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## Is the world on an edge …?

"*Out with the Old. In with the New*". That has always been the encouraging message for every New Year. But amidst all the year-end parties and the opening of champagne bottles, there has been no sign of any optimism or hope for the future on the part of the strategic ruling class or the so called bourgeoisie. On the contrary, their press columns are always filled with pessimism and a growing sense of uneasiness. Be it either, Brazil or Washington, Berlin or Beijing, Moscow or Tokyo — governments, media and even citizens have been largely jumpy and besieged, causing a global anxiety.

Earlier, there used to be at least one bullishly optimistic world power, for example - the Japanese in the late 1980s, Americans in the 1990s and EUs in the early 2000s. But for the past decade or so, there is none who seems to be certain enough to act as a global economic and political power. The only partial exception that stands out at the moment is China & India that have inspired respect all over the world.

But this is only one side of the coin. The other side is the crisis of capitalism which is inevitably increasing. The most recent global financial crisis of 2008, represented a fundamental turning point for the initiation of all these events. Since the beginning of the financial crisis, the advanced capitalist countries like UK, Spain, Germany, France, China etc. have been taking intense measures to increase their trade surpluses majorly through number of protectionist moves. In fact, financial crash of 2008 was not a normal cyclical crisis but a reflection of an organic crisis of capitalism. Aftermaths of which were the imposition of the austere measures (protectionism) for the development of the economy by the bourgeoisie or the so called capitalist countries which have ultimately restored the economic equilibrium but at the same time have affected the political and social equilibrium.

It may therefore be perceived that, the capitalist system has reached its limits forcing globalization to drag the whole unsound edifice of pessimism down rather than being a powerful factor propelling growth. The only way to end this crisis is to have a socialist transformation of society. Only a socialist planned economy, under the egalitarian control of the working class, is a way forward. That is the only cause worth fighting for today.

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## The Brexit conundrum:

Ever since Theresa May invoked Article 50 of the Lisbon Treaty, Britain's economy has been volatile causing firms around the world to lose confidence in the British market resulting in an approximate loss of an annual 24bn pounds to the economy. If you look at where the British economy is today, it is more than 1 per cent below where it was, despite very large stimulus provided by the Bank of England, a fiscal easing by the government, and global and European economies that are much, much stronger than they were previously.

The talks led by Theresa May and the EU representatives seem to have reached an impasse on a select few topics particularly those concerning trade. The two sides "*envisage having a trading relationship on goods that is as close as possible*" but the EU and the UK will have to be separate markets with inevitable barriers to trade. The UK has accepted in the withdrawal agreement already approved by both sides that the country will stay in a customs union with the EU should a trade deal that can avoid a hard border on the island of Ireland not be ready to come into force by the end of the transition period.

But to forge a close working relationship with EU, UK would have to comply with EU standards on competition, tax, environment, as well as social and employment protection.

If the UK fails to achieve a Brexit deal it could spell disaster for economies around the world. To begin with it could plunge UK into recession, Germany and Japan are already contracting at this stage, China is also going through a period of slowdown. All this combined with other macroeconomic factors like the US- China trade war, the Federal Bank hiking the rates, volatility in oil prices and the strengthening of the US dollar which could hurt profits of multinational companies.

A chaotic Brexit threatens to make the dollar even stronger, against the Euro and the Pound.

It is therefore in the interest of the Global Economy that Theresa May negotiates a Brexit that works out best for everyone.

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# The malaccan dilemma: how does it impact the world economy?

Benjamin Franklin was just right when he said this. Just. Contrary to this, can any nation ever be ruined for trade? The current socio-political unrest among the super powers of the world i.e. USA and China hints at the significant role played by the major trade routes in unbalancing the status quo that is being followed throughout decades.

When we talk about major trade routes, the foremost trade route which accounts for 40% of the world trade is the Malacca Strait, which connects Pacific and Indian oceans. Malacca Strait is located between the littoral states of Indonesia, Malaysia and Singapore and has been an important trade route since centuries. But can any nation survive without trade? Is the concept of closed economy relevant in today's fast paced world? With the estimate of 3.2% growth in world trade, closed economy seems highly improbable.

Traditionally the Malacca Strait accounts for 80% of China's oil imports from Middle Eastern countries like Saudi Arabia, Iran etc. China, as an emerging superpower competing with USA and its new free trade policies and outlook, is looking for establishing its strong foothold over Malacca Strait.

Autonomy over Malacca Strait would result into undisputed oil imports as well as the power of blocking other emerging powerful nation's crude oil supply. Nations like Japan and India, whose major oil imports pass through Malacca Strait, could be impacted if China becomes successful in controlling Malacca Strait.

Malacca Strait is not big or deep enough to accommodate large ships and oil tankers. The Strait narrows down to 2.1 kilometres in shipping waterways making it the world's largest maritime traffic chokepoint. Despite of this limitation, Malacca Strait is still the undisputed queen of waters.

**WHAT ARE THE DISPUTES CONCERNING MALACCA STRAIT?**

Raging Issue of Piracy

Malacca Strait has been a hub of piracy since centuries. Phenomenon like ships being hijacked, personnel getting killed and oil imports/exports being looted are quite common along the strait. 2015 saw 60 of such accidents, a number which is expected to grow in the coming years due to increase in trade. In recent years, due to the cooperation among the surrounding nations of Singapore, Malaysia and Indonesia, joint efforts have been made to reduce the piracy accidents along the strait.

**Trade War between USA and China**

USA imports most of its oil needs from the Latin American countries, which makes it less threatened by the Malacca dilemma. On the other hand, due to Malacca Strait being very important for China strategically, its position is slightly tricky.

With nations like Iran, Saudi Arabia and Iraq which are main exporters of crude oil to China, are traditionally USA's allies and infringement of ties of allied nations is highly improbable.

Also, China has invested heavily in the continent of Africa and blockage of import/export to Africa could result in a crisis situation for China, whose debt to GDP ratio of 256% has already taken a toss.

**GEOPOLITICAL AND ECONOMIC IMPACTS OF MALACCAN STRAIT DILEMMA**

China's counter response to the possible invasion of its import rights through Malacca Strait is the construction of China Myanmar Oil Gas Pipeline which became operational in 2013. In spite of construction of this pipeline, it still does not account for a substantial part of the trade.

Other than that, China, which is seeking dominance over Malacca Strait, is a part of ASEAN+3, which comprises of Singapore, Malaysia and Indonesia as well. Intrusion of the prevalent status quo regarding trade in Malacca Strait would result into souring of relationship with ASEAN, which a huge commodity market for China.

Currently, with US President's invasive trade policies, many nations of the world are opposing the USA's stance on free trade. In this situation, China, with its "String of Pearls" strategy already in place and construction of ports, railroads and highways along many countries of Asia, Africa and Europe, is looking forward to penetrate and increase trade with these countries. This situation could result into an imbalance of power and many non-conformal nations may have to cement their ties with one of the nations.

**HOW DOES MALACCAN DILEMMA IMPACT INDIA?**

Reacting to China's String of Pearls strategy, India has also been working in the direction of strengthening its naval base in order to counter any trade attack by China. The Andaman and Nicobar islands of India, a chain of archipelagos in Bay of Bengal, consist of Arakan Yomas submarine mountain range which extends from Myanmar to Indonesia. The northern edge of these islands is 160 kilometer from Indonesia, giving it a geographical strategic benefit.

Other than that, India is a part of ASEAN+6 which also includes China and peaceful coexistence is sustained among the countries. Due to both Japan and India being a part of "Quad", strategic bilateral and multilateral ties exist between the countries. Any attempt of future invasion or blockage of the Malacca Strait by China under its Belt and Road Initiative would result into a strong non-compliance from India and Japan would could result into a full blown trade war.

# Indian Aviation Sector- A bumpy flight hoping to rise

**Arushi Gautam**

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Flying on with consistent double-digit growth Indian aviation sector has burgeoned as one of the fastest growing industries in the past 3 years. A compound annual growth rate of 13.91% over FY06-18 shows the expansion the domestic passenger traffic has witnessed. India's domestic and international aircraft movements rose 14.40 per cent YoY and 9.40 per cent YoY to 1,886.63K and 437.93K during 2017-18, respectively. This has led to a positive domino effect for the allied services in connection with airlines industry like MRO, air cargo, online travel agencies, catering etc. According to ICAO study, Economic Benefits of civil aviation: ripples of prosperity, "every Rs 100 spent on air transport contributes to Rs 325 worth benefits, and every 100 direct jobs in air transport results in 610 jobs in the economy" .

During the Global Service Exhibition this year Mr. Jayant Sinha, Minister of State for Civil Aviation recommended the farm to frontier model which focuses on productivity front for Indian aviation sector to take the flight towards 1 bn trips per annum from current state of 200 mn trips per annum. However, setting aside all the goodies and brownies of the growth in this sector there's a major conundrum it faces. As it is said the looks are often deceiving; to some extent that's true for Indian aviation looking at FY18-19 first quarter earnings of the three listed airlines i.e. Jet Airways, IndiGo and SpiceJet, the situation seems dicey.

This has been due to the double- digit difference in the real growth and current growth created by artificial stimulation of demand in market using the unhealthy pricing for air tickets. Sanjiv Kapoor, Vistara's chief strategy and commercial officer said that airfares are so low that they are stealing people out of buses and taxis at fares that simply don't cover costs. Hence the growth recorded and projected in aviation sector is set on the low fares and excess capacity which can't be referred as sustainable due to high input costs pertaining to various spiralling factors like high fuel prices, depreciating rupees and the increasing competition among domestic carriers. A snippet of this scenario is well-presented by Indigo's control over Indian market by high induct of aircrafts on the runway to gain majority slots of airport and then filling excess capacity at suppressed fares.

However, Vistara has acted maturely in this direction with its small rationalized orders. With the positives of Indian market like robust demand, opportunities in MRO, government policy support and increasing investments (15.52 bn USD expected in next five years) this sector needs to find a smooth runway ahead to break off the deceptive conundrum and take a flight towards untapped opportunities and services through operational excellence and timely.

## Brexit and the Indian technology sector:

**Mayurakshi Das**

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With Theresa May's recent presentation of a draft agreement on Britain's future ties with the European Union, the final stages of Brexit negotiations are finally falling into place. What remains to be seen is the kind of impact this will have on India and the numerous Indian companies that have set up shop in Britain.

Theresa May recently addressed a press conference where she touched upon how post Brexit, experience and skills will be given far more importance over nationalities of immigrants. Since Britain will be in complete control of who enters the country, it will no longer be possible for lesser skilled EU nationals to skip the line over higher skilled counterparts from other countries. Recent data revealed that jobseekers from the EU are predominantly interested in skilled but lower paid jobs. Until now, UK work visa rules, which includes a minimum annual salary of 30,000 Pounds for approval to work in the UK, was not applicable to them. But, with proposed changes, which includes extending same visa rules to all EU countries, many Europeans could end up falling short of the criteria, leading to a drop in the number of European applicants, leaving space for more non-Europeans. This comes as good news for Indian IT professionals.

At the same time, after Brexit, Britain will lose access to EU's single market. This means that Britain will want to develop trade relations with other emerging markets. India's high proportion of skilled working age population and burgeoning technology sector, rife with new innovations, means that India could emerge as a major technology export hub for Britain.

Indian firms have been using UK as the gateway to Europe and India serves a major source of FDI for UK. However, after Brexit, UK will no longer be as attractive to India anymore. This could increase chances for an FTA with the UK, more open markets and trade barrier relaxations for Indian firms. At the same time, Indian companies will have to open separate offices across other EU countries.

Indian firms will also have to look for new ways to gain access to Europe. Countries like Belgium could serve the purpose. Belgium is among the more open countries of the world and is well connected to other European countries. Also, Belgium is the second largest partner of India after Germany. It takes just about a week to start a new company in Belgium. The fiscal policy of the country also complements the same, promoting innovation and R&D.

In the long run, ties with India will improve as Britain will try to build stronger ties with other nations. With the existing 800 Indian companies employing 110,000 individuals in the country, a deeper partnership with India could be in Britain's interest. Also India's focus on novelty and entrepreneurship, renders it a very attractive destination from a talent standpoint, and equally in terms of market access.

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