

'BE LOCAL BUY LOCAL' FLAWED: FMR INFY DIRECTOR V BALAKRISHNAN

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*As the coronavirus pandemic increases the possibility of protectionist policies gaining momentum in many countries, R M Consulting reached out to Mr **Venkatraman Balakrishnan** (also known as 'Bala'), former Member of the Board at Indian IT giant Infosys Technologies, and currently Chairman of the Board at Billion loans Financial Services, for his views on this aspect and the likely impact such trends could have on the fortunes of Indian IT companies.*

Q. To what extent do you foresee countries the world over resorting to protectionist policies to protect home-grown companies?

Ans. One of the most important developments in the world trade in the last 4-5 years had been de-globalization. With anemic growth in economies across most parts of the world, combined with populist Right leadership in all major economies, had set the clock back on the globalization front. What Covid-19 would do is to accelerate the process of de-globalization. Most of the large economies are battling with lower decadal growth, high unemployment, and huge government debt. The situation does not seem to be correcting in the near term as (the) Covid-19 impact could only go away with the discovery of a medicine to cure it. (The) US had already started the process of blocking new work visas and even countries in (the) Middle East want to give preference in jobs to locals. De-globalization is also a function of (the) world trying to reduce dependency on China for the global supply chains. So, large global economies are actively pushing for moving manufacturing to their home countries or to countries other than China. I think, de-globalization was a trend already and it will gain further momentum due to (the) Covid-19 situation.

Q. Do you anticipate any significant impact on the operations of large MNCs, including Indian IT giants, due to any protectionist tendencies developing in their larger overseas markets?

Ans. Yes and No. In the IT industry, the business follows talent which India has in abundance. Even the MNCs prefer India for their captives and other back office functions primarily due to availability of high quality labor at an affordable price. But, at the same time, there will be greater restriction on movement of people across countries, both due to health reasons as well as issues like high unemployment in customer markets. Companies have to figure out the way to deliver services more and more, remotely, without high movement of people across geographies. Hiring local employees in all customer markets aggressively will also mitigate the impact. Due to (the) Covid-19 impact, there will be significant decline in business combined with high pressure on bill rates. Both will bring down the growth for the industry. In FY 21, I expect a negative growth for the industry if the situation continues. The IT industry will also benefit due to currency. The Indian rupee will decline further with GOI trying to monetize the economy for its higher spending.

Q. In the wake of the economic devastation caused by the coronavirus pandemic, should governments/regulators, including in India, play more proactive roles in ensuring that local companies do not fall victim to "hostile takeovers"?

Ans. Yes and No. A general knee-jerk response of banning all investments from certain countries like China will be (a) foolish thing to do. For any free market, it is important to have stability in regulatory actions combined with (a) free flow of capital. China is the second-largest economy in the world and the bilateral trade between (the) two countries are the highest. What Government should do will be to protect the core industries/technologies and put it through an approval process for greater scrutiny like what (the) US is doing. In a nutshell, India should protect its core industries which are strategic and leave the others to free markets.

Q. Do you feel that the 'be local buy local' philosophy benefits local companies more than they do customers?

Ans. This philosophy itself is flawed. Today, the supply chains in any industry are so dispersed across the world, there is no pure local product anywhere. This is a great political slogan but would impact economies in (the) long run. Customers want the best products at better prices. They do not care whether it is made locally or not. Instead, what (the) country should focus is (on) more value addition to be done in India. For India to become a global force in (the) supply chain, we need greater reforms in labor, land, infrastructure, and capital. Without that, 'Make in India' will only be a dream.

Q. Do you expect China to lose its position as the world's premier manufacturing hub because of the coronavirus pandemic? If so, by when could this take place? Which are the countries that are likely to gain at China's expense if such a thing were to happen?

Ans. It is very difficult to replace China as it had become a powerhouse in manufacturing in the last few decades. There is no world capacity on the scale which China had built already. In the short term, you could see some movements to other Asian countries like Vietnam, Taiwan, etc., I don't see them substituting China as a global manufacturing hub in the near future. What global companies would do is to find alternate Asian countries which could co-exist with China on the supply chain. But, China will continue to dominate the manufacturing for years to come. That won't go away.