

RationalExpectations

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If you can't do RCEP, can't do US/EU either

The narrative that RCEP-Asean-type of deals are hurting is incorrect & the talk of a US/EU FTA is just wishful thinking

THESE ARE ESSENTIALLY two strands to the arguments made after India walked out of RCEP. First, that the lack of safeguards in RCEP that India wanted against a surge in Chinese imports will hurt India, so the country is better off without being a part of RCEP; the Asean FTA is held up as an example of how FTAs are hurting. Second, rather than getting bogged down in an FTA driven by Chinese interests, India's interests are better served by concluding an FTA with the US or the EU; and since both are higher-cost economies than India, India's exports will also grow faster than, say, in an RCEP FTA.

Apart from the fact that it makes little sense to give up on trade with the world's fastest-growing region, the assertion that the Asean FTA has hurt India is incorrect; nor is it a given that India's exports will rise in a US/EU FTA. After all, if countries in the RCEP—and China is just one of them—are more competitive than India, they will continue to export more to the US/EU, even when India has an FTA; you just have to look at the growth in India's exports and those of various RCEP countries to know this. More on the proposed US/EU FTAs in a bit.

Indeed, even when you look at India's exports growth to Asean, this lack of competitiveness is a factor that can't be ignored; just because India and Vietnam, say, have the same access to the Chinese market and the same duties levied on them, it doesn't mean India's exports will do better even if they are less competitive. Vietnam's better performance relative to India can't possibly be laid at Asean's doors. The fact that, between 1990 and 2018, Vietnam's overall exports grew 102 times versus just 18 for India—as a result, Vietnam's exports are now 75% those of India's—makes it clear that the Asean FTA is hardly the issue.

If India is not part of RCEP, and doesn't get the benefits RCEP members do, its exports to these countries are unlikely to grow as fast as those of others. And, as India fails to join other such FTAs, whom will it trade with? As India gets more inward-focused—it has been raising import duties—it will get less competitive. This will push up its trade deficit; as its import duties go up, so will smuggling levels.

India's imports from Asean growing faster than its exports—exports grew 2.07 times in FY10-FY19 while imports grew 2.3 times—also has to do with India's poor domestic policies, which resulted in imports of items like coal or mobile phones/components shooting up. After all this, between FY10 and FY19, India's global exports rose 1.9 times while those to Asean rose 2.1 times; India's imports from the world rose 1.8 times while those from Asean rose 2.3 times. Yet, in relative terms, India's trade deficit hasn't risen discernibly.

India's Asean trade deficit was around 8.3% of its total deficit with the world in the 2000s, and fell to 7.7% in the 2010s (see graphic); the deficit was as low as 4.2% in FY11, and as high as 12.5% in FY16. Those denouncing the Asean and other such FTAs would do well to look at the data.

Pravin Krishna of Johns Hopkins University points out in a recent paper that between 2007 and 2017, India's trade deficit with Asean (as a percentage of India's total trade deficit with all countries) fell from 9.9% to 6.6%. For all bilateral agreements that India has, such as with Japan, Korea, etc, this fell from 12.6% to 7.5%. The numbers will vary depending on the year—the number for 2018 could be different than that for 2017—but, there is no evidence of a catastrophic impact of FTAs, either bilateral or plurilateral. Indeed, the sharpest deterioration in India's deficit is with China, a country it has no FTA with; once again, FTAs are not the problem.

The reason for that is simple. For one, according to Krishna, there is a long gestation before any FTA gets actualised; this applies to RCEP as well. The India-Japan trade agreement began in the year 2011, but implementation is complete for only about 23% of the tariff lines so far; India will liberalise imports for 63% of goods only in 2021, and another 14% of goods are not even part of the FTA. Similarly, under the India-Korea agreement, signed in 2010, only about 8% of tariff lines had been fully eliminated prior to 2017; 20% are totally out of the FTA's purview. Nor is it true, Krishna points out, that all trade in an FTA takes advantage of the preferential duties since there are complex rules of origin etc; despite the recent explosion in FTAs, Krishna says, only about 16% of world trade takes place on a preferential basis (the figure rises to 30% when intra-EU trade is included in the calculations).

It is not clear how soon India can sign an FTA with US/EU, but suffice it to say that India has not even been able to resolve its dispute with the US on simple issues like duties on Harley Davidson motorbikes. An FTA with India, along the lines of the TPP that the US was working on, will presumably be as stringent—TPP had rules on labour laws, intellectual property protection (India will have to grant patents to a lot more US drugs as US rules are more liberal than India's), reducing sops to PSUs, and the need for unfettered market access to US firms. If lobby groups like Amul could stop an RCEP, surely they will try and do the same when the US/EU want even more market access and have even larger subsidy levels! Since most Indian markets will have to be opened, other lobbies will also get active. India's trade negotiators need to get real.

InJUSTICE

Even the best-performing states in India in terms of justice delivery score quite low

THE RECENTLY RELEASED *India Justice Report (IJR) 2019* found that Maharashtra, Kerala, and Tamil Nadu are the leading Indian states when it comes to justice delivery while Jharkhand, Bihar, and Uttar Pradesh are the worst-performing, among large-to-medium sized states. The report uses publicly available data to analyse the performance of individual states on four "pillars" of justice delivery—police, judiciary, prisons, and legal aid. The report highlights that even the best-performing states scores less than 60% in their performance on capacity across all four categories.

In the *Rule of Law Index (RLI) 2019*, India ranked 68th of 126 nations. It ranked 111th for order and security, which can be a proxy for policing efficiency. While Tamil Nadu was the top-ranking state in the *IJR* for the pillar 'police', it had an unimpressive score of 6.5 out of 10. This means the state of policing in other states doesn't pass muster. Indeed, with just 6.4% of the police force having received in-service training, and only 7% of all police personnel in the country being women, policing lacks skills and the required sensitisation, especially on gender concerns. In *RLI 2019*, India ranks quite poorly in civil justice, while performing marginally better in criminal justice delivery. So, even the top-ranking states in the India Justice Report need serious policing and judicial reforms urgently—even the Supreme Court has weighed in on this. But, as the *IJR* shows, things have barely moved.



POWER TO EMPOWER

Prime minister of India, Narendra Modi

To empower so many Indians, especially women has been one of the most satisfying efforts of our tenure. The credit for the same goes to the people of India who made these movements their own

FROM PLATE TO PLOUGH

TO CURB NCR AIR POLLUTION FROM STUBBLE BURNING, THE GOVT SHOULD INCENTIVISE PUNJAB & HARYANA FARMERS TO SWITCH FROM PADDY TO CORN

Sowing paddy, reaping smog

ASHOK GULATI

nfosys Chair Professor for Agriculture, ICRIER
Views are personal



especially during the peak season.

The question one needs to ask is why Punjab and Haryana have gone, in a big way, for paddy cultivation when their water resource endowment doesn't align with the crop's requirement. Remember, one kilogramme of rice requires about 5,000 litres of irrigation water in this belt. And, the natural rainfall is too little for it. Farmers go for paddy as it gives them higher profits compared to crops like corn. The key reasons for that are two fold: (a) massive subsidies on power by the state, and fertiliser subsidy by the Centre; (b) assured procurement of paddy by the state agencies on behalf of the Food Corporation of India (FCI).

What is needed is to move about two million hectares of rice area from this belt to eastern parts of the country, where water is available much more abundantly. The basmati area in this belt is about 1.2 million hectares, and produces 4.6 million tonnes of basmati. But, the value of basmati is almost three times higher than that of common rice, and much of that is exported (see

graphic). So, Punjab and Haryana should focus primarily on basmati, giving three times higher value for every drop of water consumed, and try to get away from common paddy, which is basically for feeding the Public Distribution System, where rice is sold to consumers at ₹3/kg under the National Food Security Act. How can one encourage farmers to shift from paddy to, say, corn? It all boils down to policy, both by the Centre, and the states concerned.

Can the Centre and the states abolish fertiliser subsidy, and power subsidy? Given our political economy of securing votes through free power and cheap fertilisers, the chances are extremely low. A move towards giving these subsidies in cash on a per hectare basis can be some improvement over the existing situation. But, if the Centre, and the states of Punjab and Haryana announce a cash incentive—to be shared equally between the centre and the states—of ₹12,000/ha for growing corn in place of paddy, it may encourage farmers to switch from

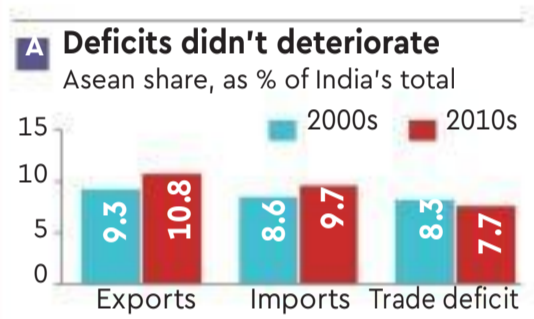
common paddy to corn. Our calculations suggest that the combined subsidy on power for irrigation and fertiliser consumption in paddy cultivation is about ₹15,000/ha. So, giving ₹12,000/ha for corn cultivation is actually transferring the subsidy from rice to corn cultivation. It will not cost the state or central exchequer anything extra; it is just reshuffling the cards. But, rather than being absorbed by government procurement, corn cultivation will have to be absorbed by feed mills for poultry, starch mills, ethanol, etc. So, tax incentives for corn-based industries in this belt would create a demand that is market-driven.

This is just the right time to make this switch as the government's rice stocks are way above the buffer stock norms (see graphic). This reflects massive inefficiency in grain management. In fact, the Centre should announce that it will not procure more than, say, 50% of the production of common paddy from the blocks that are over-exploited. Further, it will not give to the state procurement agencies more than 4% as commission, *mandi* fee, or any cess, etc, for procuring on behalf of FCI.

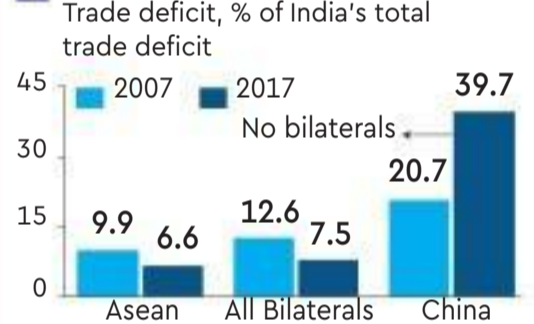
So, a carrot of ₹12,000/ha for the farmer to switch from paddy to corn, shared equally between the Centre and the states, and cutting down procurement from over-exploited blocks may do what the Supreme Court's hauling up of Chief Secretaries may not!

The Asean myth

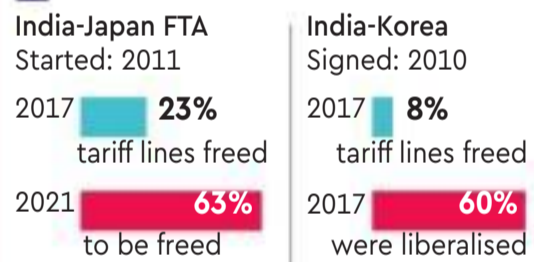
Little evidence to show India badly hit by FTAs like Asean



This holds true for other FTAs



FTAs give enough time to open-up

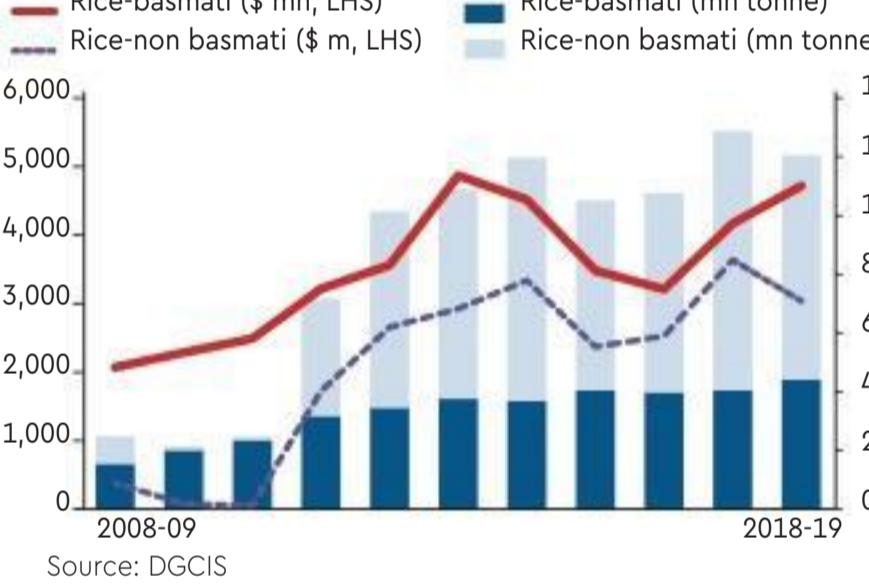


Very little trade is "preferential"



Exports of rice

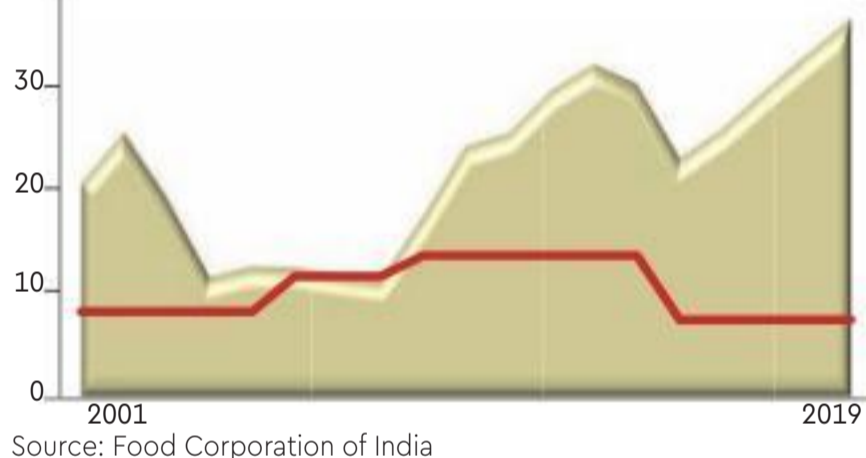
(basmati and non-basmati)



The buffer stock norms and actual stocks of rice with Central Pool

(million tonne, as on January 1st)

— Rice (Including unmilled paddy)
— Norms



The last chapter of Brexit

All complications of mature political democracies come together in Brexit, crippling the political system's ability to make a decision with long-term economic impacts

MEGHNAD DESAI

Prominent economist and Labour peer. Views are personal



THE BREXIT SAGA is too fascinating to ignore. Almost every complication in a mature political democracy has come together in Brexit. This is why the political system finds itself crippled when it comes to making a decision that will affect the economy for a long time. At last, there is an election on December 12 that may end the uncertainty. Or, at least I expect so.

The first complication is that, in theory, it is Parliament which is sovereign. Or are the people Sovereign? The people decided to leave the European Union with a 52:48 margin between the two sides. Parliament ratified the Referendum result. David Cameron, who ordered the Referendum, resigned. His successor, Theresa May, invoked the Lisbon Treaty Article 50, giving notice to the EU that the UK wanted to withdraw. The treaty allowed two years for this. So, March 29, 2019, was the exit date.

The second big question is whether the government is more powerful than Parliament? One more question is, when the government implements the people's wishes, should the people be allowed to revise their view by holding another referendum?

Theresa May negotiated a deal. She needed the UK Parliament to pass it. She failed three times to get a majority for her deal. Ordinarily, she would have to resign, and call an election. But, in 2011, a Fixed Term Parliament Act had been passed, which took away the power of the prime minister to dissolve Parliament and hold an election. So, despite lacking a majority in the House of Commons, and having lost a major Bill three times, she stayed in office. It was not Parliament, but her party that made her resign. After a contest, Boris Johnson

became the leader of the Conservative Party, and UK's prime minister.

Johnson promised to exit by October 31, deal or no deal. But, to prevent the no deal outcome, which could have been very damaging, Parliament again passed a Bill asking the PM to request an extension until January 31, 2020, if he did not get a deal by October 19. Miraculously, he got a deal. Even so, Parliament bound him not to exit till after he had secured the passage of the legislation to implement it. This extraordinary power of Parliament to instruct the executive was discovered by Speaker of the House John Bercow (who retired last week) by reviving a Standing Order of Parliament that had not been used for three centuries.

Johnson got his deal approved in principle by the House of Commons. But, he needed to pass the legislation to implement it. To do so by October 31, he proposed a tight timetable to debate the Bill. Parliament rejected the timetable. Johnson dithered, but got the extension to January 31, as instructed by Parliament. That removed the threat that the UK could exit without a deal. He got the parliamentary support to hold an election on December 12.

Johnson called the election because, lacking a majority, it would have been difficult, if not impossible, to pass the deal without amendments from the Opposition which would have nullified his deal. Parliament could have added that he would need to hold another Referendum to get the legislation

endorsed by the people. If he has a majority after the election, he can get his deal passed unamended.

Two big questions remain. Will Johnson get a majority in the December election? If so, what effect would it have on the UK economy?

The electorate has been very volatile, and polls have failed to predict outcomes. A recent study found that 45% of the voters had changed their mind between the two elections (2015 and 2017) and one referendum we have had in the UK. But, as of now, Johnson enjoys a 15% lead over the Labour party. There has been a lot of muddle in the latter's

approach to the Brexit issue. They now promise that if they win, they will reject Johnson's deal, renegotiate, and put the new deal to a referendum to get a decision by July 2020. The Liberal Democrats, who had slumped in 2017, are reviving since it is clear that if elected, they will revoke the Brexit application, and stay in the EU. The Scottish Nationalist Party also wants to remain, so it will join the Liberal Democrats to form

a government if necessary. For better or worse, let me put down my prediction. Conservatives: 330-340; Labour: 150-180; Liberal Democrats: 120-150; and Scottish Nationalists: 50. There are some small parties that do not matter. For a majority, you need more than 320. My guess is that Johnson will win a majority, legislate the deal, and the UK will be out of the EU by the end of January 2020. The economy will suffer a short-term shock of up to 5%, and then recover by the end of 2020.

LETTERS TO THE EDITOR

Kartarpur corridor

The inauguration of the cross-border corridor to facilitate pilgrimage from India to Darbar Sahib Gurdwara in Pakistan, coincident with the 550th birthday of Guru Nanak is a moment of great rejoice for all our Sikh brethren and all Indians. Instead of two separate ceremonies, a joint ceremony by India and Pakistan would have been far more welcome and befitting. Still it must be heartily hailed as a 'rare success story' and as a testament to the fact that the obstacles of 'history and geography' are not insurmountable. A visa-free visit to the holy site where Guru Nanak spent his last years and was laid to rest would be an experience of a lifetime for the pilgrims. The accumulated hostility should not hold India back from thanking Pakistan for the gesture of goodwill. Former PM Manmohan Singh's call 'to replicate the Kartarpur model' for bilateral conflict management and resolution is worth being acted on. It is hoped that the place of pilgrimage will help build bridges between the two countries. It should shine as a beacon of hope for the masses of humanity in the sub-continent that share a common destiny that they can co-exist and realise their full potential despite different religious persuasions. It is understandable that the opening of the corridor has more than its fair share of controversies. Contentious issues like the promotional video clip featuring the slain Khalistani proponents like Jarnail Singh Bhindranwale, Major General Shabeg Singh and Amrik Singh Khalsa, Navjot Sidhu's spat with the central government over permission to go to Kartarpur and Islamabad's insistence on passport and the levy of service fee of \$20 for every pilgrim pale into insignificance when we think of the positive side of the momentous occasion.

— G David Milton, Maruthancode

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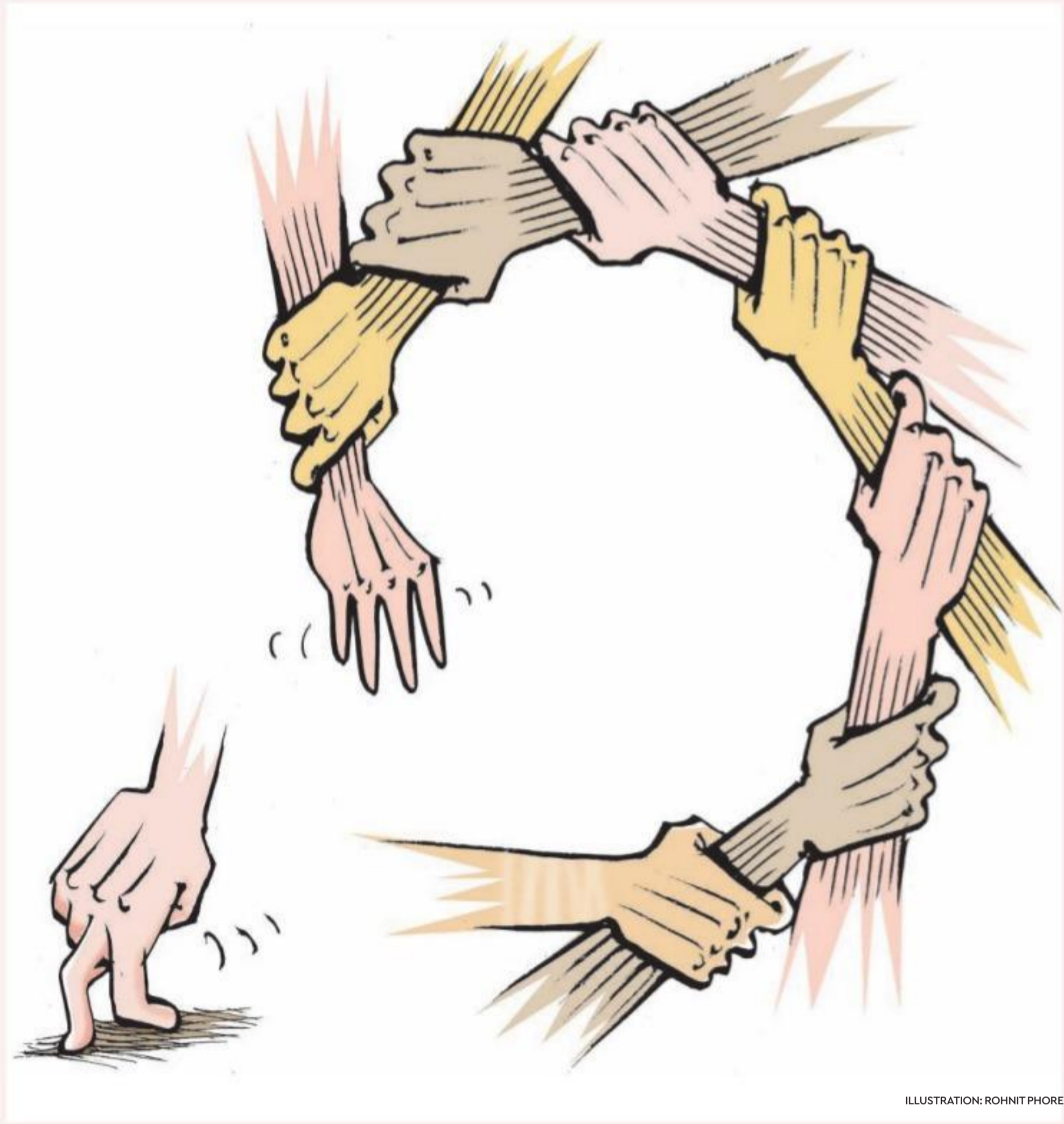


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● RCEP

India won't get a sweet deal

Under the prevailing conditions, it would be hard to have our way in most trade agreements as every country would be pushing to leverage the deal which increases their exports and limits imports

INDIA HAS ONCE again displayed out of the RCEP, keeping domestic interests in mind. Earlier, a similar position was taken at the WTO, and, more recently, with the US. This is a change of image from the past, and shows that the country has the strength to take a firm position on trade issues. More importantly, as India is a strong economic power, a powerful message has been conveyed to the rest of the world. The Ricardian theory of compara-

tive advantage states that countries should specialise in production of commodities where they have a comparative advantage in terms of cost, and import those where they don't. This leads to an optimal solution. But the world is not that simple; generally, countries produce everything depending on their social structure, economic distribution and political motivations. In case of commodities like oil or gold, there are few producers and many consumers, thus, there are only a few

options. Rarely does a large oil producer also import oil. Besides the prices have been more or less fixed via economic structures, which are formal. But for several other commodities there are both exports and imports. Besides, the overarching motivation for governments is to protect domestic industry.

There is a lot of talk of pushing forth India's exports; the problem, however, is that they tend to be concentrated in less price-elastic goods, which are driven more by global growth prospects. While some suggest weakening the rupee to boost exports, anecdotal evidence shows that this hasn't worked. If we are serious about pushing our exports, India needs to adopt an open door policy. It should also try removing bottlenecks. More important, countries should also let our exports come in. Curiously, we face tough competition from countries like China, Sri Lanka, Bangladesh and Vietnam in areas where we have a comparative advantage. Against this background, free trade agreements (FTAs) make sense.

The WTO is supposed to be the biggest FTA involving over 160 countries; all members agree on certain norms on movement of goods, services and investment. The idea is that elimination of quotas and reduction in tariff barriers would lead to materialisation of an optimal solution. This has seldom worked smoothly. WTO has been one-sided when it comes to services as the Western world is against immigration. Ironically, the developed world does not mind flooding emerging countries with their investment and goods. Therefore, the WTO solution has always been a mirage.

Now, let us look at RCEP. When 16 countries covering a large geography in terms of population and size have to negotiate, there would always be vary-

ing interests. It can never be a zero-sum game for everyone, even though on an average all countries would be better off. India is right to play tough while negotiating on imports in the farm area or textiles, as agreements like this are prone to encourage dumping. But, to get the benefits of freer entry into other countries, India has to be open to more imports in goods which may lead to a direct competition with probably the most underprivileged class, i.e., farmers. Also, the choice of year for benchmarking will always be a bone of contention. Each country would like to bat for the year that is most convenient.

The fact is that all countries subsidise various sections of the economy based on social and political requirements, this trend is more prevalent in agriculture. Therefore, costs and prices tend to be skewed. Also, every country wants to protect their farmers as they constitute a big constituency. Dairy products or other agro products entering through the FTA window can create problems of survival of local communities. Thus, it is natural to have resistance to these bilateral and multilateral agreements. India puts export restrictions on farm product, which is not the case for other countries like New Zealand. Hence, there will always be such instances of competitive pressures.

So, is India right in walking out of the RCEP? Sovereign countries have a right to move on if they do not acquiesce to the terms, though ideally one would not go to sign the agreement and then withdraw. The spade work should have been done well in advance. Besides, walking out may not be the best way; negotiating agreements, which are serious in nature, requires a lot of diplomatic maneuvers. In political parleys discussions go on and diplomatic ties are maintained till the end, the same holds true for economic agreements. Walking out of the deal signals a message of intransigence, while keeping talks alive adds a strong diplomatic touch to a firm position being taken.

An argument that is often given is that the 16 nation group includes Asean, which is anyway not very significant in our trade basket. If this was indeed the case, there was little need to prolong the conversation. India needs to strike such agreements with various countries in different geographies to leverage mutual advantage to grow exports. While there are talks for looking more towards the US and Europe to sign such agreements, getting these countries and blocs on board won't be easy either. Europe has been going through tough times and the US has been targeting India on certain trade issues.

More importantly, the world economy has been through a rather long phase of slowdown with few signs of an imminent turnaround. The pace of global trade has gotten truncated. Trade growth has been around 3.2% per annum, post the financial crisis. Several nations which are dependent on exports have gone into a tailspin. Any idea of trade talks with groups would invariably be directed at enhancing their own markets while keeping others out—typical of such phases.

RCEP composition shows that the ASEAN nations are export-oriented economies and countries like Japan and China, owing to limited domestic demand, have become more dependent on foreign trade. India has had an advantage of being fairly insulated as growth has been driven primarily by the domestic forces. Therefore, under the prevailing conditions, it would be hard to have our way in most trade agreements as every country would be pushing to leverage the deal which increases their exports and limits imports. The path along will surely be uneven.

While there are talks for looking more towards the US and Europe to sign such agreements, getting these countries and blocs on board won't be easy either

AI-driven future

SUDIPTA GHOSH

Partner and leader, Data and Analytics, PwC India. Views are personal



Artificial Intelligence will add \$15.7tn to the global economy by 2030

MOST ORGANISATIONS TODAY acknowledge that Artificial Intelligence (AI) has the potential to solve complex problems at scale, enhance efficiency and optimise costs. According to a recent survey done by PwC 'With AI's Great Power Comes Great Responsibility', 65% of global and 62% of Indian CXOs have implemented AI in some form. This growing popularity is only going to see an uptake, with companies looking to become fit for future.

However, study also reveals a fundamental challenge organisations face with AI applications. Businesses may have been able to address issues around data supply chain, they are still grappling with the 'black box' problem, i.e., lack of understanding and explainability of AI decisions. In fact, 58% of survey respondents admit they lack understanding of how AI applications made decisions and only 10% CEOs are confident about the reliability. This lack of understanding has resulted in many instances where AI systems did not behave the way they were expected to.

Certain sectors like financial services are more impacted by this ambiguity than others. Financial institutions have been the earlier adopters of AI. Using AI and a multitude of customer data points, banks now determine willingness-to-pay scores, to approve loans. While this brings huge benefits and increases business efficiency, such initiatives are also fraught with risks. Each decision taken should correctly identify the risk profile of customers so that they do not adversely harm the business interests. Such applications should also be compliant with various jurisdictional data privacy laws, industry regulations and legal frameworks of the geographies they operate in.

Another industry that AI promises to transform is health-care. Consider radiology, AI will augment the skills of radiologists, helping them find new causal patterns via image processing, interpretation, reporting and planning to enable faster and more precise reading of medical images and better diagnosis. However, it has inherent risks which need to be properly governed and managed to provide responsible patient care. For starters, the outcome of AI-aided medical imaging need to be interpretable and explainable for it to be trustworthy. Data is highly sensitive and private, and AI applications should ensure privacy and ethical use.

Challenges around AI applications, irrespective of industries and functions, are spread across ethical, economic, societal, security, performance and control related aspects. AI initiatives need to address such risks.

The first step to address these challenges is developing a responsible AI (RAI) Framework that provides a firm foundation to an organisation's AI efforts—right from strategy formulation to planning, ecosystem management, development, deployment, operations and monitoring. Strategy formulation helps organisations adhere to internal policies and practices and align with industry standards and regulations. A delivery approach is decided to manage outcomes and to ensure consistent program oversight in the planning phase. Ecosystem management helps create the technology roadmap, source different applications and establish a change management process. Finally, development and deployment of systems occur in an iterative manner to create a comprehensive and accurate model. However, some AI models have a tendency to deteriorate over time, hence these need to be constantly monitored. This can be achieved through compliance testing and operational support.

The second step is to back the framework by a technology-enabled toolkit that provides a set of assets and practice aids curated to accelerate the evaluation of data, AI models and their trade-offs, while considering the associated risks and relevance. Such assets can help organisations reduce AI related risks to a sub-threshold level and provide explainability to the decisions taken by their AI applications, thereby reducing the black box problem. The promise of AI is immense, according to our estimates it will add \$15.7 trillion to the global economy by 2030. For this to be realised and for organisations to become fit for future, AI must be supported by strong performance pillars.

PwC's Data and Analytics team members contributed to the article.



MOST PEOPLE ARE quite uncomfortable with change; the reasons why people detest any change are explicable. People resist a change or oppose it outrightly. That's the reason why it is important to understand importance of feelings as change proceeds, and why they need to be guided through it. William Bridges' Transition Model is a helpful framework in change management.

While most people expect changes are meant to be positive. A lot depends on individuals, how they make things better, easier, and fast-track the route to success. In organisations sometimes the hard-working employees end up being the number one obstacle to a new initiative. Bridges' transition model helps dealing with the people-aspect of change management. It helps in turning them from obstacles to supporters. As an organisational consultant, William Bridges found that the most important responsibility was guiding people through transition for successful change. He identified three stages of transition and his model strives to help business leaders to understand the feelings people go through a change process.

Bridges highlights the difference between transition and change. Change is speedy, and people often have no say when it happens. But transition is a slower process that happens internally. Transition is what goes on inside people's minds as they go through a change process.

William Bridges' Transition Model

The model helps dealing with the people-aspect of change management

VIDYA HATTANGADI

The author is a management thinker and blogger



Employees get affected by change when it transits from one stage to the next. Therefore, business leaders must change their approach to people management in an empathetic development. The three stages of Bridges' Transition Model are as follows:

Ending, losing, and letting go: When people first learn that they will have to face a change and their 'comfort zone' will be disturbed, they experience an emotional upsurge. If organisations fail to understand and acknowledge this fact, their employees might resist change all the way through a change initiative. When people see a change coming their way they feel afraid, they tend to rebuff, they feel angry, they feel disorientated, frustrated. And in short, they experience insecurity.

Dealing with these feelings requires patience. People must be encouraged to be open about their emotional reaction to change and be understood by their superiors and peers about the way they feel. Throughout the change process discussions must be going on so that employees take initiatives on their own.

Employees must be told what their role will be, what their prospects would be the emoluments, the reporting relationship, their future growth in organisation everything should be discussed with them. Bridges believed that the emotional reaction to change is most important to be handled. Emotional health and well-being is something that shouldn't be discarded.

The Neutral Zone: In this stage people



are confused and puzzled; they are not sure if the change is good, bad or ugly. They feel uncertain and irritated. It all depends on how nicely managers administer the change process. Employees struggle with their new workloads and new tasks. Each person experiences the change differently depending upon his capacity. This phase is like a flyover between the old and the new. People take time to get detached from the old style, in this stage they try to adapt to the new. People experience resentment towards the change initiative. They are lost in their own world trying to cope with change. Their morale is low and, therefore, the productivity is also low. Employees carry anxiety about their role, status and identity. Actually this stage can be one to initiate

creative thinking, innovation, and renewal. This is a great time to encourage people to try new ways of thinking, practicing and working.

Employees must be guided by managers with patience. Their guidance is incredible, it is very important as people go through this neutral period. This can be an uncomfortable time, because it can seem unproductive, and in this little progress is made. Frequent meetings and sharing feedback is a good solution. When people enter the neutral zone, they are not yet entirely comfortable with the change and will still need a lot of encouragement.

The New Beginning: After a while, after few days pass things seem to start falling into place. People start seeing the

real results of the change process. They might or might not see the positive result. Employees see how their efforts are starting to pay off. Suddenly, it all makes sense to them. The emotions are positive. They feel energised, they want to learn more, and they feel committed to their role. Naturally, this state of affairs should be sustained as the working atmosphere is positive. This is a time for celebration and rewards coming in pocket.

But, sometimes people can still slip back into stage 2—the neutral zone. The results cannot be taken for granted, therefore it still necessary for managers to be vigilant.

Strength of the model: This framework focuses on transition, not change. The difference between these is subtle, but important. Change is something that happens to people, even if they don't agree with it. Transition, on the other hand, is an internal process, it happens in our minds. Change can happen very quickly, whereas transition usually is a slow process.

Changes occur in our lives at regular intervals, whether we are aware of them or not. As part of our nature, as humans, we normally do not like major changes and the fear of the unknown that accompanies change. Some changes paralyse us emotionally. To handle changes in our life, we need to accept that we need to internally strengthen ourselves. And, we all need guidance and mentoring at each stage.