

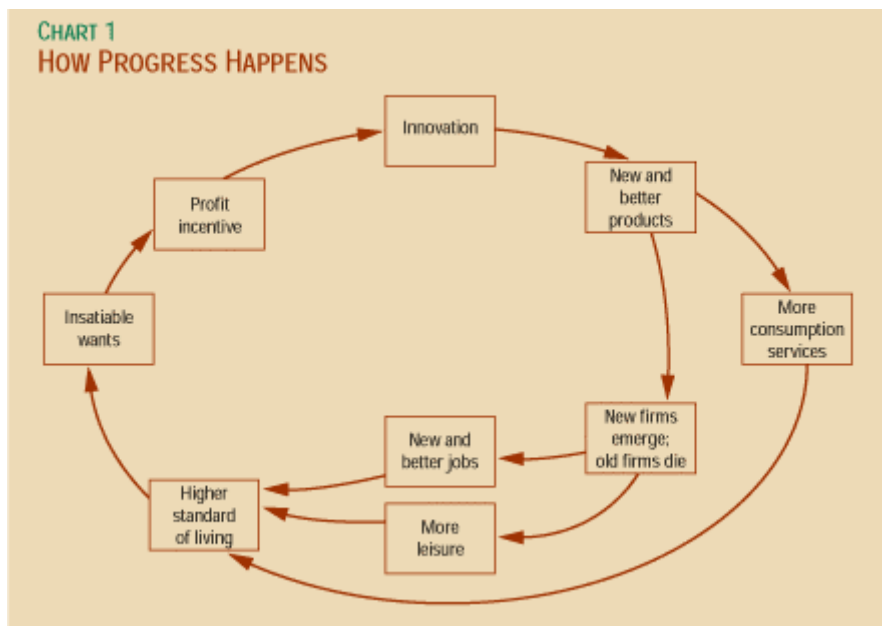
Date : October 07, 2002

**The Hon'ble Finance Minister of India - Shri. Jaswant Singh  
New Delhi.**

Sir;

For four generations now and most part of the 20th & 21st century my family has been involved with promoting education for the upliftment of our people. My grandfather the late Shri. Manoobhai Doongursee, was well known in Mumbai for his efforts in social work, which he first commenced in Karachi before India was divided.

I have the privilege of continuing this work today. Besides, I have been an Investment Advisor and Management Consultant since the past 16 years. I started my working career in 1986 with **a vision of wealth creation opportunities from Equities, Technology and Globalization. I realized that on the top most floor of investment opportunities sat business and enterprise and the elevator to access it was the stock market.** If Business and Enterprise failed then that would be the end of the economic world - which to my mind is not possible. It is only a matter of keeping ahead of the markets in terms of knowledge and vision, which is what is necessary for a successful investment analyst and investor. This is where I realized the need to pursue a career as a management consultant - to see change well before the 'new' was delivered ...to participate in delivering the 'new'. The depth of knowledge necessary is analogous to a bottomless pit and will take forever to sink into. With this background I write to you with deep concerns about the present state of economic affairs in the country. But first - a review of how progress happens through this graphic.



1. The current economic downturn (worldwide) differs from previous ones, as it has not been caused by a collapse in demand after a rise in interest rates to fight inflation. Instead, it is **an investment-led downturn**. A long expansion in the 1990s encouraged rosy expectations about future growth and profits, encouraging over-investment financed by heavy borrowing. When there is excess capacity and an overhang of debt, **interest-rate cuts tend to be less effective in reviving demand**. Investment-led recessions, which were common before the Second World War, tend to be deeper and to last longer because it takes longer to purge financial excesses and over-capacity than it does to tame inflation.

2. The low interest rate policy of RBI needs to be questioned. We are trying to ape the US, which cuts interest rates to spur consumption demand. The US is a **debt laden, spending society**. Their citizens mortgage a big chunk of their future earnings to enjoy consumption now.

They can do this **because of social security. India is a debt light, savings economy, with no social security.** Low interest rates are supposed to help spur investment demand; they haven't. Low interest rates have spurred consumption in some areas but have hurt in most other areas.

3. Having 'Globalised' since the early 1990's, we are now a part of the world economy and stand to gain or loose depending on how we play the game. The point I am seeking to make is that we aren't playing the game right. The way we are doing it doesn't make business sense for us. Instead of being mere knowledge foddors, for the globalization machine rushing to and fro from the kitchen executing orders, we **need to widen our capabilities to define the agenda of globalization** to begin with. Globalization by itself is a fantastic idea but the way it is being applied, resulting in **exploding opportunities only for a few and shrinking opportunities for the rest**, just won't work. ***We in India have not worked on developing a wealth creation model in this new global environment.***

4.a. Multinational presence in India is a must. It is a part of the globalization process. I have always supported this, which is evident by my long-standing investments in MNC companies listed on our stock markets. The earlier arrangement was that for a multinational to do business in India they would have to be listed on our stock markets and Indian Investors holding would be 60%. But after the budget of 1999 this is not the case. The MNC's are permitted to do business in India as subsidiaries wholly owned by their parent companies with no Indian investor holding. To my mind it is reasonable that their prior 40% stake be increased to 74% as they wish to bring in their innovations and make money from our markets and have full control on the business. My quarrel is with the fact that now, we cannot partake in their profits by investing in their listed stock. Besides, as per the current regulations, MNC's that were already listed on are markets are permitted to set up wholly owned subsidiaries through which future business will come in. This is unfair to the Indian Shareholders of the existing listed MNC's. **We must get Multinationals to list on our bourses when doing business & earning revenues in India** (a cause I have been supporting since 1999). **Look at this as a way to wealth creation for India and an equi-distribution of wealth through free market economy without imposing protectionist restrictions on free flow of capital.**

4.b. The MNC's argue that Intellectual property rights are better protected in non-listed companies which is a prime reason for their not seeking listing on our stock markets. I fail to understand as to **how precisely IPR is better protected with non-listed companies as opposed to listed companies?** Stretching this debate further, does the same argument hold good for Indian companies too? Hence are we going to see all emerging technology businesses not list on or delist from our capital markets? Then what is the future of the investment opportunities on our capital markets? How is all this going to affect VC's exit opportunities by the IPO route in the future? How is all this going to effect VC investments which back innovation and entrepreneurship? **This merits some serious thinking.** The MNC's argue that other countries do not press them to list. **I draw attention to the fact that China and some other Arab nations press a revenue share with locals through joint ventures and commission systems.**

4.c. I agree with management guru Dr. C.K Prahalad's sentiments when in brief discussion with me, he said that we must create in excess of 15 million jobs per annum in India and will need MNC presence for the same. But at the same time I believe that salaries are not the only and certainly not the best way of creating wealth. We must partake in profits as investors. **We have to remember that salaries and bonuses are only a fraction of the revenue that a business earns. Market capitalization of the stock is a multiple of these revenues.** Even at 26% shareholding in India we stand to gain immensely. FDI will not stop because we are asking for a 26% listing whilst removing the regulatory obstacles. The new jobs offered by MNC's arent going away. They will be there as these companies come in and economic activity will spur anyways. The question is what our benefits will be - purely salaries or stock appreciation too. NRI's and foreign citizens of Indian origin are already investing in Parent Companies abroad but that is doing nothing for wealth creation in India. Even if currency is made convertible on capital account and Resident Indians can invest abroad in the stocks of Indian companies we still do need listing in India for the betterment of our economy. Directly or indirectly every Indian

must be able to invest in businesses of tomorrow. **We fail to grip the very essences of the path to wealth creation through Globalization.**

5. The Indian Economy worth US\$ 350 billion today may rise to US\$ 1 trillion within 5 years and on purchasing power parity basis may be worth 50% of the US Economy. This wealth created in India will lead to consumption, innovation, productivity and entrepreneurship, which will accelerate education. Budgetary deficits will be thrown to the winds. We will have surpluses. Sometime ago, I did stumble upon some research, which brought out the **correlation between market-capitalization and consumption very strongly**. Obviously, by linking market-cap to consumption is implied a linkage to growth, which in turn feeds innovation (other things being in place), resulting in a self-reinforcing virtuous circle. Ultimately this would result in a better standard of living for the masses. The flip side to this is the small size of the investing population in India. On the up side that number may not exceed 50 million. So for consumption and wealth creation to have wider ramifications on the economy through market cap would take quite some time. In the United States, that linkage is very strong, since 42-45% of the population of that country, either directly or indirectly, own stock. However we need to start somewhere.

6. Therefore, the Capital Market culture must be developed in India. As explained earlier, MNC's must be pressed to list here. Indian business must scale up and get globally competitive to become attractive to the global customer. If they do so, they will be able to attract global investors too. **'Good companies will meet needs; great companies will create markets' – Phillip Kotler**. The Nasdaq is paying 10 cents for every \$ 100 traded, to provide liquidity. Japan is in its third recession of the past decade, which has led to the collapse of the Banking Sector, which has also affected the investor's confidence. Large cap companies like Enron, WorldCom, Vivendi Universal, Global Crossing, Kmart, Xerox, Qwest Comm. and Bristol-Myers have been held responsible for major corporate frauds/ misdeeds, which have developed a feeling of mistrust. **The Indian stock market appears to be the cheapest, safest and hence most attractive**. The Indian market is currently trading at a **price to earnings ratio 11** compared to 36.9 for S&P 500, 32.2 for China, 22.6 for The Dow, 14 for Thailand, 74 for Indonesia, 17 for Korea, 28 for Malaysia, and 25 for Singapore.

7. However, with the **exit of a powerful forward trading mechanism from the Indian Bourses**, namely 'Badla', the markets here have lost a lot of their cash inflows. 'Badla' was a very successful mechanism but was unfortunately practiced in parallel 'unofficial' markets. Instead of policing the same our Securities Exchange Board and the Central Govt. has gotten rid of this system. **Instead of doing away with Badla we should have ironed out the problems, systemic risks and policed the working. Badla is something the world should have learned from us rather than do away with it ourselves.**

8. Besides, the dominance of Foreign and Indian Financial Institutions as well as Mutual Funds has resulted in the markets losing their broad base. **"Wild swings in share prices have more to do with the 'lemming-like' behavior of institutional investors than with the aggregate returns of the company they own" (Warren Buffet). Shareholder Capitalism has replaced Stakeholder Capitalism and money is now institutionalized.** Large percentages of share capital are in the hands of funds and institutions, which demand quarter on quarter miracles from investee companies. This pushes corporates onto the wrong track. Corruption, scams and 'cooperative' trading are rampant, poor corporate governance is the order of the day.

9. Appallingly, we are looking at a budgetary deficit of ½ a trillion US Dollars in the next 6-7 years, given the current state of affairs and a reasonable compounding. This includes the central and state budgets and the oil pool deficit. We therefore must build our national wealth through innovation and entrepreneurship. **We must develop, own and retain our intellectual property.** This is the only way to achieve a needed growth rate in excess of 10%. **We need to encourage Indian Entrepreneurs and Innovators.** We are a developing nation with a large population and our needs are plentiful. **Hunger makes man creative and this creativity when well channelised leads to productivity. We can make and we can consume and to link the two we must invest - our minds, efforts and scarce resources.**

10. Alarming, there has been a large drop in the quantity of scientific research in the country. In terms of research output, India fell from eighth place in 1980 to 13th in 1995, and is presently ranked 15th. China and South Korea rank 9th and 16th respectively. In the last 20 years, the number of scientific papers produced in the country has gone down from 15,000 to 12,000; contrast this to China's performance in the same period, which has seen scientific papers zoom from 1,000 to 22,000. It is believed that a central reason for this decline is the segregation of academic science from research in science laboratories. In countries with high scientific research output, like the US, the research in applied science and academic science is carried out with the same set-up. This allows for greater interaction between students, professors and scientists.

11. **Tragically, India does not have a revenue model in the process of globalization, which has resulted in mere droplets of FDI and in a manner not conducive to creating wealth in Indian hands. We have to figure out how we are going to create wealth in India before we can attract FDI, promoting India as a healthy and wealthy market to do business in.**

12. I conclude by suggesting the following:

a. "If you want to grow to your maximum or optimum potential, structure your society and your policies such that you can make maximum use of international capital, management skills, marketing skills, technology and knowledge." - Lee Kuan Yew

b. The best quality of education at all levels must be made available to all our people at as low a cost as possible. Info. Tech. is the best delivery method.

c. In the process of globalization, with regard to India - Are we going to address Indian producers, consumers and investors? Are we going to create wealth in Indian hands by way of jobs only or investment, profit sharing and entrepreneurial opportunities as well? We must also bear in mind that salaries are a fraction of revenues whereas market capitalization is generally a multiple of revenues. Is China going to be smarter than us at seeing this and frame its policies accordingly? We must find a way to equi-distribution of wealth through a free market economy without imposing protectionist restrictions on free flow of capital. At this critical stage of setting our global business model are the people going to let the nations weakest participant and contributor to the economy, the Central Government, determine our path ahead and negotiate our future standing? Shouldn't the people participate in the deal making at their level too?

d. Encourage the Capital Market and systems that have worked. Systems will have their problems and have to be policed and ironed out. If what works is thrown away we will suffer. The US economy hasn't shown hefty surpluses without the backbone of the Stock Market. Its about time we stopped neglecting or abusing ours.

e. The abolition of Income Tax will bring into circulation all the unaccounted for money. Considering the unmanageable mounting budgetary deficit *this may be a dramatic way* out of our 'mess'. Bringing to book such vast assets may be a much better solution than hoping for higher revenues through Income Tax collections, which amount will never be enough. The suggestion is most certainly arguable but workable. We have a huge mounting deficit that no tax collection will ever meet. Hence a dramatic move is necessary. The abolition of income tax can be accompanied by a well structured VAT, expenditure tax and so on (indirect taxes) regime. The abolition will result in bringing to book huge undeclared assets, which can be used for official productive purposes. This will result in wealth creation and recycling to move the economy ahead in far greater measure than the amounts collected annually by income tax. The side effects will include the reduction of havalas etc. to a great extent, which will help reduce a number of other problems. We must not forget that the Central Govt. has proven to be the weakest participant in our economy. Moving funds to it will never make the country productive/wealthy. It must get and use only what is necessary for amenities, infrastructure, defence and so on and not to run unproductive activities and business. There is much more on this that needs to be debated and analysed. The Synthesis for a solution is required.

f. As stock markets continue their roller-coaster ride, the search continues for ideas that can help restore investor confidence while boosting economic growth. A simple solution would be to eliminate a detrimental tax in the Indian economy – the tax on dividends. If regulators cannot allocate capital and if corporations (through buybacks or otherwise - by malinvestments) and markets (because of their being amoral or being out of control) cannot, who can? It is the shareholder who as a risk taker assumes a key role of an entrepreneur. Shrinking competitive advantage periods in this fast changing world only serve to underscore the risk-taking role of the shareholder in modern society. **Till institutions develop so that they can properly allocate capital, surplus cash should be distributed to the shareholder. The tax on dividends is a burden on this very rational action and therefore counter productive.** That is why it should be removed.

g. We have to look at creating new wealth in India by doing all this and not getting bogged down with thinking small. **Without a wealth creation model we will struggle without results.**

h. The vision ...

~Adapted with all respect from Sidney Poitier's speech at the 74th Annual Academy Awards on Sunday, March 24th, 2002. ~

- In fact this might never be set in motion unless we build a large number of courageous, unselfish leaders among us from a handful of visionary Indians, each with a strong sense of citizen responsibility in today's times. Each unafraid to permit their vision and work to reflect their views and values - ethical and moral - and moreover, acknowledge them as their own. They know the odds that stand against them and their efforts are overwhelming and could prove too high to overcome. Still those visionaries will persevere, speaking through their work to the best in all of us. India will benefit from their efforts, and in ways large and small, the world will also benefit from their efforts. –

Rajiv Bhatia  
Chief Opportunities Executive @ Bee Management.

India has a fast growing economy with emerging markets. The development of these markets needs cautious planning and expertise. Actively participating in the development of India Entry Strategies and Investment Management, our expertise has, since 1989, been in developing strategies and implementation skills, providing offshore, compliance and management services to serve our clients. These include foreign businesses and Non Resident Indians dealing with India with an end-to-end fulfillment of their business needs.

The word "bee" has long been used to describe a busy gathering of people who come together for a special purpose, such as quilting, spinning, logging, or raising a barn. Many think that the hard-working social insect of the same name inspired this use of "bee". But some scholars believe it comes from the Middle English "bene," meaning a favor, which was sometimes used to describe neighbors helping out with a particular activity. At Bee Management we realize that there is no better approach than a determined, intelligent and collaborative effort, which is the basis of our christening. Our endeavor is to make our clients comfortable so that they can remain focused on their business at all times. We manage all that they would like someone else to, with the attention to detail, as they would devote if they were doing it themselves. Ours, runs as a lean, efficient and adaptable organization with external professional ties of long-standing and successful trial.

Advanced Strategies started up in December 2000 as a division of Bee Management and was later spun off as an independent consulting company & incorporated in July 2001. We provide a comprehensive, corporate vision defining the means by which a firm will deliver value to its customers and investors. This vision then powers the operating method implemented at all levels of the firm, influencing the day-to-day decision-making processes. We are mandated by private equity investors in and producers and consumers of emerging technologies. Our vision and expertise have enabled us to develop management insights and solutions for our clients. These have proved to be very useful tools for this fast changing market environment.