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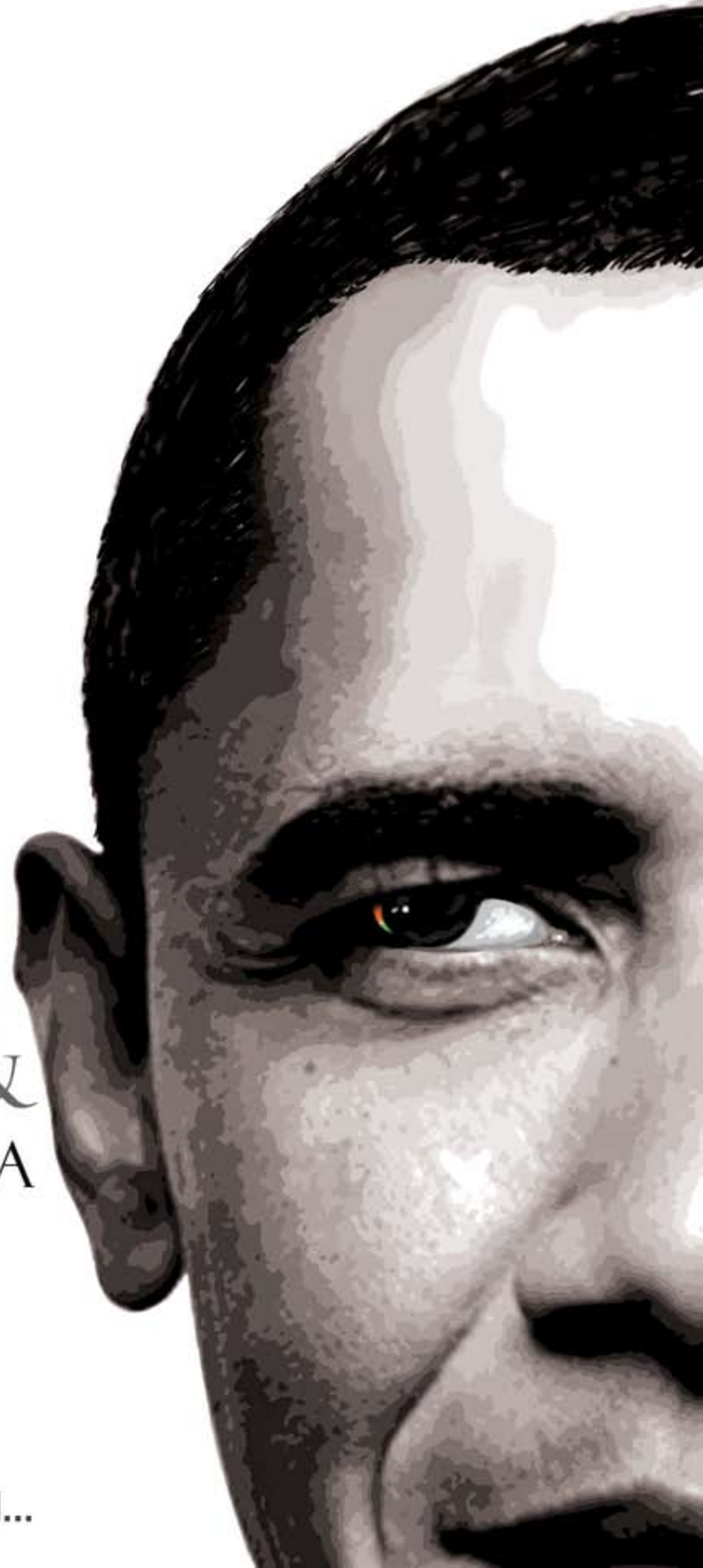
**BUSINESS
MAGAZINE**
SPECIAL



INDIA & THE OBAMA AGENDA

America's economy is gasping for breath,
its political power has been undermined,
and the capitalism it stands for is under fire

Making sense of the post-Bush world...



The Bush BURGER

George Bush inherited all the right ingredients of a great super power, but he messed up the recipe. Here's what's been cooking in the world during the Dubya years...

ERODING GLOBAL RESPECT

The number of Americans who believe their country has lost the world's respect has grown in the last four years



BUT INDIA LOVES BUSH

% of people who think favourably of the US



Source: Pew Research Center

Crude Oil Prices (\$ per blue barrel)

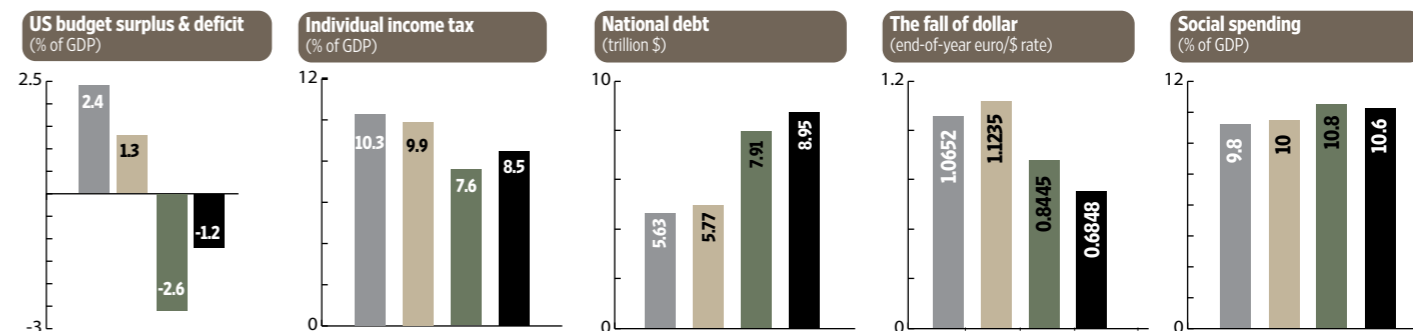


Source: US Energy Information Administration



HIS ECONOMIC LEGACY

■ 2000, Last year of Bill Clinton ■ 2001, First year of George Bush ■ 2005, First year of Bush's second term ■ 2007



Source: US Congressional Budget Office

JOBLESS IN AMERICA

The queue of the unemployed lengthened through the two successive regimes of Bush



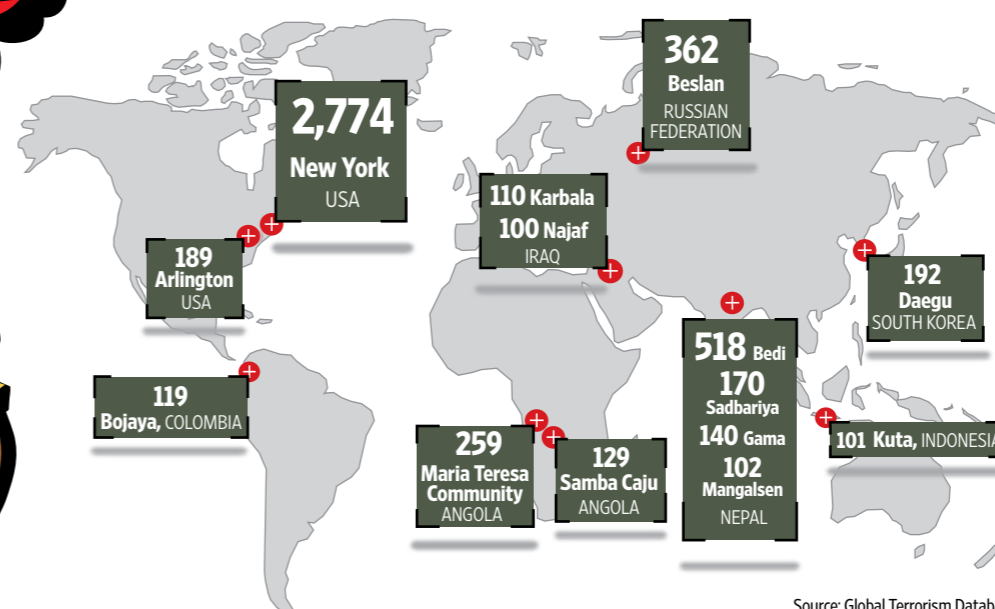
The unemployment rate reached a crisis level at the fag end of his tenure



Source: US Bureau of Labor Statistics

TERROR DECADE

In the last eight years, there were at least 14 terror attacks around the world, each involving 100 or more deaths. Countless people died in smaller attacks.

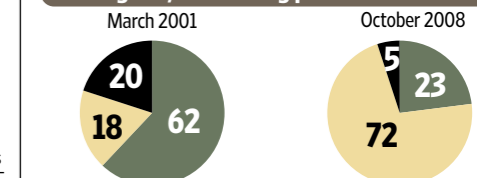


Source: Global Terrorism Database

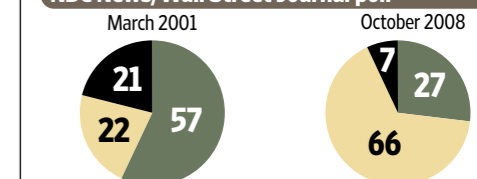
HOW GEORGE BUSH FLUNKED THE PERFORMANCE APPRAISAL

■ Approve ■ Disapprove ■ Unsure

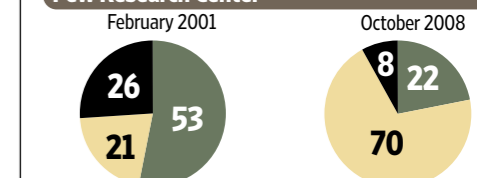
Los Angeles/ Bloomberg poll



NBC News/Wall Street Journal poll



Pew Research Center



ECONOMIC POWERHOUSES

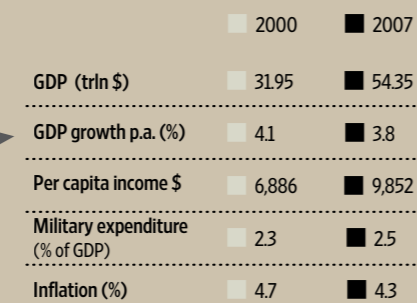
How much influence do the US and China have on the world?



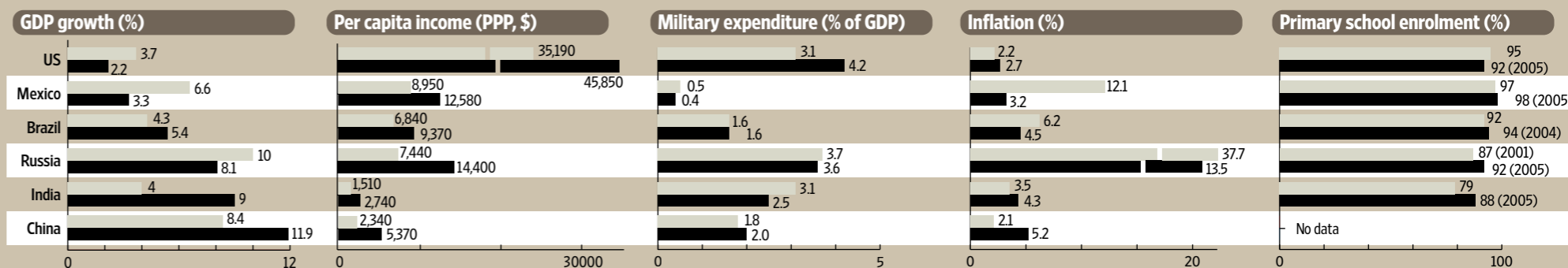
Views by countries (% of people saying they have a high influence on their country)

Source: Pew Research Center

STATE OF THE WORLD

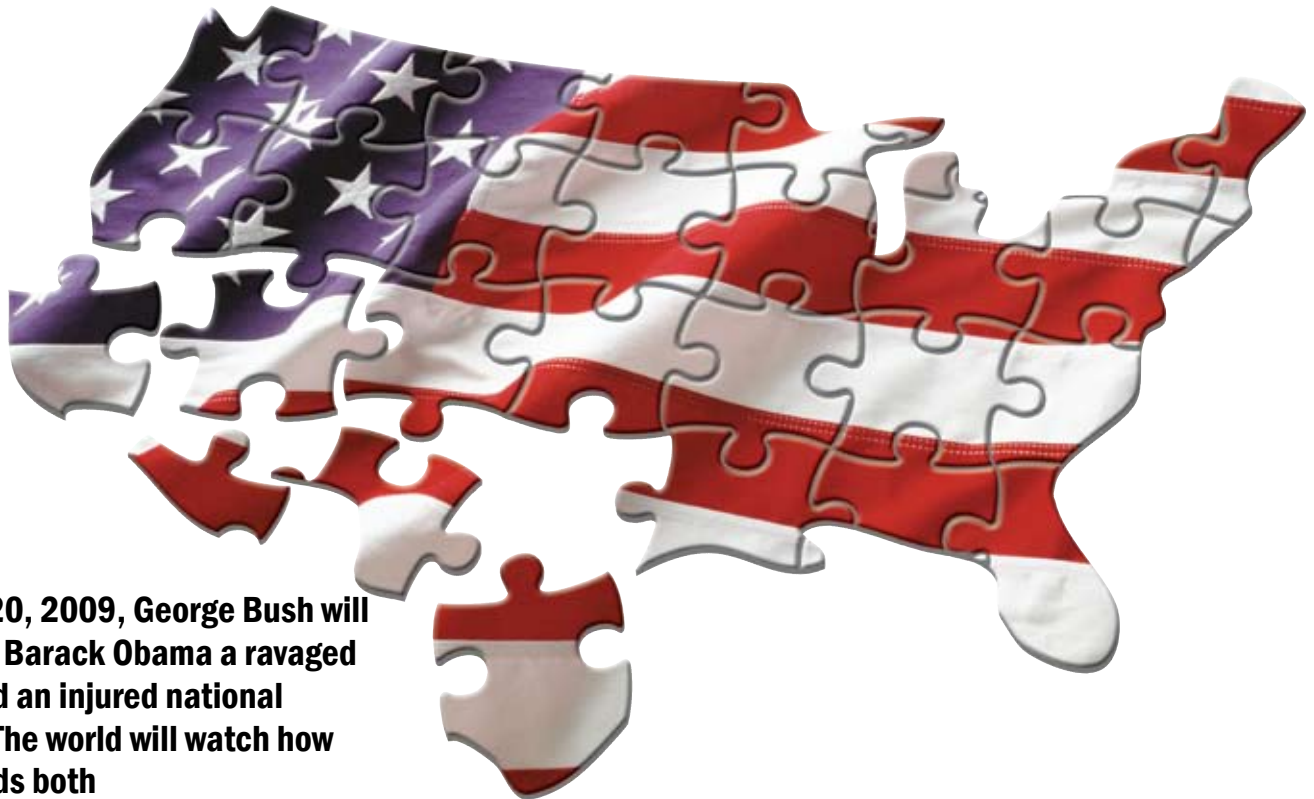


COUNTRY COUSINS



Source: World Bank

Compiled by S. Srinivasan & Elizabeth Flock
Graphics: Malay Karmakar, Hemal Sheth, Sachin Dagwal



On January 20, 2009, George Bush will hand over to Barack Obama a ravaged economy and an injured national reputation. The world will watch how Obama mends both

Rebuilding Brand AMERICA

Charles Assisi & Neelima Mahajan-Bansal

The morning after still feels good. The effusive prose, breathless platitudes and grateful tears that greeted Barack Obama as he was elected the 44th President of the United States don't sound worn out yet. It is unlikely they will wear out for some time.

There's a good reason: America is half-sunk in a quagmire and is looking up to him as if he's a pole to safety.

To get a sense of how bad things are, consider the legacy Obama's predecessor, George Bush, is leaving behind: a ravaged economy that has pushed the rest of the world into recession and a remarkably naive foreign policy agenda that has stoked wars in Iraq and Afghanistan, catalysed

simmering resentment in the Middle East, and has Russia, China, and large parts of Latin America and Europe seething. Sandwiched between the two problems is the American middle class, struggling to emerge from job losses, rising bills and falling asset values.

President George Bush famously told visitors to the White House just after the 9/11 attacks, to the eternal consternation of the rest of the world: "I don't do nuance". He plunged America into a mud pit without a single nuance indeed.

Therefore, it is tempting to imagine a post-American world where the super power doesn't figure. Where the brand of capitalism it exported to the world is wrapped up in rags; where the great American corporate role models such as AIG, GM and Merrill Lynch are just historical figures; and where the world no

Jan. 20
George W Bush takes over as the 43rd President of the United States

June 7
George Bush makes sweeping tax cuts

Dec. 2
Enron files for bankruptcy

Sept. 11
A series of terrorist attacks, including crashing of hijacked planes on to the twin towers of the World Trade Center, shakes America

Oct. 7
The US invades Afghanistan

Jan. 26
Gujarat earthquake kills thousands

Dec. 13
India's Parliament attacked. The incident brings India and Pakistan close to a nuclear war in the ensuing months



PHOTOGRAPHS: GETTY IMAGES

Looking at America through a monochromatic lens perhaps underestimates both the power and the resilience of the nation

longer benchmarks wealth and influence to the brash individuals who ran Wall Street. Remember John Thain (Merrill Lynch), Richard Fuld (Lehman Bros) and John Mack (Morgan Stanley)?

To buttress the post-American hypothesis, consider the G-20 summit currently being hosted in Washington, DC. *The New York Times* reports that China is the most sought after country at a gathering many observers are calling Bretton Woods II. With close to \$2 trillion in reserves and the muscle to pull other economies out of the dire straits they are in, China's popularity shouldn't surprise anybody.

Then there is oil-rich Saudi Arabia that British PM Gordon Brown is courting to infuse funds into the International Monetary Fund. Into this explosive cocktail, add French President Nicolas Sarkozy's aspirations to lead a European renaissance on the global stage and it would seem America has finally been pushed into a corner.

But is that the truth? Between black and white, there are shades of gray. And looking at America through a monochromatic lens perhaps underestimates both the power and the resilience of the nation.

A TOUGH NUT OF A NATION

Writing off America is a risky proposition. "Despite appearances, America is one of the most capable countries in the world," says Rahul Sagar, an expert in political science at Princeton University. "It handles governance in a manner few powers in history can rival." Facts support his assertion.

Fareed Zakaria argues in his most recent book, *The Post American World*: "Its economy has received hundreds of billions of dollars in investment—a rarity in a country with much capital of its own. GDP growth has averaged 3 percent for 25 years, significantly higher than Europe. Productivity growth has been over 2.5 percent, a full percentage point more than

the European average. Since 1979, it has consistently emerged on World Economic Forum reports as the most competitive economy in the world."

At the centre of any doom theory about the US is the argument that the dollar will concede its primacy as the globe's reserve currency. History shows that the greenback has defied oblivion for several decades now, despite the fears. In 1990, only half of the world's foreign exchange reserves were held in dollars. Today, the number stands at 63 percent. It is indeed a big hole in any argument that the euro or Chinese yuan are emerging as a credible alternative to the dollar. In any case, Europe is in recession and China doesn't believe in a fully convertible currency. Writing an obituary to the American currency, therefore, would be premature and naive.

America's ability to marshal global powers behind its own agenda is still unparalleled. As Jagdish Sheth of Emory University says, "Eventually, the rest of the world will rally behind Brand America." The most recent precedent of the world toeing the American line happened a few hours after the World Trade Center attacks on September 11, 2001. "Washington increased its defense budget by \$50 billion—more than the annual defense budgets of Britain and Germany put together. In just a few weeks, it single-handedly put terrorism on top of the global agenda and compelled every country in the world to reorient its foreign policy," Zakaria writes.

When looked at from this perspective, it becomes important to all of us in the rest of the world to understand what is top of mind in America right now. And that deep down, America is an incredibly paranoid nation.

RETHINKING CAPITALISM

When the former Soviet Union launched the Sputnik, it triggered panic in the US.

- Jan. 8** President Bush signs the No Child Left Behind Act
- Feb. 1** Kidnapped Wall Street Journal reporter, Daniel Pearl, killed in Pakistan
- Feb. 27-28** Hundreds die in religious clashes in Gujarat
- Sept. 22** Gerhard Schroeder re-elected Chancellor of Germany
- Nov. 25** President Bush signs Homeland Security Act
- Dec. 7** Iraq files a weapons declaration to the United Nations

Barack Obama's campaign has been long on slogans and mood music but short on concrete proposals and policies WILLEM BUTIER, LONDON SCHOOL OF ECONOMICS

The Americans fretted that they were losing their scientific edge. Eventually, they beat the Soviets and were the first to put a man on the moon. In the 1970s, when America stared at slow growth and high oil prices, policy makers imagined America was on the brink of losing its economic pre-eminence to Western Europe and Saudi Arabia. Again, in the 1980s, it was widely believed that America would concede ground to Japan.

Writes Zakaria in his book: "None of these scenarios came to pass... The economic dysfunctions in America today are real, but by and large, they are not the product of deep inefficiencies within the American economy, nor are they reflections of cultural decay. They're the consequences of specific government policies."

To get a sense of the issues here, consider this number. Until very recently, a staggering 30 percent of corporate America's profits were accounted for by Wall Street. By all accounts, the number is an obscene one. To middle class Americans, the crisis they are currently grappling with is the outcome of policies that created huge wealth for a few at the expense of many over the last few years.

The question now is, how does America deal with the capitalism it has sold to the world, but has found to be problematic in its own backyard? Responding to the question on his campaign trail, Obama said: "I do not believe that government should stand in the way of innovation or turn back the clock to an older era of regulation. But I do believe that government has a role to play in advancing our common prosperity,



by providing stable macroeconomic and financial conditions for sustained growth, by demanding transparency and by insuring fair competition in the marketplace. Our history should give us confidence that we don't have to choose between an oppressive government-run economy and a chaotic and unforgiving capitalism."

How that view translates into the policy making apparatus will be interesting to watch. A key Obama aide, who did not wish to be named, offered a few pointers on what may happen when the new administration takes charge: "More dollars will be given to banks on credit. I won't be surprised if the government buys equity in certain large banks by giving them money so that small businesses can get credit. Expect tax cuts for the middle class.

"The financial architecture of the country will come under intense scrutiny. Lot more control, more regulation and more accountability. Corporate governance will come into the picture. It will be passed in Congress very quickly."

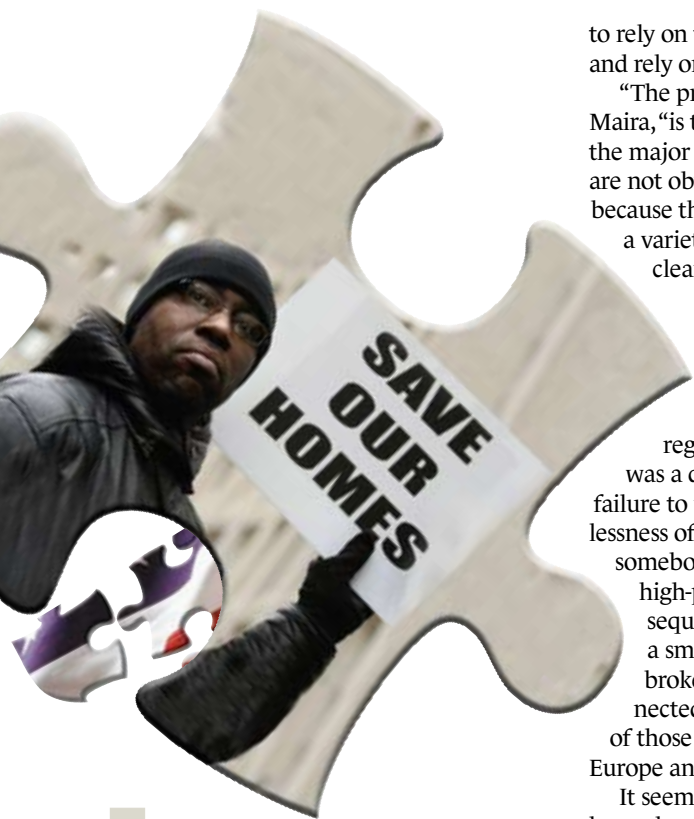
Rahul Sagar of Princeton University alludes to a similar future: "By virtue of the recession, we are likely to see a less brash form of capitalism for a few years. Every crisis sparks a period of repentance before human greed returns to dominate."

But that is precisely the kind of thinking that has another set of experts worried. "Barack Obama's campaign has been long on slogans and mood music but short on concrete proposals and policies," wrote political economist Willem Butier in the London-based *Financial Times*. The London School of Economics professor argued that "Obama's proposals are reactionary, populist, xenophobic and just plain silly."

The concerns voiced by Butier find precedents in the economic policies that followed the Great Depression in the 1930s. Thomas Cooley of the Stern Business School wrote in *Newsweek*: "The period was marked by an unprecedented increase in government intervention that substantially distorted markets and reduced economic well being... Many economists have concluded that these policies were responsible for keeping unemployment well above 10 percent until World War II..."

There is yet another danger, says Arun Maira, senior advisor with Boston Consulting Group (BCG), India: "Whenever there is a need to make things happen faster, or scale up good work, we think of putting someone in charge...Consequently, we tend

- Feb. 26** First case of SARS identified
- March 15** Hu Jintao becomes the President of China
- March 20** The US and allies invade Iraq
- April 9** Saddam Hussein's regime in Iraq ends; allies take over Baghdad
- Oct. 31** Mahatir bin Mohamad resigns after 22 years as Prime Minister of Malaysia
- Dec. 13** Saddam Hussein captured



The US is like a frog that is slowly boiling in water. It doesn't jump out because it doesn't notice it is about to die

STEVEN CHU, LAWRENCE BERKELEY NATIONAL LABORATORY

to rely on the cult of the charismatic CEO and rely on simplistic measures like GDP?"

"The problem with this approach," says Maira, "is that the right action to address the major problems confronting the world are not obvious...Bold fixes often backfire because the systemic connections among a variety of interacting forces are not clearly understood."

Paul Martin, former Canadian prime minister, in an interview to *Foreign Policy*, dwells further on the argument: "There was a clear failure of surveillance and regulation in the United States. That was a domestic failure, coupled with a failure to understand the complete seamlessness of the global financial system. When somebody who can't afford it, buys a high-priced home in California and subsequently defaults, a continent away a small municipality in Norway goes broke. Misunderstanding that connectedness was a failure on behalf of all of those who were involved, certainly in Europe and the United States."

It seems entirely likely these thoughts have already crossed the minds of people on Team Obama as they grapple with the more immediate task of transitioning to the White House and putting together a crack team to deal with the problems on hand. What the world needs to know is how America and Obama navigate the tricky ground that lies between the hope he sold and the demands that reason places.

RETHINKING INNOVATION

But America didn't build its dominance exclusively on the back of economic might and capitalism, which it exported to the rest of the world. It also has its scientific and technological prowess, which much like capitalism in the country, is going through its own gut-wrenching moments.

Sometime in 2005, a high-powered committee tabled a report in the US Congress. It contained a few startling numbers that invoked mass hysteria and an enormous amount of breast beating.

Sample some numbers from the report:

- ▶ Just about 6 percent of US undergraduate students take up science and engineering. As against this, 12 percent in Europe do. Singapore reports 20 percent. And China, a very impressive 40 percent.

- ▶ Nearly 38 percent of people who hold doctorates in the American science and engineering workforce are foreign-born, as compared to 24 percent in 1990. Two years from now, studies indicate American numbers will fall to about 15 percent.

- ▶ In 1980, industrial patents filed from the US amounted to nearly 60 percent of total global output. It now stands at 52 percent.

"The US is like a frog that is slowly boiling in water. It doesn't jump out because it doesn't notice it is about to die," Steven Chu, director at the Lawrence Berkeley National Laboratory in California, was reported as saying. A prominent American senator was equally outraged. "We're on track to a second rate economy and a second rate country," he thundered.

The numbers have since been dissed. Consider India, a country whose engineering workforce America seems terrified of. Every year, India produced anywhere between 35 to 50 engineers with a doctorate in computer science. America produces 1,000.

When it comes to industries of the future, say, nanotechnology, America's dominance is insurmountable. It has more nano centres than the next three competing nations (Germany, UK and China) put together. More than \$3.3 billion in venture capital funding went to US biotech companies in 2005. European companies received barely half that amount. Not surprisingly, US biotech

March 25
The then British prime minister, Tony Blair, visits Libya

April - May
Congress party comes back to power in India

Oct. 24
Brazil launches space rocket

Nov.
George Bush re-elected President of the United States

Nov. 14
Colin Powell resigns as US Secretary of State, is succeeded by Condoleezza Rice

Nov. 25
P Chidambaram merges his splinter group back into the Congress Party

Dec. 26
Indian Ocean tsunami hits several countries including India, killing nearly 200,000 people

revenues approached \$50 billion that year, five times greater than those in Europe, and represented 76 percent of global revenues.

But it did little to calm the hysteria—so much so that it soon morphed into an issue on the presidential campaign agenda that spilt over into the contentious issue of immigration. “This is clearly an opportunity for the next president to do something,” Vivek Wadhwa of the Pratt School of Engineering argues.

The H1B visa for instance, is an example of a policy that will come under the scanner. It brings in talented people, but only for the short term. In the longer run, it leaves the US weaker because talented people eventually have to leave. From a policy perspective, Obama and his advisors have argued this will have to change. What it means is simple. If more immigrants are needed to keep the engines of American innovation moving, open the damn doors.

The same can hardly be said of Europe, Japan, China, or for that matter any other significant global power.

RETHINKING THE WORLD

“The day I’m inaugurated, not only will the country look at itself differently, but the world will look at America differently,” Obama said on the campaign trail. “Leaders of others countries will know that I’ve got family members that live in small villages in Africa that are poor and I know what they’re going through.” Coming from a presidential candidate, it was a remarkable statement.

But that said, most American foreign policy observers believe the nation has enough problems on hand that will keep America away from international affairs. Says Sandeep Waslekar of the

The day I’m inaugurated, not only will the country look at itself differently, but the world will look at America differently

BARACK OBAMA ON CAMPAIGN TRAIL

Strategic Foresight Group, a think tank that advises the Indian government on key issues: “At best, US foreign policy will be conciliatory. For the next two years, it will have to focus on the domestic economy, not international politics.”

The view is echoed by Stephen Walt at the Kennedy School of Government in Harvard: “It won’t be feasible for the US to be as active internationally as it was under the Bush and Clinton regimes. It needs to be more cautious. In fact, cautious is not quite the right word—I would say it needs to take greater care and calculation of what is vital to US interests.”

So what does ‘cautious’ mean exactly? Jagdish Sheth of Emory University points to the many relationships that have gone through the shredder in the George Bush years. The biggest change, he reckons, is likely to come in America’s relationships with Russia and China.

From America’s perspective, writes Zakaria, the single largest challenge it faces is building a viable interface with both these countries and including them as stakeholders in the global economic and political order “...because they are large and have different political systems and ideological approaches to the world. Yet the benefits of having them inside the tent are obvious.”

“Then there is all of Latin America,” continues Seth. “The biggest alienation has happened in Latin America. Brazil is a big one. Bolivia. Venezuela. There are many fences to be mended.”

“But, on the whole,” says Rahul Sagar, “one should refrain from hoping for great idealism. It is easy to get overwhelmed by the moment. But America will continue to put America first. Obama is America’s president; he is not here to save the world.” ■



PHOTOGRAPHS: GETTY IMAGES

Jan. 9 Mahmoud Abbas elected President of the Palestinian National Authority

Jan. 20 George Bush begins his second term as US President

April Pope John Paul II dies; Pope Benedict XVI takes over

July 7 Terrorist attacks in London

July 26 Mumbai inundated by a massive flood

Aug. 29 Hurricane Katrina strikes the US; oil prices surge in the following weeks

Oct. 1 Suicide bombers spread terror in Bali

Oct.-Nov. Civil unrest in France

THE ROAD AHEAD

India can gain a bigger global role only by managing its economy well, not by engaging in delusions of grandeur

Shishir Prasad, Neelima Mahajan-Bansal & Dinesh Narayanan

For the past couple of weeks, foreign policy mandarins have begun dreaming of a larger role for India in world affairs, in the belief that the Obama administration would lean on its shoulders to polish up the US' tarnished image and frayed relations in various parts of the world.

According to this school of thinking, India's time has come to take its rightful place on the world-stage as a strategic heavyweight. Such feelings are only understandable. After all, foreign affairs experts like the idea of a moment making history.

Unfortunately, they may be disappointed.

India's influence will grow not as a muscle-flexing strategic ally of the United States, but as an economic power house of Asia where nearly half the world's population lives. Much will depend on its ability to contribute to economic thought and development.

Prime Minister Dr Manmohan Singh put it eloquently on the eve of his departure for the G-20 summit: "The Indian economy, in fact, has the potential to contribute to global economic growth. My participation in the (G-20) Summit demonstrates this changing landscape of the international economy."



Foreign policy wonks in the capital could do with a serious dose of reality check. After all, India is not quite a diplomatic duke, at least not yet. Take for instance, the theory that India is now a "swing" state in world affairs. 'Swing states' is a term that is used in elections for areas where no one party has overwhelming support. Swing states are where the elections get decided. So the allusion is that India is not completely committed to any one global power. "There is a view among leading foreign policy experts that India is indeed such a force on the world stage. That may be delusional," says Sundeep Waslekar, president of Strategic Foresight, an international strategic affairs expert based in Mumbai.

There was a time when India was seen as the voice of the developing nations. It was perceived as a friend in West Asia and lent gravitas to the Non Aligned Movement. Foreign affairs experts feel that today India is seen firmly in the US camp. "India seems to swing from one extreme position to the other. Either we will bring down the trade talks or we will run to the US and offer them our air bases to launch military operations," says one strategic affairs expert. International diplomacy is far more sophisticated and demands that an emerging superpower be able to balance many conflicting interests.

India's record in central Asia shows that

Jan. 25 Hamas wins majority in Palestine Legislative Council

Feb. 1 Ben Bernanke succeeds Alan Greenspan as the chairman of US Federal Reserve

Feb. Coup foiled in the Philippines; emergency declared

March 11 Yugoslavian leader Slobodan Milošević found dead in his cell. The war crimes trial against him ends prematurely

May 1 The Great American Boycott, in which immigrants march for their rights, takes place

July Cuban President Fidel Castro temporarily relinquishes power to brother Raul due to ill health

Dec. 30 Saddam Hussein executed

India's foreign policy is best summarised as *jugaad*. Where is the long-term strategic planning and execution? When will India have a powerful and meritocratic intelligence service?

RAHUL SAGAR, PRINCETON UNIVERSITY



PHOTOGRAPHS: GETTY IMAGES

it has found it very difficult to cement its fledgling friendship with the US and Israel without damaging its age-old relations with Iran. Some have suggested that India would play a larger role in resolving conflicts, especially in central Asia. That is unlikely as Obama has hinted that his administration would be open to dialogue with Iran. In fact, even the Bush administration has toned down its sabre-rattling and reached out to Iran President Mahmoud Ahmadinejad. That leaves little room for India to get involved in the region. As the new administration in Washington deviates from the foreign policy approach of the George Bush era, India is likely to find itself with less work as a strategic ally.

“Obama is likely to work closely with China instead of pursuing a containment policy,” says M K Bhadrakumar, a former diplomat and foreign policy commentator.

Bhadrakumar says that Washington would want to improve its relations with Russia, Europe and Asia. But as the world's pre-eminent power and with a perceptibly

less hawkish president at the helm of affairs, it would hardly require India's help in mending relations with others. Moreover, India has not endeared itself to Islamic Asia by sidling up to a warmongering America and Israel.

Its own relations with the US could dramatically change depending on Obama's approach. “The Bush Administration had a relatively clear and straightforward policy of deepening and broadening ties. Unless Obama quickly reaffirms Bush's policy on India, I fear the relationship will drift, especially if he tries to get involved in the Kashmir dispute as Bill Clinton did. Sadly I think this may happen, because the Democrats don't have the courage to stand up to Pakistan or China. Obama in particular won't want to appear rash or to take big risks that could derail his domestic agenda,” says Rahul Sagar, Assistant Professor, Department of Politics, Princeton University. That could mean that diplomatically India could find itself a bit isolated and a little less listened to. “India

has no role to play, frankly. No one takes it seriously. India's foreign policy is best summarised as *jugaad* (ad-hoc workaround). Where is the long-term strategic planning and execution? When will India have a powerful and meritocratic intelligence service? Its military is ably led but poorly funded; its leaders are scared to stand up to either China or Pakistan. It has squandered the chance to expand the reforms necessary to make its economic diplomacy effective,” says Sagar.

Winding down the war in Afghanistan and helping development in that country is also likely to be a top priority for the US president-elect. In that endeavour, Pakistan, which shares its boundary with Afghanistan, will be more valuable even though India has good relations with the Afghan administration and is helping rebuild it.

The country's voice as a global strategic force might be feeble, but its position as an economic power is certainly growing. “India can be a model of development in

Jan. 30
Tata Steel finalises \$12 billion acquisition of Corus

Feb. 11
Hindalco announces acquisition of Novelis of Canada

Feb.-March
Subprime lending industry collapses; dozens of lenders file for bankruptcy

June 24
Labour Party, led by Gordon Brown, wins UK elections

Sept 13-14
A run on British bank Northern Rock forms after it applies for emergency funding

Sept. 18
The Federal Reserve begins its series of rate cuts to infuse cash in financial markets that are rapidly turning illiquid

Dec. 27
Benazir Bhutto assassinated in Pakistan



SWING STATE, ANY ONE? Globalisation has given India a vibrant consumer economy and desire for a larger role on the world stage, but it can't be the consumption engine of the world as it needs more savings

Asia, particularly Central Asia," says Stephen Walt, Renee Belfer Professor of International Affairs at Harvard University's Kennedy School of Government.

Rising inequality levels around the world have stiffened resistance to global trade and market systems.

"When Prime Minister Manmohan Singh speaks at (international gatherings like) the G-20 summit, he will be listened (to) with care," says Bimal Jalan, former RBI governor. Jalan believes that India is in a very strong economic position today and except British Prime Minister Gordon Brown, there is hardly any world leader of Singh's experience and stature as an economist.

Having shown the world to some extent that financial conservatism and a combination of state and market could spread economic gains and welfare to a larger number of people, India can legitimately hope to preach the virtues of equitable economic growth. It is in discovering new ways of economic growth and managing economies that India can help the US repair the damage done by the

cowboys on Wall Street.

"That is the way our bread is buttered," says Jalan, who helped create a robust financial architecture that paved the way for the Indian growth story which has so far withstood the economic storm raging in world markets.

Unlike China, which the world thinks will provide some consumption demand support, India's approach will have to be different. "India needs more savings so clearly it cannot be the consumption engine to the world," says Professor Mukul Asher, a specialist in public sector economics and social security issues in Asia at the Lee Kuan Yew School of Public Policy at Singapore.

India can do two things. One, it can keep its own economic house in order. "India is a more balanced economy. It does not rely too much on trade. It can show the way on the complementary nature of the state and the market," says Asher. And two, it can help the G-20 remake global financial architecture.

One of the key things that the G-20 will

discuss is better regulation of financial market participants. "I think the large financial institutions that function across multiple countries need to submit themselves to regulation so that we know exactly what they are doing. There should not be any hiding place. No off-balance sheet transactions," says Professor Willem Buiter, Professor of European Political Economy, European Institute, London School of Economics. Indian capital market regulators and RBI—who have always wanted more stringent regulations—can help there by enforcing those rules in India. Since India is going to be the recipient of large sources of capital flows over the longer term, stringent regulation will be of real help.

The other place where India can show the path is making its public sector banking system more efficient. "We now know that centralisation of credit is a bad idea because state is a miserable allocator of capital. We can't leave it to private forces. And we also know that unless there is an explicit guarantee from the state there is no such thing as a safe bank," says Professor Buiter. So the Indian regulatory system—with its emphasis on prudence, high capital adequacy norms, shunning of leverage and deposit guarantees—is what other countries can learn from.

Former Indian diplomat, Bhadrakumar, says, "The best shot for India to have more influence in world affairs is to manage its economy well. How we manage the crisis and sustain economic growth will add weight to our opinion and actions worldwide."

If India keeps its economic ship steady and the G-7 nations start listening to nations like India, China, Brazil, and the Middle East—places where the savings and the consumption engines now reside—then India would have done a world of good.

At this point that's all it needs to do—just lead by example rather than delusions of power. ■

Jan. 2
Crude oil price hits \$100 per barrel

Jan. 10
BSE Sensex hits a record 21,206.77 points, after four years of a bull market

Jan. 21
Stock markets around the world plunge on fears of global recession; the bull market comes to an end.

March
Investment bank Bear Stearns suffers huge losses related to subprime investments; sold cheap to JPMorgan

June 27
Bill Gates spends his last full working day at Microsoft

July 11
Crude oil touches a record \$147.27 per barrel

Aug. 18
Pervez Musharraf resigns as Pakistan's President

Oct. 11
India and the United States sign a landmark nuclear deal

Nov. 4
US Presidential elections; Barack Obama elected



Thinkers for new CHALLENGES

As an unprecedented global financial crisis blows away established beliefs about capitalism and free markets, the world starts looking out for new ideas. The best ones may come from these people

Paul Krugman



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Is your economy teetering? Are consumers playing truant? Call up this Princeton University professor and *New York Times* columnist to get a neo-Keynesian prescription for economic depression. The man is busy, but get him to tell you why your currency should not have a fixed peg. Will that lead to a Piranha-like invasion on your currency? Well, even that can make your exports competitive and keep you in business.

Nobody was listening to the old man and his criticism of free market fundamentalists. And that's when he won the Nobel Prize. For a while, he was relegated to addressing World Social Forum meetings. But now, policy makers see what he had all along warned about. He had foreseen a lot of troubles, especially the market failures. Now Stiglitz's *Third Way*, which advocates a limited but important role for the state, is emerging as a crucial answer for the big questions.

Joseph Stiglitz



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Robert Shiller



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You like bubbles. Admit it. Your last bonus had much to do with those exuberant times. Well, now that you are down on your drink and your house is worth less than that last peg, start listening to Shiller. It is not often that one makes two Cassandra calls. Shiller rightly called the stock market's irrational exuberance in 2000 and the real estate market's peak in 2005. You did not listen to him then? Shame on you.

Raghuram Rajan



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Yes, yes... It's about saving capitalism from capitalists. But wait. Rajan had spoken about how to make free markets work. Well, they seem all broken. But Rajan did make a few interesting points. One, organised private interests can lobby and change regulations. This is exactly what investment banks did with regulators to let them take almost \$30 of debt for each of their own dollar. The result: a complete blow out. He had also suggested a social safety net.

Now that the bad boys of the financial world have broken the palace chandelier, almost everyone wants them to be disciplined. There are calls for tougher regulation. And Howard Davies, who headed the Financial Services Authority (FSA) in the UK, may be the man to turn for advice. Davies' book on financial regulation may become a handy guide for many countries looking to police the men who run banks and other such assorted businesses.

Howard Davies



LSE

Edwin (Ted) Truman



A concept that marries the state and the markets is the sovereign wealth fund, which invests government money in markets. Edwin Truman, former assistant secretary of the US Treasury and now a researcher at Peterson Institute, specialises in such funds. Truman says sovereign funds are needed, but they must be regulated and made more transparent. After all, it is easier to snoop on the government than on an errant investment bank.

Not every academic works with cold facts on the ground and not every practitioner has the faculty of abstract thinking needed to make the world a safer place, financially speaking. A man who straddles both worlds is Mohamed El-Erian, CEO of bond investor Pimco and the author of *When Markets Collide*. He says that the current turmoil happened because the global markets were anchored in a certain mindset representing the supremacy of the US and its model of economic growth. The transformation is towards a new financial world where other countries too will play their big parts.

Mohamed El-Erian



HOWARD NEWS

Nassim Nicholas Taleb



Talent counts but not as much we might believe. Luck counts for a whole lot more. Don't mistake luck for ability. If you think you are too smart, the world will soon put one over you. Tenets of modern finance are more like shaky pillars. Extreme events shape the world and they occur far more frequently than assumed. Therefore, the entire temple of finance might need to be rebuilt. People liked reading Taleb but few practitioners took him seriously. Now, this philosopher, trader, fund manager, mathematician and probabilistic thinker will be heard. We are all waiting for Black Swan sightings now.

When you see a behavioural economist, pretend he doesn't exist. That has been the attitude of finance and economics professionals. Thaler, along with his colleagues, Daniel Kahneman and Amos Tversky, has highlighted a range of psychological issues that prevent us from being the humans that conventional economists expect us to be. President elect Barack Obama has benefited from his advice. *Nudge: Improving Decisions About Health, Wealth, and Happiness*, a book co-authored by Thaler, explains how institutions can help people make better choices.

Richard Thaler



He Fan



Henry Paulson may have talked tough on the need for China to let its currency appreciate against the dollar, but He Fan did not think so, at least four months ago. This economics researcher at China Academy of Social Sciences defended China's right to keep its currency where it was. And that's exactly what China did, though it did let it appreciate it just a wee bit—showing more style than intent. But now that the economic recession is firmly upon us, He Fan is thinking otherwise. Maybe the Chinese government will listen to him once again.