

# Sub-Prime Crisis, ICT Slowdown and Me

There is a marked difference in the tenor of reporting in the media across the world, particularly of economic matters for the last one year or so. The Indian media was vying with each other as to who would break the news on the latest merger and acquisition (M&A) of an Indian company. The international media was agog with the strategies of the targeted company to ward off the takeover

concepts and policy interventions can check and influence economic happenings. To some extent, it may be true. But we have to discern as to what are the real causes for the situation that we are facing.

Let us not complicate the issues by making it sound too complex and difficult. I think it was Mahatma Gandhi, who has said that humanity has enough resources to feed the people – and

funds borrowed at abysmally low interest rates like 0.5 per cent from financial markets from China and Japan billions of dollars and invested in developed countries, such as US and emerging economies like India in financial instruments yielding very high returns. When the interest rates increased in the US followed by slowdown, many sub-prime borrowers defaulted. Within no time, such tendencies spread like a wildfire. Banks that used real estates as collaterals were flooded with properties of people who could not pay back the loans. That had led to the real estate crisis. To cut the long story short, everyone lost money. They are banks and institutions, hedge funds, intermediaries, including some of the Indian banks and institutions, which had exposure in such junk bonds.

The moot point is how the ICT sector got affected. Business exposure of Indian BPO operations in the hedge funds and other banks was considerable. Some of the hedge funds and banks went under liquidation and many others considerably reduced their operations. Naturally, that had affected the tempo of outsourcing, leading to slowdown in the segment. Now, let us look at the trigger point of these cataclysmic developments. I believe that it had started off from greed, unquenchable appetite for speculative deals, lack of transparency in financial operations and, importantly, absence of regulatory mechanisms. The result is that everyone across the globe, particularly poor people in the sub-Saharan region, Asia, etc., have become the worst victims of the catastrophe. Of course, there are other reasons like spiralling oil prices, food shortages, etc. that further contributed to their woes.

From every catastrophe, a silver lining emerges. I sincerely feel there will be a global consensus for insulating the economies from such onslaughts. Let me spell out some of the measures that can be considered in this regard. There should be proper verifications in the US and other countries while disbursing loans, including mortgage ones. They have to build

up strong and reliable databases. That could be done only by outfits that have the domain knowledge and past experience of the market. I have no doubt that the Indian companies will be preferred ones in this regard.

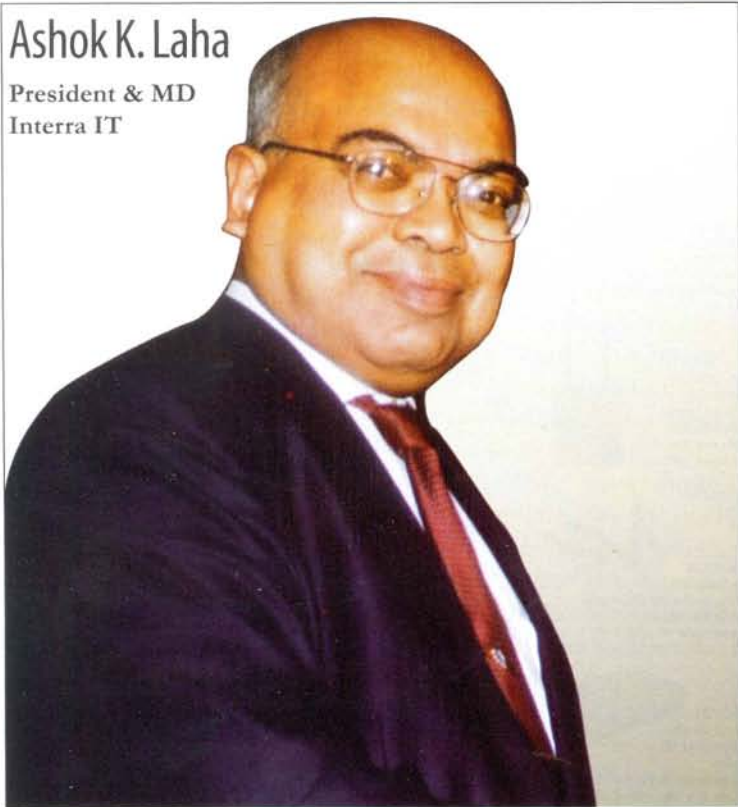
Let me touch upon the other aspect: cross-country transfer of funds that is borrowing funds from low interest regimes to invest in high interest bearing instruments in other countries. There is a near-consensus among the countries to impose a cross-country tax of 3 per cent for every such transaction. If that goes through and the proceeds of such funds are used for insulating the economies from the vagaries of fund flow distortions, it will be a win-win situation for all. Here also I perceive there is a specific India advantage. To put a huge mechanism for collection of such a tax and its disbursements, a mammoth infrastructure is required – including a digital platform to monitor the movement of funds. Enormous opportunities await Indian software and financial solution developers.

Last but not the least, the current slowdown of the ICT sector has made the industry and the Government inward-looking. For the first time in the ICT history of the country, growth of domestic demand for IT solutions is growing at over 18 per cent, more or less catching up with the software and services exports growth. With only two years to go for the Commonwealth 2010 and taking a cue from huge investment made by the Chinese in the software in the Beijing Olympics, I expect a huge opportunity emerging for the Indian software companies.

But still we have to learn from history to shape our future. Civilizations built on greed; exploitation, self-assertions and unscrupulous manoeuvrings have bitten the dust. We have to build a new architecture of growth based on sound principles and mutual respect. Nations will not be able to withstand another sub-prime shock and the vagaries that it would unleash on the mankind. That will put the pendulum of globalization back into square one. ■

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bid of the Indian predator. Coming specifically on the IT scene, there were M&As of Indian companies almost every day either in the US or in some Western countries. Such reports are still there but very few.

Does it mean economic activities have lost the steam globally? Are we in for a recession? Are the pangs of protectionism going to ride roughshod over us, particularly when Obama spoke his mind against outsourcing? I discard all these theories like the way I distanced myself from exciting descriptions that used to appear a year back or so in the newspaper columns globally that all is hunky-dory and the growth momentum would continue unabated. Economists argued that growth theories of yesteryears have lost their momentum since newer

not their greed. All our economic ills facing now can be explained by this simple axiom; even a granny can fathom the inner meaning and underpinnings. When the US Administration realized that the sub-prime mortgage crisis was threatening to destabilize its economy, it was too late.

For the uninitiated, let me explain briefly what it was. Banks and financial institutions lent loans to people who do not have the right credentials to repay that amount, at a phenomenally high rate of interest for buying real estate. Hedge funds, which number over 15,000 in the US alone, invested heavily in the junk bonds issued by these institutions based on the underlying value of their security exposure.

From where did they get the funds for investment? The hedge