

**Presidential Address**  
**64th All India Commerce Conference**  
**Indian Commerce Association**

**Prof. B. Ramesh**  
President  
The Indian Commerce Association

Chief Guest, my senior colleagues and Former Presidents of ICA, honourable guests, distinguished academic delegates from all over India and abroad, Research scholars, media and press representatives, volunteers, ladies and gentlemen, I welcome you all wholeheartedly for this 64th All India Commerce Conference of ICA hosted by Department of Commerce, Pondicherry University. It gives me immense pleasure and I am bestowed with the honour of delivering this 64th presidential address.

Well, the global economy is clearly in the midst of a slowdown, and we may be far from a recovery. So, what are the telltale signs of a slowdown? You can tell when water is boiling by seeing bubbles forming on its surface. In a similar way, when copper prices fall sharply it should set off warning bells in your mind. This commodity is often called Dr. Copper for its ability to give a diagnosis on economic health. Copper has a variety of industrial uses and demand for the metal helps determine levels of economic activity. Copper wires go into various appliances, vehicles, construction of buildings etc. That is why, the 22% drop in copper prices recently is signaling a severe drop in manufacturing activity across the globe. Since China is the world's biggest consumer of this red metal, the dragon nation may very well be running out of steam. Growth is definitely on a downward trajectory in the country. Its property market is in the dumps and exports have also slowed.

Other signs also show that the brakes have been pressed on the global growth engine. Shares of steel, coal, mining, auto companies etc. have been seeing selling pressure across the globe, junk bonds have also been under the scanner, spelling trouble for companies saddled with debt. All these are troubling signs.

The global financial crisis of 2008-09 is a watershed event that calls for a reexamination not only of industrial countries' financial systems but also growth strategies in developing countries. I will argue that the worst of the crisis is over, and that the developing countries are emerging with less damage than in the debt crisis of the 1980s, for Latin America, and the financial crisis of the late 1990s, for East Asia.

Nonetheless, serious fiscal challenges will confront the industrial countries in the coming years, as a consequence of bailout costs and recessionary fiscal losses. Moreover, several key emerging market economies will need to reorient their growth strategies away from mercantilist trade surpluses toward production for domestic demand and greater expansion of balanced trade among themselves.

### **The Current Gloomy Context**

The turmoil in the international financial markets of advanced economies that started around mid-2007 has exacerbated substantially since August 2008. The present financial crisis in the European market in 2011 has engulfed complete world economy with a varying degree of recessional impact. World over the impact has diversified and its impact can be observed from the very fact of falling stock markets, recession in jobs availability and companies following downsizing in the existing available staff and cutting down of the perks and salary corrections. Globally the financial sector sacking the existing base of employees in high numbers in US the major example being Citi Group, same still followed by others in hospitality industry Jet and Kingfisher Airlines too. The cut in salary for the pilots, IT professionals and cuts of around 20-30% across broking houses due to shrinking business indicate the worst time is coming with hard times also for the Dalal Street. The sudden drying-up of capital inflows from the FDI which were invested in Indian stock markets for greater returns visualizing the potential higher returns flying back is continuing to challenge liquidity management. At the heart of the current liquidity tightening is the balance of payments deficit and this NRI deposit move should help in same small way. Documenting the glacial reform pace that has India's hope for a higher economic growth, Jim O'Neil the Chairman of Goldman Sachs Asset Management, and more widely known for his coining the term 'BRIC' states that "India today is as bad as Russia on corruption and governance and, in terms of technology, Russia is in fact much higher than India". In the last Union budget speech FM seemed to be clearly on the defensive and the exercise appeared to be merely to take the economy out of ongoing recession. To be fair, the FM was just right in saying that one single budget can't solve all the problems of the economy but such pessimistic utterances were enough to further dampen the weakened spirits of the stock market, trade and industry. In spite of various measures to subsidise the impact of the slow-down and cut down the inflation present nothing really sound have been done.

### **Our Neighborhoods**

On the global front, it now seems possible that some countries may have to come out of the euro zone. The S&P has already threatened to cut off credit ratings of 15 euro counties, including Germany and France by 2-3 notches, predicting 40% chance of a fall in euro zone output. While the CDS spreads in Italy and Spain have gone down temporarily, serious action is still far away. The unprecedented bond spread fluctuations in Europe also show concern that the euro-region crisis may further deepen. In the Middle East Dubai, which narrowly averted a bond default in 2009, has indicated to use

money raised by its sovereign wealth fund to help repay \$3.8 billion in bonds owed by state-linked firms which mature next year. The major corporations of Dubai are already in big debt repayment crisis.

### **The Situation Within**

On the domestic front, India's economy expanded 6.9% in the second quarter for the current fiscal, slowest in the last 9 quarters, possibly heralding a long phase of near-7% for a country that aspires for a china-like expansion. The dismal 0.1% growth in the core sector output, the sequential decline in investments and private consumption to 5.95%, a lowest in series of data that goes back to 2004-05 suggests that the environment of high inflation and interest rates and extreme pessimism have forced consumers and corporate to pull down shutters on spending. The average daily sales on both the major bourses of India, the BSE and the NSE fell to Rs. 12,200 crore in November from Rs. 22,400 in the same month a year ago. The study of indices from December 30, 2010 to November 30, 2011 indicate the BSE small-cap index dropped by 36.94% while the mid-cap index shed 27.87% against the 21% fall in the broader market benchmark Sensex. The growth in the much talked FDI in retail has been paralysed. Reforms in this sector would have otherwise opened doors to millions of dollars in FDI in the super market sector. Growth in all four BRIC economies has surpassed expectations except for India, whose numbers on productivity, FDI and reform has been most disappointing. The United Nations data show that India has received less than \$20 billion in FDI in the first six months of 2011 compared to more than \$60 billion in China, \$23 billion in Brazil and \$33 billion in Russia.

### **The Response**

Various steps have been taken by RBI to curb the present recession in the economy and counter act the prevailing situation. In spite of the various measures to subsidise the impact of the recession and cut down the present inflation, nothing really sound have been happening at the field level. To curb the crises the RBI will continue to initiate measures to address liquidity concerns as long as the current unusually tight domestic liquidity environment prevails. However, the big-picture story remains unchanged—all countries in the world with current account deficits and strong credit cycles are finding it difficult to bring cost of capital down in the current environment. India is no different. Now measures do not change our view on the growth outlook. Indeed, we remain concerned about the banking sector and financial sector. The BOP-Balance of Payment deficit—at a time when domestic credit demand is very high—is resulting in a vicious loop of reduced access to liquidity, slowing growth, and increased risk-aversion in the financial system.

### **Perspective of Development Strategy**

Let me summarize by saying that the key lesson for developing countries is to prepare for the crisis. And therefore the discussions should really be about how we prepare the emerging markets for the same.

If I look at the global financial turbulence and ask what is the root, my own summary is that it just starts from the tension that here we have an increasingly globalized world and the problems we are facing, a large chunk of these are global but the solutions have to be by national governments. And this tension will always be there. The global financial crisis is simply a consequence of the uncoordinated globalization-as a result of deficiencies in the international institutional arrangements for crisis detection, prevention, management and resolution. We don't yet have it at that level for coordination. And so global coordination failures happen to be at the heart of it. We can get into the immediate causes of the crisis, about the lax monetary policy and the lax financial regulations which are part of booming credit, leveraging and the subprime mortgages and how they spilled over into some other major economies and of course the contagion around the world from financial crisis to global economic crisis. But we have got to keep an eye on the root cause of the problem, namely that we have now a world where you have cross-border spill-overs that are very significant but we don't have a coordinated mechanism to ensure orderly transition or where a crisis erupts to ensure an orderly workout. That's the missing link in the whole globalization process both institutionally and otherwise.

Many of the poor countries have some very nascent capital markets that are just beginning to come up. The crisis led to massive outflows and there was a collapse of many of the stock markets in these very poor countries and they have not recovered. So the wealth effect of the crisis in many of these poor countries will be long lasting and I'm not quite sure how you get them to go back into the capital market and have development as well.

The whole crisis is triggered because of either incomplete or imperfect coordination failures and also due to lack of effective supervision, monitoring and evaluation of new systems and policies at global level. If the coordination does not take place, we are in for another crisis. May be the world needs to go through even a more severe recession to a depression for us to be forced to the new realities we're in to be able to think out of the box, and to act on them.

In total the global crisis has turned down the growth process and has set the minds of economists and other for finding out the real solution to sustain the economic growth and stability of the market which is desired for the smooth running of the economy. Complete business/industry is in doldrums situation and this situation persist for a longer duration will create the small business to vanish as they have lower stability and to run smoothly require continuous flow of liquidity which is derived from the market. Solution for the problem still remains at the top of the mind of every one, still everyone is facing the impact of recession but how long is the major question which is of great importance.

### **The Needed Response**

Since the current financial crisis has arisen in a way comparable to recent crises, Commerce educators, researchers and students should look at the problems from the scientific and the political point of view and should be

able to learn from the past developments and be up to developing efficient, problem-solving strategies for the present situation. The comprehensive follow up led by commerce education could involve the following:

1. Returning to the set of principles for setting interest rates that worked well during the Great Moderation.
2. Basing future government interventions on a clearly stated diagnosis of the problem and a rationale for the interventions.
3. Creating a predictable exceptional access framework for providing financial assistance to existing financial institutions.
4. Address the interdependencies between the financial sector, the real sector and the public sector as well as the co evolutionary development path that exists between them.
5. Focusing renewed attention on the importance of people being both well informed about their financial options and discerning financial consumers in short, making financially literate more primarily the bottom of the pyramid people for promoting access to finance by creating incentives and environment that promote desired financial behaviours such as saving, budgeting, or using credit wisely.

### **Preparing for the Future**

The scenarios of liquidity crisis, stock market crashes, fear of recession are serious though from the view of its management and curtailment, these are however exciting times for researchers, academicians and specifically commerce educators alike. These events should remind us of how extraordinarily challenging it is to forecast and resolve impediments to commercial activities. Most urgently it is important to reinstate or establish a set of commercial principles to follow to prevent misguided actions and interventions in the future. Though policy is now in a massive clean-up mode, setting a path to get back to these principles now can be part of the corrective process led by commerce educators. To summarize; to prepare for the coming turbulent days, the thrust of the commerce education must be both practical and conceptual, both from the point of view of the service providers which provide the services as well as the users, and again both, analytical from the point of view of the procedural and regulatory framework.

Amidst this, the situation of education to the students of economics, commerce and management also face a lot of challenges. First of all it is our duty to appraise our students about the various stake holders in the state of the economy and commerce. Secondly we should strive to bring in industry relevant education to our universities to equip them with the necessary skills for decision making of the governments. Most of our friends in the industry and education sector have talked about industry university interaction to bridge the gap between what is taught and what is practiced. But the time has come now to universities and academic institutions to play a major role in the policy formation of the governments. Conferences like this will also have to be aimed at steering the opinion of the academia towards the required economic management stance. The policy stance of the government have to be opened for public debate in forums like these so that

a favorable opinion climate can be created by taking into account, the considerations and reservations of various stakeholders of the society. The time has come now for universities, university teachers and others from the teaching community to be vocal about their opinions and venture out to affect policy changes. The participation of academicians across the country in policy formation would easily result in building a consensus on the direction of economic management.

As members of the commerce teaching fraternity, it is our best chance to influence decision making to benefit the society at large. We as teachers of Commerce are endowed with a very unique strength of being close to the industry and commerce as that is our real laboratory where we conduct our experiments and glean theories from the real world and bring them to our classrooms. If commerce education is relevant today, and the admissions in pure courses are increasing, it is because we are perceived by the students as the closest to reality as compared to other branches of education. We have to take advantage of this situation and fortify the gains registered in the last three years so that commerce education becomes more relevant to the public. As the course becomes more relevant, more students would like to pursue the same. These are the times, when education is perceived as something that can lead to a source of livelihood. That is why study of pure sciences and arts has not been able to fire the imagination of the young students. We cannot let this opportunity to go waste and I reiterate again that we will have to fortify our position again by making this course industry relevant and policy relevant so that we can play a major role in shaping this country's future.

I wish you all the best and greetings for the New Year 2012.