OPEN BOOK EXAMINATION **NEW SYLLABUS**

345

Roll No…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 8*

***NOTE** : Answer **ALL** Questions.*

1. Global Competitiveness Report 2014-15

Year 2014-15 marks the time when the global economy seems to be finally leaving behind the worst and longest-lasting financial and economic crisis of the last 80 years. However, this resurgence is moving at a less decisive pace than it has after previous downturns, and heightened risks looming on the horizon could derail the global recovery. Much of the growth in recent years has taken place because of the extraordinary and bold monetary policies in countries such as the United States, Japan, and the United Kingdom. As the economy improves in these countries, a normalisation of monetary policy with tightening financial conditions could have an impact on both advanced and emerging economies.

Overall, growth prospects in advanced economies are better than they have been in recent years, albeit very unevenly distributed. The recovery in the United States seems to be comfortably grounded with strong output and employment figures. Japan's economy, while still needing to translate Abenomics into stronger private demand, seems to be waking-up after two decades of stagnation. In Europe, the picture is more mixed; though many countries now recording stronger growth and returning to trend growth rates, some others continue to suffer from weak growth driven by protracted internal demand, high unemployment, and financial fragmentation. Emerging economies are forecasted to grow more modestly than they did in the past. After several years of doing very well and leading global growth, their performance may be affected by a changing environment characterised by greater difficulty accessing capital as well as lower prices for the commodities that fuelled past growth – a trend that is also likely to affect many developing economies.

To a large extent, the improvement of the global economic outlook has been the result of bold monetary policies carried out by the Federal Reserve and Central Banks in countries such as the United Kingdom and Japan to substantially expand the amount of money available in the economy. As the economic situation improves, a normalisation of the monetary policy with a tightening of the financial conditions for both advanced and, most notably, emerging economies could jeopardise the rather positive forecast, especially if productivity-enhancing investment levels do not manage to pick-up. Investment and the recovery more broadly will also be influenced by the fact that low inflation, or even deflation, in key advanced economies remains a tangible risk that could derail recovery because real interest rates may rise, increasing the burden of public debt and leading to a stagnation of consumption and investment rates. In addition, in recent months, a strained geo-political situation has emerged. Tensions in Ukraine with implications for the relationship between Russia and much of the Western world, as well as between China and Japan, have become more evident. Although the implications of these tensions have not yet fully materialised, they could cause a great deal of disruption in the highly interdependent, global macroeconomic outlook.

Finally, one of the legacies of the economic crisis is the acceleration of income inequality in many countries, which can cause important economic and social tensions if not properly addressed. The country's new government faces the challenge of improving competitiveness and reviving the economy, which is growing at half the rate of 2010. India's performance is given below :

India's competitiveness crisis

Despite its immense potential and promise, by many accounts India continues to suffer from poverty. A third of its population still lives in extreme poverty – possibly the highest incidence outside sub-Saharan Africa; and many people still lack access to basic services and opportunities, such as sanitation, healthcare, and quality schooling. Improving the standards of living of the Indian population will require the country to accelerate its growth. Yet, since 2011, India has experienced a slowdown. In 2013, its economy grew by a modest 4.4% (see Figure 1). Improving competitiveness in order to put growth on a more stable footing should therefore be a priority for the new government.

Dropping for the sixth consecutive edition, India ranks 71st (down 11) out of 144 economies in the Global Competitiveness Index (GCI) 2014-15 (see Figure 2). It is the lowest ranked among the BRICS economies. The rank differential with China (28th) has grown from 14 places in 2007 to 43 today; while India's GDP per capita was higher than China's in 1991, today China is four times richer (see Figure 1). This competitiveness divide helps to explain the different trajectories of these two economies.

India's slide in the competitiveness rankings began in 2009, when its economy was still growing at 8.5% (it even grew by 10.3% in 2010). Back then, however, India's showing in the GCI was already casting doubt about the sustainability of this growth. Since then, the country has been struggling to achieve growth of 5%. The country has declined in most areas assessed by the GCI since 2007, most strikingly in institutions, business sophistication, financial market development, and goods market efficiency.

Figure 3 sheds light on the main strengths and weaknesses of India's competitiveness and presents the country's performance along the 12 dimensions of the GCI. Overall, India does best in the more complex areas of the GCI : innovation (49th) and business sophistication (57th). In contrast, it obtains low marks in the more basic and fundamental drivers of competitiveness. For instance, India ranks 98th on the health and primary education pillar. The health situation is indeed alarming : infant mortality and malnutrition incidences are among the highest in the world; only 36% of the population have access to improved sanitation and life expectancy is Asia's second shortest, after Myanmar. On a more positive note, India is on track to achieve universal primary education, although the quality of primary education remains poor (88th) and it ranks a low 93rd in the higher education and training pillar of the GCI. Transport and electricity infrastructure need upgradation (87th). In 2012, a working group appointed by the Planning Commission of India had recommended that a trillion US dollars or almost 10% of India's GDP be spent on infrastructure by 2017. Given the country's strained public finances, addressing the infrastructure gap will require very strong participation on the part of private and foreign investors through public-private partnerships.

But for these types of investments to materialise, the institutional framework needs to improve. There are encouraging signs though. India has achieved spectacular progress in various measures of corruption and now ranks 65th. Red tape seems to be less of an issue than it had been, and government efficiency is equally improving. However, the overall business environment and market efficiency (95th, down 10 places) are undermined by protectionism, monopolies and various distortionary measures, including subsidies and administrative barriers to entry and operation. The World Bank estimated that it takes 12 procedures (130th) and almost a month to register a business (106th). In addition, it calculated that taxes for a typical registered firm amount, on average, to 63% of its profits (130th). Furthermore, the labour market is inefficient and rigid (112th). These factors contribute to the high cost of integrating more businesses into the formal economy. Some estimates find that the informal sector accounts for half of India's economic output and 90% of its employment. It is, therefore, urgent that the government create the right incentives for businesses to register and contribute their fair share to the provision of public services.

India achieves its lowest rank among the 12 pillars in technological readiness (121st). Despite mobile telephony being almost ubiquitous, India is one of the world's least digitally connected countries. Only 15% of Indians access the internet on a regular basis. Broadband internet, if available at all, remains the privilege of a very few. India's knack for frugal innovation should contribute to providing cheap solutions for bridging this digital divide.

The financial resources required for delivering basic services, including sanitation and healthcare as well as for improving India's physical and digital connectivity are considerable. But India's fiscal situation remains in disarray, as evidenced by the country's 101st rank in the macroeconomic environment pillar of the GCI. With the exception of 2007, the Central Government has consistently run deficits since 2000. Due to high degree of informality, its tax base is relatively narrow, representing less than 10% of GDP. In addition, over the past several years, India has experienced persistently high, in some years near double-digit inflation, which reached 9.5% in 2013. The Reserve Bank of India is torn between keeping interest rates low to stimulate the faltering economy and tightening monetary policy to stem inflation.

Improving competitiveness will yield India huge benefits. In particular, it will help rebalance the economy and move the country up the value chain so as to ensure more solid and stable growth; this in turn could result in more employment opportunities for the country's rapidly growing population. Despite the abundance of low-cost labour, India has a very narrow manufacturing base. Manufacturing accounts for less than 15% of India's GDP. Agriculture represents 18% of output and employs 47% of the workforce. Low productivity in the sector means very low wages and a life of mere subsistence for many. The services sector accounts for just 28% of employment but for 56% of the economy. Most services jobs are low-skilled and poorly paid ones, though, white collar jobs remain rare. For example, the vibrant business-process outsourcing sector employs 3.1 million workers, or 0.6% of India's 482 million strong labour force (but accounts for 6% of GDP). India needs to create jobs in the 'missing middle' for the 610 million youth under 25 – half of India's population – who have recently entered or will soon enter the workforce.

In a parliamentary address in June 2014, President of India, Shri Pranab Mukherjee outlined the government's economic agenda. It envisages building smart cities, establishing world-class industrial zones and transforming the country into a manufacturing hub. It remains to be seen whether the new administration will succeed in convincing the public opinion, mobilising resources and passing reforms necessary to achieve this vision.

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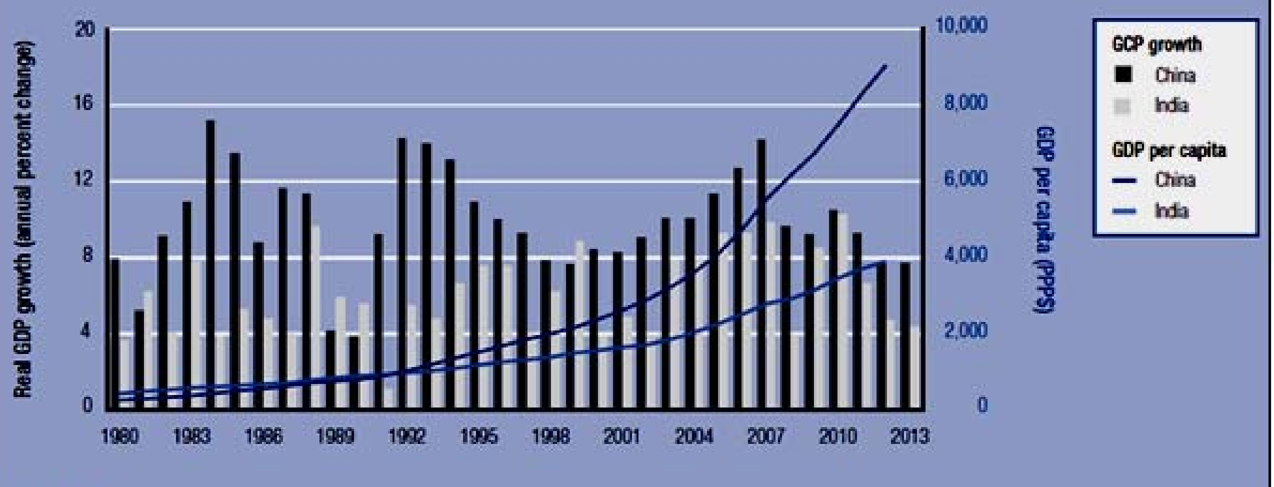
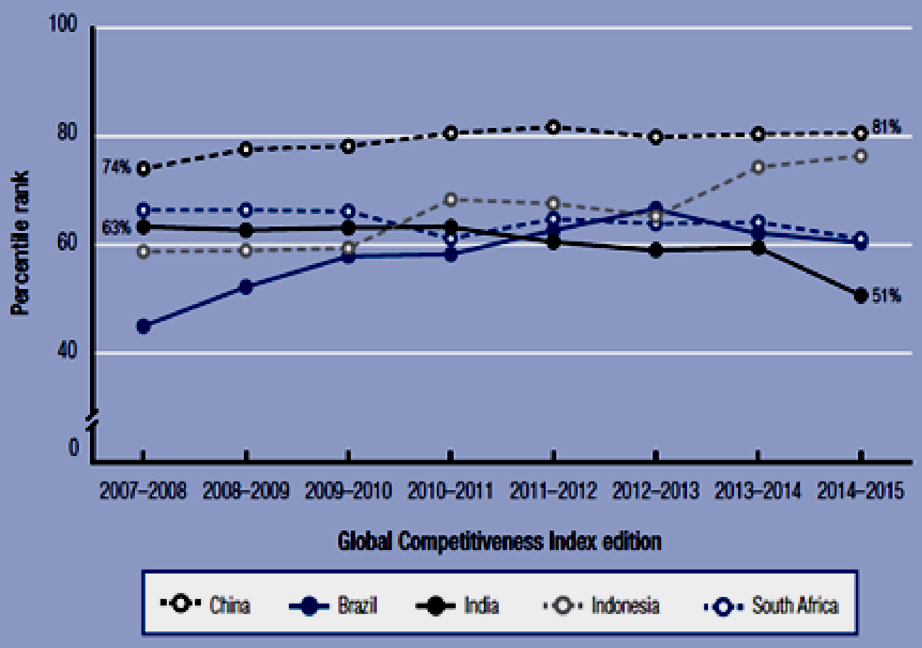
Figure 1: GDP growth and GDP per capita of India and China since 1980



Source: IMF 2014c.

Figure 2: Historical performance of selected countries in the Global Competitiveness Index



India's overall GCI rank

Year	Rank
2007–2008	48th/131
2008–2009	50th/134
2009–2010	49th/133
2010–2011	51st/139
2011–2012	56th/142
2012–2013	59th/144
2013–2014	60th/148
2014–2015	**71st/144**

Note: Higher value means better rank

Figure 3: India in the 12 pillars of the GCI 2014–2015

Note: India's rank (out of 144 economies) in the pillar is indicated in parentheses.

Based on the above, answer the following :

(a) What are the main pillars of competitiveness ? How are they related with each other and also with the stages of economic development of countries ?

(10 marks)

(b) What are the major improvements in global competitiveness of developed economies according to Global Economic Outlook 2014-15 ?

(10 marks)

(c) Explain India's competitiveness crisis of 2014-15.

(15 marks)

(d) What is Global Competitiveness Index (GCI) ? Name the pillars acting as keys for factor driven, efficiency driven and innovation driven sub-index. Also, highlight India's main strengths and weaknesses with the help of Figure 3.

(15 marks)

2. As the Company Secretary of Samarth Ltd., answer the following :

(a) Explain the concept and role of logistics management to Samarth Ltd.

(5 marks)

(b) Samarth Ltd. wants to transport cement. Which modes of transport can be considered by the company ? State their disadvantages, if any.

(5 marks)

(c) How will you advise on inventory management of *basmati* rice to Samarth Ltd. ?

(5 marks)

(d) Samarth Ltd. is unable to decide whether to enter in export market. Explain, why it should get into exports and advise on the matters to be looked into while entering into export market.

(5 marks)

(e) If Samarth Ltd. wants to enter into foreign market, what will be your advice regarding partner selection for strategic alliance ?

(5 marks)

(f) Samarth Ltd. wants to start a gems and jewellery unit in Gandhi Nagar. As a SEZ developer, elaborate the incentives and facilities which shall be available to the company.

(5 marks)

3. Government of India has set-up many institutions for export promotion. Explain the role of these institutional frameworks for promotion of exports in India.

(5 marks)

4. Why countries impose anti-dumping duty and what are the WTO provisions on anti-dumping duty ?

(5 marks)

5. Critically analyse India's foreign trade policy 2009-14. Why do you think that the current foreign trade policy will enhance the India's export in future ?

(5 marks)

6. What are the areas in logistics that can be improved by application of Information Technology (IT) ?

(5 marks)

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