VISTA – AN OUTLOOK

Monthly Newsletter of Aishwarya Institute of Management & IT

Theme : Economic crisis - A real Fear factor

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IMPORTANT LINKS

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From the Director's Desk

Financial crisis and accompanying economic recessions have occurred throughout history. Periodic crisis appear to be part of financial systems of dominant or global powers. Given the central importance of finance to virtually all aspects of globalization, issues such as trade, the environment, crime, disease, inequality, migration, ethnic conflicts, human rights, and promoting democracy are affected. The global financial crisis of 2008-2009 ushered in the most severe global recession. Given the central role played by finances in globalization, the crisis has serious implications for virtually all global issues and for globalization itself.

Revolutions in computer and telecommunications technologies fostered the development of complex financial engineering that radically altered the global financial system. An emphasis on government deregulation, the growth of a culture that encouraged quick profits and excessive executive compensation, and the availability of low interest rates played significant roles in creating the financial crisis. But a crisis presents both dangers and opportunities.

India is currently one of the world's biggest economies, ahead of Spain. Both the CIA and World Bank have India as the 9th largest economy, and Spain as the 12th. India is forecast to be the world's third largest economy by 2030, and the world's number 1 economy by 2050 (the same year that India will become the world's most populous country). And because India's age demographic is so young, the costs of supporting its elderly are incredibly low. So things look optimistic and rosy for India in long-term. But in the short-term, India has big problems. The rupee weakened and shares tumbled after slowdown in economic growth and the political paralysis on economic development gripping the country carried the risk of re-rating.

Dr. Archana Golwalkar

5 December, 2012

Certification "Event Management Raahat Healthcare Jobs: Job fair 1-2 Dec 2012"

Guests : Mr Amit Mathur & Team

A placement event was organized on 1-2 Dec 2012 by Raahat Healthcare jobs in which the students of Aishwarya Institute of Management and IT assisted in managing the whole event. There were 46 Students who had displayed their interest to volunteer their services during the two day job fair out of which 20 students were selected after a brainstorming session delivered by Mr Amit Mathur, Project Coordinator Raahat Health Care Jobs. The students were asked to report for a week for 2 hours, daily at Raahat Health care centre. The event was a great success. Contribution of 14 students was recognized and certificates were awarded to them on 5th of December 2012, the organizing team appreciated the performance of the students and shared their strengths on the other hand the students very fondly expressed their learning experience gained while managing the event. The organizers invited the students to participate in their future ventures. The program was closed by the appreciation expressed by Dr Archana Golwalkar towards the Raahat team for providing a platform for practical training and development to the students of AIM & IT.

Congratulations!

Dimpal Jain	**Neelisha Verma**
Riya Jain	**Salimuddin Shiekh**
Mukesh Patidar	**Mahipal Singh**
Chouhan	**Priya Dangi**
Dakshesh Paneri	**Nisha**
Neha Kunwar Solanki	**Amreen Bano**
Mansoori	**Rajkumari Chouhan**
Lokesh Kumar Dhakar	**Lakhmi Chand Patel**

Students with the Raahat Team, celebrating success

India's Economic History

The recent slowdown in the Indian economy and stalled reform initiatives have raised concerns about India's economic prospects. Kaushik Basu, chief economic adviser at India's Ministry of Finance, gave his perspectives on India's recent economic achievements and how it is positioned to deal with future risks. Carnegie's Vikram Nehru moderated.

- **Historically Closed Economy:** Although India was an open polity and society beginning in 1947, it remained economically closed to foreign investment, with an intrusive government. Trade tariffs and duties rose through 1991 and investment licensing regulations discouraged private domestic and foreign investment.
- **1991 Crisis:** The First Gulf War led India's foreign exchange reserves to dry up, putting India on the edge of default. As a result, the Indian government instituted reforms, but Basu explained that they remained extremely limited, as they targeted liberalization of only foreign exchange transactions and licensing.
- **Foreign Exchange Reserves:** In 1990/91, India had about $5 billion in reserves; by 2005 it had grown to $300 billion.

Post-2003 Growth and Improving Ties with the United States

- **Changing Perceptions:** Indian professionals and the Indian higher education system gave Americans a more positive impression of India, which contributed to the increasingly close economic ties between the two nations.
- **American Outsourcing:** U.S. television attacks on outsourcing ironically advertised the viability of outsourcing and led to a sharp rise in demand for IT-related exports, which helped the Indian economy and led to closer ties with the US.
- **Savings and Investment:** Around 2003, India moved from low to high savings and investment, Basu asserted. Today about 35 percent of national income is invested, powering growth.

Reasons for slowdown in India (2011)

2011 saw India's GDP growth fall from 8.4 percent to a projected 6.9 percent, and inflation rose from 7 percent to 9-10 percent. Basu offered several explanations for these worrying trends:

- **Slowdown in Decision-Making:** Basu argued that corruption scandals and finger-pointing led to risk-averse behavior among bureaucrats. This fear slowed reforms, he explained. Furthermore, a coalition government requires more time to make decisions.
- **Battle against Inflation:** Rapid growth has been accompanied by rising inflation, and there is an ongoing debate over what is causing it.
- **Global Slowdown:** Globalization affects India more today than it did before, Basu said. Imported or exported goods and services have increased dramatically as a portion of GDP since 1995, making India more vulnerable to global shocks.

Future Implications for India

- **European Union Implications:** India is expected to have a slow revival of growth through 2014, but EU problems could affect this recovery.
- **Potential Threats of Arbitrage:** If there is a global crisis in 2014, efforts by the RBI to pump money in to the system could lower interest rates, although preventing inflation would likely force India to raise rates again. Even with capital flow controls, this disparity could lead to problems of arbitrage.
- **How to Respond:** India must fiscally consolidate and have funds for another fiscal stimulus if necessary.
- **Ongoing Domestic Reforms:** India has numerous areas where reforms remain outstanding, incomplete or stalled: allowing 51 percent foreign ownership in multi-brand retail, reduction of oil and food subsidies, creation of a social security system, introduction of a GST (goods and services tax), and infrastructure development.

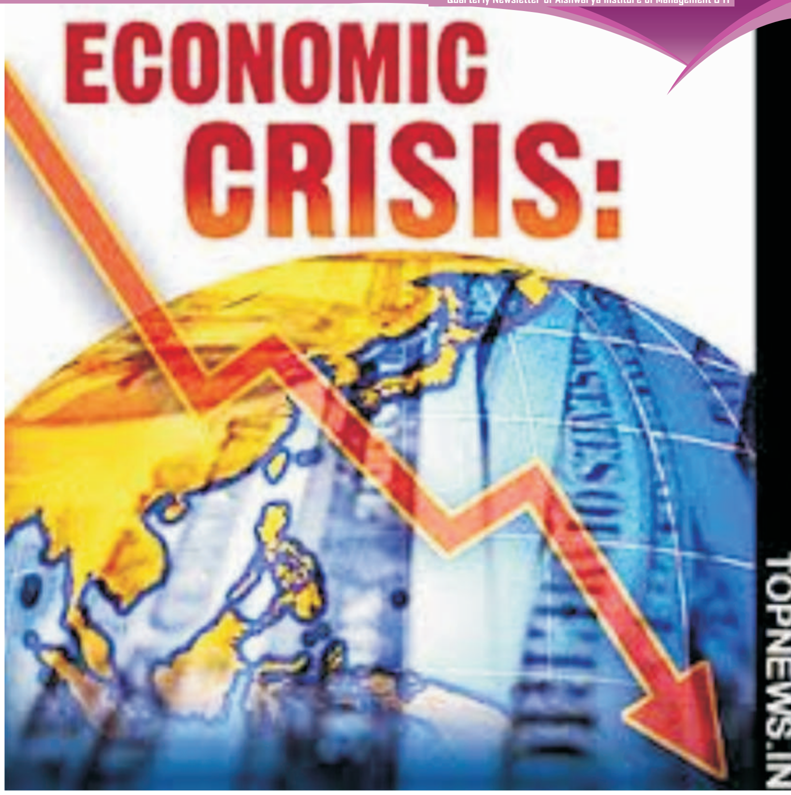
KARISHMA JAIN, *MBA I*

Upcoming Events

- MBA, MCA RTU Examination
- Republic Day Celebration

In the house of the wise are stores of choice food and oil, but a foolish man devours all he has.

- Proverbs 21:20



How India can avoid a grave economic crisis?

India's yawning trade deficit is not a separate problem from the government's budget shortfall. They are two sides of the same coin. The connection between them becomes evident when one looks at the current account gap not as the excess of imports over exports, but as the difference between the country's investment and savings.

The twin problems started in February 2008, when New Delhi undermined a six-year process of deficit reduction by announcing a $15-billion (Rs 60,000 crore) farm debt waiver. That blunder, compounded by several other acts of fiscal irresponsibility, had a pernicious effect on the nation's savings-investment dynamics. Fiscal profligacy encouraged households to seek cover in imported gold as an inflation hedge.

A quintupling of household investment in "valuables" between financial years 2008 and 2012 shrank the pool of financial savings available to the domestic corporate sector, which was unable to maintain the breakneck pace at which it had been issuing debt equity and debt securities. That, in turn, made Indian companies increasingly reliant on foreigners' money to finish projects already underway. The current account deficit shot up to 4.2 per cent of GDP in the last financial year. In the last two years, India's stock of foreign debt has shot up by 32 per cent even as the monetary authority's foreign currency reserves have fallen. Unless the current account gap returns to a more sustainable level, a repeat of the 1991 currency crisis cannot be ruled out. In India's case, a more sustainable current account may mean reducing the deficit to between 2.4 per cent and 2.8 per cent of GDP, according to a Reserve Bank of India (RBI) research paper. Untangling the two deficits – fiscal and current account – and bringing both under control will require a three-pronged strategy: a competitive exchange rate, further reductions in subsidies and a frontal assault on inflation. Achieving all three simultaneously will need deft co-ordination between the government and the monetary authority.

Without co-ordination, subsidy reductions might get in the way of a competitive exchange rate and inflation control. If the central bank keeps the rupee weak, prices of imported crude oil in local currency terms will also remain elevated. Not attacking inflation is not an option. The 13 per cent depreciation of the nominal exchange rate in the past year has been unable to revive exports and close the trade gap partly because global growth is tepid and partly because higher domestic inflation in India is preventing the currency from becoming more competitive in real, or inflation-adjusted, terms. A weighted index of India's real effective exchange rate against 36 of its trading partners depreciated only three per cent in the last fiscal year.

SURABHI BHATNAGAR, *MBA IV*

Major cause of economic crisis in India and way out

Lack of processing technology is main cause for economic crises. Solution to the problem may be improved:

1. Policy paralysis of the government
2. Unnecessary subsidies
3. Corruption
4. Tax relief to essential sectors
5. Coalition governance
6. Extravagant expenditures of government

SWATI AGRAWAL, MBA I

GLOBAL ECONOMIC RECESSION: AN OPPORTUNITY OR THREAT FOR INDIA?

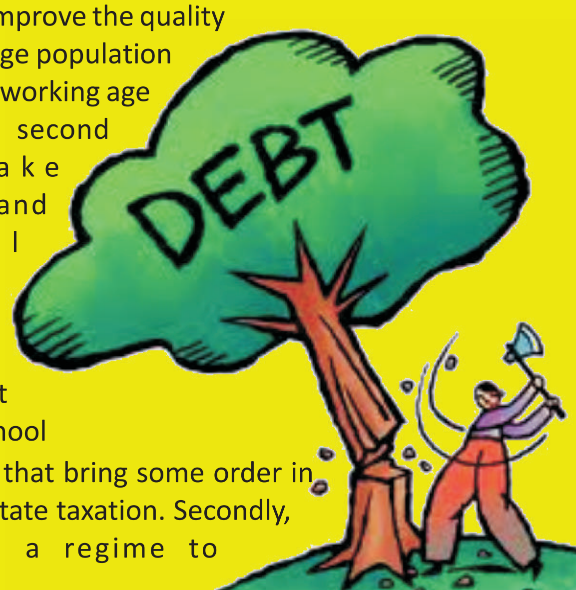
India may actually end up seeing off an opportunity as a threat. This would largely be driven by the country's weak ability to carry out plans in time due to its political and bureaucratic quality, which is increasingly being accepted as corrupt and inefficient.

The current recession does not appear as a purely economic one, and nor will the fallouts be restricted to economics alone. While factors that lead me to conclude this are many, one can quickly look at the maddening fluctuation in oil prices and try convincing them that this is truly economic demand and supply at work. I stand unconvinced.

This recession is a test of political leadership across the world and of the belief in a global economic order. Unfortunately, performance on both these counts by India's politicians has been far from impressive. One can see it in the state of infrastructure, the delay in taking crucial action and the immediate raising of protective barriers when a global meltdown commenced.

Steps India could take to better handle the downturn:

- Undertake large private participation projects (as the govt. itself is in deficit due to populist waivers and subsidies) with extremely tight deadlines to deliver better infrastructure including roads, telecommunications, electricity, banking, hospitals, river interlinking projects etc. This is really the time to set out on ambitious and challenging projects that can improve national productivity and increase investor and consumer confidence by inspiring through unbelievable results.
- Invest and regulate education with a twofold objective - Improve the quality of India's huge population presently in working age group and second undertake effective and radical reforms to ensure all children visit at least part time school
- Tax reforms that bring some order in central v/s state taxation. Secondly, encourage a regime to



encourage taxation mainly at the hand of the seller of final good (i.e. remove/reduce taxes on products that only serve as raw materials like steel, cement etc, and impose/increase taxes on final goods like cars. So tax rate on a passenger car may increase but lower cost of supplies can still help manufacturers bring down the overall price). Thirdly increase tax net and improve collections. Fourthly, improve transparency on tax money usage to encourage well meaning citizens to pay taxes honestly.

- Crack down on corruption India's single most important threat. Empower the Vigilance Commission and set up an executive body not answerable from the political framework (like the army/ judiciary) with special windows with judiciary for time bound trials. Focus on ground level corruption initially to ensure public's respect for the law is reinforced first. It would also be more agreeable to the politicians, so there may be a chance that it happens:-
- Find a way to increase availability of working credit to segments represented by rural areas and persons below poverty lines. Mobile banking and mobile wallets must be considered with urgency
- Interlink voter and tax identities (move to a social security type set up, simplifying KYC profiling of citizens for financial lending and improving productivity)
- Be part of any global move that makes all currencies freely tradable (including India and China's, but this should be non-selective, and applicable for all major economies contributing to more than a majority of the global GDP).
- Be part of any global move that eliminates discriminatory tariffs based on origin of produce/ service and encourages a world order of letting the consumer choose what is best for them
- Liberal tax/other benefits on research and innovation. Also improve patent laws to attract patents from world over in India

These are tall tasks well with in Indian caliber but possibly beyond that of its governors. India may actually end up seeing off an opportunity as a threat. This would largely be driven by the country's weak ability to carry out plans in time due to its political and bureaucratic quality, which is increasingly being accepted as corrupt and inefficient. This recession is a test of political leadership across the world and of the belief in a global economic order.

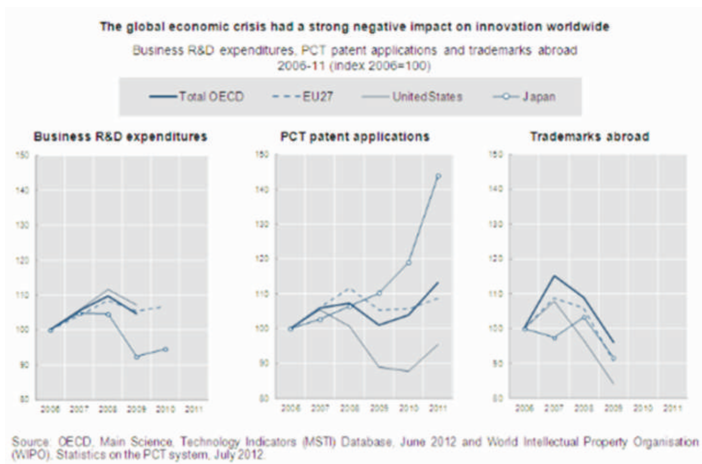
NIKHIL SINGH RATHORE, *MBA I*

Impact of Economic Crisis on Innovation worldwide

The OECD Science, Technology and Industry Outlook 2012 says that business spending on R&D fell a record 4.5% in 2009 in the OECD (Organization for Economic Co-operation and Development). Only France and Korea bucked the trend.

The current weak economic recovery will likely lead to continued sluggish growth in R&D spending by firms, notably in Southern and Eastern Europe, in the foreseeable future. The outlook for France, Germany, the United Kingdom and the United States is also uncertain, according to the report.

Spending by Asian economies, such as China, India and Korea, on the other hand continued to increase during the crisis. Year-on-year growth in R&D investment by firms in 2010 was 29.5% in China and 20.5% in Korea and India.



Some sectors coped better than others. Sales declines for large high-technology firms in industries areas such as aircraft, IT hardware and medical equipment, were much lower than in medium-technology industries such as automotive manufacturers. Large software and healthcare firms also continued to increase R&D investment during the crisis.

Enterprise creation and venture capital investment have yet to return to pre-crisis levels, increasing unemployment and hurting innovation. While skilled workers have been less hard hit than low-skilled workers in the jobs crisis, long-term unemployment has risen among skilled workers, notably in Estonia, Greece, Portugal, Spain, Ireland and the United States.

In fast-paced sectors such as biotechnology, aeronautics and IT, a long spell of unemployment can cause people to lose touch with the latest technologies and weaken their human capital.

Low local demand and difficult financing may also accelerate the trend of companies relocating R&D and manufacturing abroad to take advantage of growing Asian markets.

Government R&D spending partly offset the fall in business investment, as many governments devoted a substantial part of their stimulus packages to support R&D and innovation. Government R&D spending as a share of GDP was 0.82% in 2009, up from 0.78% in 2005.

During the crisis, some countries strengthened their support for public research institutions and educational programmes, including Australia, Canada, China, Italy, Switzerland and the United States. Estonia, Germany and Sweden boosted investment in existing programmes to support innovation.

The outlook for public spending on innovation varies widely across the OECD Greece, Ireland, the Slovak Republic, Slovenia and Spain foresee a decrease in government spending on R&D in the coming years. France, the United Kingdom and the United States expect to maintain their current spending levels. Others, including Chile, Denmark, Germany and Turkey plan to boost spending in the short-term.

Gaurav Paliwal, MBA IV

India, the Global Economic Crisis and Telecommunications

At the outset, the general consensus among the well-read and oft-quoted persons from the industry is that the telecom sector in India will be doing really well, in spite of the crisis. It will not be affected much by it. After all, do people stop communicating with their near and dear ones just because there is an economic crisis going on? India's telecom sector is strong enough to sustain and flourish in the current bleak economic environment due to three reasons.

The first is that the average person's expenses on the mobile phone, telephone or internet is a very small percentage of his or her total monthly expenses, thanks to the healthy competition in the Indian market and the consequent low tariffs. Even among the corporate honchos, a ten thousand rupees expense per month is a small matter when a one million dollar bonus is at stake.

Secondly, in India where there is just above 35% tele density, there is still scope for some serious telecom growth in rural areas. The good news is that the would-be customers here are involved in industries that are far removed from the economic crisis. For instance, most of rural India is involved in agriculture and small scale industries. And the demand for these products has not and will probably not diminish in the future. Since the buying power of rural India will not be affected much, by expanding in these areas the telecom industry can still register a bullish growth.

Thirdly, even as Corporate India (and the rest of the world) is restructuring, re-strategizing, and cutting costs, frequent communication becomes a necessity. Travel costs are saved by resorting to video-conferencing instead. Corporate heads discuss strategy and business matters over the telephone instead of over caviar and champagne at a weekend resort. Exaggerations aside, with the increased globalization of organizations, communications gains prominence, especially during these turbulent times.

AMIR SANWARI, *MCA IV*