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**India – A Resilient Economy
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ST. JOSEPH'S COLLEGE OF COMMERCE BANGALORE



PRESENTED BY STAFF & STUDENTS

EDITOR'S NOTE

The march of the Indian economy for decades in the post independence era through diverse policy regimes has made it a strong and stable economy respected world over for its checks and balances, devoid of overindulgence in any sphere of economic activity. A review of the growth of the various sectors be it agriculture, industry, trade and commerce and scientific break through have contributed to the economic strength. The revolutionary economic reforms of the NEP in 1991 brought in a number of sweeping changes in the industrial and service sector having its cascading effect on the others. Though the global monetary meltdown has had its impact on a few sectors in India leading to a slowdown, it has never had a drastic effect.

The contributors in this issue of **Foresight** devoted to “**India - A resilient Economy**” have focused on development issues of certain key sectors, The impact of Nuclear deal on India, the establishment of the SEZs, the Oil Crisis, the Growth of the IT and ITES, the Education sector, the emerging retail marketing concept and many more. The Broad areas discussed in the article have added to the growth of the growing economy. There are articles which throw light on the present global recession and how it has affected the Indian Industry. some articles have placed on record the path the economy should take on the tight rope to move out of the present crisis.

I take this opportunity to express my deep sense of gratitude to the **Rev Fr. Dr Daniel Fernandes S.J**, our Principal who has encouraged and extended all support to me and the writers who have contributed to this issue of *Foresight*. A big thanks is due to our writers who have put in a lot of effort to make this issue of *Foresight* a success. However I would welcome comments, suggestions and criticisms which would help improve the quality of the forthcoming issues of *Foresight*.

A.M.Sheela

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THE ROLLER COASTER RIDE

**Reema Garg¹*

Introduction:

To the general public, volatility is simply synonymous with risk: in their view high volatility is to be deplored, because it means that security values are not dependable and the capital markets are not functioning as well as they should. As volatility is a standard measure of financial vulnerability, it plays a key role in assessing the risk/return trade offs and forms an important input in asset allocation decisions. A country's volatility is a critical input in the cost of capital. Volatility in national markets is determined by world factors and part determined by local market effects, assuming that the national markets are globally linked. Others claim that volatility is caused mainly by changes in trading volume, practices or patterns, which in turn are driven by factors such as modifications in macroeconomic policies, shifts in investor tolerance of risk and increased uncertainty. The degree of stock market volatility can help forecasters predict the path of an economy's growth and the structure of volatility can imply that investors now need to hold more stocks in their portfolio to achieve diversification.

What happened in India in recent decades? GDP volatility has dropped, competition has gone up, equity has come to dominate the financing of firms, market liquidity has risen, but still small by world standards, Firms have started becoming MNCs, More rational traders, more individuals, more foreign investors, even a few hedge funds, Crises: 1991 currency crisis, 1992 Harshad Mehta, Sharp drop in IT stocks, Calcutta Stock Exchange scandal, elections in May 2004. During

¹ Student, St Josephs College of Commerce

the past few years Indian Capital Market has undergone metamorphic reforms. Every segment of Indian Capital Market namely primary and secondary markets, derivatives, institutional investment and market intermediation has experienced impact of these changes. Our market, today, is being recognized as one of the most transparent, efficient and clean markets. Several techniques /instruments are used by academicians, policy makers, practitioners and investors to test the extent of efficiency of the market.

In this research paper, an attempt has been made to analyze distributional characteristics of stock indices in India and compare them with some of the mature as well as emerging capital markets around the globe.

In the recent past there have been perceptions that volatility in the market has gone up; Inter and Intra-day volatility. Indian stock market provides a very high rate of return and comparatively moderate volatility owing to contraction in settlement cycles, introduction of derivative products, improvement in corporate governance practices etc. Stock market returns exhibit informational efficiency and approximates to normal distribution. Volatility of returns in financial markets can be a major stumbling block for attracting investment in small developing economies. The volatility of stock returns is regressed against the interest rates as they have a significant effect on stock market volatility. During the post election period, the sudden volatility in the stock market and the subsequent decline of Sensex was almost treated as a national emergency in India by the financial media and to a certain extent, by the incoming UPA government. It is very difficult to understand why the government feels so concerned about speculative investors and the movements in Sensex. Most studies have shown that Sensex is neither a good barometer of economic fundamentals it is nor an indicator of future growth prospects of the economy. Moreover, even sharp changes in Sensex do not

necessarily indicate a significant alteration of actual shareholding pattern of different investor groups even in the Sensex companies. As far as the real economy is concerned, the stock market has a very limited role to play. In India, for the year 2002-03, new capital issues by non-government public limited companies raised a combined capital of Rs 1,878 crores from ordinary shares, preference share and debentures. This amount is only 0.33 percent of gross domestic capital formation of the economy and about 1.6 percent of gross domestic capital formation by private corporate sector for that year. This is not surprising because even in developed stock markets like USA, the stock market has not been a significant source of finance for new investments.

Also, stock markets mobilize a very small fraction of household financial saving in India. As the recent RBI Handbook of Statistics shows, investment in shares and debentures and units of UTI account for only 1.37 percent of total household financial savings for the year 2003-04. In comparison, bank deposits account for about 42.8 percent of household financial savings for the same year. Under these circumstances, it is not clear why so much importance is given to the stock market and portfolio investors by policymakers in India. It is high time to realize that in spite of the impression given by the financial media, movements of stock markets and Sensex do not necessarily imply any fundamental changes in the economy and these movements affect a very small minority of the country's population. It will be unfortunate if movements of speculative capital and the resultant stock market gyrations are allowed to influence macro-economic policymaking in India.

For some researchers in financial economics, the interesting question is:

What drives the volatility itself? The evidence they have uncovered over the last few decades sheds light on the efficiency of the stock market and points to some

important implications for economic forecasters and investors. In particular, it suggests that the degree of stock market volatility can help forecasters predict the path of the economy's growth; furthermore, changes in the structure of volatility imply that investors now need to hold more stocks in their portfolios to achieve diversification.

Excess stock market volatility and dividends: Stock market performance is usually measured by the percentage change in the stock price or index value, i.e., the returns, over a set period of time. One commonly used measure of volatility is the standard deviation of returns, which measures the dispersion of returns from an average. If the stock market is efficient, then the volatility of stock returns should be related to the volatility of the variables that affect asset prices. One variable is dividends. But research conducted in the early 1980s suggests that variation in dividends alone cannot fully account for the variation in prices. Prices are much more variable than are the changes in future dividends that should be capitalized into prices. Asset prices apparently tend to make long-lived swings away from their fundamental values.

This fact turned out to be equivalent to the finding that, at long horizons, stock returns displayed predictability. Thus, the literature on excess volatility broached the possibility that the stock market may not be efficient. In the excess volatility literature, the researchers understood that the dividends that are capitalized in the stock price arrive in the future and need to be "discounted" back to the present using a discount rate. In the early research it was assumed that this discount rate was constant. However, discount rates depend on investors' preferences for risk, which could very well change over time. Therefore, stock market volatility may not be excessive if discount rates are variable enough. Thus, the real contribution of the excess volatility literature was to call attention to the fact that corporate

dividends are simply too smooth a series to account for the high volatility in prices. Subsequent research necessarily focused away from the payout policy of firms and toward the characteristics of investors and of actual stock market trading.

Persistence of stock market volatility: Stock market volatility tends to be persistent; that is, periods of high volatility as well as low volatility tend to last for months. In particular, periods of high volatility tend to occur when stock prices are falling and during recessions. Stock market volatility also is positively related to volatility in economic variables, such as inflation, industrial production, and debt levels in the corporate sector. The persistence in volatility is not surprising: stock market volatility should depend on the overall health of the economy, and real economic variables themselves tend to display persistence. The persistence of stock market return volatility has two interesting implications. First, volatility is a proxy for investment risk. Persistence in volatility implies that the risk and return trade off changes in a predictable way over the business cycle. Second, the persistence in volatility can be used to predict future economic variables.

Components of stock market volatility: Researchers have sought to analyze the relative importance of economy wide factors, industry-specific factors, and firm-specific factors on a stock's volatility. This approach borrows from modern asset pricing theory and its emphasis on so called factor models, or models that assume a firm's stock return is governed by factors such as the overall market return, the return on a portfolio of firms sampled from the same industry.

Or even changes in economic factors such as inflation, changes in oil prices, or growth in industrial production. If returns have a factor structure, then the return volatility will depend on the volatilities of those factors.

Impact of the sub prime crisis on stock markets:

Ideally, only the companies belonging to the US real estate sector or sub-prime mortgage industry should have been affected. But, the stock markets all over the world, were sliding.

Is this really true for Indian markets? SEBI Chairman M Damdodaran discounted the impact of the US recession impacting on the Indian stock exchanges, saying that stock prices are a determinant of several factors operating on a given day of which demand and supply of that stock are supreme

The World Bank's chief economist for South Asia, Shanta Devarajan attributed three **Factors that work well for the South Asian countries:**

- 1) No exposure to U.S. mortgage securities on part of Indian banks;
- 2) Availability of liquidity in domestic markets; and
- 3) The possibility that lower capital inflows could help countries such as India with macroeconomic management.

He believes that if the sub prime crisis leads to a global credit crunch leads to a decline in capital flows, it may still not be a bad thing for India because there is quite a lot of liquidity in domestic markets. He pointed out that Indian policymakers recently were having difficulties in managing the sudden surge in capital inflows while trying to manage India's exchange and inflation rates. A slowdown of the United States' economic growth will moderate the increase in prices of oil and other commodity prices, which will have a favorable impact on

South Asia. Since all South Asian countries are net importers of these commodities, such a slowdown will provide some relief in their balance-of-payments. As of now the crisis is only in the sub prime mortgage segment.

However there are concerns that it might spread to the prime mortgage segment too and hence globally there has been a market meltdown led by banks that have exposure to the US sub prime mortgage as well as prime mortgage segments. The fall in the Indian markets is more because of hedge funds who have exposure in the sub prime mortgage lending segment pulling out money from Indian markets to manage the liquidity constraint back home in USA. However, the Indian growth story is still intact and the economy is vibrant. Indian markets have overreacted due to global panic. Property prices here have grown tremendously; borrowing and lending rates have seen gradual increases; banks and other lending institutions have recorded an increase in their non-performing assets.

Lessons for the Indian investor

It is time the Indian investor takes stock of reality. The financial sector in India has a long way to go in developing a sophisticated risk-minimizing strategy by adopting complex financial instruments to limit the sources of risk affecting their asset portfolios. It should adopt better standards to evaluate the credit worthiness of potential borrowers. It should collate and analyze consumer data based on the latest international norms before dishing out loans. Investors should carefully evaluate the future before taking new loans for asset purchases. As a globally integrated economy, international events will leave its mark on our economy whether we like it or not. It is important that we remain abreast of what's happening in the global markets and base our consumption and investment decisions on a judicious extrapolation of the impact of these global events on the Indian economy.

Brief of Current Scenario

- 1) Foreign investors are exiting from market because of US recession.
- 2) Indian MFs are sitting on huge cash and waiting with patience to enter once the market stabilizes.
- 3) Retail investors are out of market in fear of more down trends.
- 4) Indian Economic Fundamentals are still intact.

No recession predicted in India.

So even though FIIs get out of the market now, the market becomes the trading ground for Indian investors. The current Stock values can go more down maximum of 10% till March end. The Indian Mutual funds can't keep the cash surplus without earning penny from it and they would start investing in those company stocks who have given good FY results. This will lead in true investments and actual stock evaluations. The retailers will then return to the market as the Sensex will slowly start moving positive. Now, if the FIIs return back to Indian Markets, it's a win-win situation for all Indian investors as they are already in market before the FIIs and they can book good profit once the FIIs start investing.

Recommendations and Conclusion: Understanding stock market risk and return behavior is important for all developing countries especially where the market consist of risk, adverse investors as the opportunities to invest and diversify the investment is not much. The degree of volatility presence in the stock market would lead investors to demand a higher risk premium, creating higher cost of capital, which impedes investment and slows economic development. All the banks with big equities business have moaned that the low volatility of stock prices over the past few months has been making life difficult. Bear Stearns make a good

deal from exploiting the bumps and wrinkles in markets, which drive profits in derivatives, arbitrage and all kinds of market making. The years 2000, 2001 and 2002 were bad for investors with very low or negative returns and high volatility. Negative skewness and high kurtosis are extremely harmful to investors. Return distributions have been relatively stable during 1999-2003. Compared to emerging markets and some of the developed markets – India experienced low intra-day volatility. Surprisingly and unexpectedly, Indian stock market stood out as a normally distributed market. Indeed, it is a very positive indicator as far as India and Indian regulator are concerned. In stock markets, ups and downs are always a part of the price action. Investors have to visualize it as a normal business and try to find investing/trading opportunities during the days when index falls considerably

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ECONOMIC BENEFITS OF THE INDO-US NUCLEAR DEAL

** Mohammed Shoaib Shiraz²*

In October this year, India achieved a rare diplomatic and foreign policy feat, something as bold as our nuclear tests in 1972. Fortunately, we did not incur immense global scorn this time. Rather India was put on the high table and its prowess applauded. With the passage of the Indo-US nuclear deal, India is now a de-facto nuclear weapons state. Uninterrupted fuel supplies for civilian reactors, non-interference in our strategic nuclear weapons program; India has won a great deal for itself. The benefits of this deal, in fact the economic benefits, took our country through one of the most heated political activity Indian democracy has seen. From pull-outs, to sensational trusts votes, the Indian leadership saw it all. However such predicaments did not ebb the faith our leaders put in the deal. They saw India's future in it and thus had to tread a path hardly taken if they were to chalk out this major foreign policy initiative.

Their enthusiasm in parading this deal as a tool of India's future supremacy in the global arena was because of the enormous economic benefits it would bring along. However the considerable amount of consternation shown by the other political parties and think-tanks tends to make people doubt the essence of the deal. So how much of economic gain does the deal bring and how much of alleged "foreign policy diktat"? I guess we have an answer to this question.

The Indo-US nuclear deal is a deal that facilitates nuclear commerce with India thus providing it with access to world uranium, crucial to India's nuclear power

² Student, St Josephs College of Commerce

generation. Apart from this, the crucial passage of the deal through the NSG would open gates for nuclear expertise rich countries like France who are world leaders in nuclear power generation. The Indian leadership's zeal in pursuing this deal should not go unnoticed. The deal definitely would end India's isolation on the world stage. Newsweek carried an article quoting India as "blowing its chances" when it was under the Left's pressure to back away from the deal. Opinions of such reputed agencies along with the vehement support by eminent leaders such as Manmohan Singh and A P J Abdul Kalam does show that this deal is not just another bargain and that it was worth fighting for.

The Indo-US nuclear deal does bring along in its stride massive long term benefits to India. Few say most of these benefits are politically linked and economic benefits seem to be relatively petit to some extent. In fact, many scientists and leading analysts in the country are of the view that this deal would lead to only a nominal increase in India's nuclear power generation vis a vis its current projected indigenous capacity. However shortsightedness does take its toll. Short term economic benefits of the deal no matter how small are worth a look. In any case however, one must not overlook the massive long term strategic importance of this agreement.

The deal would give us a waiver in order to commence nuclear trade with America. It would open up doors for trade with other countries expert in nuclear technology, such as France. The immediate benefit would be in getting the latest technology for nuclear power generation. Current progress in India on building its own nuclear power plants at best has a failing grade. Most of nuclear power plants in India are of other country's design. The Indian Department of Atomic Energy falsely clings to the view that Fast Breeder Reactors will allow India to bridge the nuclear gap in the future. That future may be too distant and difficult to arrive. This will hold

economic development of the country in its shadow. Moreover, even though India is able to develop its nuclear programme indigenously, implementation would require the imports of critical components. And this is where the Indo-US deal gains importance. India can import much needed fuel for its plants. Eight nuclear reactors are slated for import in the coming five years. Sensitive technology for reprocessing and enrichment of fuel can now be imported. India can also export indigenously designed nuclear reactors to other countries. \$100 billion worth nuclear commerce is in store in the next twenty years. The crowning glory is that India's weapons programme can be developed concurrently with no interference whatsoever.

Secondly, there is an urgent need in India for capital to build its infrastructure and manufacturing base. And there is only one source to get it i.e. US & Europe. US and Europe at this moment are content with sending capital to China to supply them with consumer goods. This component together with auto-parts, pharmaceuticals and computer hardware could herald India into big leagues in ten years and beyond. Commercial Aircraft manufacture, ship building, factories to make giant power plants, steel making plants, mining & drilling hardware, petroleum & petrochemical plant building facilities could be ultimately shared with India. Within ten years, India will have a workforce sufficiently skilled to undertake all the foregoing. Labour costs in India are a third of those in the US and Europe. That will make India an ideal candidate for this technology transfer.

Thirdly, opportunity of the KPO (Knowledge Process Off-shoring) is knocking at India's door. Indian graduates of Science and Engineering will play a major role in this expansion. In about 5 years KPO will grow immensely. India stands to benefit most from it all due credit going to the Indian science & technology graduates who have established a niche for themselves in world markets.

The high tech manufacturing industry is at a take off stage in India. In last 3 months, announcements by big US companies totaling \$7 billion dollars investment have been made. This has gone far beyond India's expectations. This sector together with IT services and BPO will power the US industry and businesses into higher profitability and help India accelerate its growth. Co-operation in auto parts, pharmaceuticals, R & D and defense industry cannot be ruled out. For each of these, the US is looking for a low cost supplier that could be alternative to China. Is India listening?

Indian defense too would get a shot in the arm with a wider portfolio of arms manufacturers to choose from. USA too would now be able to trade more freely with India in an Indian defense market worth billions. Secondly, Indian opportunities to invest in a \$12.5 trillion dollar economy like USA would increase manifold. Indians have already invested to the tune of \$2.0 billion in the US, accounting for nearly 20 per cent of India's total overseas investment. Nuclear parks could be set in select sites over the country with harbouring multiple reactors each. These reactors would help boost India's nuclear capacity 10-fold from the 4120MW to a whopping 40000MW in 2020. India's high import bill significantly due to oil imports would go down and we could finally enjoy a surplus in balance of trade.

Apart from these economic benefits are the intangible benefits of the deal which will rocket India into a league of globally indispensable and vital nations. First and foremost is the implicit de-facto recognition of India as a nuclear power. Though it may not be clearly stated in the text of the deal, the very demand of America to obtain a "waiver" for India speaks volumes about its intention to recognize a "nuclear" India in the future. India missed this opportunity in 1970-78. It is unlikely that this opportunity is to be missed again. Secondly, this deal is the best

possible propeller of India's persistent demand for a permanent seat in the UN Security Council. India has tried this in last three years but to no avail. It is unlikely to succeed in next 10 years. But with a trillion and a half dollar economy and 8% growth over the next 10 years, India will make this grade. When UN reforming movement gains strength in the future, India will be right there and waiting for this opportunity.

India will then get an unprecedented amount of international say and recognition in world affairs. Previously India could have been overlooked and its views ignored, but with most of the world gradually getting interconnected with this billion plus country, India's role in the world is bound to figure prominently. There will be frequent inter-government exchanges on matters of mutual interest. India could become a full member of the select group of G-8 members. Gone will be the days that US politicians will heap scorn on India, the way they have been doing. The Indo – US Nuclear deal is in fact dumping the past and unlocking the hidden potential of the future. Barack Obama too has promised a new strategic partnership with India after the country has left him impressed with her democratic and economic might.

The above facts are surely impressive enough to get each and every Indian to salute the able leadership of the country for having gone the extra mile to secure this deal. But is the deal in itself all that impressive? The above advantages are more a result of the international consequences of the deal rather than the deal itself. So what is the essence of the deal? What does it contain? Following are a few misconceptions of the deal which need to be brought to the fore.

Contrary to common perception, the nuclear deal or the 123 Agreement is not a commitment on the part of the US government to provide us with uranium or

nuclear reactors. All the nuclear deal does is to grant a 'waiver' from that law, so that American companies can now pursue nuclear trade with India. Even if the nuclear deal is made operational, the actual sale of uranium and nuclear reactors will be governed by market forces – there are no guarantees of cheap or competitive nuclear power. The cost of uranium in the international market has gone up four-fold in the last few years, and will rise further with further demand. In any case, for the next few decades, nuclear power will not exceed 6% of our total electricity production. So the question of having guaranteed India's future energy security has little credibility. Nuclear technology is sensitive. Even if the nuclear deal goes through, it will take time to buy and setup new reactors. It will be at least eight years before we see the first power. In the short term, we will still have to rely on coal and hydroelectricity. The Department of Atomic Energy has always maintained that we have enough indigenous uranium for 10,000 MW of nuclear power for 30 years. After this we could shift to thorium based reactors and India has the world's largest reserves of thorium. So in reality, the deal is without essence. Apart from the above one should not overlook the tacit political pressure that would mount on India. This would not only range from support American policies in the Middle East but also a moratorium on further nuclear tests.

However, in the light of all these deliberations, one thing is sure and it is that India is set to gain. The pros outweigh the cons and hence India should not look back. The world is currently undergoing “a nuclear renaissance”. Countries that had earlier put nuclear power on the back-burner are re-examining their issues given concerns like rising oil prices, energy security and greenhouse gas emissions. And what better opportunity than this to make India one of the pioneers of such change.

Though the deal may lack significantly in specifics, it surely is a wonderful pretext to catapult India into a realm of constant global conspicuity. No one is looking at

the content of the 123 agreement or the Hyde Act anymore. These could just be mere “formalities”. The real area of interest is all now on the opportunities the deal has created actively. Deals with France and Russia otherwise impossible are now being concluded. Japan and Kazakhstan too are being wooed. As a result of all this, the Indian Elephant can now charge ahead. The economy will blossom. Tackling intimidating neighbours like Chinese Dragon and other global superpowers would no longer be a problem.

The Oil Crisis 2008 – Causes and Consequences with an Indian perspective

**Sai K Krishnaswamy³*

After oil hit its record of US \$135 a barrel last year, consumers and politicians started to lash out in every direction. Fishermen in France had been blockading ports and pouring oil on the roads in protest. British lorry drivers have paraded coffins through London as a token of the imminent demise of the haulage industry. In response, Gordon Brown, Britain's prime minister, badgered oil bosses to increase production from the North Sea, while Nicolas Sarkozy, the president of France, wanted the European Union to suspend taxes on fuel. In America, too, politicians were haranguing oil bosses and calling for tax cuts. The Congress had approved a bill to prevent the government from adding to America's strategic stocks of oil.

But the most popular scapegoats were our “speculators” back home. OPEC itself routinely blames them for high prices. The government of India is so sure that speculation makes commodities dearer that it has banned the trading of futures contracts for some of them (although not oil). Rejecting the contention that rising consumption in developing nations was responsible for the soaring fuel prices, India has blamed the policies of World Bank and IMF and "excessive and unsustainable" demand in developed countries for the crisis.

But the problem is that the oil crisis we faced was not driven by a single force, but is a complex function of many variables ranging from the erstwhile demand and supply to novel factors like international politics, foreign policies and subsidies.

³ Student, St Josephs College of Commerce

The irony of the situation is the fact that it is futile to play the blame game as no one is really to be blamed. It is the system and the economy as a whole that was responsible for this gargantuan mess the world had found itself in.

If one accuses the developed nations of their huge appetite for oil and strategic inventories they maintain, one cannot discount the ever-mounting demand for oil from the developing nations. As the whole world blames the OPEC cartels for mismanagement, the OPEC blames investors and speculators across the world for this sudden surge in prices. So it is high time India stopped censuring the international economies and arrive at a solution that shall strike a balance between its developmental and capitalist ideals.

For the past few years, the world's production capacity has grown only sluggishly. Meanwhile, demand, especially from the developing world, has been growing faster. So there is hardly any slack in the system. Only Saudi Arabia and the United Arab Emirates are thought to be able to increase their output from today's levels, and even then, there are doubts, since Saudi Arabia, in particular, is secretive about the state of its oil industry. That leaves the oil market at the mercy of even small disruptions to supply. Prices tend to jump each time militants sabotage an oil pipeline in Nigeria, bad weather threatens production in the Gulf of Mexico, or political clouds gather over the Persian Gulf. The problem is exacerbating by a growing mismatch between the type of oil being produced and the refineries that must process it. The most common benchmark prices, including the one used in this article, refer to "light" crude, the least viscous sort, which produces the most petrol and diesel when refined. "Heavy" oil, by contrast, yields more fuel oil, which is used mainly for heating.

Presumably, Iran and other heavy-oil producers will eventually be obliged to drop prices far enough to make processing the stuff worth refiners' while. In the longer run, more refineries will invest in the equipment needed to crack more diesel out of heavy oil. Both steps will, in effect, increase the world's oil supply, and so help to ease prices. But improving an existing refinery or building a new one is a slow and capital-intensive business. Much the same applies to the development of new oilfields. So it is quite normal that it will at least be another decade or so until oil prices drop to affordable levels.

Increasing nationalism on the part of oil-rich countries is adding to the difficulties. Geologists are convinced that there is still a lot of oil to be discovered in the Middle East and the former Soviet Union, but governments in both regions are reluctant to give outsiders access. Elsewhere, the most promising areas for exploration are also the most technically challenging: in deep water, or in the Arctic, or both. Although there have been big recent discoveries in such places, they will take longer to develop, and costs will be higher. The most expensive projects of all involve the extraction of oil from bitumen, shale and even coal, through elaborate processing. The potential for these is more or less unlimited, although analysts put the costs as high as \$70 a barrel—more than the oil price this time last year.

Developing countries' demand for oil is still rising, albeit at a slowing pace. That is partly because their economies are growing faster, and partly because their consumers are shielded from the rising price through subsidies. But the increasing expense of such measures is forcing governments to water them down or scrap them altogether. That, in turn, should further sap consumption. China's growing thirst for oil is often put forward as one of the main factors behind today's higher oil prices. Thanks to the Olympics, the demand for oil has grown by over 12 %

from last year. India is no better, importing close to 2 million barrels a day, unaware of the actual costs involved in acquiring and transporting it. Thus, conforming to the basic economic laws of demand, an inelastic and ever escalating demand for oil has pushed the prices north.

India, as the world's fastest developing nation, a key player in international economics and politics must devise a policy that will benefit both the country and its people from the oil predicament. Alternative sources of raising revenue, including higher excise on other items must be considered. Rising crude prices have placed non-oil producing developing countries like India in an economic dilemma. On one hand is the imperative of managing the oil deficit. On the other is the imperative of ensuring that inflationary situations do not get aggravated owing to a greater pass-through of international prices.

In the case of India WPI inflation had been hovering around 12%. From the government's point of view this was hardly the opportune time to allow prices to rise in the domestic markets. But on a closer scrutiny it becomes obvious that there aren't too many options in the hands of the government. A greater pass-through of international prices would have to be allowed. However, a hike in oil prices would have to be accompanied by somewhat reduced indirect tax rates. The government, the oil marketing companies and the consumer would have to share the burden of this rise in price. At the same time a comprehensive mix of short-term and long-term policies must be put in place to minimise impact on the poor, while at the same time preserving fiscal health and containing losses of oil marketing companies.

It is vital to align petrol and diesel prices at this stage to international crude prices by a well-considered increment. This is necessary not only to reduce fiscal cost of

ballooning subsidies, but also to send out the right signals for fuel usage and efficiency. While higher pump prices will further intensify inflation down the line, the continued use of off-budget oil bonds is a worse option for India's future economic growth. Slower GDP growth will invariably bear negative repercussions for jobs and incomes. The case for reducing LPG cylinder subsidies is even stronger, as the subsidy now exceeds the price. For kerosene, better targeting and control of subsidies is the right option, in order that it is not diverted to other uses.

Excise and customs duties contribute significantly to the petrol and diesel prices at the pump. If the government agrees to lower these duties, some of the excise loss can be borne without having to curtail essential expenditure. With persistent high prices, the government may also need to consider alternative sources of raising revenue, including higher excise on other items, sale of equity, or new taxes. Equally important is setting in place a pricing system that takes into account global price fluctuations and manages inflationary expectations. A price band, with well-defined upper and lower ceilings, and regular revision of prices should be instituted for calibrating fuel prices in India with global changes.

At the same time, domestic exploration and refining need to be stepped up, and energy security strengthened through proactive initiatives in the global arena. Better technology at refineries and more attention to R&D is needed. Alternative sources of energy, such as wind power and solar energy need to be promoted wherever possible, and rural electrification carried out. Judicious use of bio-fuels such as jatropha can be considered as long as food security is not impacted. Industry, a significant user group, will help with concerted initiatives such as energy efficient furnaces and boilers, energy labelling, extensive awareness campaigns to promote oil conservation in small and medium industries, cogeneration and other energy conservation measures, etc. CII, through its Centre

of Excellence and other initiatives, is already active in this space and would ensure that Indian industry emerges as an exemplar.

But in a democracy, elections keep coming without end, so the imminence of one election or another is no excuse for policy paralysis. The quicker fuel prices are raised, the faster people will adjust, and the more likely voters will forget about it and focus on other issues by the general election in May 2009.

The response time for oil is longest of all. When the price of metals or fibres rises, governments rarely step in to subsidise consumers. The rising world price of copper, aluminium, cotton or rubber is fully reflected in Indian prices too. In these cases, the high consumer price checks demand, and help restore the supply demand balance. But in India and many other developing countries, rising oil prices are not passed on to consumers. So, oil demand is not checked commensurate with the price change. Hence, it takes much longer to restore the supply-demand balance. And balance may be restored only at much higher prices, because oil suffers from exceptional barriers to additional production.

The most accessible oilfields have already been found and exploited, and the future discoveries lie in deep waters and difficult geological structures miles underground. The world simply does not have enough equipment to drill in deep waters, and so exploration has been delayed in several countries.

India must adjust to that reality. Record economic growth has provided the exchequer with additional tax revenue of Rs 120,000 crore per year. That must be used to build infrastructure and directly target the poor. For the Congress to spend Rs 16,000 crore on its flagship employment guarantee programme and Rs 200,000 crore on oil subsidies is bogus socialism that fully merits electoral defeat. This will

in itself not solve the oil crisis, but is a definite stopgap measure to prolong the state of affairs as long as potent relief measures arrive on the scene. .

The Global Economic meltdown and its effect on the Indian Economy

** Nikhil Mathew⁴*

The global financial crisis of 2008–2009 is an ongoing major financial crisis. It became prominently visible in September 2008 with the failure, merger, or conservator ship of several large United States-based financial firms. The underlying causes leading to the crisis had been the burst of the U.S land bubble and the issue of sub-prime loans by most of the major banks.

Housing bubble in the U.S burst in the end of 2006. Once the bubble burst, the prices of land and houses started falling. This created panic among people. Expecting further fall, they all resorted to drastic selling. This resulted in huge supply of land, where as the demand was almost zero. This created further fall in prices. Billions of dollars went down the drain as the value of almost all kinds of fixed assets started to fall.

Mortgage crisis

The **subprime mortgage crisis** triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States, with major adverse consequences for banks and financial markets around the globe. The crisis, which has its roots in the closing years of the 20th century, became apparent in 2007 and has exposed pervasive weaknesses in financial industry regulation and the global financial system.

Many USA mortgages issued in recent years are subprime, meaning that little or no down payment was made, and that they were issued to households with low incomes and assets, and with troubled credit histories. When USA house prices

⁴ Student, St Josephs College of Commerce

began to decline in 2006-07, mortgage delinquencies soared, and securities backed with sub prime mortgages, widely held by financial firms, lost most of their value. The result has been a large decline in the capital of many banks and USA government sponsored enterprises, tightening credit around the world.

Effect of the liquidity crisis

The liquidity crisis, which was caused by the collapse of the banks led to further collapse of banks. There was a slack in industrial credit and this led to a decline in production. Lack of credits to consumers led to decrease in consumption. The decrease in demand caused by this was another reason for the decreases in production. The decrease in production and consumption led the economy into a recession.

Stock market volatility

Stock indices worldwide trended downward for several months since the first panic in July–August 2008. Stock markets reflect the economic situation of the country. So when the economies took a downward turn even the stock markets crashed.

The ripple effect

Due to globalization, countries have become greatly dependent on each other. So, when the economy of one country goes down (especially when it's a country like U.S.A), the effect is felt all over the world. In May 2008 **Canada's** GDP was reported to have decreased 0.1 percent due to decline in mining, oil and gas industry by 1.2 percent and fall in automobile production by 3.6 percent. Construction output in Canada declined 0.4 percent, utilities 1.3 percent, and farms produced 0.9 percent less. The entire economy of the European Union declined by 0.1 percent in the second quarter. A European Commission forecast predicted

Germany, Spain and the UK would all enter a recession by the end of the year while France and Italy would have flat growth in the third quarter following second quarter contractions. China

In **China**, the IMF predicted GDP growth for 2008 to be 9.7% and drop to 8.5% in 2009. On November 9, 2008 China announced a package of capital spending plus income and consumption support measures. Four trillion Yuan (\$586 billion) will be spent on upgrading infrastructure, particularly roads, railways, airports and the power grid; on raising rural incomes via land reform; and on social welfare projects such as affordable housing and environmental protection.

In **Japan** the decline in exports and increase in imports cut Japan's trade surplus \$1.28 billion a decline of 90 percent from the previous year. Japan's economy declined by 0.6 percent in the second quarter of 2008.

The economy of the United Kingdom has also been hit by rising oil prices and the credit crisis. The Ernst & Young Item club predicted growth of only 1.5 percent in 2008, slowing to 1 percent in 2009. Nationwide, the UK's biggest building society, warned the UK could head into a recession after house prices in July fell by 8.1 percent.

Singapore's economy saw its biggest drop in five years in the second quarter, falling by 6.6 percent. Singapore cut its 2008 GDP forecast from 4 to 6 percent to 3 percent. Singapore's economy contracted in the third quarter, placing the country in recession.

Sri Lanka too is affected with the global recession as the demand for their major products such as garments, tea, rubber, coconut based products and agricultural products are at a downturn. At the moment, tea is severely affected and it is analysed that the country is experiencing 35% drop in the exports presently.

Effect on the Indian Economy

India's economy is expected to grow about 6.8% during FY2008 and as low as 5.5% in FY2009. India's economy grew at an annual rate of 9% or more in the past three years, second only to China among the major economies, and the projections for FY2008 indicate that India's economic growth has been effected by the economic crisis. The Asian Development Bank predicted India to recover from weakening momentum in 4-6 quarters. At the G20 Summit, India called for coordinated global fiscal stimulus to mitigate the severity of the global credit crunch. India said that it would inject US\$4.5 billion into the financial system to help exporters. Some analysts pointed that India's going trade with other Asian countries, especially China, will help reduce the negative impact of the crisis. Analysts also said that India's high domestic demand and large infrastructure projects will act as a buffer reducing the impact of the global downturn on its economy. Economists argued that India's financial system is relatively insulated and its banks do not have significant exposure to subprime mortgage.

Effect on the Indian Industry

India's textile sector is all set to cut production and lakhs of people will lose their jobs soon following the global market meltdown. Surat and Bangalore are two worst-hit cities in India following the global meltdown. Even in the case of Bangalore, several IT firms are hit by the slump because they are not getting any fresh orders from the US companies. This has resulted in job cuts in several sectors. To add to that, multi-national companies are also cutting jobs in their Indian arms. So, the pink slip days are back again, causing concern in India's crucial industrial sectors. To add to all these woes, the World Bank has predicted that the ongoing financial crisis will lead to a decline in global trade for the first time in 27 years.

Over 65,500 people lost their jobs between August and October 2008. It is expected that India Inc may lay off 25% of its work force. There were grim warnings from the country's textile sector, where the industry body, the Confederation of Indian Textile Industry (CITI), said some 7,00,000 people had lost their jobs so far this year, and 5,00,000 more were likely to go in the next 2-3 months.

TCS planning more layoffs, Wipro sacks 1000, Satyam to axe 4,500... It seems the days of pink slips have come to haunt Indian IT pros. Late last year, the global IT giant IBM had reportedly laid off 700 entry-level trainee programmers (ELTPs) across its offices in India. Zensar too had reportedly given pink slips to 2 per cent of its staff. The increments and salaries too have been a causality at most IT firms.

Production and sales in most of the companies have come down by at least 30%. Sales of Mahindra, Maruti, Bajaj Auto and Tata Motors have come down by 45, 27, 37 and 12% respectively. With the realisation dawning that cutting back advertising budgets would only hit sales further, companies said that their ad spends would go up this quarter compared to the previous one. . ITC, Dabur, LG and Samsung top the consumer goods majors who are upping their ad spends. Electronics and durables maker LG plans to spend Rs 400 crore this year -- a 10% increase over the previous year. Rival Samsung too said its spends would go up 10-15% this year. Future group, which runs Big Bazaar, Food Bazaar, e zone and Home Town retail chains, recently concluded its special offer schemes at its stores. The company went all out to attract buyers to its stores through big ticket advertisement across different medium.

Measures in India

The policy makers both the government and the reserve bank of India minor policy changes to reign in the positive tide. These include:

- The RBI reduced the REPO rate, SLR rate and CRR rate several times to increase the lend able funds with banks, to tackle the liquidity crisis.

7th Oct – 08

- CRR was reduced by 0.5% to 7.5% to inject about Rs 20,000 Crores into the money market.

15th Oct –

- CRR was reduced to 6.5% from 7.5% there by unlocking Rs 40,000 crores in the money market.

1st Nov –

- REPO rate was reduced from 8% to 7.5%.
- CRR was reduced from 6.5% to 5.5%.
- SLR was reduced from 25% to 24%.
- This unlocked another Rs 1,20,000 Crores in the money market.

10th Dec –

Repo rate was reduced to 6.5%.

Reverse REPO rate was reduced to 5%.

- The government increased the limits on the External Commercial Borrowings from \$100 million to \$500 million.
- It decreased Excise Duty by 4% so as to encourage production and consumption.
- India said that it would inject US \$ 4.5 billion into the financial system to help exporters.

Slowdown throws up opportunities as well

Crisis and opportunity are actually alter egos; one is not far from the other. So, we can say that some aspects of the current economic slowdown are opportunities waiting to be utilised, not threats. So, here are some things that one can be cheerful about in 2009:

The Goods Come Cheap: The temporary period of deflation, which India is likely to undergo, will bring down the cost of most commodities. This means that your grocery and fuel bills will reduce compared to last year.

Blue Chips At Historic Lows: The BSE Sensex, has nose-dived along with the NSE Nifty, signalling a great opportunity to pick up frontline stocks at dirt-cheap valuations. Most stocks right now are quoting either near their 52-week lows or historic lows.

It's Raining Discounts: Next is discount-mania. Anxious retailers are dying to clear inventories and that means cheaper cars, branded clothes, appliances and more. Most leading high street brands are running discounts of up to 50% and even luxury carmakers like BMW are giving sweeteners.

Home Affordable: The real estate sector had been artificially bloated for the last few years. With the slowdown-induced correction, property rates have dropped by as much as 10-15%, rentals have eased, and home loan rates have also softened.

Best Education, Jobs: Indian higher education is held in high regard around the world. It also remains one of the cheapest. Despite reports of pink slips in sectors such as IT/ITeS and real estate, others like pharmaceuticals and FMCG are still bullish on hiring.

The Thrills Come Cheap: Air fares, hotel rates and imported liquor have also come down from stratospheric levels. While air fares have seen a cut of over 60% on some routes, luxury hotel rates have also come down by more than 25%. This means that your thrills come at a cheaper rate.

The Fundamentals Are In Place: India still continues to grow at the rate of 7% per annum, which is a good scenario considering the situation in the West.

Land Of The Enterprising: The recent ET-Synovate Entrepreneurship Survey proves that India is a land of enterprise. It is a suitable time to start a new venture. There is a level playing field right now with everybody being brought down to the ground. The opportunity cannot get bigger than this.

India 2009 – Forecast

India, South Asia's most dynamic economy in recent years, is reeling from the direct effect of the global financial crisis on its banking systems and financial markets. The growth projection for India has been revised down to seven per cent in 2008 and 6.5 per cent in 2009, from 9 per cent in 2007. In the first week of December 2008, the World Bank anticipated the Indian economy would grow by 6.3% in 2008 and 5.8% in 2009. It realized a 7.8% expansion in the first half of this fiscal year against 9.3% a year ago. The economy grew by 9% for the entire last fiscal year.

Manufacturing is expected to be hit in 2009 due to a decreased demand as a result of the global downturn. India's growth is not totally dependent on the West, but the slumps in the US, Europe, and even the Far East will be felt in India's exports. The Indian government will need to accelerate its reforms and push for more investment if it wants to maintain good growth rates in the face of the global slowdown.

The worldwide credit crunch has led to foreign investors dumping shares amounting to more than \$12.5 billion, and the rupee has fallen in excess of 20%. The global crisis could also weaken the balance sheets of the financial institutions, cause a further fall in share and asset prices, and challenge the macroeconomic situation due to shrinking global growth.

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Indian Information Technology

*Nikhil and * Dr A.M.Sheela⁵

The Information Technology (IT) sector is amongst the fastest growing in the country. IT professionals work in all major markets around the world. Indian technology products and solutions are accepted globally. The first year of the new millennium has been a year of turbulence, tragedy, terrorism and slow-down in the world economy. The Indian IT software and services industry has weathered this storm well. It is indeed creditable that the IT software and services industry in India has reasonably continued its robust growth of about 28 per cent during the year 2001-02.

The software industry has emerged as one of the fastest growing sectors in the economy with a compound annual growth rate (CAGR) exceeding 50 per cent over the last five years and with turnover of US\$ 10.25 billion and exports of US\$ 7.8 billion during 2001-02. Software exports have registered a CAGR of about 60 per cent. The IT software and services industry accounted for about 2% of India's GDP during 2001-02 and 18 per cent of total exports. It is expected that by the year 2008, IT software and services industry will account for 7 per cent of India's GDP and 35 per cent of total exports.

The phenomenal growth of the Indian IT Software & Services and ITES-BPO sector has had a perceptible multiplier effect on the Indian economy as a whole. In addition to the direct positive impact on national income, the sector has grown to become the biggest employment generator, and has spawned the mushrooming of several ancillary industries such as transportation, real estate and catering, and has

⁵ Student and Faculty, respectively, St Josephs College of Commerce

created a rising class of young consumers with high disposable incomes. This, in turn, has triggered a rise in direct-tax collections and propelled an increase in consumer spending.

The Indian IT industry is recognised the world over for its quality. Today, India leads the world in terms of the number of quality certifications achieved by centres in any single country. As of December 2007, over 498 India-based centres (both Indian firms as well as MNC-owned captives) had acquired quality certifications with 85 companies certified at Software Engineering Institute (SEI), Carnegie Mellon Capability Maturity Model (CMM) Level 5 – higher than any other country.

India's IT growth in the world is primarily dominated by IT software and services such as Custom Application Development and Maintenance (CADM), System Integration, IT Consulting, Application Management, Infrastructure Management Services, Software testing, Service-oriented architecture and Web services.

GROWTH

The Indian information technology sector continues to be one of the sunshine sectors of the Indian economy showing rapid growth and promise.

- According to NASSCOM, the Indian IT-BPO sector is aiming to reach a target of US\$ 60 billion in exports and US\$ 73 billion-US\$ 75 billion in overall software and services revenues by 2010.
- With small and mid-sized businesses driven by the increased use of technology India's information and communication technology market is estimated to grow 20.3 per cent annually to reach US\$ 24.3 billion by 2011.
- According to the global infotech analyst, International Data Corporation, the Indian IT and ITeS market is estimated to grow at the rate of over 16 per cent to become a US\$ 132 billion industry. Significantly, the domestic market alone is expected to become over US\$ 50 billion, with a CAGR of about 18.4 per cent.

Simultaneously, the IT and ITeS exports are estimated to more than double to US\$ 78.62 billion by 2012.

Information Technology enabled Services

The Indian IT enabled Services sector has emerged as a key driver of growth for the Indian IT Industry. This segment is poised to grow very rapidly, world-wide, over the next few years. Other than the growing software market, the country is also becoming a major base for Information Technology enabled Services (ITeS).

- The revenues from ITeS (remote services) industry in India in 2001-02 stood at US\$ 1420 million and showed an annual growth rate of around 68.2 per cent.
- ITeS is one of the key growth engines for outsourcing. It is manifest at many levels in India - call centres, back office processing, content development and medical transcription.
- This rapid growth in the sector is a consequence of access to trained English-speaking professionals, cost competitiveness and quality telecommunications infrastructure.
- Companies operating from India are able to leverage the advantage of the Indian time zone to offer 24 x 7 services to their global customers.
- Several world leaders including General Electric, British Airways, American Express, Citibank, in fact too many to be listed here, have outsourced call centre operations to India.

GROWTH

The Indian IT-ITeS sector (including hardware) grew by 33 per cent in FY 2007-08 to reach US\$ 64 billion in aggregate revenue. Of this, the ITeS/BPO sector contributed US\$ 12.5 billion as against US\$ 9.5 billion in FY 2006-07, an increase of 31 per cent.

The Indian ITeS-BPO exports grew significantly from US\$ 8.4 billion in FY 2007-08 to US\$ 10.9 billion in FY 2007-08, while the revenues of domestic BPO grew to US\$ 1.6 billion in FY 2007-08 from US\$ 1.1 billion in FY 2006-07. The sector

provided direct employment to 700,000 in FY 2007-08 up from 553,000 in FY 2006-07.

ITeS, which started with basic data entry tasks over a decade ago, is witnessing an expansion in its scope of services to include increasingly complex processes involving rule-based decision making and even research services requiring informed individual judgment. It now offers services such as knowledge process outsourcing (KPO), legal process outsourcing (LPO), games process outsourcing (GPO) and design outsourcing among others.

Realising its potential, after IT Parks and IT SEZs, the government has cleared a proposal for creating much larger Information Technology Investment Regions (ITIRs) to give a fillip to the country's growing IT and ITeS sector.

India with its natural competitive advantage is likely to play a huge role in various segments of the ITeS industry.

- The Indian animation industry is rapidly growing as a major outsourcing hub with a growth rate of 30 per cent.
- The Indian KPO sector is estimated to become a US\$ 10-billion industry by 2012, from the current size of US\$ 4 billion according to a report on the "Future Course of KPO Industry".
- India is fast becoming a hot destination for outsourced e-publishing work. As per the Confederation of Indian Industry (CII) report, the industry is growing at an annual rate of 35 per cent and India's outsourcing opportunities in the value-added and core services such as copy editing, project management, indexing, media services and content deployment will help make the publishing BPO industry worth US\$ 1.46 billion by 2010.
- A recent CRISIL research study on the outsourcing industry has concluded that engineering services outsourcing (ESO) is poised to be the next big opportunity in the Indian outsourcing services industry. The ESO sector is likely to grow at a compounded rate of 26 per cent and post revenues aggregating around US\$ 7.5 billion by 2012.

Economic Recession and IT Industry of India

The current economic recession has hardly spared any country on earth. Rich countries like USA, UK, Germany, Australia, Japan, Canada- have got badly hurt from the recession. So, there is no reason to be surprised to know that Indian economy is also getting hurt from the global economic recession. For India, it is even a bigger problem because India is the land of IT outsourcing and a no of large western companies outsource their IT services to Indian companies. So, it is obvious that the supply of works for Indian outsourcing companies will suffer in 2009. If the global economic recession continues then Indian companies may really suffer even in 2010.

There are confirmed reports that IT budgets in a number of industries in the US and UK, have been nearly halved. A number of Indians in the US have been sent back, after project cancellations, lay-offs etc. Recent survey from Reuters has also proved the recession that we all are going to witness. The report also says that unlike the previous one, which lasted for just 8 months, this one is expected to last longer.

The Indian National Association of Software and Service Companies estimates that the country's technology sector will create 50,000 fewer jobs in 2009 than last year, although it predicts the sector will still have added 200,000 workers by year's end. India's technology outsourcing companies have laid off about 10,000 employees since September, according to the Union for Information Technology Enabled Services, a labour group that represents technology workers.

For the moment, the industry has escaped large-scale job losses. Indian labour laws make it difficult for companies to drop workers, and mass firings can draw a political outcry. Yet outsourcing companies have begun pruning workers, citing

poor job performance, a way to quietly reduce labour costs without attracting much public scrutiny.

The large outsourcing company Wipro dismissed 2.5 percent of its work force in the second quarter. Outsourcing companies are also shelving expansion plans. It also announced it was postponing the opening of a major new software development centre in Atlanta.

Infosys recently scaled back its earnings projections for the year, telling investors that it now expects revenue to expand 13 to 15 percent, instead of the 19 to 21 percent it had forecast and far below the 30 percent annual expansion the company had been used to.

Some Indian companies are taking a serious look on the domestic IT market of India. India may be the no. 1 player in the outsourcing field, but the reality is that more than 90% people still do not own a computer in the country. So, it is true that there is enormous room for growth in the domestic market, but at the same time, you have to remember that India is still a poor country and Indian government is not so much willing to spend a lot of money in the technology sector. Most children in India still do not have any idea about information technology. E-commerce is yet to take off seriously in the country. Almost all the people living in the rural areas still do not have any idea about internet technology. So, yes it is a good thing to think about Indian government investing in information technology, but it is still a dream that has not come true.

With the condition of global economy becoming worse day by day, many other countries (involved in the outsourcing sector) will have to fight harder with India for getting projects from western companies. I am afraid that there will be more competition for less amount of money. At this moment, China and Philippines are

the two major rivals of India in outsourcing industry. If the economic recession continues for a longer duration then it is obvious that outsourcing companies from some East-European countries will be forced to lower their prices and attract Western companies. If that happens then it may bring more disasters for Indian companies.

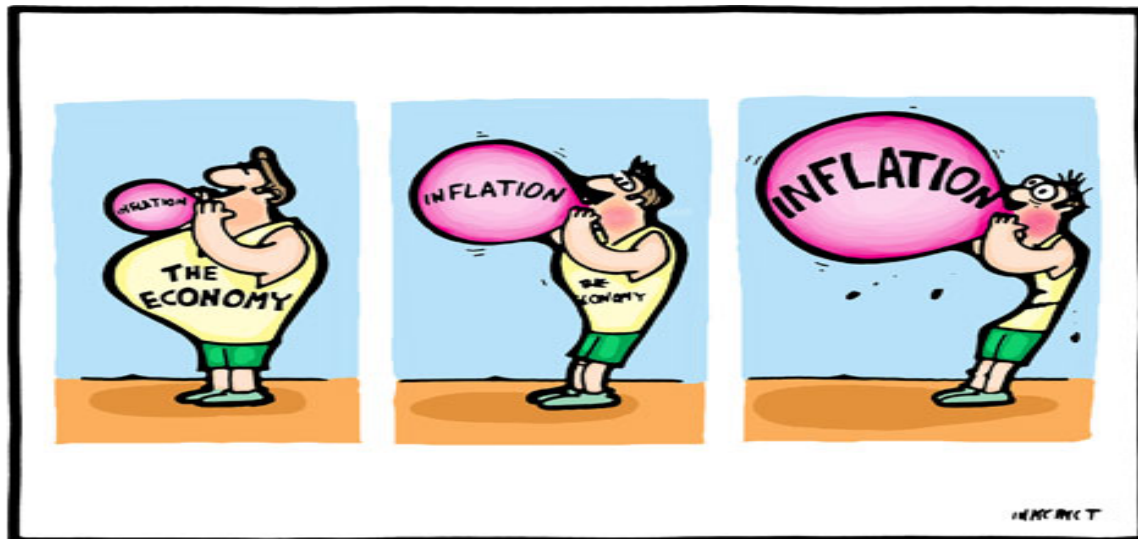
However NASSCOM leaders are still optimistic and confident that Indian outsourcing industry is strong enough to survive the tough tide. But there is a necessity for more funds to be invested for carrying out high quality research in Indian universities for the younger generation to sustain the global competition.

INFLATION-EVERYONES ILLUSION OF WEALTH

* Mrs Jhumur S. Roy⁶

"Inflation is bringing us true democracy. For the first time in history, luxuries and necessities are selling at the same price."

- Robert Orben



Indian economy is no stranger to inflation. Early nineties saw consistent double digit inflation, but the recent climb of inflation to historic levels has saddled policy makers with the burden of making tough policy decisions. Earlier inflation, in India, was more linked to domestic factors. The main reason for the **increase in domestic inflation** could be explained by Milton Freidman “**too much money chasing too few goods**”.

Now the scenario has undergone a sea change. Domestic factors no longer rule. **Inflation is now attributed to global factors and this renders the domestic control measures ineffective.** Unfortunately the policy makers are still fixated to

⁶ Faculty, St Josephs College of Commerce

the traditional anti inflationary measures and do not acknowledge its limitations in the global scenario.

* Faculty-St Josephs College of Commerce

The Causes

"Law of inflation: whatever goes up will go up some more." - Unknown

The primary cause of rising inflation may be the sky rocketing oil prices and in spite of that, it's ever increasing global demand. From the mid 80's to Sep 2003, the price of crude oil remained below \$25 per barrel. From this level the crude oil prices have reached a record high to 147.02\$ per barrel in July 2008. The world crude demand has grown at an average of 1.76% per year during the period 1994 to 2006 and is projected to increase 37% over 2006 by 2030. Compared to the hike in price level, it may be seen that the demand has not increased in the same proportion – a 1% rise in the demand has resulted in nearly 20% increase in prices.

The global petroleum demand has shown a net rise due to the new demand for personal use vehicles. Nearly 75% of this increase in India and China is due to cars and trucks. With development, urbanization, and higher living standards arising in the developed economies like India, the energy use of oil is continuously driven up. India's usage of oil is expected to more than triple from 2005 levels by 2010. Also, the demand for oil has increased with a growth in population. As world population grew at a faster rate than world oil production, demand being in excess to supply, the prices rapidly increased. But on the other side, it is contested that most of the Asian countries subsidize the fuel prices. The prices are much lower than the world prices. As stated by the Economist **“Half of the world countries subsidize oil prices”** This may be one of the reasons that even such a hike in prices does not lead to a decrease in overall demand. Though India has increased its prices, China has no plans to do so.

Secondly, the rising food prices the world over is also major contributory factor. This can be better understood by realizing that it is no longer just the demand forces which are at work but also the cost push factors. As a result of ever increasing oil prices, agriculture is directly affected through the rise in fertilizer costs, irrigation and transportation costs. Another important factor might be the neglect of agriculture by policy makers is finally showing its effects. The excessive use of groundwater, lack of attention to soil quality and land fertility, shifts from food crops to cash crops, ecological degradation, loss of cultivable land are all areas which have been continuously been ignored by policy makers.

The third may be the presence of intermediaries in agriculture. This means that even though the food prices are rising its benefits have not trickled down to the farmers, but has been absorbed by the retailers. On one hand, the farmers have not become richer but remained at the same stagnant level, whereas on the other hand, it has led to social unrest and economical instability.

Also, both India and China have registered excellent growth in the last decade. This has resulted in very high consumer demand on fuel and various other commodities. There has been a huge increase in consumer demand due to outsourcing and various export promotion strategies. This has led to an inflow of foreign reserves and hence to greater credit availability and liquidity.

The impact

"Invest in inflation .It's the only thing going up." - Will Rogers

Inflation adversely effects economic development and distorts both consumption and investment decisions. Inflation creates an atmosphere of uncertainty and the people feel it easier to be deceived by the government, financial institutions, employers, etc. Inflation directly to a loss in purchasing power of the household

sector and fixed income groups suffer the most. For the business sector, though mild inflation is healthy, a running inflation powered by cost push factors will lead to loss and inefficiency.

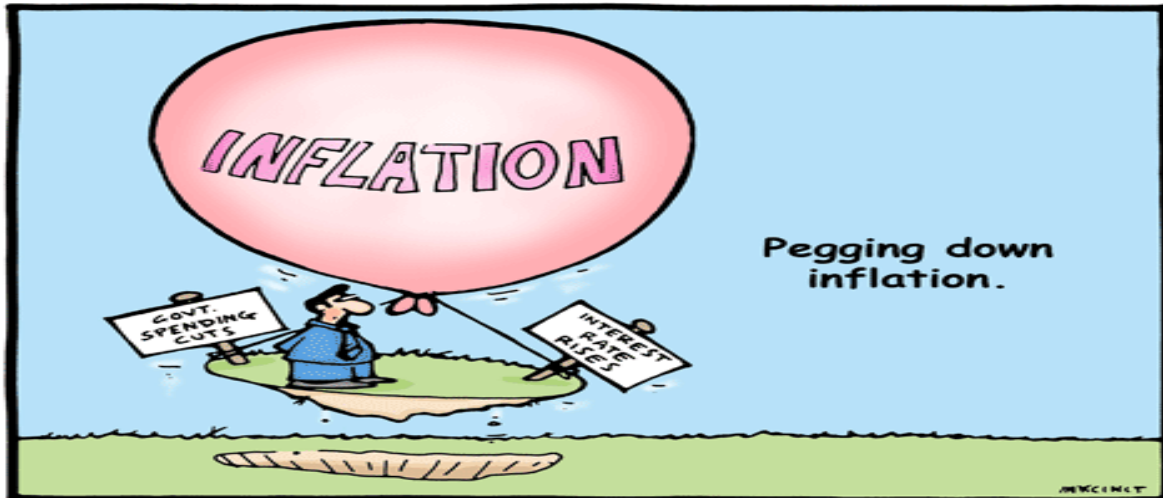
As money is redistributed from creditors to debtors- the debts repaid will be depreciated terms leading to a loss in purchasing power. It erodes our savings, negatively impacts production, discourages investment and leads to overall unhealthy economic conditions.

Strategies for control

"Bankers know that history is inflationary and that money is the last thing a wise man will hoard." - William J. Durant

Until 1990's both the producers and the consumers in India were protected. And hence the monetary and fiscal policies acted as a guardian against inflationary trends, rigorously followed a policy of trade restriction, protection and subsidies, public procurement and distribution systems which emphasized on food sufficiency. With globalization and liberalisation, the Indian government aimed at bringing the Indian prices to match the global levels. The oil hike has led the government to realize that it is still important to insulate the economy (both producers and consumers) against the harmful effects of global inflation.

Oil prices may be mitigated by finding substitutes of petroleum and by decreasing the demand. Subsidies encourage the consumers to over consume the scarce quantities leading to further shortages. Also, alternative sources of fuels may be exploited such as solar fuel and wind power. Currently, India and China are heavily investing in natural gas and coal liquefaction facilities.



The first step taken to control the increasing food prices was on one hand, to reduce the import duties (edible oils) so as to induce imports to bring the prices down and on the other, to ban the export of rice, except premium quality basmati rice, to ensure food sufficiency. But these efforts are more short term in nature and may lead to a temporarily lowering of inflation. But, it might also make the economy more prone to volatility and increasing pressures on the economy. More determined long term measures should support the short term measures. In agriculture these include increasing productivity of land, strengthening the public distribution system, better utilization of land and abolishing too many intermediaries.

Public intervention and regulation of markets is essential for all commodities. A laissez faire economy will only create further disturbances and protests as food and fuel prices rise further.

The increased liquidity in the hands of the people also needs to be controlled. For this purpose RBI needs to absorb the excess liquidity through Market Stabilisation Scheme (MSS), increasing the CRR and SLR rates, etc. But this too has its

limitations. As Milton Friedman stressed “Money is too important to be left to Central Bank. You essentially have a group of unelected people who have enormous power to affect the economy”

In conclusion, it may be said that it is not possible to have a boom in stock prices, healthy inflation in agriculture and industry and an overall growth in economy all together. Efforts should be made to bring about the best mix of all. The policy to be followed should be a mix of the traditional as well as new innovative methods, wherein some leverage is given to the demand-supply price fixation and some to strict controls.

Retailing -The next big thing?

Given the market potential, retail is all set to boom.

*Ramani Mabel⁷

The Indian consumer could well be crowned King with all economic indicators in the right place. Queuing up for the coronation ceremony is a multitude of global companies that are looking at India as the next consumer market powerhouse. And it seems to be the retail sector that will give the desi consumer royal status.

A study by McKinsey points out that India's market for consumer goods could reach a whopping \$400 billion by 2010 - making it one of the five largest in the world. Further, KPMG in a recent report titled 'Consumer Markets in India - the next big thing?' has said: "India represents an economic opportunity on a massive scale, both as a global base and a domestic market." The report, however, finds that the next leap in the growth of the consumer market will be spearheaded by the changing dynamics of the retail sector. "Companies expect that the next cycle of change in Indian consumer markets will be the arrival of foreign players in consumer retailing. Although FDI remains highly restricted in retailing, most companies believe that will not be for long," says Deepankar Sanwalka, Executive Director and Head - Consumer Markets, KPMG India.

FDI in retail has once again begun to appear imminent following Prime Minister Manmohan Singh's recent interview to McKinsey, in which he expressed confidence that he would be able to get the Left parties on board on the matter. KPMG is in fact going ahead with its plans to conduct a series of five road shows in the US and a few countries in Europe to hold discussions about the opportunities

⁷ Faculty, St Josephs College of Commerce

in India's consumer markets, especially in retail. And the numbers do lend credence to the enthusiasm.

The Economist Intelligence Unit (EIU) country briefing on India, 2005, estimates the retail market in India will grow from \$394 billion in 2005 to \$608.9 billion in 2009. In fact, KPMG finds that the organised retail sector in India is expected to grow at a higher rate than GDP growth in the next five years, driven by changing lifestyles, strong income growth and favourable demographic patterns. According to EIU, India currently has more than five million retail outlets, out of which 96 per cent are smaller than 500 sq. ft. But this scenario is changing fast. The structure of retailing is developing rapidly with malls becoming increasingly common in large cities, and development plans being projected at 150 new shopping malls by 2008.

According to the KPMG report, the annual growth of department stores has been estimated at 24 per cent, which is faster than overall retail; and supermarkets have taken an increased share of the general food and grocery trade over the last two decades. Specialized retailers are developing rapidly in segments such as consumer durables and white goods, books, music, lifestyle goods, household furnishings, healthcare and beauty.

Further, despite the view that disposable incomes remain concentrated in urban areas, given the growing number of double-income households, the report reveals that the sheer size and potential of the rural segment has been underestimated. The Indian market is evolving dynamically and there is hidden consumption power in the low-income rural areas that offers considerable opportunities for organised retailers in the kind of rural territories that many companies have failed to address.

The retail growth therein is expected to be double-digit if infrastructure allows the consumer companies to reach new markets at reasonable costs.

With growth in disposable incomes, the KPMG report reveals, the Indian consumer is emerging as more trend-conscious with the development of modern urban lifestyles. In fact, recent studies have found that as Indians have grown richer, they have begun to spend more on vehicles, phones and eating out in restaurants. The spending is focused more outside the homes, unlike in other Asian countries where consumers have tended to spend more on personal items as they grow richer.

Not surprisingly, the KPMG report finds that specialised retailers are coming up rapidly and Indian retailing is undergoing a slow but deep-rooted shift away from total reliance on countless small family-run stores towards larger, more formal retail outlets. It adds that the food and beverages segment is an emerging growth area.

Similarly, the gems and jewellery market is a key emerging area. Gemstones and jewellery represents the most significant segment of Indian retailing, accounting for a high proportion of total retail spend. However, for foreign retailers willing to do business in India, concerns such as cost of retail space, FDI controls, 'unorganised' sector competition and shortage of urban retail space need to be addressed, the report says.

The distribution network in particular needs to be strengthened. In fact, most of the companies surveyed found that the large geographical spread is a problem and so are the logistics of connecting various regions. "India is not like one country, it is like 25 different countries," one retailer said. Taxation barriers between States also hinder efficient regional distribution." Consumer companies are faced with various

roadblocks with respect to distribution such as large geographic area, infrastructural constraints, distributor costs, fragmented market, lack of national distribution networks and lack of distribution hubs," says Sanwalka.

Further, a partial opening of the retail sector may not be enough to attract large-sized foreign retailers. In fact, two major multinational retail chains are believed to have indicated they would not like to enter India unless they could own at least 51 per cent equity in the venture. The rationale is that these companies would like to operate here on a large scale, and the higher the equity they can hold, the easier it will be for them to expand. However, till the policy environment allows so, these companies remain in wait-and-watch mode while the Indian consumer too waits for that royal opportunity to come by.

THE CHANGING PHASE OF THE INDIAN CONSUMER

***Alexandra J⁸**

“Men are divided between those who are as thrifty as if they would live forever, and who are as extravagant as if they were going to die the next day.”

-Aristotle.

“Riches are for spending.”

-Francis Bacon

INTRODUCTION

CONSUMERS ARE ACTORS ON THE MARKETPLACE STAGE

As in a play, each consumer has lines, props, and costumes necessary to put on a good performance, Because people act out many different roles, they sometimes alter their consumption decisions depending on the particular “play” they are in at the time. The criteria they use to evaluate products and services in one of their roles may be quite different from those used in another role.

There is the world and there is India, an enigma for centuries. For marketers it is a challenge and an opportunity. Only a staunch pessimist would not bet on India in a long term. The issues stem from firstly managing the short term and secondly the Indian consumers’ refusal to behave as much as the world does.

The key characteristics of the Indian consumer are:

- 1) High degree of value orientation which has labelled Indians as the most discerning consumers in the world. Even luxury brands like Swatch have to design a unique pricing strategy for India.

⁸ Student, St Josephs College of Commerce.

- 2) High degree of family orientation. Brands with identities that support family values tend to be strong, for example, Colgate.
- 3) Values of nurturing and care are far more dominant than values of ambition and achievement.
- 4) Besides psychology and economics, the play of History in shaping the Indian consumers behaviour is quite unique. Only in India hair oils exist along with shampoos as does toothpowder along with toothpaste. Kellogg's found to its dismay that its nutrition with convenience platform could not dent food habits shaped by history.

The Indian consumer is a very unique species indeed.

THE INCOME BOON

The findings from the latest study, *The Bird of Gold- the rise of India's Consumer Market*, published by the McKinsey Global institute (MGI), reveal that if India continues on its current high growth path, over the next two decades the Indian market will undergo a major transformation. Income levels will almost triple and India will climb from its position as the 12th largest consumer market today to become the world's 5th largest market by 2025. As Indian incomes rise, over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will swell by over ten times from its current size of 50 million to 583 million.

RISING INCOMES

Forecasts for India's real GDP growth rate over the coming two decades generally range between 6 and 9 per cent per year. MGI forecasts real compound annual of 7.3 per cent from 2005-2025, a marked acceleration from the 6 per cent growth of the previous two decades. MGI's analysis shows that if India achieves

this growth path over the next 20 years, Indian income levels will almost triple. Average real household disposable income will grow from 113,744 Indian rupees in 2005 to 318,896 Indian rupees by 2025, a compound annual growth rate of 5.3.

THE POPULATION BOON

Apart from dramatic income growth, one of the main drivers of the rising urban market is the rapid growth in urban population. Nearly two-thirds of the total increase in population over the next two decades will occur in urban India. In addition, continued internal migration into urban areas will mean that the share of country's population in urban areas will rise from 29% today to 35% in 2025. The combination of birth and migration will raise the urban population from 3.18 million today to 523 million by 2025.

A NEW MIDDLE CLASS WILL DOMINATE URBAN INDIA

With a fast growing, upwardly mobile, working age population, and continued favourable labour market conditions, urban India will undergo a substantial shift in the structure of its income classes.

THE EMERGENCE OF A GLOBAL INCOME CLASS

Urban India will also see a growing number of consumers in the highest income bracket, with annual household incomes of over 1,000,000 Indian rupees. These consumers will command significant and growing spending power over the next two decades, and have an outlook and tastes that are similar to the rich across the world.

RURAL CONSUMPTION GROWTH

Rural India has become a target for marketers because of the huge potential it offers for all kinds of products and services. Statistics show that there is a huge

income shift taking place in rural India, and the aspiring middle class, with its increasing purchasing power, is the focus of all marketing initiatives by corporate.

While there are sceptics who still question the role of technology in the growth of rural India, there is no doubt that the average rural Indian whose life has been touched by technology has changed for the better.

While rural consumption growth will continue to lag wealthier urban areas, it will accelerate from a compound annual rate of 3.9% during the past two decades to 5.1% during the next twenty years. By 2025, a rural consumption will have nearly tripled, creating a large potential market worth over 26 trillion Indian rupees. By way of comparison, in 20 years the rural Indian market will be larger than the total consumer markets in countries such as South Korea or Canada today, and almost four times the size of today's urban Indian market.

Rural India will also see consumption growth on a per -household basis. At present, consumption rates in rural areas effectively lag behind those in urban areas by around 10-15 years. MGI forecasts that per-household spending in rural India will reach current levels in urban India by 2017.

THE NEW INDIAN CONSUMER

The new, discerning, demanding Indian Consumer is a tough nut to crack. The consumer insights division of Technopak, The Knowledge Company, studied the spending patterns of school goers, working singles, cautious planners and home makers.

SCHOOL GOERS- THE HIGH END SPENDERS

There are 13.9 million children in the age group of 12-16 years in urban India with 51.7% boys and 48.3% girls.

EXPENDITURE AND SHARE OF WALLET

The average annual expenditure by this age group is Rs. 10,360 and is spread across multiple product categories. Apparel accounts for a fifth of their annual expenditure. Along with footwear (10%), accessories- watches, jewellery, and other accessories(4%) – a third of their funds is spent on grooming.

The girls allocate a slightly higher proportion of their expenses on clothes while the boys allocate it to buying computers.

APPAREL

Close to 50% of their annual spending of Rs. 2133 on apparel is on western wear, with western casuals occupying a larger share(27.9%) of the pie. There is a fair proportion spent on fabric as well, at 21.1%. Inner wear expenditure accounts for more than 15%, marginally higher than that accounted for by ethnic wear. Share of expenses on western wear is visibly higher among the boys at 55.9%. But a sizeable 42.4% among the girls is a visible sign of increasing consciousness of fashion trends and shift toward western wear. Fabric and ethnic wear purchase is higher among girls.

WORKING SINGLES

Working singles (aged 21-25 years) form 11.8 million of the urban Indian population with the split of men and women at 58% and 42% respectively.

Independent in thinking as well as working financially, the focus of this `working singles' group lies mainly on enhancing their lifestyle as at this age they are not

shouldering any responsibilities and are free to exercise their choice. They have just started making money which leads to an increased disposable income in their hands resulting in increased spending on apparel, books, entertainment and eating out.

APPAREL

The share of expenditure on western wear exceeds 50% from the annual spending of Rs. 2,727. The difference in allocation of funds to formals and casuals is stark.

The working man buys more formals (28.5%) with preference for classy, contemporary brands. However, ethnic wear and fabric are preferred among women. The wallet share for inner wear is nearly the same for both men and women.

THE CAUTIOUS PLANNERS

7.9 million people in this segment who belong to the age group of 31-45 years are in urban India, with over 83.2% men and 16.8% women.

The cautious planners are working, married with dependent children. Settled in their careers with more stable incomes, part of their attention is now devoted to the needs of their growing children and securing their futures. Investments and financial planning for securing the future for both themselves and their children take precedence over other kind of expenditure. However, entertainment and recreation still form an important part of their lives.

APPAREL

Western formals and fabric account for more than half of their expenditure on apparel. The higher proportion allotted to fabric is contributed more by the women for whom it accounts for more than a third of their apparel expenditure.

The share of expenditure on western wear among working women is substantial at 35%, an evidence of the increasing adoption of Western wear for a variety of occasion

THE HOME MAKERS

There are 15.1 million housewives in urban India.

Housewives who do not work in the sense of being employed, form the largest chunk of the adult Indian women. They are spread across a wide age group of 26-60 years at different stages. Their behavioural and spending pattern varies depending on the life stage they are in. In a way, the housewife's share of wallet will reflect the household's 'discretionary' spending pattern as home makers are often the managers of the income that comes into the household.

APPAREL

Fabric and ethnic wear purchases account for a larger share of wallet among these women. Western wear also has a considerable share in their spending. Share of inner wear is largely similar to that seen in other life stages.

CONCLUSION

India has changed more in the last ten years than in the previous fifty; and that is because it opened up and gave an opportunity to many more Indians to

meet foreigners and experience foreign shores. This is going to happen on a much larger scale in the next ten years.

So India will become a more exotic place- much that is fun and fascinating about the wide world will become available in India. Indians will experience more of the world sitting at home. But as Indians experience the world, they will want to be more Indian. They will develop products and services that are their own. India's population will age as surely as the population of industrial countries has. They have made considerable investments into adaptation of work and lifestyle to ageing; those adaptations will find a growing market in India.

The Indian consumer is a very unique enigma indeed.

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SPECIAL ECONOMIC ZONES

* Ankur⁹

A **Special Economic Zone (SEZ)** is a geographical region that has economic laws that are more liberal than a country's typical economic laws. The category 'SEZ' covers a broad range of more specific zone types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others.

Usually the goal of the structure is to increase foreign investment. China was the first country to establish a SEZ, following the Chinese example Special Economic Zones have been established in several countries, including Brazil, India, Iran, Jordan, Kazakhstan, Pakistan, the Philippines, Poland, Russia, and Ukraine.

In a recent comprehensive econometric study on the SEZ policies in China and India, Leong (2007) investigates the impact of opening up the Chinese and Indian economy on economic growth in these countries using new panel data sets for both the national economies and the regional economies of India. The results provide support that export growth does have a positive and statistically significant effect on economic growth in these countries. However, the growth rates of these countries are export and FDI inelastic, in the sense that a one percentage point increase in growth rate of export or FDI will have a less than one percentage point increase in the economic growth rate of these countries. Of the two phases of

⁹ Student, St Josephs College of Commerce.

liberalization in both countries, the second stage is statistically significant. One possible reason is that the scale of liberalization is greater in the second phase. Taken together, these results suggest that what contributes to greater growth is a greater scale of liberalization, rather than increasing the number of SEZs.

Special Economic Zones in India

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various

parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

The main objectives of the SEZ Act are:

- (a) Generation of additional economic activity
- (b) Promotion of exports of goods and services
- (c) Promotion of investment from domestic and foreign sources
- (d) Creation of employment opportunities
- (e) Development of infrastructure facilities

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for:

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs
- Single window clearance for setting up of an SEZ
- Single window clearance for setting up a unit in a Special Economic Zone
- Single Window clearance on matters relating to Central as well as State Governments
- Simplified compliance procedures and documentation with an emphasis on self certification

SEZs - Leading to the growth of labor intensive manufacturing industry:

Out of the 531 formal approvals given till date, 174 approvals are for sector specific and multi product SEZs for manufacture of Textiles & Apparels, Leather Footwear, Automobile components, Engineering etc... which would involve labor intensive manufacturing. SEZs are going to lead to creation of employment for large number of unemployed rural youth. Nokia and Flextronics electronics hardware SEZs in Sriperumbudur are already providing employment to 14577 and 1058 persons. Hyderabad Gems SEZ for jewellery manufacturing in Hyderabad has already employed 2145 persons. Majority of who are from landless families, after providing training to them. They have a projected direct employment for

about 2267 persons. Apache SEZ being set up in Andhra Pradesh will employ 20,000 persons to manufacture 10,00,000 pairs of shoes every month. Current employment in Apache SEZ is 5536 persons. Brandix Apparels, a Sri Lankan FDI project would provide employment to 60,000 workers over a period of 3 years. Even in the services sector, 12.5 million sq meters space is expected in the IT/ITES SEZs which as per the NASSCOM standards translates into 12.5 lakh jobs. It is, therefore, expected that establishment of SEZs would lead to fast growth of labor intensive manufacturing and services in the country.

Benefits derived from SEZs

Benefit derived from SEZs is evident from the investment, employment, exports and infrastructural developments additionally generated. The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will far outweigh the tax exemptions and the losses on account of land acquisition. Stability in fiscal concession is absolutely essential to ensure credibility of Government intensions.

Exports from the functioning SEZs during the last three years are as under:

Year	Value (Rs. Crore)	Growth Rate (over previous year)
2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-20007	34,615	52%
2007-2008	66,638	92%

Investment and employment in the SEZs set up prior to the SEZ Act, 2005:

At present, 1943 units are in operation in the SEZs. In the SEZs established prior to the Act coming into force, there are 1143 units providing direct employment to over 1.97 lakh persons; about 37% of whom are women. Private investment by entrepreneurs in these SEZs established prior to the SEZ Act is of the order of over Rs. 5626.24 crore.

Investment and employment in the SEZs notified under the SEZ Act 2005:

Current investment and employment:

- Investment: Rs. 83450crore
- Employment: 1,13,426 persons

Impact of the scheme

The overwhelming response to the SEZ scheme is evident from the flow of investment and creation of additional employment in the country. The SEZ scheme has generated tremendous response amongst the investors, both in India and abroad, which is evident from the list of Developers who have set up SEZs:

- Nokia SEZ in Tamil Nadu
- Quark City SEZ in Chandigarh
- Flextronics SEZ in Tamil Nadu
- Mahindra World City in Tamil Nadu
- Motorola, DELL and Foxconn
- Apache SEZ (Adidas Group) in Andhra Pradesh
- Divvy's Laboratories, Andhra Pradesh

- Rajiv Gandhi Technology Park, Chandigarh
- ETL Infrastructure IT SEZ, Chennai
- Hyderabad Gems Limited, Hyderabad

The policy provides for setting up of SEZs in the public, private, joint sector or by State Governments. It was also envisaged that some of the existing Export Processing Zones would be converted into Special Economic Zones.

Accordingly, the Government has converted Export Processing zones located at:

- Sri City (SEZ), Andhra Pradesh
- Velankani SEZ, Chennai
- Pharma and Biotech SEZ, Aurangabad, Maharashtra
- Visakhapatnam (Andhra Pradesh)
- Hyderabad (Andhra Pradesh)
- Polepally (Andhra Pradesh)
- Ahmedabad, Baroda, Kandla and Surat (Gujarat)
- Cochin (Kerala)
- Pithampur (Madhya Pradesh)
- Nagpur also refer MIHAN, Pune and SEEPZ in Mumbai (Maharashtra)
- Chennai, Ilandaikulam Madurai, Nanguneri and Tirunelveli (Tamil Nadu)
- NOIDA, Greater NOIDA (Uttar Pradesh) UP
- Falta (West Bengal)
- Bangalore [Karnataka]
- Kensington [Powai, Mumbai]

Currently, India has 1022 units in operations in 9 functional SEZs, each an average size of 200 acres (0.81 km²). 8 Export Processing Zones (EPZs) have been converted into SEZs. These are fully functional. All these SEZs are in various parts of the country in the private/joint sectors or by the State Government. But this process of planning and development is under question, as the states in which the SEZs have been approved are facing intense protests, from the farming community, accusing the government of forcibly snatching fertile land from them, at heavily discounted prices as against the prevailing prices in the commercial real estate industry. Also some reputed companies like Bajaj and others have commented against this policy and have suggested using barren and wasteland for setting up of SEZs.

Attempts to set up a Special Economic Zone in Nandigram have led to protests by villagers in the area. A Parliamentary Committee to study and give recommendations on SEZs has said that no further SEZs be notified unless the existing law is amended to incorporate the changes related to the land acquisitions.

Higher Education in India

Ankush and A Surana¹⁰

Structure

Over the last 50 years, the Government of India has provided full policy support and substantial public funds to create one of the world's largest systems of higher education. These institutions, with the exception of some notable ones, have however, not been able to maintain the high standards of education or keep pace with developments in the fields especially in knowledge and technology. Over time, financial constraints with exploding enrolments, and a very high demand from primary and secondary education has led to the deterioration in the financial support provided by the government. On top of this, an overall structure of myriad controls with a rigid bureaucracy has stifled its development. In terms of higher education, however, on the science and technology side, India has however built up the largest stock of scientists, engineers and technicians.

The growth of higher education in India has been phenomenal. Starting with 1950-51, there were only 263,000 students in all disciplines in 750 colleges affiliated to 30 universities. This has grown by 2005 to 11 million students in 17,000 Degree colleges affiliated to 230 universities and non-affiliated university-level institutions. In addition, there are about 10 million students in over 6500 in vocational institutions. The enrolment is growing at the rate of 5.1 per cent per year. However, of the Degree students only 5 per cent are enrolled into engineering courses, while an overall 20 per cent in sciences. The demand for professional courses is growing rapidly.

¹⁰ Student, St Josephs College of Commerce.

In India both public and private institutions operate simultaneously. In 2000-01, of the 13,072 higher education institutions, 42 per cent were privately owned and run catering to 37 per cent of students enrolled into Higher education, that is, approximately 3.1 million out of total 8.4 million. It is also likely that most of the growth in the rapidly expanding higher education sector took place in private unaided college or in self-financing institutions. Since grant-in-aid to private colleges is becoming difficult, many governments/universities have granted recognition/affiliation to unaided colleges and many universities have authorized new 'self-financing' courses even in government and aided colleges. It is felt that as of now more than 50 per cent of the higher education in India is imparted through private institutions, mostly unaided.

Main features of Indian Higher Education system

- Highly bureaucratized system with multiple controls and regulations exercised by Central and State Governments, statutory bodies (UGC, AICTE and others), university administration and local management.
- System is heavily subsidized by the Government. Up to 90 per cent of the operating costs are paid for by the state. The efficiency of fund utilization is very poor due to internal rigidities.
- Salary and compensation for teaching staff is poor and, therefore, higher education institutions are unable to attract and retain qualified and trained teachers. Besides unattractive compensation packages, recruitment procedure is lengthy and working environment not conducive to retention. As a result, a substantial proportion of high ranking students who could fill up such assignments prefer to work elsewhere or go abroad. In a recent move UGC has further damaged the pay and promotion prospects of college teachers by reducing promotional grades thereby creating more stagnation and frustration amongst college teachers. (*Economic Times*, 15 November 2005).

- Most institutions offer outdated programmes with inflexible structures and content. While course content has been updated and restructured over time in the world's best institutions, Indian university curricula have lagged behind.
- Infrastructural facilities range from inadequate to dismal. Classrooms are often unattractive and laboratories inadequately stocked, leading to poor teaching. It is estimated that barely 20 per cent of the institutions have the basic minimum laboratory equipment.
- Steady electric power supply is not available. *Laboratories are poorly stocked* and computerization, where it exists is generally dependent on poor communication lines.

India and the World

India's main competitors — especially China but also Singapore, Taiwan, and South Korea — are investing in large and differentiated higher education systems. They are providing access to large numbers of students at the bottom of the academic system while at the same time building some research-based universities that are able to compete with the world's best institutions. The recent *London Times Higher Education Supplement* ranking of the world's top 200 universities included three in China, three in Hong Kong, three in South Korea, one in Taiwan, and one in India (an Indian Institute of Technology at number 41— the specific campus was not specified). These countries are positioning themselves for leadership in the knowledge-based economies of the coming era.

India has significant advantages in the 21st century knowledge race. It has a large higher education sector — the third largest in the world in student numbers, after China and the United States. It uses English as a primary language of higher education and research. It has a long academic tradition. Academic freedom is respected. There are a small number of high quality institutions, departments, and centres that can form the basis of quality sector in higher education. The fact that

the States, rather than the Central Government, exercise major responsibility for higher education creates a rather cumbersome structure, but the system allows for a variety of policies and approaches.

Yet the weaknesses far outweigh the strengths. India educates approximately 10 per cent of its young people in higher education compared with more than half in the major industrialised countries and 15 per cent in China. Almost all of the world's academic systems resemble a pyramid, with a small high quality tier at the top and a massive sector at the bottom. India has a tiny top tier. None of its universities occupies a solid position at the top. A few of the best universities have some excellent departments and centres, and there is a small number of outstanding undergraduate colleges. The University Grants Commission's recent major support of five universities to build on their recognised strength is a step toward recognising a differentiated academic system — and fostering excellence. At present, the world-class institutions are mainly limited to the Indian Institutes of Technology (IITs), the Indian Institutes of Management (IIMs) and perhaps a few others such as the All India Institute of Medical Sciences and the Tata Institute of Fundamental Research. These institutions, combined, enrol well under 1 per cent of the student population.

India's colleges and universities, with just a few exceptions, have become large, under-funded, ungovernable institutions. At many of them, politics has intruded into campus life, influencing academic appointments and decisions across levels. Under-investment in libraries, information technology, laboratories, and classrooms makes it very difficult to provide top-quality instruction or engage in cutting-edge research.

The rise in the number of part-time teachers and the freeze on new full-time appointments in many places have affected morale in the academic profession. The lack of accountability means that teaching and research performance is seldom measured. The system provides few incentives to perform. Bureaucratic inertia hampers change. Student unrest and occasional faculty agitation disrupt operations. Nevertheless, with a semblance of normality, faculty administrators are able to provide teaching, coordinate examinations, and award degrees.

Even the small top tier of higher education faces serious problems. Many IIT graduates, well trained in technology, have chosen not to contribute their skills to the burgeoning technology sector in India. Perhaps half leave the country immediately upon graduation to pursue advanced study abroad — and most do not return. A stunning 86 per cent of students in science and technology fields from India who obtain degrees in the United States do not return home immediately following their study. Another significant group, of about 30 per cent, decides to earn MBAs in India because local salaries are higher — and are lost to science and technology. A corps of dedicated and able teachers work at the IITs and IIMs, but the lure of jobs abroad and in the private sector makes it increasingly difficult to lure the best and brightest to the academic profession.

Few in India are thinking creatively about higher education. There is no field of higher education research. Those in government as well as academic leaders seem content to do the "same old thing." Academic institutions and systems have become large and complex. They need good data, careful analysis, and creative ideas. In China, more than two-dozen higher education research centres, and several government agencies are involved in higher education policy.

India has survived with an increasingly mediocre higher education system for decades. Now as India strives to compete in a globalised economy in areas that require highly trained professionals, the quality of higher education becomes increasingly important. So far, India's large educated population base and its reservoir of at least moderately well-trained university graduates have permitted the country to move ahead. But the competition is fierce. China in particular is heavily investing in improving its best universities with the aim of making a small group of them world class in the coming decade, and making a larger number internationally competitive research universities. Other Asian countries are also upgrading higher education with the aim of building world class-universities. Taiwan, which is a major designer and producer of IT hardware, is considering merging several of its top technological universities to create an "Asian MIT."

To compete successfully in the knowledge-based economy of the 21st century, India needs enough universities that not only produce bright graduates for export but can also support sophisticated research in a number of scientific and scholarly fields and produce at least some of the knowledge and technology needed for an expanding economy. How can India build a higher education system that will permit it to join developed economies? The newly emerging private sector in higher education cannot spearhead academic growth. Several of the well-endowed and effectively managed private institutions maintain reasonably high standards, although it is not clear that these institutions will be able to sustain themselves in the long run. They can help produce well-qualified graduates in such fields as management, but they cannot form the basis for comprehensive research universities. This sector lacks the resources to build the facilities required for quality instruction and research in the sciences. Nor can enough money be earned

by providing instruction in the mainstream arts and sciences disciplines. Most of the private institutions do not focus on advanced training in the sciences.

Only public universities have the potential to be truly world class institutions. Institutions and programmes of national prominence have already been identified by the Government. But these institutions have not been adequately or consistently supported. The top institutions require sustained funding from public sources. Academic salaries must be high enough to attract excellent scientists and scholars. Fellowships and other grants should be available for bright students. An academic culture that is based on merit-based norms and competition for advancement and research funds is a necessary component, as is a judicious mix of autonomy to do creative research and accountability to ensure productivity. World class universities require world class professors and students — and a culture to sustain and stimulate them.

A clearly differentiated academic system has not been created in India — a system where there are some clearly identified institutions that receive significantly greater resources than other universities. One of the main reasons that the University of California at Berkeley is so good is that other California universities receive much less support. India's best universities require sustained state support — they require the recognition that they are indeed top institutions and deserve commensurate support. But they also require effective management and an ethos of an academic meritocracy. At present, the structures are not in place to permit building and sustaining top-quality programmes even if resources are provided.

A combination of specific conditions and resources are needed to create outstanding universities. Sustained financial support, with an appropriate mix of accountability and autonomy.

The development of a clearly differentiated academic system — including private institutions — in which academic institutions have different missions, resources, and purposes.

Managerial reforms and the introduction of effective administration.

Truly merit-based hiring and promotion policies for the academic profession, and similarly rigorous and honest recruitment, selection, and instruction of students.

India cannot build internationally recognised research-oriented universities overnight, but the country has the key elements in place to begin and sustain the process. India will need to create a dozen or more universities that can compete internationally to fully participate in the new world economy. Without these universities, India is destined to remain a scientific backwater.

During the time of independence there were only 20 universities and 500 colleges in India, and admission into these were quite tough and biased. But today through rapid revolution in the educational sector India boasts of having 416 universities at present 241 state universities, 24 central universities, 5 institutions established under national importance established by central legislation. In addition there are 20677 colleges including around 2166 women colleges. At the beginning of the academic year 2007-2008, the total number of students enrolled in the universities and the colleges has been reported to be 116.13 lakhs out of which 15.03 lakhs i.e. 12.94% are in university department and 101.10 lakhs i.e. 87.06% in affiliated

colleges enrolling all kinds of students from all walks of life who have the will and the urge to acquire knowledge.

Education Commission in India

In order to regulate, maintain and control higher education system in India, The Government of India through the ministry of Human Resource Development (HRD) has set up the University Grant Commission (UGC) for its development, through providing grants to universities. UGC is the sole regulatory of university education in India. Apart from providing grants to universities, UGC also advises and incorporates course content regularly which all universities and the colleges under it need to adhere to. Thus UGC is the overall custodian of educational system in India. In order to update with the changing world, UGC regularly takes up research and development activities to find new techniques and ideas which can be incorporated into the educational system.

In order to elevate the educational system India, UGC has taken many measures and programmes for the overall development of Indian educational system. Some of them include the giving autonomy to educational institutions of course content with repute, giving large institutions with quality educational records the status of universities, building of women hostels to encourage women education, assistance to science and technological department by providing grants for technical and laboratory equipments.

UGC has also provided 2000 Rajiv Gandhi national fellowship for SC/St students to undertake advanced studies and research leading to M.phil/PhD in sciences, humanities and social sciences including languages engineering and technology

Apart from the UGC here are various professional councils that are responsible for recognizing courses, promoting professional institutes and providing grants to

undergraduate programmes.

The current scene

India is today one of the fastest developing countries of the world with the annual growth rate going above 9%. In order to sustain that rate of growth, there is need to increase the number of institutes and also the quality of higher education in India. Therefore the Prime Minister of India has announced the establishment of 8 IITs, seven Indian Institutes of Management (IIMs) and five Indian Institutes of Science, Education and Research (IISERs) and 30 Central Universities in his speech to the nation on the 60th Independence Day. The outlay for education during the 11th Five Year Plan, which runs from the current fiscal to 2012-13, represents a four-fold increase over the previous plan and stands at Rs 2500 billion.

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Impact_of_Relationship_Marketing_on_Insurance_sector

*-VeenuJoy¹¹

With the insurance bill being passed in 2000, many private players entered the arena of insurance in India. The major attraction for them was the vast untapped market. Competition rising up in the post-liberalized insurance market one factor that is contributing to the overall performance of an insurance player is Relationship Marketing.

Relationship Marketing is a new paradigm in marketing literature that challenges the existing and entrenched philosophies in marketing literature. Relationship Marketing is a strategy used to learn more about customer's mood and behaviors in order to develop stronger relationship with them. It can be used to build a loyal customer base and as a result the brands marketed by the company will grow in strength by leaps and bounds.

According to customer relationship management experts, companies can increase revenue by fifty percent if they retain only five percent more of their customers. Business owners make cold calls, pursue new contacts, and acquire new customers. But often, little thought is given to nurturing relationships with the customers they already have. Acquiring a new customer can cost five times more than retaining an existing one. Customers who are continuously courted, interacted with, and reminded of company's presence are less likely to go off when competitors come calling. Making those customers feel recognized and appreciated can go a long way toward locking up their loyalty. And it's also a great way to get them referring

¹¹ Faculty, St Josephs College of Commerce.

others. A smaller base of loyal but profitable customers is all that it takes to stay competitive, relevant and commercially profitable. The strategic approach to make this happen is through Customer Relationship Management.

Insurance companies are highlighting the importance attached to customer service in the organisation. In this Scenario, the study attempts to analyze the impact of Relationship Marketing on the Insurance industry.

Relationship marketing has a strong impact on the productivity of the firm by enhanced customer service and offering more products and services, Customer Relationship Management system can help to identify which are most profitable customers. In insurance, instant access to customer history drives CRM adoption. Companies can document customer complaints and be able to address them in a timely manner. CRM responds to issues relating to sharing customer data and providing a seamless contact and fulfillment experience for the customer. CRM tools have been most effective in retaining customers. It plays a key role in increasing the trust and goodwill of the firm.

According to insurance companies there is a strong need to enhance the online service to improve customer relationship. People prefer the service rendered at home at a click of mouse like premium payment, getting information about policies, settlement of claims, policy surrender etc.

Life Insurance Corporation of India has been the sole player in the market before the appearance of private players. But, when the private players entered the market, the competition forced LIC and the other new companies to become customer centric. Implementation of CRM projects have made companies more customer centric. Tracking of general and customer specific information such as company, address, telephone, contact, position in company, favored communication channel

and customer's favorite hobby is part of the fundamental functionality of the CRM solution. With a little help from CRM software, insurance firms can sell multiple insurance policies and pension plans to the same customer as the software helps them to gain a better understanding of customers and anticipate their purchases. Effective CRM improves service and lowers costs by letting insurers consolidate all information about individual clients and place it on appropriate desktops. Then, service representatives will have all relevant information about customers readily available.

Need based selling is highly influenced by Relationship marketing as it helps in building customer data base which in turn directly or indirectly helps to put across need based selling to customers. Relationship marketing also has a role to play in getting references from the existing customers to a certain extent. Satisfied customers recommend websites, companies and products to their friends which are termed as word of mouth referrals. Implementation of CRM projects has to some extent met the company's expectations.

Indian companies were slow in adopting CRM. One of the major reasons for this has been a lack of proper understanding of CRM as a concept and how it could benefit an organisation. CRM has to be in recent times with a better understanding of various components of CRM and increased awareness levels of how it can drive efficiencies across the board. CRM has to be successfully implemented. Mere introduction of CRM technology does not make a company customer-oriented. The company also needs to change its frame of mind, culture, behavior and organizational structure. CRM in the long term will prove to be a bundle of opportunities for the organizations. Without CRM it is the organizations that are most likely to disappear from the market.