



BCM ARYA ECOBIZ CLUB

CRISIS IN THE WORLD ECONOMY



A QUARTERLY PUBLISHED NEWSLETTER

EMAIL: @BCMECONOMICSOCIETY@GMAIL.COM

IG: @BCM.ECOBIZ



MESSAGE FROM THE **PRINCIPAL'S DESK**



It gives me immense pleasure to see teachers and students working in tandem. Dr. Kiran Saini, Dr. Dimple Sharma and two of our alumni have taken the initiative to give students a platform to exhibit their writing skills. The BCM Arya EcoBiz Club will publish a quarterly newsletter under the guidance of our teachers. This will give students an opportunity to know more about the economic conditions of the world we live in and educate themselves and others. This will help students take on specific world affairs, thoroughly research them, develop an argument, and structure a paper that will argue their point of view and support the points they make. This newsletter will give them experience in creating a practical understanding of the World Economy.

I personally extend my deepest congratulations to all of my students and instructors involved with this newsletter for their commendable efforts. I wish them all the best in their future endeavors.

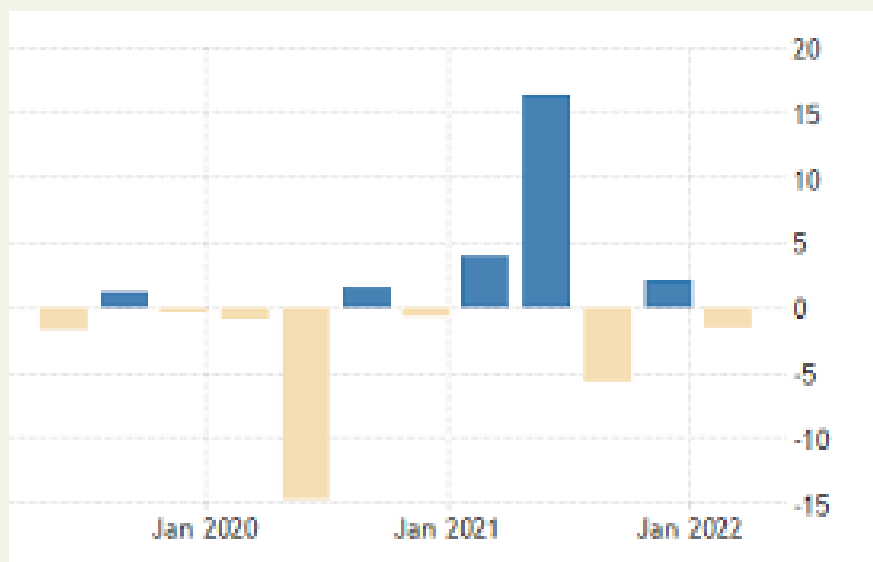
Dr. Paramjit Kaur

Sri Lankan Economic Crisis

- Gunn Sachdeva, Janvi Shikarpuria & Shraddha Thapar

'Cut your coat according to your cloth.' An adage prevalent since times immemorial, but do modern governments consider this ancient wisdom while making their so-called 'rational' and 'progressive' decisions? A quintessential example of this would be the government of Sri Lanka which, with the sheer power of its 'rational' decisions, managed to topple the economy of an entire country to that of the net worth of American celebrities.

A series of unfavorable events and policies starting right from Gotabaya Rajapaksa's presidential election made the base for this unprecedented crisis in the South Asian nation. While 2022 came to be the year, it all went down.



On November 16, 2019, Gotabaya was elected president, and deep tax cuts were announced. In April 2021, the import of chemical fertilizers from the US got banned, leading to a fall in agricultural production. Subsequently, tourism also fell due to the pandemic.

At the beginning of April 2022, Rajapaksa declared a temporary emergency. Almost all of Sri Lanka's cabinet resigned at a late-night meeting. A couple of days after, the State of emergency got lifted. Furthermore, the government announced defaulting on the US \$51 billion foreign debt. On May 9, Mahinda Rajapaksa resigned as the prime minister after protesters stormed his residence in Colombo. By June, the UN said that more than three-quarters of the population had reduced their food intake due to the country's severe food shortages. The government announced Sri Lanka is nearly out of fuel and halted all petrol sales except for essential services. Come July 9, President Rajapaksa fled his official residence in Colombo and resigned from his official designation on July 14.

(Sri Lanka Crisis Timeline: From Galloping Inflation to a President's Resignation, 2022)

Sri Lanka's current economic fragility might be credited to several factors, which, when categorized, give us the four B's- Bad policies, Bad financial strategies, Bad international decisions, and pure Bad luck.

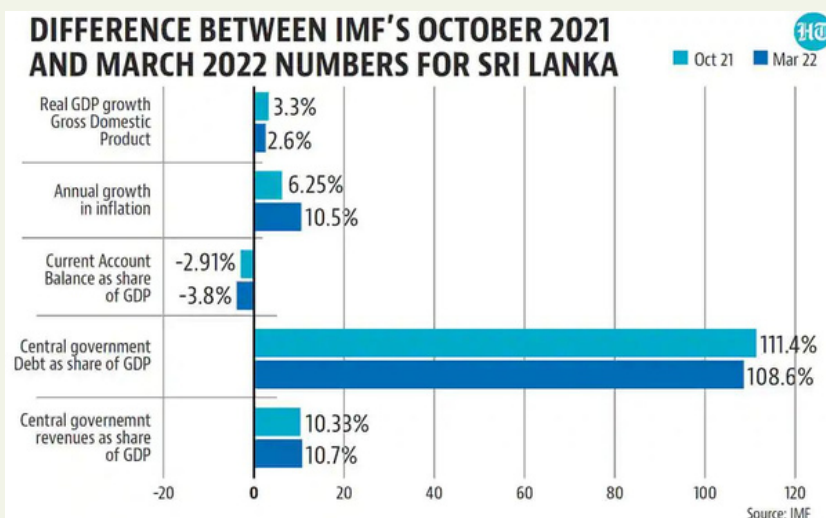
With Gotabaya's election commenced the fall of Sri Lanka in the form of the deep tax cuts announced, leading to a sharp plummet in the number of Lankan taxpayers.

While hailing this apparently 'amazing' decision, the island nation's people forgot to ask that if not for taxes, how would the State make money?

Well, it is safe to say they never received an answer. With the government's coffers already collapsing came another blow from the government, and this time it was aimed right at the sector providing 7.5% of its GDP and the food in people's bellies - Agriculture (Sri Lanka - Agricultural Sector, 2021). The government banned the import of chemical fertilizers with the rationale of good health, while the underlying message was depleting foreign reserves.

The ban caused the production of rice - Sri Lanka's staple crop to fall a whopping 50% (Spiraling Food Crisis Looms as Sri Lankan Farmers Abandon Fields, 2022). This forced them to import rice, too, apart from the cereals already being imported from Ukraine, which also came to a halt soon after as an aftermath of the Russia-Ukraine crisis. The European crisis affected food imports and fuel imports from Russia. Further, with tourism accounting for 12% of the GDP being halted in its entirety owing to the pandemic and COVID-19 on the rise along with the Easter bombings, the entirety of Sri Lanka was brought to a standstill (Sri Lanka: Tourism Industry Impacted on Rising Fuel Prices, Power Cuts, 2022). The Colombo Stock Exchange fell to near default levels making FIIs (Foreign Institutional Investors) flee the country and closing all routes for Sri Lanka to the International Markets.

Along with bad policies, fate and Sri Lanka's heavy dependence on external factors for its economy played a significant role in leading to a recession in the country. Questionable decisions taken by the Sri Lankan government, coupled with its flouting of the most fundamental rule of International Trade to export more than import, made Sri Lanka the first country this century to default on its foreign debt of US\$51 Billion borrowed from multiple sources such as Japan, India, China, Asian Development Bank and the World Bank (Partington, 2022).



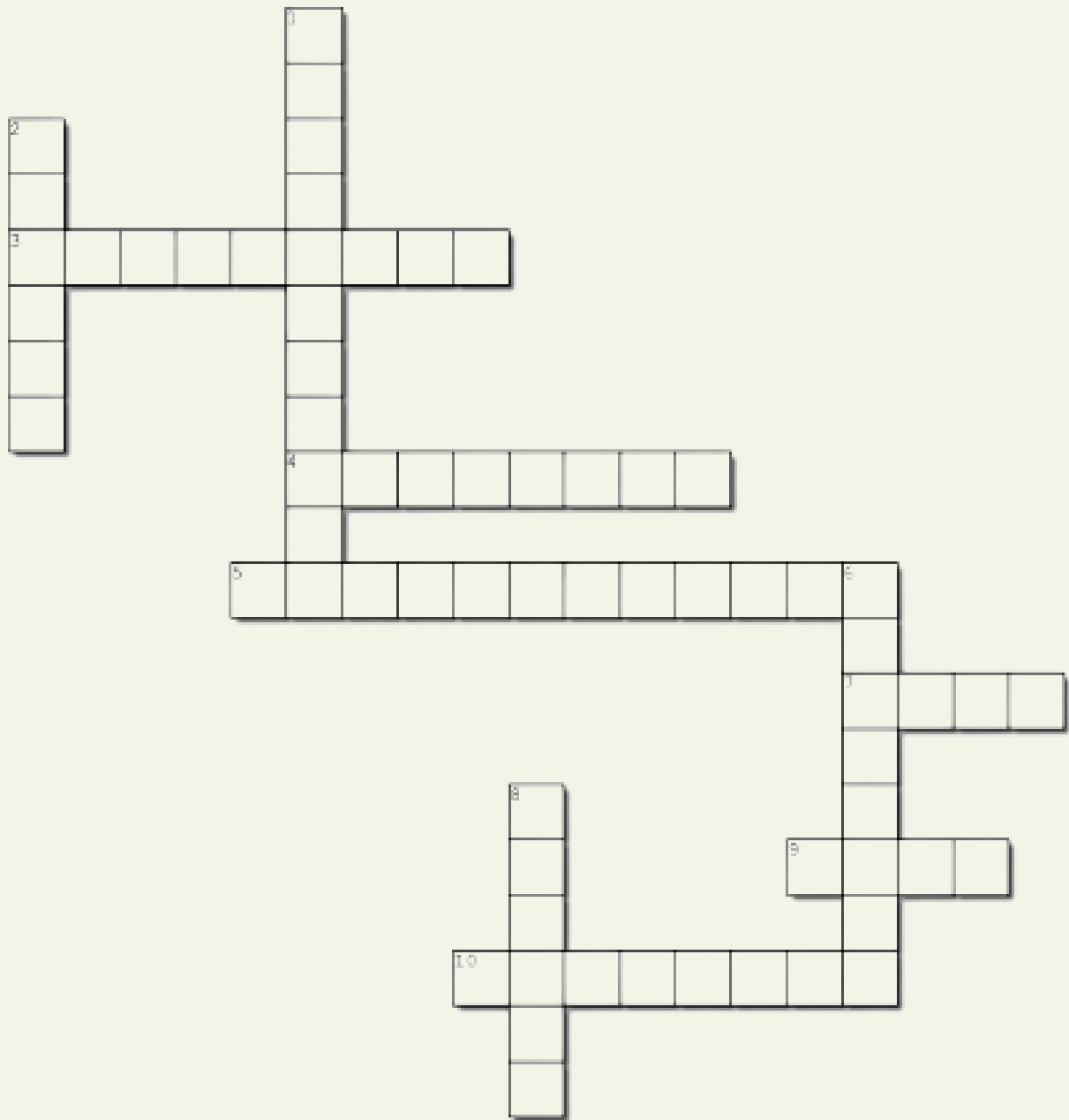
The issue of Sri Lanka's rising institutional debt had been flagged in a report issued following an expert visit in 2019 by the UN. The report found that debt repayments were the country's most significant expenditure, highlighting the need for complementary alternatives and pursuing less harmful policies. (Sri Lanka: UN Experts Sound Alarm on Economic Crisis, 2022). The island nation has a debt to GDP ratio of 111%, meaning it owes more than it produces. Adding to the list of problems was an unfavorable trade balance that fell even further, with its tea exports to Russia coming to a halt. As of March this year, the country is left with just US \$1.94 Billion. (Gordon, 2022)

Soaring inflation, insurmountable debt piles, a depleting currency, and tanking foreign reserves. Can anything be worse than this, we ask? Moreover, Geopolitics answers us in the affirmative. Looking at the current State of affairs of the geopolitics of the whole of Asia, China being a domineering factor is not news to anyone. Sri Lanka owes over US \$5 Billion to China alone. Another facet of Sri Lanka's troubles concerning China started when, to end the civil war, build infrastructure, and 'transform' the island nation into another Singapore, the Chinese government gave aid to Sri Lanka in 2007. Parallely, the world saw the construction of the Hambantota Port with Chinese funding despite its commercial unviability for Sri Lanka. As the port grappled with gaining traction, Beijing decided to use it as collateral, high handing the Sri Lankan government to assign management of the port to a Chinese corporation on a 99-year lease in 2017. This resulted in shifting a Sri Lankan naval base from the Chinese-owned land and debt for a construction project which ultimately went back to the creditor.

There could be several reasons for this apparent miscalculation of the government, but the most prominent seems to be a personal debt owed to China by the Rajapaksa family as China defended Mahinda Rajapaksa and his brother Gotabaya. They were purportedly accused of violating human rights during the conflict with The Liberation Tigers of Tamil Eelam (LTTE) during their previous tenure from 2005-2015. (A Look at China's Role in Sri Lankan Crisis, 2022)

While the nation in crisis is currently expecting a bailout from the IMF and calling on its natives living abroad to send home cash, its people are severely short on food and fuel. What is happening in Sri Lanka is no more just an economic crisis. It is a true humanitarian crisis. With lengthy blackouts, delayed critical surgeries, and no money adding to the mix, it is no wonder the people decided to take the bull by the horns. However, what amazes me is how the Lankan people conquered the challenge of uprooting an impotent government, as even during the public storming of the residences of government officials, there was no ransacking involved. The public was seen enjoying the lavish rooms and amenities of the mansions. Now, what is left to ponder is that in a nation of such wise people, what is next for the beautiful island nation of Sri Lanka and its people?

COMPLETE THE CROSS WORD



ACROSS

3. Demand deposits are known as _____ deposits
4. Export duty, Import duty are examples of ____ tax
5. ____ is the reason for rural-urban migration in India
7. Accounting of national income at constant prices is known as ____ income
9. Rate charged by RBI for lending funds to commercial banks is ____ rate
10. What is the main cause of all economic problems

Down

1. The absorptive capacity of the environment is the ability to absorb ____
2. Human capital formation is a ____ process
6. what is another name for service sector
8. Borrowing in government budget is ____ deficit

Ukrainian Economic Crisis and its Effect on the World Economy

-Kamakshi Seth & Akshita Sharma



The Russo-Ukrainian War refers to the current hostilities between Russia and Ukraine. Ukraine has been vacillating between the West and Russia since the 2000s. This indicates that Ukraine has not been able to ally with the West or tolerate being entirely influenced by Russia. Russia declared its opposition to Ukraine's participation in NATO. While the United States backed Ukraine's plans, opposition from other European countries (France and Germany) delayed Ukraine's plan to join NATO.

In February 2004, a new Ukrainian president was elected. After being elected, the new leader started working for the country's neutrality; nonetheless, in 2014, Russia annexed Crimea. As a result, the Donbas region experienced immense bloodshed and instability. This Russian invasion of Ukraine sparked large-scale humanitarian, migration, and refugee concerns, which increased threats to the Ukrainian and the world economy, which was still grappling with COVID. Every single individual has suffered dramatically due to the conflict, but women and girls have suffered considerably more due to the rise in complaints of sexual and physical abuse, exploitation, and violence. With the aid of police, hospital, and other public sources, the UN tries to confirm every fatality. The invasion of Ukraine by Russia has utterly destroyed the peace and harmony of the country. The war has not only resulted in thousands of military and civilian deaths, but it has also severely harmed the Ukrainian economy.

Many highways and bridges have been destroyed or severely damaged, and airports and seaports are currently blocked. Even while it is still complicated to estimate the exact budgetary expenditure, it is evident that Ukraine will incur high recovery and reconstruction costs. Health care services and facilities were also affected. Damage and destruction to medical facilities, a lack of service providers, and critical supplies have seriously hindered the delivery of essential health services. Services such as maternal care for the estimated 265,000 pregnant women who were pregnant when the conflict broke out and specialized services for survivors of gender-based violence were severely impacted.

The delivery of vital health services, such as maternal care for the estimated 265,000 women who were pregnant when conflict broke out and specialized services for survivors of gender-based violence, have been seriously hampered by damage and destruction to medical facilities, a lack of service providers, and critical supplies. In response, the international community supplies Ukraine with arms and emergency funding to maintain the Ukrainian economy. However, more extensive steps are needed to prevent a much more severe economic catastrophe. If taken correctly, the appropriate actions could help protect Ukraine's devastated economy and pave the way for a robust post-war recovery.

Ukraine's reconstruction will require money. Foreign aid will be required because the money will not initially come from the economy, and the scope of the recovery will be much larger than any country can afford. Countries must pay to guarantee that Ukraine has a bright future and maybe act as a barrier against Russia. Perhaps other investors are risk-averse. Nonetheless, these investments will have geopolitical significance, demonstrating to rivals that Western allies will stand together. Finally, to ensure that funds are used for their intended purpose, Ukraine will need to address concerns about corruption head-on and fight to combat it.

Besides that, multiple international sanctions placed on Russia to defuse the situation also had unintended consequences, primarily disrupting the global supply chains. According to the most current Economic Update for the region from the World Bank, emerging markets and developing countries in Europe and Central Asia are anticipated to suffer the most as a result of the conflict in Ukraine and the sanctions imposed on Russia. According to a World Economic Forum article, the World Trade Organization (WTO) has warned that although Russia's invasion of Ukraine has resulted in "immense human suffering," it is also damaging global trade, with low-income countries anticipated to be the most affected.



In many nations, the crisis adds to already high price pressures by negatively impacting inflation and activity. To calibrate the right reactions, monetary authorities must carefully monitor the transfer of rising global prices to local inflation. In order to assist offset rising living expenses, fiscal policy will be required to support the most vulnerable households. As the global economy recovers from the pandemic crisis, this catastrophe will entail complicated policy tradeoffs, further complicating the policy environment.

Since the Russian invasion of Ukraine, Volodymyr Zelensky, the President of Ukraine, continues to hope that all pain will end the war through negotiations. Since the beginning of the war, he has been in the spotlight. Volodymyr Zelenskyy's wife, a longtime comedy writer, has always chosen to be in the background in contrast to her husband, a comedian turned politician whose presidency may eventually determine the destiny of freedom. However, Olena Zelensky has unintentionally become the center of a tragedy ever since Russia invaded Ukraine. In a digital version of the Vogue fashion magazine titled "Portrait of Bravery: Ukraine's First Lady Olena Zelenska," the President and first lady were featured. Famous photographer Lebowitz visited Ukraine and took pictures. Zelenskyy and his wife's magazine digital cover and a few other images drew the ire of netizens after they were deemed callous for utilizing the conflict as a backdrop to tell the tale of their marriage and efforts to survive in a combat environment. People took to Twitter to mock the President and his wife, Olena Zelenska. One Twitter user joked, "Massive number of Ukrainian soldiers dying daily, Zelensky: let us have a fashion shoot." Another person stated, "Why did we send \$54 billion to Ukraine to have Zelensky and his wife pose for Vogue? You are at war and have time for photo shoots?"

Since the invasion, proposals have been made for Ukraine to join NATO and the EU as an ally of the West to reduce its dependency on Russia. The implication is that geopolitical conflicts tend to have spillover economic effects on other countries and that such conflicts do not have isolated effects on the sanctioned country. The Russian-Ukraine conflict has shown that sanctions against a warring country are not an optimal solution because it has spillover effects into other countries that are not part of the conflict, especially when the warring countries are trade partners of other countries who are not involved in the war. Political leaders should try to discourage conflicts like the Ukraine-Russia conflict and use negotiation as a conflict resolution tool. Future studies can assess whether conflict resolution through negotiations is effective in pacifying countries that go to war to protect their regional influence.

Nobel Laureates

The field of Indian economics had been dominated by the gigantic stature of **T.N. Srinivasan**. Truly, the end of an era has struck with his departure on Sunday in Chennai. The young Indian was taken under the wing of Koopmans, who would go on to receive the **1975 Nobel Prize in Economics**. In his master's degree, Srinivasan studied linear programming and operations research, two topics that were particularly crucial during the time of national planning, when it was hoped that resources could be distributed as efficiently as possible without heavily relying on the price system. The choice of methods was the subject of Srinivasan's PhD dissertation. TN, also known as Srinivasan, first pursued a career in statistics.



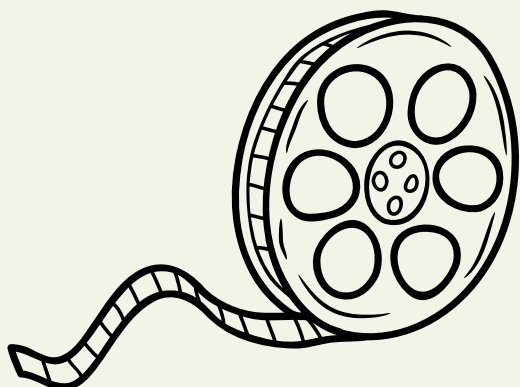
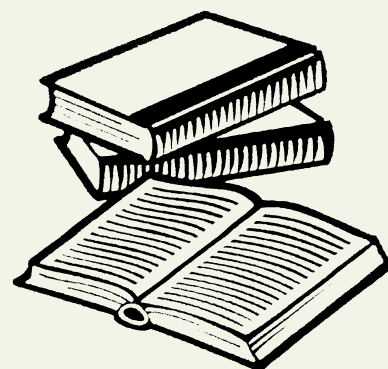
Indian economist **Amartya Sen** received the **1998 Nobel Prize in Economic Sciences** for his contributions to welfare economics in addition to his interest in the issues which society's most vulnerable citizens encounter. He was born in Santiniketan, India, on November 3, 1933. Sen is best renowned for his studies on famine causes, which helped design effective methods for reducing the Sen's interest in famine stemmed from personal experience. As a nine-year-old boy, he witnessed the Bengal famine of 1943, Food supplies were frequently not reduced significantly during famines, as per Sen's 1981 book **Poverty and Famines: An Essay on Entitlement and Deprivation**.

Abhijit Banerjee, an American economist of Indian descent, Esther Duflo, and Michael Kremer, a professor at the Harvard University, all are awarded the **2019 Nobel Prize in Economics** "for their revolutionary approach to lowering global poverty." The report argues that its three were recognized for their ability to break the tough task of tackling global poverty into more manageable problems. The research conducted by this year's laureates, according to the Royal Swedish Academy of Sciences, "has significantly increased our capability to fight worldwide poverty." In addition, he is the author of "**What the Economy Needs Now**", "**Poor economics**," and "**Making help work**"



Page Turners

- Thinking, Fast and Slow
- Freakonomics
- Good Economics for hard time
- The Affluent Society
- The Economist



Film Reels

- Money ball
- The Big Short
- Wall Street
- Margin Call
- The Company Men

Recession and the World Economy

- Upasna, Jessica Lyall & Janvi Shikarpuria

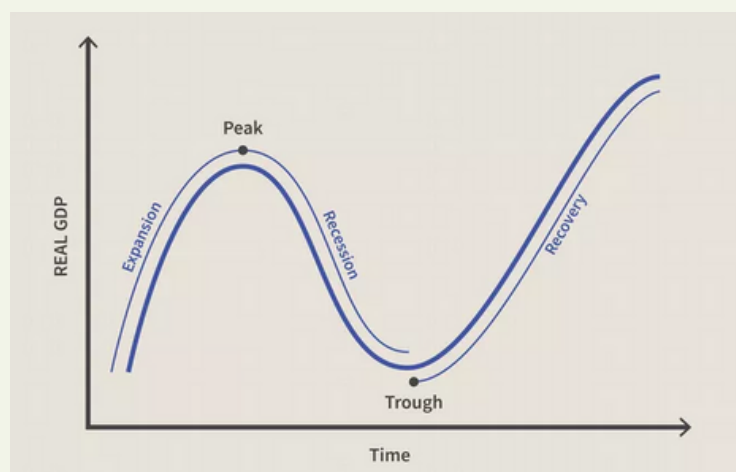
Not every region of the nation experiences a recession at the same time. In actuality, certain areas frequently experience little impact. Similarly, specific industries take a blow before others, and vice versa.

A recession is a business cycle contraction that results in a layback in economic growth for two or more quarters. Various economic factors influence whether a recession turns into a severe and persistent depression. The extent and quality of credit given during the last boom, the amount of speculation permitted, the ability of monetary and fiscal policy to reverse the declining trajectory, and the amount of excess productive capacity in existence are among them. These are considered an inevitable component of the economic cycle or the predictable cycle of expansion and contraction in a country's economy.

The industry's cyclical nature is the primary indicator of anticipated impact. A cyclical industry's performance follows the phases of the business cycle. A cyclical business is thus characterized by stagnant or falling prices, a decline in corporate spending, a decline in actual earnings, surplus production capacity, and significant unemployment during a recession; thus, the economy doesn't yield as much as it could.

The international economy has been affected to varying degrees by the U.S. market crisis and the global collapse known as the worldwide recession. The U.S. subprime mortgage crisis of August 2007 was the reason for the rapid global financial crisis. The U.S. crisis began with the burst of the housing bubble in 2007. The U.S. housing bubble from 2002 to 2006 fueled the Fed's accommodative policy and widespread wealth psychosis among U.S. consumers and financial actors. Subprime loans attained virtually unknown levels due to the excessive mortgage exposure, ultimately leading to the financial system's collapse in 2008. This intensified into a catastrophic economic downturn affecting not just the U.S. but the entire globe.

Even though nobody enjoys or wants a recession, no nation can escape the cyclical nature of the global economy in the era of globalization. All nations will be impacted by the significant losses incurred by large international banks because these financial institutions have investments in practically every country. It would be naïve to assume that a recession wouldn't influence India in the United States. One-fourth of the world's GDP comes from the United States; thus, any significant downturn will inevitably affect other countries.



In the 1990s, India's involvement in the world economy deepened. Total merchandise trade, which composed only about 15% of India's GDP in 1990–1991 (April–March), increased by almost two and a half times to 36% of GDP in 2007–2008; invisible trade increased by about four times, from 5% of GDP to 19% in the same period; and capital flows increased even more quickly, rising by more than five times, from 12% of GDP to 65% of GDP over the same period.

India is more exposed to the global financial crisis due to its growing global connectivity. Three things made it easier for India to handle the situation and lessen the effect. They are: (1) A financially sound, adequately capitalized, and well-regulated sector. (2) Cautiously and gradually open a capital account. (3) A sizable pool of foreign reserves. Following a GDP growth of 9.8% in the final quarter of 2006–07, the Indian economy slowed down in 2007–08 (April–March). The Indian economy expanded at an average annual pace of 8.8% throughout the years ending in 2007–08. The growth rate fell to 7.8% in the first half of the fiscal year 2008–2009. The tightening of the monetary policy started in September 2004 in response to concerns that the Indian economy was overheating and inflation was rising, so the economy slowed down before the crisis. As the enormous rise in global commodity prices pushed India's inflation to a high level, the monetary tightening intensified in 2006–07 and again in early 2008–09. Economic crises like the Great Recession of 2008 provided tremendous opportunities for scholars to conduct empirical research on the traits of resilient systems.

Entrepreneurial executives will want to think about eight strategies that improved strategic viability for businesses in the previous recession after roughly determining the degree to which their company is vulnerable to recessionary impacts given the cyclicity of their industry, the economic health of their region, and the vitality of their suppliers and customers. Some successful strategies include retrenchment, tightening credit, keeping budgets, maintaining prices, improving liquidity, lowering debt, delaying capital expenditures, and pursuing selective growth. The internet became more and more crucial as a result of the recession. Because retail chains and developers of consumer products have observed how consumers use the web to research, even if they make their purchases offline, the recession is expected to increase the web's involvement in retailing. Enterprises that adopted e-commerce practices during the crisis period gained competitive advantages through faster business processes, increased efficiency and savings, more convenient supply of production factors, better communications and information management, effectiveness in consumer services and activities related to customers, access to global markets, and increasingly broad areas of competition.

The most crucial principle of recovery planning is that an enterprise must make decisions with the long haul in mind, especially in difficult economic times. Recessions must be handled as the temporary issue that they are. Recovery will happen eventually, may it be sooner or later. Consequently, the plan business owners create or alter during the recession will decide how much their company contributes to the country's recovery.

Some businesses outperform their rivals in every sector of industry affected by a recession. Through a focus on diversification, the groundwork for solid performance during a recession appears to be set long before the slump. Utilizing cutting-edge technology, having a very effective cost structure, and having newly reorganized corporate processes are some strategic elements of this diversification that pay off during a recession. Most businesses base their strategic plans on concepts for capitalizing on economic development and expansion. Still, they also regard them as crucial for getting ready for times of economic stagnation and contraction.

Recessions are essential to an economy. From a national standpoint, short-term hardships of specific industries or businesses often lead to improved production, which has long-term economic benefits. Recessions motivate companies to squeeze every last drop of performance from their resources and develop novel ways to meet the market's needs.

QUICK FACTS about 2008 recession-

- Uber, Airbnb, and mobile payment startups Square and Venmo were all founded during the Great Recession.
- Recession resulted in a \$2 trillion loss in global economic development.
- New businesses, like Groupon, which brought couponing back into style, were created to assist cash-strapped customers.
- In an essay published in the Op-Ed section of the New York Times in October 2008, Warren Buffett announced that he had begun purchasing American stocks as the market fell due to the credit crisis' impact on equity prices.

CAREER ROAD-MAP

(ECONOMICS)

BANKING AND FINANCE

Branch Management
Commercial Banking
Corporate Finance Departments
Credit Analysis
Credit Unions
Federal Reserve Banks
Financial Analysis
Financial Services Institutions
Lending
Mortgage Loans
Operations Securities
Retail/Consumer Banking
Savings and Loans Associations

SALES

Advertising Sales
Consumer Product Sales
Customer Service
District/Regional Sales
Management
E-commerce Sales
Financial Companies
Financial Services Sales
For-Profit
Industrial Sales
Insurance Companies
Internet sales
Manufacturers
Nonprofit
Print Media Sales
Product and Service Sales
Real Estate Sales
Sales Management
Software/ Technology Sales

MANAGEMENT

Banks/Financial Institutions
Healthcare Organizations
Hospitals
Hotel Service Providers
Industrial Organizations
Local, State, and
Federal Government
Manufacturers
Nonprofit Organizations
Real Estate
Restaurants
Retail Stores
Self-Employed

EDUCATION

Research
Teaching

GOVERNMENT

Urban Planner
Treasury Department
Central Intelligence Agency
State Department
Federal Reserve Board
Ministry of Labor and Employment

Insurance
Actuarial Science
Claims
Insurance Firms
Loss Control
Risk Management
Sales

Meet the Team

Co-Founders

Jiya Mahajan & Simar Singh
(2021 batch)

Kamakshi Seth (**Editor in chief**)

Janvi Shikarpuria (**Assistant editor**)

Research Team

Khwahish Kapoor
Akshita Sharma
Shraddha Thappar
Aananya Singh

Student Heads

Dipsy Mittal
Rhea Serene
Gurnaaz Kaur
Arunima Paul

Editorial Board

Sargam
Gunn Sachdeva
Jessica Lyall

Graphic Design Team

Harshita Singla
Diya Aggarwal

Sub-editors

Keshvi
Upasna
Jasleen Kaur
Diya Kataria

PR/Media Team

Rashika Jain
Himanshu Arora