utmost important. Those who can deliver value will be able to survive while those with me too features become defunct. The thought process has to be oriented towards discovering new avenues and the resultant action has to translate that into value proposition to the end consumer. By no means, this strategy has to be of short vision as the value addition is bound to rule the business of the future. So, in the New Year, carry out deep rooted research, find out the unmet demand, design the product, market it to perfection, learn from the pitfalls and start the whole process again. It simply means that the days of doing business without proper research is over. There are no sectors where the demand is more than the supply and if there are some those are hidden and have to be identified.

May the New Year bring in fresh perspectives to our thoughts!