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MarketMind

More Tempests in the Making?

Even as the headwinds against the Indian economy get stronger, there are 4 major sectors that are even more vulnerable than others. Urgent and bold policy interventions are needed to prevent these very crucial sectors from becoming terminally sick. These four sectors include textile, retail, aviation, and telecom.

The textile (and clothing) sector remains the largest industrial employer for the country, and accounts for more than US$ 75 billion in economic output including over US$ 25 billion in merchandise exports in 2011. With cotton being one of the major cash crops in the agriculture sector, the criticality for India to have a very healthy textile sector becomes even more acute. Yet, few textile companies have a balance sheet healthy enough to undertake fresh expansion of capacity. Weak balance sheets of textile companies also discourage entry of new players into this otherwise very promising sector. Of all the industrial sectors that have suffered the maximum on account of flawed government policy, Textile is on the very top. Indian textile industry has the potential to equal that of China in the coming decade, and touch US$ 200 – 250 Billion in economic output by 2020 and directly employ over 25 million. However, to do so, it would need over US$ 100 Billion in fresh investment in the next 10 years. Unless the government comes up with a policy that can facilitate fresh equity creation (rather than only subsidized debt), this quantum of investment will simply not happen.

The situation is now being repeated in an equally critical sector of the Indian economy – the retail sector. Like in the case of Textile sector where misguided socialism led to creation of totally anachronistic and economically disastrous fiscal and operational policy framework (e.g. reservation of garment manufacturing for small scale industries till recently, excise exemption for independent processing units and for power looms' textile production etc.), discouraging modern retail's growth and preventing access to international capital and FDI for modernization of Indian retail sector has already caused incalculable damage to the Indian economy with the lower and middle income consumers bearing the maximum brunt of inflation that can, partially, be tamed through efficient distribution of food and other basic commodities from the farm to the consumer. With no signs of any decision (and a rational and progressive one too) forthcoming on opening of India's retail sector to foreign investment, India could see sickness and even demise of some of India's largest home grown retail businesses as they feel starved of capital and could also do with some advanced retail business management knowhow at this stage of their evolution.

The alarming situation in the aviation sector is quite obvious too, with three of the largest players in the business totally debilitated financially, and perhaps confused strategically too. While the Government is most likely to continue to with the folly of bailing out Air India to keep it afloat, no white knights can come forward to save Kingfisher and Jet unless the government urgently opens up the aviation sector to investment from international airlines.

Of course, the irony will not be lost on anyone when it comes to opening of FDI either in the retail or the aviation sectors since the promoters that most need FDI from a global suitor have been the ones who have successfully stalled it in the years that have gone by. However, the reality is that India needs a strong, efficient, and competitive retail sector, and a strong and competitive aviation sector and hence these businesses have to be fully supported by allowing them unrestricted access to financial investment and know-how from global players in the same sectors.

As far as telecom is concerned, the Government is likely to announce a new policy framework soon. While the sector is in a complete mess, it is extremely important for India to have a healthy, profitable, and competitive telecom sector. A pragmatic, transparent policy that can encourage exit of weaker players and a limited amount of consolidation so that we finally have only 4 or 5 major telecom players in the country is very urgently needed. Telecom sector also requires continuous, and large quantum of capital investment to keep abreast with rapidly changing technology, and in India's context, to improve the access to its very large, and still growing population. If the major operators are unable to generate and raise billions of dollars in fresh resources year after year for the continuous upgradation and expansion of the networks, the entire economy will suffer.

India is already paying a huge price for inaction of the government on critical business policy matters. While it battles on many political and economic fronts, it must urgently liberate and pragmatically support these four very crucial sectors for India through visionary policy.

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