DEPARTMENT OF ECONOMICS

Volume II • April 2016

Illuminatus

Radiance of Knowledge

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rutiny. This is the role that intellectuals

EDITORS' SPEAK

As it is rightly quoted by NEIL ARMSTRONG "Research is creating new knowledge" and being a part of the research team was of great significance and altogether a new experience. The Illuminatus helped me to savvy and ingrain within me the passion to think what nobody else thought!!

Unnattee Golcha
Associate Editor

Being part of the editing committee was like moving in the stream of thoughts of the different point of views, of opinions which opened up my mind towards the different dimensions of thinking. I feel lucky that I got a chance to edit the papers and study other ways of perceiving the different research topics. On the whole, being part of the committee filled me with new ideas and inspired me to think differently.

Isha Ramawat
Associate Editor

Authoring a paper aside, the journal has opened up a plethora of learning options. Having worked like full time professionals, we have learnt how to adhere to (and miss) deadlines, the ethics of Smithian division of labor and the importance of a consistent team momentum. Personally, being subjected to a vast range of topics has enhanced my present and future scope of study massively. And the best part about knowledge is the more you get it, the more you want it! Looking forward to any and every response from our readers.

Nidhi Taparia
Assistant Editor

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SPEAK

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Irina Chowdhary

ASSOCIATE EDITORS

Isha Ramawat

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ASSISTANT EDITOR

Nidhi Taparia

VOLUME: 2 May, 2016

ILLUMINATUS

Radiance of Knowledge

Department of Economics
St. Xavier's College, Jaipur

Editorial Message

This is the editorial message. This is the editorial.

Irina Chowdhary
Akul Vashishtha
Editor

Preface Message

It gives me immense pleasure that Department of Economics is releasing its second issue of 'ILLUMINATUS' an undergraduate research journal which is an initiative for the students to discover the field of Economics beyond what the syllabus offers them thus to make them much more competitive and capable when they pursue their future endeavours. This initiative marks a departure from the legacy of just bookish knowledge which continues to shape our system and cause a gap between the theory and practise. Our endeavour is to provide a platform to students wherein they can inculcate a strong skill set in research and analysis.

There is a paucity of words to extend my gratitude to the management for their consistent, unconditional and unending support. My sincere thanks and congrats to editorial team who have been instrumental and spent all needful corpus of sweat and networked with the students and all others associated with this spectacular event and made this congregation a success, because team work divides the task and multiplies the success. I also appreciate the untiring efforts of the students who have contributed papers for the journal.

I wish all the readers an enjoyable reading and hope they will found both interesting and instructive. I wish the students very best of luck for their future endeavours and encourage researchers to actively participate by contributing well researched articles in the future.

Mrs. Sapna Newar
Faculty Coordinator

Messages

At St. Xavier's College Jaipur, research is of seminal significance. The dynamic world we inhabit makes it imperative for us to think out of the box and discover new avenues in the field of education. This would definitely add to the quality of life. Research practices augment the understanding of reality and help in adding value to everyday existence. I hope the journal serves to contribute to a pool of ideas that ensures betterment for society.

Fr. Glenn Menezes, S.J.
Rector

I'm pleased that Department of Economics is bringing its second issue of journal which will surely showcase the research activities which is very much needed today in the world of competition. This endeavor will surely work as an appropriate tool to reinforce skills in the research based practice and culminate knowledge and ideas in academia and practice into a published form. All credits to the entire team for achieving the goal of publishing the research work." If you do not hope, you will not find what is beyond your hopes."This is my staunch faith and conviction that our students would carve a niche in their career and life by going in lineage of this type of learning. I visualize them to be the beckon of light and hope for India.

Warm wishes,

Dr. Mahua Majumdar Bose
Principal

I am extremely happy to know that Economics Department of St. Xavier's College is publishing its very second Journal. In its sixth year the college is making a serious effort to bring a number of scholars pursuing research on different interesting topics. More than a serious academic study, the Journal will bring to its focus, issues relating to its relevance and practical suggestions which will have far reaching implications on the Economy of India. Such an exercise will enhance the objectives of St. Xaviers's College in bringing aspect of higher education and ongoing research hand in hand. I congratulate Mrs. Sapna Newar, HOD of economics department and all the contributors and editors of the Journal for venturing this bold initiative.
My best wishes to them.

Fr. Joshy Kuruvilla, S. J.
Vice-Principal

I am glad that the Department of Economics is coming up with the second edition of its Research Journal 'ILLUMINATUS'. This is a platform for our students to showcase their skills and to express their thoughts. This is entirely a students' effort and hence, I believe this will be a learning experience for them. They will be able to hone their research skills at an early stage. I would also like to take this opportunity to wish the outgoing batch of the department good luck in their future endeavors. I hope that they will establish themselves as proud citizens of this country in the field they wish to pursue. In the end, I would like to congratulate the editorial team for their painstaking effort.

Mr. Yashwardhan Singh
Assistant Professor

Journal Contents

Section A

Nation on the Move

Foreign Direct Investment in Developing Countries

Akshay Jain and Ekansh Garg

BA Economics II

Abstract

A standout amongst the most striking advancements amid the last two decades is the marvellous growth of FDI in the global economic landscape. This unprecedented development of global FDI in 1990 around the globe made it a vital and key segment of development strategy in both developed and developing countries and policies are composed with a specific goal to empower inward flows. In fact, FDI gives a win – win circumstance to the host and the home nations. The "home" nations need to exploit the incomprehensible markets opened by Industrial development. Then again the "host" nations need to gain technological and managerial abilities and supplement foreign exchange and domestic savings. Aside from being a basic driver of economic growth, FDI is a major non debt financial resource for developing nations, like India. In many instances, it is connected with significant macroeconomic changes and enhancements in the scope of goods and services delivered in beneficiary nations. Numerous developing nations are confronting the shortage of savings. This issue can be settled with the assistance of Foreign Direct Investment. Foreign Investment helps in decreasing the deficit of BOP. The flow of foreign investment is a profit making industry like real estate, insurance and business services and serving a catalyst for the growth of economy in India. Further this paper suggests that we ought to welcome the inflow of Foreign Direct Investment because it empowers us to accomplish our cherished objective like

making ideal BOP, removal of poverty, rapid economic development, and interior personal disparity in the development; furthermore it is all that much helpful and much convenient for a developing economy.

Keywords: Global FDI, Industrial Development, Ideal BoP, Interior Personal Disparity.

Introduction:

Generally speaking FDI alludes to capital inflows from abroad that invest in the production capacity of the economy and are generally favoured over different types of external finance in the light of the fact that they are not debt making, non volatile and their returns relies on the performance of the projects financed by the investors. FDI likewise encourages global exchange and exchange of technology, skills and knowledge.

FDI is considered as essential operators during the process of accelerated economic growth in the developing nations. FDI is more alluring in correlation to other forms of external finance. The fundamental thinking behind the support of FDI lies in the fact that these nations are slacking in domestic savings and investment, which prompts lower economic growth, consumption and low level of employment. Thus, to bridge the gap between investment need of a country and domestic savings, FDI is considered as an important Tool. In addition, FDI can remunerate the need of investment insufficiency supplementing local savings and by supplying more effective management, marketing and technology to improve productivity and efficiency. FDI has grown at an amazing rate subsequent to the mid 1980's, and the world business sector for it has turned out to be more competitive. Developing nations are turning out to be progressively attractive investment destinations, in part because they can offer investors arrange of created assets.

One striking part of the world economy in latest couple of decades has been the development of

FDI, or venture by transnational companies or multinational undertakings in foreign nations with a specific end goal to control resources and oversee production activities in those nations.

Significance for Developing Countries

FDI has turned into a vital source of private external fund for developing nations. It is unique in relation to other significant sorts of external private capital flows in that it is inspired largely by the investors long-term prospects for creating profits in production activities that they foursquare control. Foreign bank loaning and portfolio investment, in distinction, aren't endowed in activities controlled by banks or portfolio investors, that are typically motivated by short-run profit concerns that may be influenced by assortment of elements (interest rates, for instance) and are inclined to herd behavior. These distinctions are highlighted, for instance, by the example of bank lending and portfolio equity investment, from one perspective, and FDI, on the other, to the Asian nations stricken by financial turmoil in 1997.

While FDI represents investment in production facilities, its significance for developing countries is far additional distinguished. Not simply will FDI boost investible assets and capital formation, however, perhaps additional essential, it's likewise a way of exchanging production technology, skills, innovative capacity, and organizational and managerial practices between locations, also as of accessing international promoting networks. the first to learn are enterprises that are a part of international systems (consisting of parent corporations and affiliates) or that are directly connected to such systems through non-equity arrangements, however these assets may be transferred to domestic corporations and also the wider economies of host countries if the atmosphere is contributory. The bigger the provision and distribution links between foreign affiliates and domestic corporations, and also the stronger the capabilities of domestic corporations to capture spill over (that is, indirect effects) from the presence of and competition from foreign corporations, the more possible it's that the attributes of FDI that enhance productivity and competitiveness can unfold.

FDI in India

Aside being a critical driver of economic development, FDI is a paramount wellspring of non-debt financial resource for the economic improvement of India. Foreign organizations put resources into India to exploit generally lower wages, special investment benefits, for example, tax exemptions, and so on. For a nation where foreign investments are being made, it likewise implies accomplishing technical know-how and generating employment. The Indian government's favourable policy regime and hearty business environment have guaranteed that foreign capital continues flowing into the nation. The government has taken numerous initiatives as of late, for example, relaxing FDI standards crosswise over segments, for example, defense, PSU oil refineries, telecom, power exchanges, and stock exchange, among others.

A foreign organization wanting to set up business operations in India might:

• Incorporate an organization under the Companies Act, 1956, as a Joint Venture or a Wholly Owned Subsidiary.

• Set up a Liaison Office/Representative Office or a Project Office or a Branch Office of the foreign organization which can embrace activities allowed under the Foreign Exchange Management (Establishment in India of Branch Office or Other Place of Business) Regulations, 2000.

An Indian company may receive Foreign Direct Investment under the two routes as given under:

i. Automatic Route

FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

ii. Government Route

FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

FDI is prohibited under the Government Route as well as the Automatic Route in the following sectors:

i) Atomic Energy ii) Lottery Business

iii) Gambling and Betting iv) Business of Chit Fund

v) NIDHI Company vi) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Viniculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities .

vii) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges)

viii) Trading in Transferable Development Rights (TDRs).

ix) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

Market size

As indicated by Department of Industrial Policy and Promotion (DIPP), the aggregate FDI inflows took off by 24.5 percent to US$ 44.9 billion amid FY2015, when contrasted with US$ 36.0 billion in FY2014. FDI into India through the Foreign Investment Promotion Board (FIPB) course shot up by 26% to US$ 31.9 billion in the year FY2015 as against US$ 25.3 billion in the earlier year, demonstrating that government's push to enhance simplicity of doing business together and relaxation in FDI standards is yielding results.

Information for FY2015 demonstrates that the expansion in the FDI inflows was essentially determined by investments in infrastructure and services sector. Inside of Infrastructure, Oil and Gas, Mining and Telecom saw higher FDI inflows, while IT sector and trading (wholesale, money and carry) drove the services inflows. Most as of late, the aggregate FDI inflows for the month of May 2015 touched US$ 3.85 billion when contrasted with US$ 3.6 billion in the same period a year ago. Healthy inflow of foreign investments into the country helped India’s balance of payments (BoP) situation and stabilized the value of rupee. India overtook United States of

America and China in terms of FDI inflows in the FY2015. Thus, topping the charts of FDI inflows for the first time.

Industries and FDI allowed

Industry	Foreign Direct Investment allowed
Non-Banking Financial Companies	49% FDI is allowed from all sources on the automatic route subject to guidelines issued from RBI from time to time.
FDI in Insurance sector in India	FDI up to 26% in the Insurance sector is allowed on the automatic route subject to obtaining licence from Insurance Regulatory & Development Authority (IRDA)

FDI in Telecommunication sector	• In basic, cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49%.
	• ISPs with gateways, radio-paging and end-to-end bandwidth, FDI is permitted up to 74% with FDI, beyond 49% requiring Government approval.
	• FDI up to 100% is allowed for the following activities in the telecom sector :
	  • ISPs not providing gateways (both for satellite and submarine cables);
	  • Infrastructure Providers providing dark fiber (IP Category 1);
	  • Electronic Mail; and
	  • Voice Mail

FDI in Trading Companies in India	Trading is permitted under automatic route with FDI up to 51% provided it is primarily export activities, and the undertaking is an export house/trading house/super trading house/star trading house. However, under the FIPB route:- i. 100% FDI is permitted in case of trading companies for the following activities: • exports; • bulk imports with ex-port/ex-bonded warehouse sales; • cash and carry wholesale trading; • other import of goods or services provided at least 75% is for procurement and sale of goods and services among the companies of the same group and not for third party use or onward transfer/distribution/sales.
FDI In Power Sector in India	Up to 100% FDI allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants. There is no limit on the project cost and quantum of foreign direct investment
Drugs & Pharmaceuticals	FDI up to 100% is permitted on the automatic route for manufacture of drugs and pharmaceutical, provided the activity does not attract compulsory licensing or involve use of recombinant DNA technology, and specific cell / tissue targeted formulations.
Roads, Highways, Ports and Harbours	FDI up to 100% under automatic route is permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours.
Call Centres in India / Call Centres in India	FDI up to 100% is allowed subject to certain conditions
Business Process Outsourcing BPO in India	FDI up to 100% is allowed subject to certain conditions.

Government Initiatives

The Government of India has made changes to the FDI policy regarding Construction Development Sector. The policy now includes easing of norms of area restriction, reduction of minimum capitalization and easy exit from projects. Further, in order to boost the low cost affordable housing, it has conditioned that, cases with 30 percent of the project cost directed towards affordable housing will not have to comply with conditions of area restriction and minimum capitalization.

Relaxation in these FDI norms is expected to result in better capital inflows in Construction Development sector. It may attract investments in new areas and also may encourage development of plots for serviced housing as there is shortage of land in and around urban areas and also cost of land is very high there. The renewed policy is also expected to boost development of smart cities in the country and low cost affordable housing.

The Cabinet Committee on Economic Affairs (CCEA) has raised the gateway for FDI requiring its approval to Rs 3,000 crore (US$ 469 million) from the present Rs. 1,200 crore (US$ 187 million). This decision is expected to result in increased foreign investment inflow and accelerate the approval process.

India’s cabinet cleared a proposal which allows 100 percent FDI in railway infrastructure, excluding operations. Though this doesn’t allow foreign firms to operate trains, it allows them to make investment in areas such as supplying coaches for bullet trains and creating the network.

Make in India

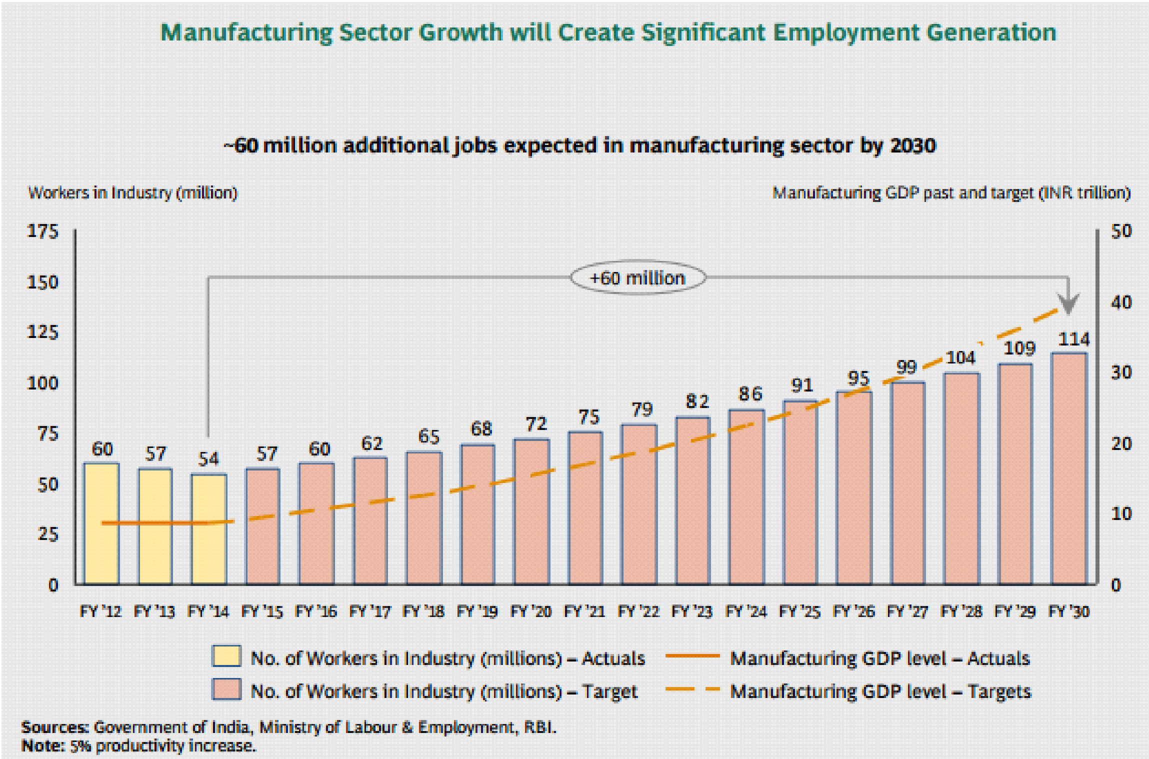
The world economy is on its way to recovery from an extended slowdown, with all the key economic groups, including the USA, Euro Zone and the BRICS, expected to stage higher growths over the next few years. India has also witnessed the most emphatic election verdict in 2014 that too after three decades, and is gearing up for growth towards a better nation. The overall outlook is constructive, with leaders across the industry showing confidence in the economic revival. Keeping with the theme of development, PM Mr. Narendra Damodar Modi has launched the ‘Make in India’ campaign, aiming to transform India into a leader of the manufacturing sector. Yet the vision, while laudable, will not be easy to achieve.

The world is fast changing, with a balance of manufacturing across the developing and developed economies. China, with its increasing wages and cost of production, is fast losing its low cost advantage. In many ways, the stage is set for the subcontinent nation India to transform its manufacturing sector and be a global leader.

'Come, Make in India'! PM Modi's aggressive push to revive an aifirm manufacturing sector, has found vibrancy with India Inc. Single-window clearances, cutting out of any Red Tapism and minimal procedures, PM Modi sees Make in India as a vital impulsion for employment & growth in various sectors namely: IT, pharmaceuticals, textiles, automobiles, chemicals, ports, aviation, leather, wellness, railways, tourism and hospitality, design manufacturing, mining, bio-technology, renewable energy, and electronics. The initiative hopes to boost the GDP growth and revenue. The initiative also aims at minimizing the impact on the environment and high quality standards. The initiative hopes to attract technological and capital investment in India.

Make in India aims to convert India into a global manufacturing hub, to help create jobs and uplift economic growth and to urge both foreign and local companies to invest in India.

The aim is to take the share of manufacturing sector in the country’s GDP from a stagnant 16% to 25% by 2022, as stated in the NMF (National Manufacturing Policy), and to create 100 million jobs by 2022.



Make in India Week

Make in India week is celebrated from 13 to 18 February every year and it showcases the potential of design, innovation and sustainability across India's manufacturing sector in a decade. A week that sparks a renewed sense of pride in India's manufacturing – and takes corporate and public participation to the next level.

The logo is a striding lion made of cogs, symbolizing strength, manufacturing and nation's pride.

India opens up Key Sectors for Foreign Investment

- India has changed the foreign investment regulations in many key sectors, opening up credit information services, commodity exchanges, and aircraft maintenance operations. The foreign investment limit in PSU (Public Sector Unit) refineries has been uplifted from 26% to 49%. An additional benefit is that the compulsory disinvestment clause within five years has been removed.
- FDI in Civil aviation has been increased to 74% and investment will now be allowed through automatic route for cargo and non-scheduled airlines, and also for ground handling activities.
- Also, 100% FDI in aircraft repair operations and maintenance has also been allowed.
- India has complied to allow 23% FII and 26% FDI investments in commodity exchanges, subject to the provision that one single entity cannot hold more than 5% stake.
- Sectors like industrial parks and construction, credit information companies, and development projects have also been allowed to have more foreign investment.
- Also keeping India's nuclear ambitions in thought, India has allowed 100% FDI in mining of titanium, an abundant mineral in India.

New Initiatives

• Process of applying for Industrial Entrepreneur Memorandum and Industrial License made online through eBiz portal. Three years of extension in validity of Industrial license.

• Industrial licensing for Major components of Defense products' list has been excluded.

• Dual use items having civilian as well as military applications deregulated.

• Services of all Central Govt. Ministries and Departments has been integrated with the eBiz – a single window IT platform for services.

• A check-list of required assent should be put on Ministry's/Department's web portal.

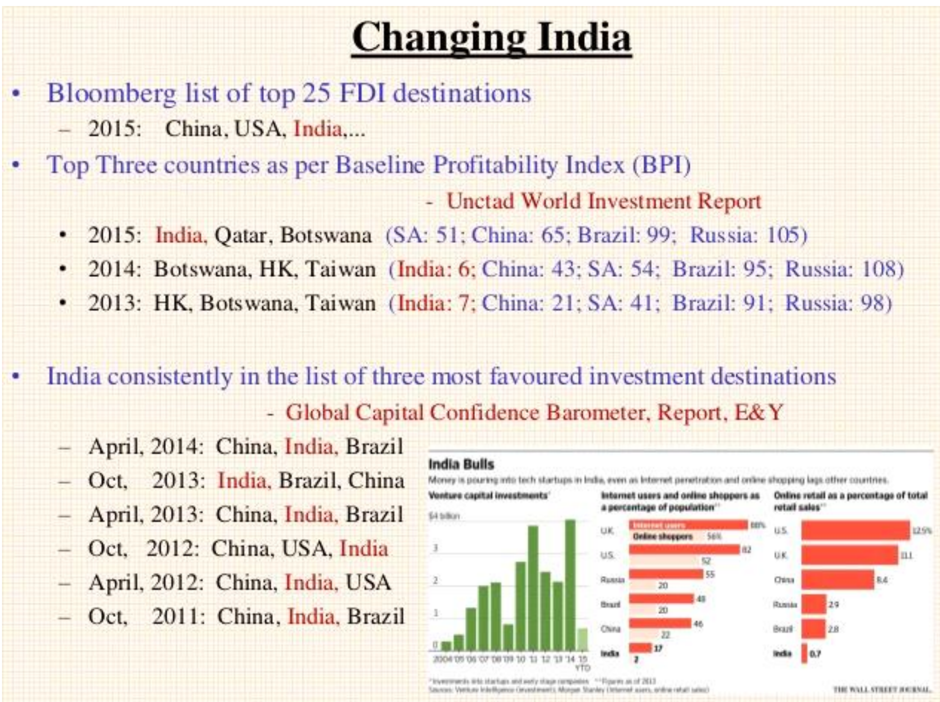
Recent Policy Measures

- 100% FDI in the medical devices.
- FDI increased in insurance & sub-activities from 26% to 49%
- 100% FDI in telecom sector.
- 100% FDI allowed in single-brand retail.
- FDI in commodity exchanges, power exchanges, stock exchanges & depositories, courier services and petroleum refining by PSUs under the government route has now been brought under the automatic route.
- Abolishment of restriction in tea plantation sector.
- FDI limit increased to 100% in asset reconstruction companies and 74% in credit information.
- FDI in defense sector increased from 26% to 49%. Foreign Portfolio Investment up to 24% now permitted under automatic route. FDI beyond 49% is also allowed on exception basis with the approval of Cabinet Committee on Security.

Road ahead

According to World Investment Report 2016 by UNCTAD (United Nations Conference on Trade and Development), India acquired top spot in the top 10 countries attracting highest FDI in 2015. The report also mentioned that the FDI inflows to India are likely to exhibit an upward trend in 2016 on account of economic recovery.

India will require around US$ 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as ports, highways, and airways. This would require support from FDI flows. During 2015, foreign investment was witnessed in sectors such as telecommunications, services, computer software and hardware, power, construction development, trading, and automobile.



Conclusion

Recognizing that FDI can contribute to severe economic development, developing countries' government wants to attract it. The market for such investment is highly competitive. With liberal policy framework being adopted and losing some of its traditional power to attract FDI, Governments are paying more attention to measures that actively facilitate FDI. Still, the economic determinants remain the key. What is likely to be more critical in the future is the distinctive combination of location advantages & especially created assets that a country or region can offer potential linvestors.

Economic globalization went along with booming FDI in developing countries, which attracted a rising share of world-wide FDI flows in the 1990's. In various developing countries, FDI plays a more significant role than in developing countries. The good news is that FDI is nothing but a zero-sum game, in which one particular country could attract FDI only at the expense of another country. Additional FDI is likely to take place when new investment opportunities emerge in countries opening up to FDI. Essentially, all developing countries have the chance to become attractive to foreign investors. Thus, FDI in developing countries has a very important role for improving the economic growth.

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Effects of Crude Oil Prices On The Indian Economy

Avani Khandelwal

BA Economics I

Abstract

Crude oil plays a crucial role in the economy of any nation. Crude oil is one the most necessitated commodities in the world and India imports around 100 million tons of crude oil and other petroleum products. This in turn, results in spending huge amounts of foreign exchange. The increasing quantum of imports of petroleum products has a significant impact on the Indian economy, especially when crude oil prices are shooting up globally. This paper mainly will analyze the role and effects of OPEC and the MARKET FORCES on the fluctuation of oil prices. As the oil prices change there is a huge impact on the GDP, inflation, unemployment rate and industrial growth production because crude oil not only serves as a source of energy but also a major raw material to various industries. In short, oil price fluctuation has adverse effects on the economy. The paper seeks to find out the trends, causes of oil price fluctuations and its effects majorly on the macroeconomic variables of the Indian economy. Changing oil prices also shift political balances around the world. The paper will also examine India's vulnerability to shocks in prices. A manifestation of country's dependence on oil and its reflection through different economic factors and physical indicators such as the importance of crude oil and petroleum products in the trade balance and the patterns of trade in the recent years is also examined to understand the extent of vulnerability to shocks. It has been found that the vulnerability to these is expected to rise in the future as dependence on imported oil is projected to rise. Finally, based on experiences, measures to mitigate this vulnerability have been recommended. Also, India's growth story hovers around the import of oil as India imports 80% of its crude requirements, so the changing oil prices make it difficult for the consumers to understand new consumption styles and alternatives. So lastly the paper will suggest different alternatives for energy sources so that we can sustainably use them and benefit the maximum.

Keywords: Crude Oil, Market Forces, Trade Balance, Global Political Balances.

A Pinch of History

The first oil well was drilled in 1859 by Edwin Drake. It burned to the ground several months later, but had it survived it would only have yielded around 20 barrels of oil per day, hardly a drop in today's market. At that time however it was considered a success and it began a revolution in oil production. Crude oil production in the world skyrocketed from a few hundred barrels of oil per day to 76 million today. In the near future however, it is the goal of the oil industry to continue this growth in order to meet the world's growing demand.

INTRODUCTION

Oil is a magic word that always makes news. There is hardly a nation that does not seek this indispensable natural resource. A country that already possesses crude oil wants more. They struggle to explore it at almost any cost. The common man does not know much about this strange "mineral oil" although in almost every country he bears the burden of the cost of exploration of oil or its import. Oil or Petroleum is defined in a variety of ways by geologists, chemists, refiners, engineers and lawyers. There is, therefore, no uniformity or full agreement. Since, it is a natural product forming a part of rocks, geological definition finds more general acceptance. The word petroleum is derived from two Latin words petra means rock and oleum means oil. Petroleum is loosely called "rock oil" or "crude oil". It is a generic term covering a wide range of substances comprising hydrocarbons, which are naturally occurring molecules of carbon and hydrogen.

Life without oil? Impossible! Within our daily lives oil is used almost everywhere: Every year, 18 million tonnes of crude oil are processed into synthetic materials. Oil within our materials: 40 percent of all textiles contain oil; for functional clothing this may be as much as 100 percent. Oil within our leisure activities: 40 billion litres of oil a year are used to make CDs and DVDs. Oil helps us relax: A single sofa contains 60 litres of oil. Modern life is inconceivable without crude oil. The world consumes almost 14 billion litres of oil each day. This affects us all.

The demand for energy in India, in tandem with the economic growth and the resulting prosperity of the country has increased substantially in the recent years, particularly in the past decade. In the coming years, even as the growth rates moderate in the short to medium term, the growth of energy demand is projected to continue. In such a scenario, it is essential to meet the demand for all energy sources not only to meet the growth objectives but also to sustain the growth achieved till date. Primary energy consumed in the country has increased more than four times in the period from 1971 to 2009.

Crude Oil Production in India

The trend in production of crude oil during the period 2003-04 to 2010-11 has remained in the range of 33 to 34 MMT during the period 2002-03 to 2009-10. However, during 2010-11 the production of crude oil increased from 33.69 MMT during 2009-10 to 37.712 MMT due to production from Rajasthan oil fields. Some major discoveries by Pvt. /JVC‟ s in Krishna 53 Godavari deep water; there was an increase by 11.94% over the year 2009-10 in production of crude oil in 2010-11. The Government of India launched the ninth bid round of New Exploration Licensing Policy (NELP-IX) and fourth round of Coal Bed Methane Policy (CBMIV) during October, 2010 to enhance the country's energy security. In addition, overseas oil production in 2011-12 is likely to be about 7 MMT per annum.

CRUDE OIL PRODUCTION IN INDIA

YEAR	CRUDE OIL PRODUCTION (MMT)	GROWTH (%)
2002-03	33.044	-
2003-04	33.373	1.0
2004-05	33.981	1.82
2005-06	32.190	-5.27
200-6-07	33.988	5.59
2007-08	34.118	0.38
2008-09	33.508	-1.79

2009-10	33.691	0.55
2010-11	37.712	11.94

Source: Indian Petroleum and Natural Gas Statistics, 2010-11, Govt. of India Ministry of Petroleum and Natural Gas, Economic Division, New Delhi.

India's oil consumption

Crude oil forms a significant proportion of the country's energy basket, next only to coal (Figure 2). The consumption of crude oil in India has increased from 12.6 million tonnes of oil equivalent (mtoe) in 1965 to 162.3 million tonnes in 2011 reflecting an increase of more than 10 times. In terms of share in the total energy basket however, crude oil consumption has remained fairly constant, always remaining in the range of 28% to 36% (1971-2011). The growing demand for crude oil is increasingly being met through higher imports.

This rising dependence on petroleum products and the growing share of imports in the domestic oil consumption subjects the domestic economy to the volatility in international markets thereby creating a need to examine in detail the relation between oil shocks and macroeconomic parameters. Despite the dependence on crude oil, domestic production has remained low and has, in fact, stagnated in the recent years. This has led to a rise in dependence on imports of crude oil to meet the domestic demand.

India Becomes Third Largest Oil Importer

India is now the world's third largest importer of crude oil after the United States and China.
The country's oil imports have steadily climbed along with its growing economy. India has surpassed Japan in terms of oil imports multiple times over the past few years, and could trade spots again. But while they duel it out in the short-term, the outlook is clear. India's import dependence is rising fast and it will be one of the largest sources of demand growth for the foreseeable future.
The International Energy Agency predicts that India will burn through 4.1 million barrels per day (mb/d) in the second quarter of this year, edging out Japan's 3.8 mb/d.

The rising imports leads to a complete cycle:

Rise in imports, Rises the oil prices, Increases the import bill and subsidy burden , Puts pressure on the Fiscal deficit and Forex deficit, Depreciates the value of Rupee.

Domestic oil production and proportion of dependence on imports

As discussed earlier, the country's dependence on imports to meet the domestic crude oil requirements has increased markedly. This increased dependence on foreign countries also exposes the country to geopolitical uncertainties and the volatility in the international oil markets. More than two-thirds of the total crude oil imported by India originates in the Middle East and more than 80% imports are from OPEC countries. This implies that a significant proportion of India's crude oil supplies pass through the geopolitical bottleneck – the Straits of Hormuz.

SOURCES OF CRUDE OIL IMPORTS

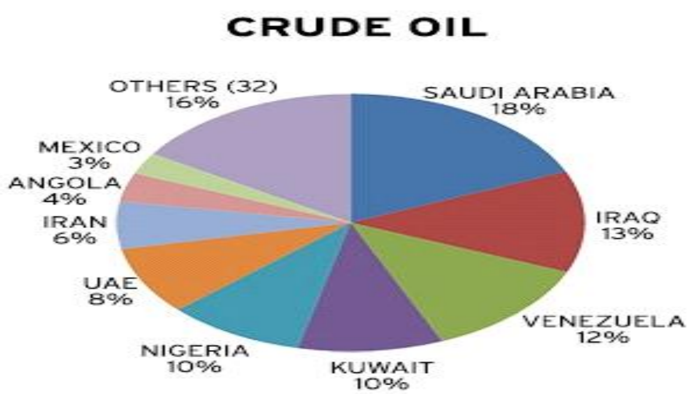
COUNTRIES	2007-08	2008-09	2009-10	2010-11	2011-12
Middle-East	92.94	94.96	103.72	104.98	118.64
Africa	21.49	21.23	32.94	35.58	31.13
Asia	4.63	4.90	3.95	3.27	3.44
South America	1.43	7.63	12.09	15.06	14.54
Eurasia	2.47	1.81	3.98	1.54	1.04
North America	0.41	-	0.22	0.2	0.02
Australia	0.17	0.09	0.36	1.69	0.65
Total	123.54	130.62	157.26	162.32	169.46

All figures are in million tonnes

Source: Lok Sabha (2013)

The high dependence on imports is due to low domestic production and relatively low estimated reserves. The total oil reserves in India have declined from 770 MT in 2007-08 to 757 MT in 2010-11. The production has, however, increased from 34 MT to 37.71 MT in the same period, thereby giving an R/P ratio of 20 years. On the other hand, the world reserves have increased, particularly on account of reserve accretion in OPEC countries.

INDIAN IMPORTS (2014-2015)



Source: Commerce Ministry, India

Role of Crude Oil Prices on Indian Economy

Crude oil price is an important parameter for oil importing country like India; it has a bearing on economy, because crude oil is the raw material for refinery. The domestic production accounts for only 24 to 26% of total country's crude oil demand; rest is to be met by importing the crude. India's huge dependence on imported crude oil makes it vulnerable due to the shocks & disruptions in the Global Oil Market. Any sharp spike in oil prices in the global market results in an unfavourable economic situation. The reasons for the same are outlined below.

1. Rise in Cost of Imports: The first victim of rise in crude oil prices is the state exchequer. Every increase of $1 per barrel in Indian crude basket prices pushes up the annual oil import bill by $1.2 billion. The oil import bill of $140 billion is faced by India in 2011-12.(Source: World

Oil, August 2012/ vol.233 No.8, p-25). It also leads to a faster depletion of India's Foreign Exchange (FOREX) Reserves.

2. Widening of Trade Deficit: There is a sharp increase in India's trade deficit. The steep increase in imports due to high oil prices leads to a further widening of the trade deficit.

3. Increase in Oil Under Recoveries: As the pricing of Diesel, LPG & Kerosene is still under government control; any rise in international oil prices is not reflected in the domestic market. The inability of OMCs to sell fuel at the market defined rate results in higher under recoveries. OMC have reported under recoveries totalling Rs. 1,385,410.00 million for the Financial Year 2012. (ONGC, Annual Report 2011-12, P-96).

4. Mounting Fuel Subsidy Burden: Any hike in price of imported crude oil is absorbed by the OMCs along with the Upstream Oil Companies & the federal government. The fuel subsidy bill has witnessed a continuous rise for the past few years. Government's fuel subsidy bill amounts to US $ 9 billion during 2010- 11 (International Institute of Sustainable development, iisd, Fuel Subsidies in India, 14th Aug 2012).

5. Worsening Fiscal Deficit: India's Fiscal Deficit for 2009-10 stood at 6.6 % of Gross Domestic Product (GDP). Rise in crude oil prices worsens the situation as Government has to shell out more money in the form of fuel subsidy to OMCs. High subsidies are putting pressure on fiscal deficit which has touched 5.9 % of GDP in 2011-12 and Govt. has targeted to bring it down to 5.1% in 2012-13.

6. Reduced Amount for Infrastructure Investment: India aims to invest $1 Trillion in infrastructure development during the 12thFive Year Plan (2012-17). High prices of crude oil (leading to higher fuel subsidy & increase in fiscal deficit) have the potential to derail the government's plans as they eat into the amount of disbursal available with the government for infrastructure &social development schemes. A continuous rise in the subsidy bill & worsening fiscal deficit has forced the federal government to deregulate the petrol prices in the domestic

market while in-principle approval has been given for deregulation of diesel prices. However, the Government reserves the right to intervene whenever the situation demands.

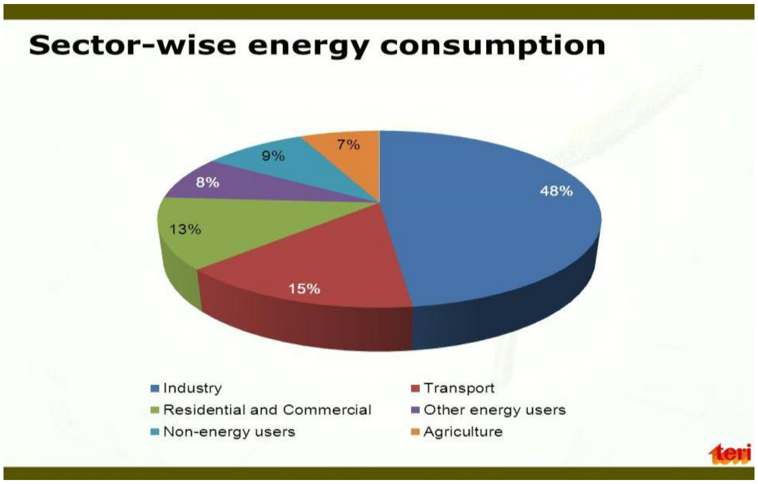
India’S Vulnerability to Oil Shocks

As mentioned previously, the Indian economy is highly dependent on imports to meet its domestic crude oil requirement. Any fluctuation in the global markets, therefore, has a disproportionate impact on the major macroeconomic indicators representing the economy’s performance. This is supported by findings from existing academic literature too. Bhanumurthy, Das, & Bose (2012) have summarized the literature available on the impact of oil price shocks on the Indian economy. It is found that oil price shocks have a positive impact on domestic inflation, and negatively affect the industrial production and economic growth levels. India is found to be one of the most vulnerable countries. In their decomposition analysis Bacon and Kojima (2008b) have also found that between 1996 and 2006, India’s vulnerability to oil prices has increased from 1.8 in 1996 to 2.6 in 2001 and further to 4.4 in 2006. This is driven by a combination of factors including rising in oil prices, rise in the share of oil imports and change in exchange rates. Bhattacharyya and Batra (2009), for example, have analysed the relation between international prices of petroleum and the impact on variables such as exchange rate, money supply, Index of Industrial Production and Wholesale Price Index under a situation when changes in international prices are allowed to pass through to domestic petroleum product prices. Bhanumurthy, Das, & Bose (2012) also use a macroeconomic model to examine the impact of oil price shocks on macroeconomic variables in the 12th Five Year Plan period (2012-17) in cases of complete and partial pass through. The authors find that deregulation of oil prices will have an impact on the growth trajectory of the economy as also on other macroeconomic indicators such as inflation, current account deficit and government revenue.

Factors that determine vulnerability to shocks in India

Vulnerability to oil supply and price shocks is dependent on the oil intensity of energy consumption, oil intensity of the GDP, domestic production of crude oil and also the oil import dependence of the country (Schubert and Turnovsky 2011). Another issue that affects the vulnerability to shocks is the availability on oil n the international oil markets. We analyse each of these factors and discuss the likely trajectory of each factor for the near to mid-term future.

Fuel diversity in the key consuming sectors In addition to the dependence on imported crude oil, the fuel diversity of the major consuming sectors is also a determinant of vulnerability to shocks in the oil market. The transport sector is one of the major consumers of crude oil in the country and accounts for nearly 40% of the country's total oil consumption. Further, petroleum fuels themselves from more than 95% of the energy basket of the transport sector.



Sector-wise consumption of petroleum products in 2010-11
Source: (TERI, 2013)

This relative lack of diversification in the fuel basket of the sector makes it particularly vulnerable to any shocks in the market. While diversification to other energy sources such as natural gas and electricity has been witnessed in recent times, the sector depends heavily on petroleum products (primarily diesel and petrol) to meet its continually rising demand. As regards other sectors such as industry, while the sector is vulnerable to any shocks in supply, demand or prices, the overall impact gets muted due to the relatively lesser share of oil based products in the sector's energy basket as coal and power form larger shares of the total energy consumed.

Impacts Of Oil Shocks On The Indian Economy

We now examine the impacts of oil shocks on the Indian economy. Oil shocks have significant impact on critical macroeconomic variables, particularly countries that are dependent on imports to meet the domestic demand for oil. This is true in case of India as well. However, an analysis of these impacts like the one carried out by Hamilton for the US economy may not be possible in

India’s case. This is primarily due to the absence of complete pass-through on domestic fuel prices as the Government maintains control over the prices of refined petroleum products.

On the other hand, an understanding of the impact of international oil shocks can be made possible by identifying the key macro-economic variables that are likely to reflect the vulnerability to such shocks.

The key macro-economic parameters which reflect the impact of oil price volatility include:

- GDP Growth rate
- Total import bill and current account balance
- Fiscal balances (in case of provision of fuel subsidies by the government)

GDP growth rate

The periods of high oil prices, in the past, largely coincided with, or were followed by lower GDP growth rates. While there may have been other factors affecting the growth rate at these points, but the high prices of crude oil in the international markets have reflected on the domestic economy due to the impact on current account balances, the overall inflation rates and also due to their impact on the fiscal balances also which ultimately affect the national income. The high correlation and the perceived relations and channels through which oil shocks impact domestic economy are an indication of the impact that these have on the performance of the economy.

Import bill and current account balance

An increase in oil prices will also get reflected in the total current account balance for import dependent countries. As mentioned previously, India’s dependence on imported crude oil has increased substantially (see Figure 3) and this has also adversely affected the total trade balance of the economy. Crude oil and petroleum products from nearly 32% (Provisional figures for 2011-12 RBI, 2012) of the country’s total import bill and this share has increased in the past years on account of both – an increase in the volume of crude oil imports as well as the price at which crude oil is imported in the country. Over time however, with an increase in the country’s refining capacity, the share of exports of petroleum products in the total export basket has also increased from less than 1% in 1970-71 to over 18% in 2011-12. Therefore, changes in global oil prices not only affect the debit side but also the credit side of the current account balance of the country.

Fiscal balances (the impact of subsidies)

Given the prevalence of subsidies on sales of petroleum products and the existence of de-facto government regulation of prices of these products, volatility of crude oil prices is likely to get reflected in the fiscal and revenue balances of the government. The petroleum product prices in India have historically been controlled by the government. Following the first oil price shock of 1970s, an Administered Pricing Mechanism was put in place wherein the prices of refined products were regulated by the government. During the period from 1997 to 2002, a first attempt was made to dismantle the APM and deregulate petroleum product prices. However, with rising global crude oil prices, the government followed an ad-hoc pricing policy. While the fiscal subsidies were reduced, oil bonds were issued to oil companies to meet the growing under recoveries. In 2008-09, it was decided that the oil bond based compensation mechanism would be discontinued and the subsidy burden would be met through budgetary allocation. During the past few years, the government's share in under-recoveries has increased in the past five years. Oil subsidies now form a significant portion of the total budget expenditure and any shocks in international crude oil prices that are not allowed to pass-through to final consumer prices are likely to result in an increase in this proportion.

Managing Vulnerability To Oil Shocks

As the dependence on imports is likely to continue and so is the vulnerability to shocks, it is pertinent to look at measures that help in reducing the vulnerability and building resilience to oil shocks.

In the short term, building defenses against supply and price shocks by construction of Strategic Petroleum Reserves (SPRs) provides the most immediate defense against any shocks in supply or even demand. Further, SPRs also have the potential to act as a strategic signal against any intended blockage of supplies.

Based on available estimates, as of December 2009, India already possessed nearly 74 days of commercial storage capacity (OIDB, 2009). Construction of SPRs is already underway and the first phase when completed will add 5.33 MT of crude oil storage space. A second phase is also being planned and will add 12.5 MT to the strategic oil stocks of the country. However, in addition to the country's own stocks, collaboration with other countries to undertake joint stockpiling and release activities need to be adopted. In this context, having agreements with both consuming and supplying countries is essential. Since any supply shortage or maritime blockage is likely to impact most Asian oil consumers, a programme among these nations to jointly create and maintain strategic oil storage capacities will help in addressing short term supply shocks.

In order to reduce the impact of oil price shocks on the domestic economy, it is critical to review the country's policy on fuel subsidies and to manage the energy access agenda in a financially sustainable manner.

In the medium and long term, efforts to diversify sources of crude oil imports and substitution towards alternatives need to be made. As stated previously, countries from the Middle East constitute the largest sources of crude oil supply for India. Efforts need to be made to diversify the crude oil import portfolio of the country and to enhance diplomatic relations with oil producing countries. Cross investments wherein companies from oil producing are allowed to make investments in energy infrastructure in India can also be considered (TERI, 2009b). In this context, countries from Latin America and Africa provide vital options. In the past few years, imports of crude oil from Venezuela have increased from less than 2 Mt in 2007-08 to nearly 10 MT in 2011-12. Similarly, imports from Nigeria, have also increased from nearly 10 MT in 2007-08 to the current level of over 14 MT (2011-12). Increasing imports from these countries and furthering bilateral ties with their respective Governments will form a key component of India's oil security policy in the coming years

Further, in order to reduce the dependence on crude oil altogether, efforts to move towards alternative sources of supply need to be made. Particularly in the transport sector, policies on blending of bio fuels in automotive fuels have already been introduced but the enforcement of such regulations, coupled with investments in making the entire value chain feasible need to be provided. Further, promotion of electric and hybrid vehicles, encouraging a shift towards public modes of passenger transport and towards railways in freight transport needs to be undertaken.

Also notable is the increased share of renewables in the total energy mix of the country. An emphasis has been placed on developing the solar based energy generation capacity of the country. With the Jawaharlal Nehru National Solar Mission in place (JNNSM), the total solar based power generation capacity is set to rise to 20 GW by 2022. The average tariff has reduced by more than Rs10 per kWh in just two round of bidding. Significant more gains are in store for the sector with an increase in the scale of production in the sector and the improvements being initiated in terms of technology.

Role of OPEC

The organisation of petroleum exporting countries (OPEC) was founded in Baghdad, Iraq with the signing of an agreement in September 1960 by 5 countries namely Islamic Republic of Iran, Kuwait, Saudi Arabia and Venezuela. They were to become the founder members of the organization. These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), The United Arab Emirates (1967), Algeria (1969), Nigeria (1971) and Angola (2007). Currently, the organization has a total of 13 members.

How does OPEC function?

Representatives of OPEC Member Countries (Heads of Delegation) meet at the OPEC Conference to co-ordinate and unify their petroleum policies in order to promote stability and harmony in the oil market. They are supported in this by the OPEC Secretariat, directed by the Board of Governors and run by the Secretary General, and by various bodies including the Economic Commission and the Ministerial Monitoring Committee. The Member Countries consider the current situation and forecasts of market fundamentals, such as economic growth rates and petroleum demand and supply scenarios. They then consider what, if any, changes they might make in their petroleum policies. For example, in previous Conferences the Member Countries have decided variously to raise or lower their collective oil production in order to maintain stable prices and steady supplies to consumers in the short, medium and longer term.

Does OPEC control the oil market?

No, OPEC does not control the oil market. OPEC Member Countries produce about 41 per cent of the world's crude oil and 15 per cent of its natural gas. However, OPEC's oil exports represent about 55 per cent of the oil traded internationally. Therefore, OPEC can have a strong influence on the oil market, especially if it decides to reduce or increase its level of production. OPEC seeks stability in the oil market and endeavors to deliver steady supplies of oil to consumers at fair and reasonable prices. The Organization has achieved this in a number of ways: sometimes by voluntarily producing less oil, sometimes by producing more when there is a shortfall in supplies (such as during the Gulf Crisis in 1990, when several million barrels of oil per day were suddenly removed from the market).

How does OPEC oil production affect oil prices?

The Oil and Energy Ministers of the OPEC Member Countries meet at least twice every year to co-ordinate their oil production policies in light of market fundamentals, ie, the likely future balance between demand and supply. The Member Countries, represented by their respective Heads of Delegation, may or may not alter production levels during these regular Meetings and any Extraordinary Meetings of the OPEC Conference. Given that OPEC Countries produce about 41 per cent of the world's oil and 55 per cent of the oil traded internationally, any decisions to increase or reduce production may lower or raise the price of crude oil. The impact of OPEC output decisions on crude oil prices should be considered separately from the issue of changes in the prices of *oil products*, such as gasoline or heating oil. There are many factors that influence the prices paid by end consumers for of oil products. In some countries taxes comprise 70 per cent of the final price paid by consumers, so even a major change in the price of crude oil might have only a minor impact on consumer prices.

Present Scenario

The Government of India has adopted several policies to fulfill the increasing demand. The government has allowed 100 per cent foreign direct investment (FDI) in many segments of the sector, including natural gas, petroleum products, and refineries, among others. Today, it attracts both domestic and foreign investment, as attested by the presence of Reliance Industries Ltd (RIL) and Cairn India. Backed by new oil fields, domestic oil output is anticipated to grow to 1 MBPD by FY16. With India developing gas-fired power stations, consumption is up more than 160 per cent since 1995. According to data released by the Department of Industrial Policy and Promotion (DIPP), the petroleum and natural gas sector attracted FDI worth US$ 6.62 billion between April 2000 and September 2015.

The global crude oil price hit an 11-year-low on Thursday. The crude is trading below $35 a barrel in the international market. The escalating tensions between the Sunni dominated Saudi Arabia and Shia dominated Iran – the two top oil producing nations in the World - is said to be the reason behind falling crude prices. However India, one of the largest importers of crude oil, is saving billions of dollars due to falling prices of crude oil. India benefits by a fall in diesel and petrol prices, lower tyre prices and lower paint prices. Also there might be a significant 15% fall in air ticket prices in India.

According to a research data by Morgan Stanley, here is an explanation of the Oil Economics for the common people in India.

Crude Declines: Who Gains Most?

Petrol Pricing

- Consumers pay Rs 59.35/l
- OMCs charge Rs 22.46/l
- Dealers pay Rs 25.50/l
- Excise duty: Rs 19.37/l
- Dealer commission: Rs 2.25/l
- Value added taxes: Rs 11.87/l

Thus, 61% of what we pay on every litre of petrol goes to the companies, dealers, the Centre and the Delhi government.

Diesel Pricing

- Consumers pay Rs 45.03/l
- OMCs charge Rs 18.69/l
- Dealers pay Rs 23.11/l
- Excise duty: Rs 13.83/l
- Dealer commission: Rs 1.43/l
- Value added taxes: Rs 6.66/l

58.4% of what Delhi consumers pay is actually what the companies, dealers, centre and the state make.

How Much Have We Saved?

- Peak oil bill (in 2012): $108 bn

- Current 12-month oil bill: $61 bn

- So net savings: $47 bn

Who Benefits From Lower Oil Prices

- Bulk of savings (60%) goes to the government

- Lower oil subsidy: $14 bn

- Higher excise duties: $14 bn

- Passed on to consumers: $8 bn

- Corporate sector: $11 bn

How We Benefit

- By fall in petrol prices

- By fall in diesel prices

- 15% fall in air ticket prices

- Lower tyre prices

- Lower paint prices

Conclusion

India benefits from falling oil prices in every way, all macro variables are positively affected and the economy rises. Rising oil prices are not good for India as it is a major oil importing country, it adversely affects the macro variables like the inflation rises, govt. expenditure on subsidy increases, foreign currency reserves reduces, GDP and investment is affected negatively and the share market crushes, etc. The demand for crude oil is rising much faster than the supply, so alternatives should be used frequently and resources should be used sustainably.

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WTO And Agriculture

Ayush Lodha and Shubham Saxena

BA Economics II and BA Economics I

Abstract

The main objective of introducing increased market orientation is agricultural trade. The members have to transform their non-tariff barriers like Quotas into equivalent tariff measures. The tariffs resulting from this transformation as well as other tariffs on agriculture products are to be reduced on an average by 36 percent in the case of developed countries and 24 percent in the case of developing countries. The reductions were required to be undertaken over 6 years in the case of developed countries and 10 years in the case of developing countries. The least developed countries were not required to make any commitments for reduction. India being a founder member and supporter of the WTO, is likely to derive a number of benefits. One of the benefits is expected to improve prospects for agricultural exports as a result of likely increase in the world price of agricultural products due to reduction in domestic subsidies and barriers to trade. This research paper will throw light on the Agreement on Agriculture in context to a developing country.

Keywords: Agricultural Trade, Tariff, Agreement On Agriculture.

Introduction

The World Trade Organization is an international organization set up as a permanent body and is designed to play the role of a watch dog in the sphere of trade in services, foreign investments, intellectual property rights etc. The WTO Agreement came into force from January 1, 1995 with 160 countries as present members. One of the main agreements of WTO is Agreement on Agriculture which provides a framework for the long term reform of agricultural trade and domestic policies over the years to come. AOA deals specifically with-

1) Providing Market Access

2) Regulating Domestic Support

3) Containing Export Subsidies

Market Access

Developed countries have consistently demanded that developing countries, including India, reduce their agricultural tariffs. However, it is widely understood that tariff liberalization by developing countries could have severe consequences -- such as large-scale unemployment, poverty and hunger -- unless they are accompanied by a substantial reduction in, if not removal of, developed-country farm subsidies.

Domestic Support

It is generally accepted that the agricultural subsidies provided by developed countries not only restrict the access of developing-country exports, but have also depressed world food prices. Subsidized exports by developed countries also pose a threat to food and livelihood security in developing countries by depressing domestic market prices. Reduction of agricultural subsidies by developed countries is, therefore, a crucial goal that is being pursued by developing countries.

Export Subsidies

The Agreement contains provisions regarding member's commitment to reduce export subsidies. Developed countries are required to reduce their export subsidy expenditure by 36% and volume by 21% in 6 years, in equal installments (from 1986 –1990 levels). For developing countries, the percentage cuts are 24% and 14% respectively in equal annual installments over 10 years. The agreement also specifies that for products not subject to export subsidy reduction commitments, no such subsidies can be granted in the future.

Functions of WTO

The major functions of WTO are enforcement of multilateral trade agreements, trade negotiations & dispute settlement.

It has the following five functions as set out in Article III:-

1) The WTO shall facilitate the implementation, administration, operation of the multilateral India agreement.

2) The WTO shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the agreement in the Annexes to this Agreement.

3) The WTO shall administer the trade policy review mechanism.

5) With a view to achieving greater coherence in global economic policy-making, the WTO shall co-operate with the International Monetary Fund and with International Bank for Reconstruction & Development.

While AOA is directly concerned with agriculture there are some other WTO agreements that have a close bearing on agriculture and influence free and fair trade in agriculture. In particular one may mention three Agreements-

1) Agreement on Sanitary and Phyto- Sanitary (SPS)

2) Agreement on Technical Barriers to Trade (TBT)

3) Trade Related Intellectual Property Rights (TRIPS)

Signing of AOA and allied agreements was greeted by great euphoria by a number of developing countries as it was expected that these agreements would open up the market for their products in developed countries. As far as India is concerned, support given to agriculture was negative while OECD (Organization for Economic Co-operation & Development) was found heavily subsidizing their agriculture. Based on this, it was expected that the implementation of AOA would result in reduction of domestic support in OECD countries, which would in turn raise international prices of agriculture commodities & would improve export prospects for India & other countries.

Agreement on Agriculture (AOA)

Tenth Five Year Plan notes a number of issues of concern as far as Agreement on Agriculture is concerned:-

- AOA has legitimized the various trade distorting practices of the developed countries in their favor.
- AOA provides that countries not using any subsidies during the period 1986-88 are prohibited from introducing any new subsides in the WTO reign.
- About 40%-50% of support to farmers in the USA and the European Union is the Green and Blue box subsidies and are thus exempted from reduction commitments. India and other developing countries have objected to this and have argued that in the absence of specific discipline to ensure that farmers do not divert payments received from non-trade distorting objective to production boosting investment, all subsidies can distort trade.
- The peak tariff on agricultural commodities in developed countries is very high.

Agriculture & Food Security: A Major Challenge

While nearly half of the population of the country is engaged in agriculture for livelihood, the share of agriculture in total GDP is only around 20%. As against a growth target of 4% for the agriculture & allied sectors for the period 2012-17.

Year	Growth
2012	1.2%
2013-14	3.7%

In recent times, agricultural incomes in the country stress on account of the rising cost of inputs & the inability of farmers to get reasonable prices for their produce.

Given the limited scope to increase the area under future agricultural growth is contingent on increasing agricultural productivity. This is necessary not only to ensure reasonable returns to farmers but also to bolster food security-: including availability and affordable access.

India’s Stand on Agriculture Issues in WTO

India’s total export of agricultural and allied products including plantation at US $17.96 billion in 2009-10 constitute 9.9% of its export share. Developed country markets continued to account for nearly 35% of India’s agricultural-exports. Like India, other developing countries have been insisting that special and differential treatment for developing countries must be integral to all aspects, including the negotiated outcomes on agriculture under the Doha round in the WTO. Along with other developing countries particularly its alliance partners in the G-20 and G-33, India has been emphasizing that the Doha agricultural outcome must include at its core:-

1) Removal of distorting subsidies & protection by developed countries to level the playing field.

2) Appropriate provinces designed to safeguard food or livelihood security and to meet the rural development needs in developing countries.

Specific Demands of India are as Follows-

- India demands that the WTO should finalize an agreement allowing India & many other developing nations more freedom to subsidies and stock pile more food grains.
- WTO norms limit subsidies to 10% of the total value of agriculture production based on 1986-88 prices. India & some other developing countries argue that the base year is outdated.
- India was a permanent solution to subsidies issue because Trade Facilitation Agreement (TFA) for an easy trade worldwide has also been declared. India is in favor of this also and agreed to sign before the deadline i.e. July 2014. However till now there is no move by WTO towards framing guidelines.
- An operational and effective Special Safeguard Mechanism (SSM) to check against global price dips and import surges, which is more flexible than the existing safeguard mechanism available mainly to developed countries. The G-33 & India remain firm that prior exclusion of any product, particularly special products from the ambit of SSM cannot be justified or accepted.

India and WTO

WTO and Negotiations

- In keeping with its strong commitment to multilateralism and the DOHA development agenda India has been working with rest of the WTO members to ensure that the imbalances in global trade rules are corrected in order to ensure better integration of developing countries in International Trade.
- The outcome of Bali Ministerial Conference of the WTO in December 2013 is significant for its recognition of some of the imbalances in the agricultural trade rules through the decisions on the issue of public stockholding for food security purposes and export competition. The need for policy space in the area of food security, a very genuine requirement of the developing countries to ensure the livelihood and food security, of the poor, was not only recognized but it was also decided in November 2014 in WTO to find a permanent solution on the issue in a time bound manner.

Criticism

The Agreement has been criticized by civil society groups for reducing tariff protections for small farmers, a key source of income in developing countries, while simultaneously allowing rich countries to continue subsidizing agriculture at home.

The Agreement was criticized by NGOs for categorizing subsidies into trade-distorting domestic subsidies (the "amber box"), which have to be reduced, and non-trade-distorting subsidies (blue and green boxes), which escape discipline and thus can be increased. As efficient agricultural exporters press WTO members to reduce their trade-distorting "amber box" and "blue box" support, the green box spending of the developed countries has increased.

A 2009 book by the International Centre for Trade and Sustainable Development (ICTSD) showed how green box subsidies distorted trade, affecting developing country farmers and harming the environment. While some green box payments only had a minor effect on production and trade, others have a significant impact.[6] According to the country's latest official reports to the WTO, the United States provided $76 billion (more than 90% of total spending) in green box payments in 2007, while the European Union notified €48 billion ($91 billion) in 2005, around half of all support. The EU's large and growing green box spending was decoupled from income support, which could lead to a significant impact on production and trade.[1]

Third World Network stated, "This has allowed the rich countries to maintain or raise their very high subsidies by switching from one kind of subsidy to another. This is why after the Uruguay Round the total amount of subsidies in OECD countries have gone up instead of going down, despite the apparent promise that Northern subsidies will be reduced." Moreover, Martin Khor argued that the green and blue box subsidies can be just as trade-distorting—as "the protection is better disguised, but the effect is the same"

Conclusion

Agriculture is the mainstay of the developing countries and India is no exception, with a large population dependent on agriculture, India has a very high stake in the negotiations on agriculture in the WTO. The historically high domestic support and export subsidies available to farmers in the rich countries are a matter of grave concern to the developing countries. India's efforts are therefore, to protect the interests of poor farmers, which can be achieved through substantial reduction, in the very high level of trade distorting subsidies given by some of the developed countries, as well as through specific provisions in the WTO Agreement on Agriculture to provide protections and options to the developing countries for a leveled playing field.

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BoP Crisis and Economic Reforms

Isha Ramawat

BA Economics II

Abstract

The British ruled India for around 200 years. And in all those years their focus was mainly to take away our raw materials and dump their goods. When we achieved Independence, our country's economy was at its worse. But with the Government and policies that followed, India became stable. Around the 5th Five year plan, India's economy again started falling due to worldwide depression and by the Gold War in the 1980s.

Our foreign reserves were around a billion and thus we had to take loan from IMF and had to deposit 67 tons of gold to them. Now, this time our economy needed some good guidance to become stable again.

Though the role of government was the most important, but RBI played a big role in helping the Government to stabilize our economy.

The Narasimham Committee submitted its report on Nov. 16, 1991 had some really good suggestions and policies which when implemented stabilized and brought improvement in our economy, which could be seen in the budget report of 1992-93.

After the 1991 Balance of Payment crisis there had been no much crisis in our country due to the policies made after. This report can be of great help as the suggestions in this report can give appropriate solutions to face some specific and related problems which are similar with the year 1991-91.

Keywords:

Balance of Payment Crisis, Foreign Reserves, World Depression, Reserve Bank Of India

Introduction

In 1991-92, India was facing a Balance of Payment crisis as we were left with only a billion of foreign reserves. We had to make a compromise cum agreement with IMF. The Narasimham committee report in

1991 was a turning point in our economy, which was on its worst position where we had foreign currency reserves less than a billion. This paper focuses on each and every suggestion that was given by Narasimham Committee to stabalize the economy during the Balance of Payment crisis in 1990-91. It also stresses upon the role of RBI and tactics used to bring our economy back on track.

Review of Literature

The information used in this research paper is secondary data from the following links:

1. India's BoP crisis and its impact - Neha Dukonia, Nov.26,2012 (www.slideshare.net) "How and why Balance of Payment crisis took place, steps taken by government in fiscal, trade and industrial policies, and role of RBI in stabilizing our economy."

2. Narasimham Committee Report- Ashutosh, Oct. 11, 2010 (www.slideshare.net) “Details about Narasimham committee report I and II, why was this committee formed, all its policies and their implementation along with the detailed analysis of our economy."

3. Narasimham Committee Report on financial reforms- Pankaj Baid, Nov. 10,2012 (www.slideshare.net) " Detailed analysis of Narasimham Committee reports, their implementations and impact after along with the details of problems faced in the years 1991-92. "

4. BoP crisis in India- www.gktoday.in - May 15, 2011. " Details and analysis of all the crisis that occurred in India right from 1956 crisis to 1991 crisis related to Balance of Payments."

5.Economic Liberalization in India- www.wikipedia.com
Reserve Bank of India- www.wikipedia.com

6. Budget 1991-92, Budget 1992-93 and General Review RBI - www.indianbudget.nic."Speech given by the then Finance Minister Manmohan Singh in the year 1991 and 1992 along with the complete details and analysis of our economy."

Need for study

There is a need to study the Narasimham report because:

1. It will help in shaping our future policies so that the crisis that occurred in 1990-91 may never occur again.

2. It will help us in concluding the effects of different policies in our economy.

3. So that we can analyze the different functions of RBI and how can they be used to stabilize our economy even today.

Fifth Five Year Plan

- There was a shift in policy during the 5th five year plan (1974-79). This plan initiated a program emphasizing growth with distribution.

- Three important committees were set up in early 1980s. Narasimham committee on the shift from physical controls to fiscal controls, Sengupta committee on the public sector and the Hussain committee on trade policy.

- Two kinds of de-licensing took place .First, 30 groups of industries were de-licensed without any investment limit. Second, in 1988, all industries were exempted from licensing except for a specified negative list of 26 industries.

- Entry into industrial sector was made easier but exit still remained closed and sealed.

Failure in Planning Process

- While the reasons for adoption a centrally directed strategy of development were understandable against the background of colonial rule, it, however soon became clear that the actual results of this strategy were far below expectations.

- Instead of showing high growth, high public savings and a high degree of self-reliance, India was actually showing one of the lowest rates of growth in the developing world with a rising public deficit and a periodic BoP crisis. Between 1950 and 1990, India's average growth rate was less than 4% per annum.

Crisis of 1990-91

- BoP crisis had its origin from the fiscal year 1979-80 onwards, by the end of 6th five year plan.

- India's BoP deficit (Current Account) rose to Rs. 11,384 crores and thus this issue took the central position in India's macroeconomic management policy.

- The value of imports almost doubled in India during 1981-82 and as from 1980-83, there was global recession which made our exports suffer as well.

India had to meet its deficit in the Current Account through the withdrawal of SDR and borrowing from IMF under the Extended Facility Programme.

- During the 7th five year plan between 1985-86 and 1989-90, India's trade deficit amounted to Rs. 54,204 crore. The net invisible was Rs. 13,157 crore and India's BoP was Rs. 41,047 crore. India was under a severe BoP crisis.

- The things became worse by the 1990-91 Gulf War, which was accompanied by double digit inflation.

- India's credit rankings got downgraded. In October 1990, a Net Outflow of NRI deposits started and continued till 1991.

At this time, the Prime Minister of India was Chandra Shekhar and the Finance Minister was Yashwant Sinha. The government took an emergency loan of $2.2 billion from IMF by pledging 67 tons of India's gold reserves as collateral. Out of the 67 tons, 20 tons of gold were deposited in Union Bank of Switzerland and 47 tons to Bank of England as a bailout deal with the IMF.

On 21 May 1991, Rajiv Gandhi was assassinated bringing nationwide sympathy for Congress. The new Prime Minister was PV Narsimha Rao with Finance Minister was Manmohan Singh.

In 1991, following measures were taken:

- Rupee was devalued by 23%.

- Industries were de-licensed.

- Economy was opened for foreign investments.

- Export tariffs were lowered and import restrictions were dismantled.

- Reduction of taxes.

RBI played a very important role in stabilizing the economy.

Meaning of LPG

Liberlisation

It refers to the relaxation of previous government restrictions usually in area of social and economic policies. Thus when government liberalizes trade it means it had removed the tariff subsidies and other restrictions on the flow of goods and services between countries.

Privatisation

It refers to the transfer of assets or service functions from public to private ownership or control and opening of the closed areas to private sector entry. It can be achieved by leasing, contracting and franchising.

Globalisation

Integrating domestic economy with world economy.

Need for LPG

- Foreign currency reserves had tumbled down to almost billion.
- Inflation was at soaring high of 17 % , highest level of fiscal deficit.
- Capital was on the verge of flying out of the country and we were on the brink of becoming loan defaulters.
- Foreign investors were losing confidence due to above mentioned factors.

Narasimham Committee Report on Financial Reforms

- Headed by Mr. Narasimham, who was the 13th Governor of RBI .
- First Commiittee, known as Narasimham Commiittee I, was appointed in August 1991, against the backdrop of the BoP crisis (2nd Committee in 1998)
- Set up to analyze all factors related to financial system and give recommendations to improve its efficiency and productivity. It was given the task to review the implementation of banking sector.

Problems then Faced:

- Higher rates of CRR (15%) and SLR (38.5%)
- Direct Credit Programs.
- Political and Administrative interference.
- Subsidizing of credit.
- Mounting expenditures of Banks.

Narasimham Committee Report 1991

- Narasimham Committee I was a 9 member committee set up by the government on India on August 14, 1991.
- It was set up to examine all aspects relating to the structure, organization, function and procedures of the financial system.
- Committee submitted its report to the government on Nov. 16, 1991 and was talked in the Parliament on Dec. 17, 1991.

Key Suggestions

- Reduction in CRR and SLR
- Phasing out Directed Credit Programs
- Interest Rate deregulation
- Structural Reorganization of Banks
- Establishment of ARF Tribunal
- Change in classification of Assets
- Allowing banks to raise Capital
- Liberalization of capital markets

- Abolition of branch licensing

RBI

- The Reserve Bank of India is India's central banking institution, which controls the monetary policy of the Indian Rupee. Following India's independence on 15th August, 1947 , the RBI was nationalized in the year 1949.

- RBI plays an important role in the developmental strategy of the Government of India. It is a member bank of the Asian Clearing Union.

- The national economy came down in July 1991 and the Indian rupee was devalued. The currency lost 18% relative to the US Dollar and the Narasimham Committee advised restructuring the financial sector by a temporal reduced reserve ratio as well as SLR.

- New guidelines were published in 1993 to establish a private banking sector. The turning point should reinforce the market and was often called neo-liberal. The central bank deregulated bank interests and some sectors of the financial market like the trust and property markets.

Structure of RBI

- CENTRAL BOARD OF DIRECTORS

It is the main committee of RBI. The government of India appoints the directors for a 4-year term. The Board consists of a Governor, and not more than 4 Deputy Governors, 15 Directors to represent the regional boards, 1 from the Ministry of Finance and 10 other Directors from various fields.

Governor of RBI- Raghuram Rajan

4 Deputy Governors- HR Khan, Dr. Urjit Patel, R Gandhi, SS Mundra

One of the four Deputy Governors is traditionally from RBI Banks Executive Directors. As for the rest, one is nominated from among the chairpersons of Public Sector Banks; the other is an economist of repute. It is also often seen that an officer of IAS is appointed Deputy Governor of RBI and later governor of RBI. Y. Venigopal Reddy, IAS batch 1964 is an example.

- SUPPORTIVE BODIES

The RBI has 4 regional representatives: North in New Delhi, South in Chennai, East in Kolkata and West in Mumbai. The representations are formed by 5 members, appointed for four years by the Central Government and serve beside the advice of the Central Board of Directors- as a forum for regional banks and to deal with delegated tasks from the Central Board. The institution has 22 regional offices.

Functions of RBI

- ## Bank of Issue

Under Section 22 of the RBI Act 1934, the bank has the sole right to issue bank notes of all denominations (except one rupee notes and coins, which were issued by the Ministry of Finance and is now stopped from being issued). The bank can even destroy currency notes and coins which are not fir for circulation.

- ## Regulator and Supervisor of the Financial System

- RBI prescribes broad parameters of banking operations within which the country's banking and financial system works.
- Its objectives are to maintain public confidence in the system, protect depositor's interest and provide cost effective banking services to the public.
- The OMBUDSMAN SCHEME has been formulated by the RBI for effective addressing of complaints by bank customers.
- RBI controls the monetary supply, monitors economic indicators like the GDP and has to decide the design of the rupee bank notes as well as coins.
- Managerial of Exchange Control

The Central Bank manages to reach the goals of the Foreign Exchange Management Act, 1999.

Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

- ## Banker of the Bank

- RBI also works as a central bank where commercial banks are account holders and can deposit money. RBI maintains banking accounts of all scheduled banks. Commercial banks create credit.

- It is the duty of RBI to control credit through the CRR, bank rate and open market operations.

- As the banker's bank, the RBI facilitates the clearing of cheques between the commercial banks and helps inter-bank transfer of funds.

- It acts as a lender of the last resort by providing emergency advances to the banks.

- **Developmental Role**

The Central Bank has to perform a wide range of promotional functions to support national objectives and industries. RBI faces a lot of inter- sectoral and local inflation related problems as a result of the dominant part of the public sector and many other problems.

Banker of Government

Policy Rates and Reserve Ratios:

The RBI is also a banker to the government and performs merchant banking function for the central and the state governments. It also acts as their banker. The National Housing Bank (NHB) was established in 1988 to promote private real estate acquisition.

- **Bank Rate**

1. RBI lends to the commercial banks through its discount window to help the banks meet depositor's demands and reserve requirements for long term. The interest rate the RBI charges the banks for this purpose is called bank rate.

2. The bank rate has lost its significance as a monetary policy tool as the central bank signals stance through changes in repo, the rate at which banks borrow short-term funds from RBI.

- CRR (Cash Reserve Ratio)

Every commercial bank has to keep certain minimum cash reserves with RBI

- SLR (Statutory Liquidity Ratio)

Apart from CRR, banks are required to maintain liquid assets in the form of gold, cash and approved securities.

To increase Liquidity: decrease either bank rate, CRR or SLR.

To decrease Liquidity: increase either bank rate, CRR or SLR.

Generally RBI uses three kinds of selective credit controls:

1. Minimum margins for lending against specific securities.
2. Ceiling on the amounts of credit for certain purposes.
3. Discriminatory rate of interest charged on certain types of advances.

Direct credit controls in India are of three types:

1. Part of the interest rate structure, i.e., on small savings and provident funds,are administratively set.
2. Banks are mandatory required to keep 23% of their deposits in the form of government securities.
3. Banks are required to lend to the priority sectors to the extent of 40% of their advances.

Suggestions in 1991 Report by RBI

Reduction in the SLR and CRR:

1. One of the most important recommendations made by the committee was a drastic reduction in CRR and SLR.
2. The higher amount of CRR and SLR were hindering the productivity of Banks considerably.
3. CRR was recommended to reduce 15% to a range of 3-5 % and SLR from 38.5% to 25% by 1996-97.

Phasing out the directed credit programs

1. There was a need to extend the reach of Banking System to the neglected sectors of the economy.
2. The committee proposed that the directed credit committees should be phased out.

3. However, it also called for re-examination of the present relevance of these programs, especially for those sectors which had become self- sufficient.

Interest rate deregulation

1. The prevailing structure of administered rates was highly complex and rigid and thus the committee called for deregulating it so that it reflects the emerging market conditions.

2. However, it warned against instant deregulation and suggested that the rates be brought in line with the market rates gradually over a period of time.

3. The committee also recommended phasing out concessional Interest Rates.

Structural reorganization of banks

In regard to the structure of the Banking System, the committee believed that the structure should consist of:

1. 3-4 Banks (including RBI) becoming International banks.

2. 8-10 National banks with a network of branches throughout the country, engaged in universal banking.

3. Local banks whose operations would be generally confined to a specific region.

4. Rural banks (including RRB's) whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities.

5. The move towards this revised system should be market driven and based on profitability considerations and brought about through a process of mergers and acquisitions.

6. The committee also called on the government to stop further nationalization of banks.

7. It was also proposed that there should be no bar to start new banks in the private sector being set up provided they confirm to the startup capital and other requirements.

8. It also called for liberalizing the process of foreign banks entering the country.

Control of banks

1. The committee recommended that RBI should be the sole authority in charge of controlling the banks.

2. It also called for greater autonomy to be given to the public sector banks.

3. The committee believed that the internal organization should be the sole power of the management of the Individual Banks.

4. For the medium and large national banks the committee proposed a three - tier structure in terms of head office, a zonal office and branches.

5. For every large bank, a four- tier structure was proposed with the addition of a regional office along with the three mentioned above.

Establishment of ARF Tribunal

1. Those days, the proportion of bad debts and non- performing assets of the public sector banks and developmental financial institutes was very high.

2. The committee recommended the establishment of an Assay Reconstruction Fund (ARF).

3. The suggestion was that the ARF would take over the proportion of the bad and doubtful debts from the banks and financial institutes.

4. All bad and doubtful debts of the banks were to be transferred in a phased manner to ensure smooth and effective functioning of the ARF.

5. The committee also suggested the formation of special tribunals to recover loans granted by banks.

Classification of Assets

1. The committee recommended that the assets of bank should be classified into four categories:

a. Standard b. Sub - standard

c. Doubtful d. Loss Assets

2. It also called for full and transparent disclosures to be made in the Balance Sheet as recommended by the International Accounting Standards Committee.

Raising capital through markets

1. The committee recommended that profitable banks and banks with good reputation should be permitted to raise capital from the public through the capital market.

2. Regarding other banks, the government should subscribe to their capital or give a loan, which should be treated as a subordinate debt, to meet their capital requirements.

Liberalization of Capital

1. The committee suggested that there should be no need to obtain any prior permission to issue capital.

2. It also called for the office of the "Controller of Capital issues" to be abolished.

3. The committee also recommended that the capital markets should be opened for Foreign Portfolio Investments.

General Review

1991-92

- The price situation, which was of immediate concern to the vast mass of our people, possessed a serious problem as inflation had reached a double digit level. During the fiscal year ending 31st March 1991 the wholesale price index registered an increase of 12.1 per cent, while the consumer price index registered an increase of 13.6 per cent.
- The major worrisome feature of the inflation in 1990-91 was that it was concentrated in essential commodities. The prices of these commodities rose in spite of the three good monsoons in a row and hence the three successive bumper harvests.
- The Government had introduced changes in import-export policy, aimed at a reduction of import licensing, vigorous export promotion and optimal import compression.
- Interest rates are a crucial dimension of the financial sector. In the formative stages of the development of credit markets, administrative intervention in interest rates was both necessary and desirable.
- In 1991, it was required to begin to relax the degree of intervention and impart a greater flexibility to the structure of interest rates. The Reserve Bank of India had already taken an important step in this direction, by stipulating a floor rate of interest and providing freedom to commercial banks to charge interest rates above the floor level based on their perceptions of risk.

- The Government proposed to extend a similar freedom to term-lending financial institutions, where the minimum interest rate would be 15 per cent, and these institutions would be free to charge an interest rate in accordance with their perception of the creditworthiness of borrowers.
- Interest rates payable on bank deposits had increased.

1992-93

i. Immediate objective of restoring India's credibility and pulling the economy back from the slide into financial chaos was achieved.

ii. Our foreign exchange reserves have been rebuilt to about Rs.11, 000 crores. Non-Resident Indians were no longer withdrawing their deposits.

iii. Successful arrangements had been made with multi-lateral financing institutions such as the IMF, the World Bank and the Asian Development Bank to obtain quick disbursing funds to support the balance of payments in the current year (1992) .

iv. As a first step in implementing the recommendations of the Narasimham Committee, the Government had decided to begin a phased reduction in the Statutory Liquidity Ratio (SLR). Accordingly, the SLR on incremental domestic liabilities of the commercial banks was reduced from 38.5% to 30% with effect from 1992-93.

v. This reduction was in line with the proposed reduction in the fiscal deficit, which had reduced the Central Government's need to borrow from commercial banks. It released funds for banks to expand credit to agriculture and industry. Steps were taken to develop an active market for Government securities which made Government less dependent on statutory borrowing from the banks in future.

vi. The latest CSO for 1991-92 suggested that the economic growth was only 1.2 %, significantly lower than the growth of 2.5 % . The prospects for the year 1992 were better and the growth of GDP is expected to exceed 4% in 1992-93.

vii. Credit restrictions introduced in 1991-92 needed to be continued in 1992-92 in view of continuing inflationary pressure at the start of the year 1992. However, some relaxations were introduced during 1992-93 in the light of easing of inflationary pressure and keeping in mind the need to stimulate an industrial recovery.

viii. Total bank credit to the commercial sector expanded by Rs. 21012 crore up to January 8, 1993 compared with only Rs. 7135 crore in the same period of 1991-92.

ix. There was a gradual stabilization of the Balance of Payments position in the course of 1991-92. Foreign exchange reserves were restored to more normal levels increasing from $ 1.1 billion in June 1991 to $5.6 billion at the end of March 1991.

x. Import restrictions were gradually lifted in the course of 1991-92 as the balance of payments stabilized. By the end of 1991-92 the new Liberalized Exchange Rate Management System (LERMS) introduced in the budget 1992-92 eliminated import licensing in most capital goods, raw materials, intermediaries and components and introduced a dual exchange rate system with one rate effectively floated in the market.

xi. A large proportion of commercial bank funds has in the past been pre-empted by Government borrowing at below market rates through the SLR and by RBI through the CRR. At one stage the combined pre-emption had an adverse effect on bank profits. This limited the ability of the banks to pay a high enough interest rate on deposits and at the same time forced them to charge very high interest rates on the commercial part of their portfolio. This was the main distortion in the financial system.

xii. In recognition to these problems the Government had decided progressively to reduce the pre-emption under the SLR and CRR and steps had been taken in this direction in the course 1992-93. It was the intention of the Government to reduce SLR to 25% over the next 3 years and to reduce the CRR to below 10% over a 4 year period.

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Issues facing Defense Expenditure in India

Nidhi Taparia

BA ECONOMICS I

Abstract

A popular Latin adage goes, “If you want peace, prepare for war.” In a world where terror strikes are daily news, hard power has begun to dictate the terms of international peace treaties and trade agreements are signed taking military strengths into consideration, it is imperative for India to toughen its defence systems. This importance is so massive that the categorization of defence expenditure as non-developmental raises doubts about the nomenclature of such items of public spending. In a country that is still in the infancy stage of its growth, increase in non-developmental expenses like military building, are bound to be met with apprehensions. The onus lies on the government to plan the spending such that both the security and social dimensions of development flourish en masse. While hike in defence budget has become customary annually, even the increased budgets have not been able to cater to the increasing demands of a military that urgently requires modernization. The paper identifies some key issues in this regard namely, the distorted Capital-Revenue Expenditures ratio, and the dismal state of indigenous manufacturing by public as well as private sectors in the country. It also points out that the higher values of quantitative indicators have not ensured any comparative advantage to India that is vying for global complacency. Secondary data from reliable sources has been employed to build the arguments. The paper concludes by saying that contrary to popular belief, military expenditure does contribute to the economic growth of nations, developing ones in particular.

Keywords: Defense System, Public spending, Defense Budget, Capital-Revenue Expenditure Ratio.

Introduction

“Defence of every square inch of our mother land comes before anything else. So far, we have been over dependent on imports, with its attendant unwelcome spin-offs.”

- Shri Arun Jaitley, Finance Minister, delivering the annual budget speech 2015-16

The first full budget of the Prime Minister Narendra Modi led government created a stir for more reasons than one. It was hailed as pragmatic and growth oriented by experts and general public alike. But what created the most breaking headlines were the simultaneous but reverse-directional movements of change in the expenditure on defense and health. While the former witnessed a 7.7 per cent increase over the last year’s budget, the allocation to health sector was down by 5.7 per cent. Some termed it as the time ‘to ask whether it’s necessary to spend so lavishly on machines of death in the first place’ (Vasunia, 2015). But most others saw ‘that the expectations and realities are ironically not converging’ (Chibber, 2015). Before we proceed to the statement and analysis of the issues facing defense expenditure in India, it is important to have an overview of the budgetary allocations to this sector most recently and in recent times along with some associated statistics and trends. These will act as a background guide upon which the later arguments will be built.

The Government set aside Rs. 2,46,727 crore for defense, which as stated previously amounts to a 7.7 per cent hike over the 2014-15 allocation of Rs. 2,29,900 crore. But this is only half the story told. The share of defense budget in GDP has reduced from 1.81 per cent in 2014-15 to 1.75 per cent in 2015-16. The popular rhetoric goes that for a competitive defense force, the defense budget should be pegged at 3 per cent of the national GDP in the very minimum. The proportion of our defense budget is only slightly more than the prescribed ratio.

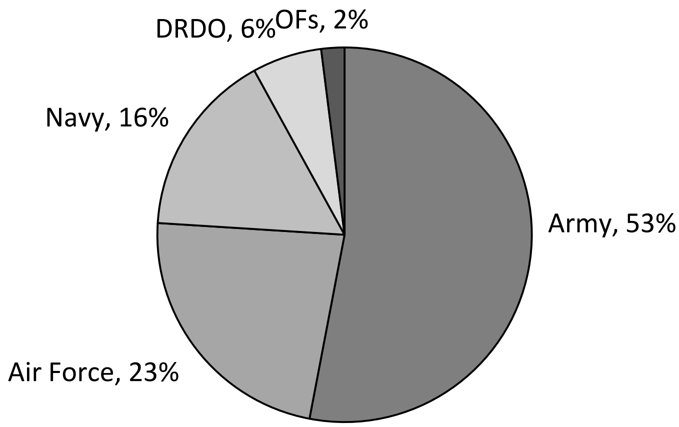
Table 1 Comparative Statistics of Defense Budgets of 2014-15 and 2015-16

	2014-15	2015-16
Defense Budget (in crore)	2,29,000	2,46,727
Share in GDP (in per cent)	1.81	1.75
Share in Central Government Expenditure (in per cent)	12.8	13.9
Growth of Defense Budget (in per cent)	12.4	7.7

Source: IDSA)

The total budget is distributed between the three services, Defence Research and Development Organization and Ordnance Factories, in varying proportions. It should also be noted that another

Figure 1
Distribution of Defense Budget 2015-16



Rs. 62,852.6 crore will be provided to the Ministry of Defence for Defence Pensions and civil expenditure of the Ministry, both of which are excluded from the official defense budget.

It is also important to view these figures in the light of some key economic indicators prevailing at the time of budget announcement. The Indian economy was slated to grow by between 8.1 and 8.5 per cent in 2015-16. The fiscal deficit was projected to decline to 3.9 per cent of GDP and on the external front there was good news to with a sharp narrowing of the Current Account Deficit.

The Anomaly between Capital and Revenue expenditure

The expenses in defence sector are broadly classified into Capital Expenditure (CE) and Revenue Expenditure (RE).

CE refers to asset building and investments for long term benefits and technical improvements. In the defence sector, this relates to acquisition of arms and modern weaponry like aircrafts, missiles, tanks and battleships.

RE on the other hand is recurring and routine. The salaries, pensions and consumables among other items constitute RE.

Generally, a high capital to revenue ratio is indicative of a highly competitive and modern defence force. But even as the total budget sees a hike, CE has declined proportionately.

Table2

Capital and Revenue Expenditure in 2014-15 and 2015-16

(Source: IDSA)

	2014-15	2015-16
Revenue Budget (in crore)	1,34,412.05	1,52,139.0
Growth of Revenue budget (in per cent)	14.9	13.2
Capital Budget (in crore)	94,587.95	94,588.0
Growth of Capital Budget (in per cent)	9.0	0.0

The Capital to Revenue has always remained skewed in favor of revenue expenditure. Ideally, it should remain at a minimum of 40:60. But for the year 2015-16, it further came down to 39:61. Worse still, the Indian Army, the largest share holder of the defence budget has become a gravely revenue intensive service with 80 per cent of its budget being earmarked for revenue expenses.

Two factors can attribute further to this anomaly. The economy is poised for the 7th Pay Commission in 2016 and consequently salaries are bound to increase. There will be an additional burden of Rs. 10,000 crore going towards One Rank One Pension (OROP).

The need for military modernization has been felt since quite some time now. ‘The armed forces need to upgrade their command and control systems and subsequently improve their intelligence, surveillance, and target acquisition capabilities if they are to become proficient in launching effect based operations in network centric environment with threats to cyber security’ (Kanwal, 2015). But the skewed Capital-Revenue ratio and probable increases in revenue expenses in near future remain major roadblocks. Annual price inflation in arms and ammunition is around 12 to 15 per cent. The near negligible hike in capital expenditure will be unable to absorb this inflation and as a result of which the yearly procurement of rather operationally critical items gets delayed, causing substantial burden on the exchequer.

Make in India and the state of Indian defence equipment manufacturers

"We import weapons from other countries to equip our armed forces. India not only spends crores of rupees but also gets relatively not so latest technology."

- Shri Narendra Modi, Prime Minister

It was big news when a 2011 Stockholm International Peace Research Institute (SIPRI) study found that India was now the world's largest importer of arms. Many saw this as an aggressive step towards military expansion. On the contrary, 'this is reflective of India's weak defence manufacturing ability at home' (Srinath, 2013). The fact that about 70 per cent of its defence equipments are imported reflects that weakness clearly.

About 90 per cent of current domestic defence manufacturing can be attributed to the public sector, majorly the 9 DPSUs and 39 OFs. But us V.K. Saraswat, previously the Chief of DRDO, hints, there has historically been a mismatch between technology maturity, industrial capability and project goals in the public sector. Further, the civilian leadership that heads much of public decision making has proven to be lacking in the requisite knowledge and expertise required to arbitrate effectively.

The realization of the significance indigenous production holds and the opportunities defence market offers to private players and MSMEs, has happened since a long time. But the heavy investment the industry requires is the biggest impediment. 'Unlike other sectors, defence industry is a monopsony in which the single buyer, the government, is also the authority laying down procurement policies' (Singh, 2015). Hence the need for active government assistance in funding not only private production projects, but also in the research and development of defence technologies and in encouraging exports, that would help the manufacturers achieve economies of scale. Overseas acquisition by Indian companies would accelerate the process of technology transfers from abroad.

The Union Budget 2015-16 provisioned to incentivize the indigenous industry, in more ways than one. Tax has been brought at parity with that of sector-leading nations and the ease of business has been improved, in general.

However, while the aforementioned reforms ‘are likely to help defence manufacturing in some way, they may not prove to be sufficient’ (Behera, 2015). The biggest allocations under the ‘Make’ head would mostly go to two industry consortiums – one of TATA Power SED and L&T, and the other of Bharat Electronics Limited.

Boost in expenditure, but no comparative advantage

‘India has been spending more on defence in the last 20 years, but so has the rest of the world’ (Srinath, 2013). The Indian Armed Forces constitute the third largest volunteer war-fighting force in the world. New Delhi is also the 8^{th} largest spender on defence. When viewed in an absolute vacuum state, these numbers suggest that there is nothing to worry about. But on a relative scale, India has not gained any comparative advantage.

In the last decade, China, Russia, and Saudi Arabia have all increased their defence expenditure at a faster rate than India. It is a major cause of security concern that India’s biggest competitor also happens to be its immediate neighbor. China is benefitting from its dual strategy, direct and indirect. While continuing to invest heavily in the modernization of its already ultra-modern People’s Liberation Army (PLA) and its sister services – the navy, the air force and the nuclear strike force the Second Artillery, and on infrastructure development along the Sino-Indian border to enhance accessibility, Beijing is also foraying deep into the Indian Ocean. It has established strong economic ties with the ‘string of pearls’ nations and in some cases ports and enlarged deals too.

The lack of funds for capital acquisition and indigenous defence manufacturing has contributed towards India’s lackadaisical approach. But quantitative indicators are not the only measures of military strength. In fact, in the light of sheer numbers, New Delhi has been accorded a place of pride internationally. But experts have pointed out many qualitative flaws as well. There are a plethora of characteristic challenges of the Indian Armed Forces like absence of a war-gaming strategy and tri-service cooperation that are acting as hindrances.

Conclusion

If New Delhi has to have a real place of pride on the world map, a fortified and well-equipped military is essential. Security is also a major concern for India, given the terrorized world and competitive region it inhabits. As research has shown, defence expenditure also influences economic growth (Rashid & Arif, 2012). Proper planning and strategy-building are must for letting the hikes in defence budgets trickle down and actually benefit the Indian Armed Forces. Perhaps, a strong Indian military will translate as a strong Indian economy too.

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F-G-L TRIANGULAR MODEL : A way forward to the Unorganised sector in Agriculture

Pramod Singh

BA Economics II

Abstract

The Indian economy is characterized by the existence of a vast majority of the unorganized or informal labour employment. The unorganized sector workers in India constitute more than 90% of the total workforce contributing more than 50% to the GDP. The paper focuses on the problems of these workers such as employment uncertainty, social security, health, education, malnutrition etc. The alarming expansion of informal sector has adversely affected employment and income security of the larger majority of the workforce. *About 65% of the unorganized sector workers are engaged in agricultural sector indicating the prominence of rural segment in the informal economy*. An attempt has been made to bring more labour under organized employment by introducing F-G-L TRIANGULAR model.

Keywords: Unorganized Sector, Labour Employment, Employment uncertainty, Informal Economy.

Introduction

Definition

The issue of defining the concept of 'informal economy' has remained debatable since the beginning of 1970s- Keith Harth, who coined the term in 1971, referred to informal income opportunities for the urban poor in Ghana and the ILO report on Kenya (1972) defined the informal sector by the characteristics of the economic units.

NSS (National Sample Survey) defines unorganized manufacturing based on legal status (in the sense being registered under the Factories Act) and the number of workers employed in units operating with or without the use of power. The units employing 10 workers function with the aid of power or without the use of power. The units employing 10 workers that function with the aid of power are considered organized in India (except Rajasthan, where after reforms of labour laws, it is 20 with aid and 40 without aid of power). NSSO defines informal sector as consisting proprietary and partnership enterprises (excluding those run by non-corporate entities such as cooperatives, trusts and non-profit institutions), in the non-agricultural sector and in agriculture related activities excluding crop production.

National Accounts Statistics (NAS) defines the unorganized sector in addition to the unincorporated proprieties or partnership enterprises, includes enterprises run by cooperative societies, trust, private and limited companies. Thus informal sector can be considered as the subset of unorganized sector.

As concluded from the above definitions, the unorganized sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or do not maintain any regular accounts.

Surveys

Using the definition of informal sector, the Employment and Unemployment Survey (EUS) conducted by NSSO for 2011-12 estimated in the informal component to be about 75% of total usual status employment in the rural areas. The unorganized employment increased from 185.4 million to 209.6 million from 2004-05 to 2011-12. In 2011-12, as much as 86% of workers in the private sector and 50% in the public sector were under organized employment.

The proportion of employees without written job contract has increased from 74% in 2004-05 to 79% in 2011-12. Formal employment is indicated by any one of three features – written contract, provision of social security (pension etc.) and eligibility for paid leave.

As per survey carried out by the NSSO in 2009-10, the total employment in the country was of 46.5 crores compromising around 2.8 crores in the organized and the remaining 43.7 crore workers in the unorganized sector. Out of these workers in the unorganized sector, there are 24.6 crore workers employed in agriculture sector, about 4.4 crore in construction work and remaining in manufacturing and other services.

Categories of Unorganized Labour Force:

The Ministry of Labour, Government of India, has categorized the unorganized labour force under four groups –

- Under Terms of Occupation :

  Small and marginal farmers, landless agricultural labourers, share croppers, fisherman, those engaged in animal husbandry, bed rolling, labeling and packing, building and construction workers, leather workers, weavers, artisans, salt workers, workers in brick kilns and stone quarries, workers in saw mills, oil mills etc. come under this category.

- Under Terms of Nature of Employment :

  Attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers come under this category.

- Under Terms of Special Distressed Category :

  Toddy tappers, scavengers, carriers of head loads, drivers of animal vehicles, loaders and un-loaders come under this category.

- Under Terms of Service Category :

  Mid-wives, domestic workers, barbers, vegetables and fruit vendors, newspaper vendors etc.

Problems of unorganized workers:

1.Seasonality of employment - majority of the unorganized workers do not have stable and durable employment indicating disguised unemployment.

2. Inadequate and ineffective labour laws.

3. Illiteracy - lack of education is the major problem among these workers due to which they are even deprived of many government run welfare schemes.

4. Health – the workers live under vulnerable conditions.

5. Social security – they are deprived of job security, paid leave, written contracts, health insurance etc.

6. Malnutrition – due to lack of proper nutrients in the diet they lack in proper development of their body resulting in lower productivity.

The government has launched schemes for the welfare of the unorganized workforce like Aam Aadmi Bima Yojna (AABY), Grants to NGOs for the Welfare of Child and Women Labour, Rashtriya Bima Swasthya Yojna (RSBY), NPS Swavalambhan, Pandit Deendayal Upadhyay Shramev Jayate Karyakram, and Udyog Aadhaar but the coverage is miniscule and they need properly implemented vigilance.

According to Justice T.S. Thakur of Supreme Court (in 2015) – Rs. 750 crores were collected for welfare of labour in Punjab but little was spent. There is zero per cent spending in 2008, 2009, 2010, 2011, 2012 and 2013. Most of the workforce in unorganized sector gets wages lower than the fixed minimum wages.

Suggestions

There is need to give due recognition to workers engaged in unorganized labour sectors such as housemaid, newspaper vendors, fruit and vegetable sellers and rag pickers so as to protect their social, economic and legal rights.

Emphasis should be laid on creating contingency security for the unorganized workers alongside social security schemes.

Since many workers in the urban areas depend upon street vending for their food, therefore it is important to educate those food vendors about nutritional values. According to a survey, 80% of the Indian diet is protein deficient. Proteins are responsible for the development of muscles and bones and hence making it important to be included in regular diet of the workers. The major sources of proteins are milk and pulses for vegetarians while eggs, fish and chicken for non-vegetarians. Also these sources have higher prices making it more difficult to meet the protein demand of the body for the labourers. Many economists including the Nobleaurate *Aungus Deaton* (Noble Prize in economic sciences 2015) have focused their studies on the nutrients and eating habits of the workers. Hence the workers should be educated about importance of balanced diet. This would ultimately help improve their productivity.

Street Vendors should be provided with credit to expand their business.

Cluster development should be focused. They are typical geographical concentration of micro, small, medium and large firms producing same or similar range of products and services. As per estimates in 2009, there were over 6400 clusters consisting of about 2,80,500 units employing over 13.75 lakh persons with an estimated output of Rs. 32,800 crores per year.Once developed they would lead to multiplying effects on production and employment.

Focus should be laid on providing employment on sustainable basis.

F-G-L TRIANGULAR MODEL:

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) enrolls more than 12.5cr people, on the other hand, it has made difficult for the small farmers to hire the labour for their farm due to increased wage rate since labour supply has decreased. This is a burden on farmers as he has to pay high wages to labour while the prices of his crop remain nearly unchanged. Hence there arises the role of the government as an intermediary where farmers can pay to the government body regulating MGNREGA (say LABOUR BANK) that can provide the farmers with required labourers.

Assumptions

- It is easy to work under MGNREGA than in agriculture farms.
- The rise in labour wages is higher than the rise in the crop prices.
- Supply of labour has decreased due to enrollment under MGNREGA.
- Worker is ready to work hard if paid more.
- Wages should be paid in rupees per acre (or square meter) instead of rupees per hour. This acts as an incentive for the workers to work in fields than on MGNREGA site as they would be paid according to their work done rather than time spent i.e., more they work more are they paid.

- Harvesting an acre farm land is supposed to be equivalent to work done in 8hrs on MGNREGA site.

- Farmer is ready to pay more than the wage rate paid under MGNREGA (i.e., Rs.200 per day{8 hours}) and less than wage rate in labour market (i.e., Rs. 350 per acre) say Rs.280 per acre .
- LABOUR BANK is the intermediate body between the farmer and the labour which regulates the supply of labour.
- Farmers are the small-farmers who cannot afford the loss of fodder caused by machines during harvesting. Hence workers are preferred over machines. Also assuming harvesting machines are not successful on small land (i.e., most of the lands in rural Jaipur).

Model

The wage rate in labour market is Rs.350 per acre which makes it difficult for the farmer to hire the workers from the labour market. The Labour Bank, a government body, regulating the workers under MGNREGA pays Rs.200 per day to the workers. Now, the farmer can hire workers through Labour Bank at Rs.280 per acre viz., favorable to both the farmer and the worker.

This will help MGNREGA create more jobs (which is the issue of concern when a high rise in enrollment has been seen in 2015).

MGNREGA is criticized for low productivity of the workers but the introduction of Labour Bank can help to take best use of workers.

More workers will be provided with employment security.

No significant loss will be bear by the government but it can help regulate the labour wages and can favour the farmer. In this way, workers will be classified under organized employment in the agricultural sector which comprises of more than 65% of total unorganized workers.

This forms a triangular relationship among farmer(F) – government(G) – labourer(L) . Hence it is titled as F-G-L TRIANGULAR model.

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Section B

Socio-Economics of Development

Who Actually Needs Reservation in India ?

Ananya Rawat

B.A. Economics(Hons.) II Year

Abstract

Reservation in India is the process of facilitating the person in education, scholarship, jobs, and in promotion who have category certificates. Scheduled Castes (SC), Scheduled Tribes (ST) and Other Backward Classes (OBC), and in some states Backward Classes among Muslims under a category called BC(M), are the primary beneficiaries of the reservation policies under the Constitution. India has lost its pace for the development due to the reservation in India, because more capable persons were not offered the places which they deserved on the bases of acts done in past. Not only this reservation in India is not good for society too, since the people were still remain divided among themselves due to the increase and decrease of Financial and Social status in the society. And it has been a huge time this reservation system is running in our country and facilitating people but now this act have risen the standards of people who were in need. So now to increase the pace of growth and to use human resource effectively government should conduct a survey and find out who really deserve this reservation and according to my suggestion only "specially-abled" should be facilitated which will take our nation to a new growth level.

Keywords: Social status, human resources, society

INTRODUCTION

Reservation is a form of quota-based affirmative action. Reservation is governed by constitutional laws, statutory laws, and local rules and regulations. The primary stated objective of the Indian reservation system is to increase the opportunities for enhanced social and educational status of the underprivileged communities and thus uplift their lifestyle to have their place in the mainstream of Indian society. But this practice of reservation has been exceeded to 50% because of which people with more capability and skills are not getting chance which is hindering nation's growth and better utilization of human resource.

REVIEW OF LITERATURE

1. Viswanathan Balaji. In his blog he wrote about how caste based reservation in India has impacted both individuals and India as a whole.
2. Devdutt Sabyasachi. In her article she discussed that why we should protest against reservation policy.
3. Pathak Ayesha .In her blog she raised the issue that do we still need caste based reservation system in India.
4. Kaur Ramandeep .She talked about that do India still needs reservation.
5. Ghia Unnati .She wrote the article in DNA about 65 years of independence do we still in need of reservation.

RESEARCH METHODOLOGY

The study is mainly based on secondary data collected from various sources.

Campus Diaries, DNA articles, Balaji Viswanathan blog, Ramandeep Kaur's article, Indian Express article and many others.

OBJECTIVES

The research paper has following objectives

- Who actually needs reservation in India?
- How caste based reservation is affecting nation's growth
- How caste based reservation affects the better utilization of human resource
- Government should find out and take away the benefits from people who are availing reservation policies but are not in need of them in present.

NEED FOR STUDY

Reservation is working in the opposite direction to its main objective as is demarcating the society further. It is being used to uplift one section of the society at the cost of another, which is not fair. Instead of this there should be equal opportunities for all. Moreover, a capable candidate does not need any certificate of being from a lower caste to prove their worth. So I think reservation system should be demolished and if the government really wants to uplift the underprivileged sections of the society then a well-balanced policies should be formulated. First of all such sections of the society should be clearly identified that need development and financial aids. Then to uplift them free education, or incentives and financial assistance should be provided. Once done let them face the competition, true competition. Make them capable, show them the right path and infuse a fighting spirit in them as no one is against healthy competition.

ANALYSIS

Background of caste based reservation

A common form of caste discrimination in India was the practice of untouchability. Scheduled Castes (SCs) were the primary targets of the practice, which is outlawed by the Constitution of India. The primary stated objective of the Indian reservation system is to increase the opportunities for enhanced social and educational status of the underprivileged communities and thus uplift their lifestyle to have their place in the mainstream of Indian society. The primary stated objective of the Indian reservation system is to increase the opportunities for enhanced social and educational status of the underprivileged communities and thus uplift their lifestyle to have their place in the mainstream of Indian society.

The reservation system exists to provide opportunities for the members of the reserved class to increase their political representation in the State Legislatures, the Executive Organ of the Union (Centre) and States, the labour force, schools, colleges, and other public institutions.

Beneficiary Groups Of Reservation System

The beneficiary groups are based under the following criteria:

- caste
- religion
- gender
- status as a domicile
- others

Some reservations are also made for:

- Terrorist victims from Kashmir, e.g. in Punjab
- Single girl child (in Punjab)
- Migrants from the state of Jammu and Kashmir
- Sons/daughters/grandsons/granddaughters of Freedom Fighters
- Physically handicapped
- Sports personalities
- Non-Resident Indians (NRIs) have a small percentage of reserved seats in educational institutions. (Note : NRI reservations were removed from IIT in 2003)
- Candidates sponsored by various organizations
- Those who have served in the armed forces ('ex-serviceman' quota—because the age of superannuation in the Military Service is much shorter than that in the Civil posts; more so,

certain intakes are tenure-based, e.g. the contract for Short-Service Commission is merely 8 years)

- Dependents of armed forces personnel killed-in-action
- Repatriates
- Reservation in special schools of Government Undertakings/ PSUs, for the children of their own employees (e.g. Army schools, PSU schools, etc.)
- Paid pathway reservations in places of worship (e.g., Tirumala Venkateswara Temple, Tiruthani Murugan temple)
- Seat reservation for Senior citizens and Physically handicapped in public (bus) transport.

Implications Of Indian Reservation (1990-2016)

- In 1990 higher education institutions, public sector units & Government Bodies, 22.5% of available seats were made reserved for Scheduled Caste (SC) and Scheduled Tribe (ST) students (15% for SCs, 7.5% for STs). This reservation percentage has been raised to 49.5%, by including an additional 27% reservation for OBCs in 2006. 5-10% of aggregate marks and 3-5years of age relaxation and exemption from tuition fees is given to SC, ST & OBC candidates who wish to take admissions in various Government institutions.
- The Central government's has given the 5% reservation to the physically disabled people who have 40% or more disabilities.
- In 2010 Women get one third reservation in gram panchayat (village assembly - a form of local village government) and municipal elections. There is a long-term plan to extend this reservation to parliament and legislative assemblies. For instance, some law schools in India have a 30% reservation for females, women also enjoys the separate Higher education institutions which are made only for women and no other is allowed for admission in those institutes.
- The CBSE has introduced examination reforms using Continuous and Comprehensive Evaluation (CCE) in its affiliated schools from the academic year 2009-2010. Under the new procedure, Children below class 10th will be evaluated under the 9 Grade system. Student must get D or higher grade to get promoted in next class. The rules for compartment and improvement will be same as previous year. No student will be declared fail even if he gets

all E1 or below. He will get chances to improve. For class 10 exams, grades on final exam only be treated as done last year.

- In mid-2012 25% reservation is provided to the reserved category children in the Government aided & Private schools under the Right to education act which was passed earlier by the parliament.

Present Caste Based Reservation System Of Union Government

Category as per Government of India	**Reservation Percentage as per Government of India**
Scheduled Castes (SC)	15%
Scheduled Tribes (ST)	7.5%
Other Backward Classes (OBC)	27%
Total constitutional reservation percentage	49.5%

Motivation behind reservation

The most important part about Reservation is the motivation behind it. Its effectiveness and results are entirely dependent on that motivation.

A few overlapping motivations that different people have:

1. **Spread the seeds of education.** Growth of a nation can be faster if a variety of people from all communities are bootstrapped with the power of education. I always picture a dark hall that has to be lit with candles. This was the primary motive of our founding fathers and a very good motive in that.
2. **Manage the scarce education resources.** Our best colleges are way fewer than best students. How do we best allocate the resources? In fact, if there was enough supply of good colleges at affordable prices then this whole question of reservation is moot.
3. **Redress the imbalance.** This is a slightly more complicated motive. It is a fact that many communities were discriminated in the long past [some still are] and that produces a disadvantage. But, the issue is that our advantages/disadvantages stem from a variety of factors - from mother's health to the location of the person. Is a Dalit son of a doctor in Delhi necessarily more disadvantaged than the Brahmin son of a postman in a remote Bihar village? In some ways yes, in other ways not. Besides the social discrimination, there are thousands of ways in which a student can be disadvantaged.
4. **Score the vote banks:** In the past couple of decades, this has become a major motive for some political parties. This is bringing a range of communities such as Gujjars and Meenas into conflict. Far from the dreams of Ambedkar, reservation is becoming a ploy to score votes in some regions.
5. **Provide vindictive "justice":** This is the worst of 5 motives. Here the motive is not about development or even to redress imbalance. Some people want to keep it for plain vindictiveness as seen from some of the comment threads in the same page. The sense of revenge and rage is more dominant in some people than the sense that poor should grow up.

Different people have different motivations. For me, if the motivations of reservations are 1 & 2, then it is good. If it is 3, 4 and 5, then it is bad. If we really care about 1 & 2, here is what could be done:

Work on reducing scarcity: 20 years ago, a cousin of mine attempted suicide and had to be in the hospital for a long time. Although he was a national level ranker in CBSE exams he was not able to get his dream Medical seat when the Mandal commission came out. It was different times, when not getting a seat means your whole family is doomed. These days, thankfully it is not that high stakes. Work on building a lot of quality institutions and work on delivering innovative ways to deliver scalable education that the second point becomes moot.

Look to spread the seeds even further: To get the point 1 further, we need to make sure the recipients are ideally those whose family never had the education. That is the best value for money as the whole family can latch on to his/her success. From a pure economics standpoint, providing an IIT seat to an intelligent tribal student from rural Nagaland whose family never had college education will provide more value for money than giving to a Delhi based Dalit coming from a family of doctors or IAS officers. Both are socially discriminated in some sense, but the former bears it more than the latter.

Of course, if our motive is really point 1 & we want to get a lot of poor, discriminated dalit, tribal and other backward community students up to the top, we could well tweak the current system & make sure the benefit mainly goes to the first college going student of the discriminated family. However, if the motivations are not point 1, then real problem occurs and that is the current state we are in.

70^{th} Year Of Republic

As we near the end of the 69^{th} republic on 26^{th} January reservation is still in India benefiting people of different groups. Article 334 of the Indian Constitution clearly stipulated that reservations from SC and STs as well as Anglo-Indians were to cease 20 years post 1950. This law was amended multiple times, until the 79th amendment where 'fifty years' was changed to 'sixty years', lasting to the year 2010. Even now, a bill has to be approved by the Rajya Sabha for additional 10 years.

Hence in 1950 the quota for backward classes was made and from time to time many new quotas and reservations have been added to this. But still, the condition of so called underprivileged sections in India is the same even that we have crossed so many decades of independence. Reservation is working in the opposite direction to its main objective as is demarcating the society further. And has lead to many issues which are causing severe problems to our nation. Issues are as follows: Discrimination

"Reservations" or quotas were granted to groups on the basis of their (presumably immutable) caste identities. The logic of reservations in India was simple: they were justified as a means of making up for millennia of discrimination based on birth. But as the time passed away reservation has risen to 51% which makes people with low aggregates and skill to get better opportunity and people of general category has to suffer in spite of being more capable.

Human resource not used effectively

The reservation system in India is creating a workforce which is not capable enough to compete at the global level. India needs people for growth and development but reservation is adding undeserving candidates as well.

Affecting Nations Growth

The implementation of the quota system and reservations has divided the country on cast lines. The division taken is without any foresight and its future repercussions are fatal, as the gap between higher and lower classes will certainly widen and this animosity may one day severely weaken the unity and integrity of the nation. The increase in quota over the past few years has lowered the academic standards of almost every college in our country. Not only this people of reserved category are offered with far better opportunities in spite of people of general category be more deserving which leads to slow growth of nation.

Wrong Use of Reservation

As more and more people sought fewer available government and university positions, we witnessed the unedifying (and unwittingly hilarious) spectacle of castes fighting with each other to be declared backward. Many people who were given reservation before and now are well off i.e. are not in need of it are still availing its benefits. It is like "In our country now, you can't go forward unless you're a backward."

SUGGESTIONS AND POLICY RECOMMENDATIONS

1. First of all such sections of the society should be clearly identified that need development and financial aids. Then to uplift them free education, or incentives and financial assistance should be provided. Once done let them face the competition, true competition. Make them capable, show them the right path and infuse a fighting spirit in them as no one is against healthy competition. There was a quota system in US as well, but it was abolished long ago. But it does not mean that they are not working for the underprivileged in their society. For admission and appointment purposes, now they have point systems in which people from backward regions are given some extra points but, not a certain number of seats. So, though the government is helping the needy, but it is not at all discriminating or snatching away the rights of eligible candidates.
2. Also from time to time such reforms or laws must be evaluated by experts and their impact on the development of under privileged and overall society must be assessed.
3. Also, calculate the way these are changing the per capita income, number of people below poverty line etc.
4. Politicians should stop using reservation system as a gimmick to have a permanent vote bank.

5. The Reservation should benefit the poor and the needy sections and should have socio-economic criteria to exclude the affluent and those already having access to higher education and jobs.
6. There is a need for a national consensus on the burning issue of reservation as it affects all section of society.
7. "Specially Abled" should be facilitated with reservation benefits as this will take our nations growth to next level.
8. Sadly, reservations today are often utilized by those who are not in need of them; those who can afford to apply through the general category. The students in opposition of quota policy do not mind having reservation as long as it is made sure that the seats go to those who are truly oppressed and to those who lack opportunities, and especially to those people who really deserve it - who can take the country forward, not backwards.
9. Due to reservation the fraternity between our people decreases. Every time a deserving general category candidate gets passed over due to reservations, the feeling of brotherhood in this nation decreases. So perhaps reservations are not the need of hour. The concept has no value if it cannot work in the context of India.

CONCLUSION

Perhaps the need of the hour is encouragement and incentives by giving free and quality education till 12th to all the deprived and poor sections of the society (any caste, creed or religion) and also give full scholarship to all those deprived and poor sections, if they are able to get selected in IIT or any other good institute. But don't reserve the seats. Only "specially abled" should be benefited with reserved seats. Now, it's the government's duty to improve the quality of basic education. Not only this, government should have socio-economic criteria to exclude the affluent and those already having access to higher education and jobs. At last I want conclude that if you want to remove the disease of caste you want to find its roots.

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Energy to Power: A Roadmap for Sustainable Development

Irina Chowdhary and Raghav Dhokariya

B.A. Economics(HONS) Part III

Abstract:

2015 marked the target date for the achievement of the Millennium Development Goals and the start of the post 2015 development and climate processes, which ultimately aim to eradicate poverty, improves people's lives and to achieve a low carbon, climate resilient economy. But it can only be achieved when we have a universal access to modern energy services. For achieving this goal it is therefore the need of the hour to double the share of the renewable resources in the global energy mix. The International Energy Agency(IEA) estimated that in 2012 the world's total final energy consumption was of 104,426 TWh by fuels out of which the renewable energy had a share of only 3.5 percent which is a very low figure indicating our greater dependence on other non-renewable, environment depleting resources. After comparing with the rest of the world the energy consumption in India is the fourth biggest after China, USA and Russia. Despite this, India is largely dependent on fossil fuel imports to meet its energy demands which will likely to be exceeding from its today's total primary energy consumption of 570.12 Mtoe(millions tones oil equivalent). Examining this situation, the need of the hour is to boosts our renewable energy resources for achieving the goal of sustainable development and growth. India with its advantage of being a majorly tropical region has more prospects for the growth of solar energy as its main energy resource. Others include the wind, biomass, small hydro power and waste to power.

India's growth potential in this field still remains un-tapped. Therefore, the paper aims at highlighting the role of both the government and the society and the world as a whole in promoting the use of traditional energy resources and the importance of power to meet the present and future requirements.

Keywords: Hydro power, modern energy, tropical region

INTRODUCTION

INDIA'S CURRENT SITUATION:

In the recent years, India's energy consumption has been increasing at a very fast rate due to an increase in the population growth and the development process.

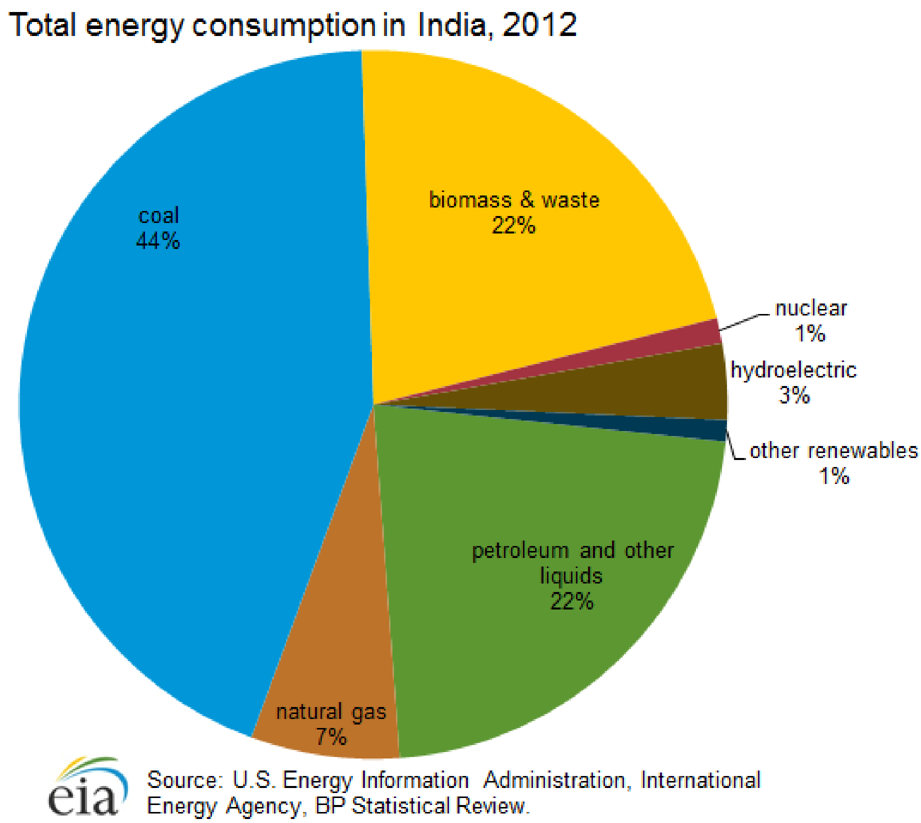
India ranks third in the world in terms of primary energy consumption accounting for about 872 Mtoe of the world commercial energy demand in the year 2014. India is well endowed with both renewable and non-renewable energy resources. Its primary commercial energy resources include coal, oil and natural gas. Totally nearly 60 percent of the country's total installed power capacity of 209276 MW is generated using coal. India ranks the fourth largest in coal reserves and is the third largest coal producing country in the world.

But India's coal reserves have been heavily exploited since years due to its development of core infrastructure sectors like power, steel and cement which are largely dependent on coal. India with its present coal reserves can sustain up to a limit of not more than 20 years from now as shown by various researches.

Now if we consider the other two resources i.e. oil and natural gas, then we stand at the same position. India's consumption of oil and natural gas has also risen faster due to industries such as power generation, fertilizer and petrochemical production. But there exists a huge demand of these two resources in the past four to five years which the domestic production fails to meet in the present. This leaves us with no other alternative other than depending largely upon the import of these fossil fuels which to a large extent also contributes to our growing fiscal deficit.

Global energy demand is growing rapidly all across the globe and the major share will be of the developing nations in the next 20 years. India with its growing energy demand will be unable to provide electricity to 30 percent of its population even till the end of the year 2030. This will be a result of the untapped potential in the area of renewable energy resources which needs to be checked. Thus it is the need of the hour to decrease our dependence on the fossil fuels as it is just for the near years to come and increase our self sufficiency in the areas such as solar energy, wind energy, biomass and waste to power. The paper highlights the importance of solar energy as the main energy resource for India in the near future with other renewable sources of energy.

SHARE OF FOSSIL FUELS AND RENEWABLE RESOURCES IN THE TOTAL ENERGY CONSUMPTION:-



STATUS OF RENEWABLE ENERGY IN INDIA (CURRENT):-

SOLAR ENERGY

- **CURRENT CAPACITY : 5GW**
- **POTENTIAL CAPACITY : 750GW**

WIND ENERGY

- **CURRENT CAPACITY : 23 MW(Approx)**
- **POTENTIAL CAPACITY : 302GW**

BIOMASS

- **CURRENT CAPACITY : 2664 MW(Approx)**

SOLAR ENERGY- A BOON FOR INDIA

There are basically two types of technologies available to convert solar energy into electrical energy. The first technique is of photovoltaic cells which converts light energy directly into electricity. This method has a disadvantage as it cannot be operational at the period of night, fog, clouds, etc.

The other technique used it Concentrating Solar Power (CSP) which can cover the disadvantage of photovoltaic cells by storing the thermal energy in a storage medium. CSP power plants require direct sunlight referred as direct normal irradiation (DNI) to produce sufficient thermal energy for power generation. This thermal energy is given to a turbine power generation system to produce electricity.

Problems faced:

1. Population density in India is very high. Especially with rising population and limited land the scarcity of land for installation of solar cells is going to rise even more.
2. Installation of solar panels on waste and barren lands also cannot be done freely as most of these lands come under the restricted 'forest land' and therefore cannot be used.
3. Funding of such large number of solar cells is also a tedious task especially when most of its major parts are imported thus adding a burden to the debt cycle.
4. Lack of training and development of personnel in handling and installing the solar plants.

Solutions:

1. Promoting research and development in solar energy to make it more cost-efficient.
2. Government should attract more private players to this sector which will reduce their burden and help them in achieving their targets.
3. Awareness in general public through advertisements regarding the importance of solar energy as a valuable renewable energy resource and its environment friendly effects.
4. Selling the unused electricity units to DISCOM by the households produced using solar energy. This will help reducing both the burden of the electricity bills of the households and thus at the same time meeting the needs of the DISCOM.
5. Setting up of colleges and universities to promote R&D and training of effective personnel in this field.
6. Public and private partnership should be given priority and better investment plans from the government in this sector are required which in turn yield long term benefits.

BIOMASS

In rural India about 70% of rural energy consumption comes from non-commercial sources i.e. about 300 MT of fuel wood, animal dung, agro wastes etc. About 70 million households still have to depend upon kerosene of lightning and this is no hidden fact that villages have to face power cuts due to the insufficient supply from fossil fuels. With the progressive Indian economy this shows no good image of its rural citizens especially women and children collecting and carrying firewood, exposure to smoke in the kitchen. Biogas plants are mainly for the rural and semi-urban households. A bio-gas power plant generates bio-gas from organize substances such as cattle-dung and other biodegradable materials such as biomass from farms, gardens, kitchens etc. This provides clean gaseous fuel for cooking and lightening. With low infrastructure facility in India, biogas plants seem the best way to electrify even the smallest of villages no matter how remote they are. The cost of establishing a bio gas power plant is not very high. The best part is that it doesn’t leave the waste as residue as it can be utilized further manure for the agricultural farms which is very helpful to increase the productivity and can save lakhs and crores of Govt. expenditure which is spent on fertilizers for increasing the production. It will also help in maintaining the soil fertility and prevent land degradation as well. Also, sanitation can be improved in the villages where sanitary toilets are linked with bio gas power plants.

Around forty lakh of biogas plants have already been installed in villages. But there is a need for more as we have a far large potential in this field. Self-dependency in cooking gas and electricity and high enriched manure can also cover the cost in no time. Even LPG cylinders can be refilled through them. European countries have big bio-gas plants for the same. The energy which is generated through biogas does not need to be conserved into thermal electricity or in battery as it will not get exhausted until used. Also it is a more relevant method of adding adequate supply of renewable energy in the total energy consumption due to zero dependence on tidal waves, sun rays, wind speed or the weather conditions.

The disadvantage it brings with itself is that bio waste is available in a huge amount only at the time of harvesting when agricultural waste is in surplus. Therefore, to maintain the supply throughout the year, agricultural waste needs to be stored in warehouses and also other biodegradable wastes should be taken into consideration.

WIND ENERGY

Wind energy is the electrical energy obtained from harnessing the wind. Wind is commercially and operationally the most viable renewable energy resource and is emerging as one of the largest source in this sector. At the end of December 2008, worldwide capacity of wind-powered generators was 121 GW out of which more than 27 GW was added in 2008 generating 260 TW h per annum, equaling more than 1.5% of the global electricity consumption. Wind energy continued its growth in 2008 at an increased rate of 29%. In 2008, the United States and China took the lead, United States taking over the global number one position from Germany and China getting ahead of India for the first time, taking the lead in Asia. The United States was the fastest growing wind power market in the world for the third year in a row. The massive growth in the United States wind market in 2008 increased the country’s total wind power generating capacity by half.

The original impetus to develop wind energy in India came in the early 1980s from the Government, when the Commission for Additional Sources of Energy (CASE) had been set up in 1981and upgraded to the Department of Non-Conventional Energy Sources (DNES) in 1982. This was followed in 1992 by the establishment of a full-fledged Ministry of Non-Conventional Energy Sources (MNES) renamed as Ministry of New and Renewable Energy (MNRE) in 2006. The wind energy program of MNRE was aimed at catalyzing commercialization of wind power generation on a large scale in the country. A market-oriented strategy was adopted from inception, which has led to the successful commercial development of the technology. The broad based national program included wind resource assessment; research and development support; implementation of demonstration projects to create awareness and opening up of new sites; involvement of utilities and industry; development of infrastructure capability and capacity for manufacture, installation, operation and maintenance of wind power plants; and policy support. MNRE provides support for research and development, survey and assessment of wind resources, demonstration of wind energy technologies, and has also taken fiscal and promotional measures for implementation of private sector projects.

Despite the economic and ecological advantages, good wind resources in India have not been used to the desirable extent. The challenges faced are:-

- Lack of information on foreign markets
- Lack of knowledge of the energy-sector framework conditions and support mechanisms
- Insufficient wind energy legal framework (technical and economical conditions for feeding wind-generated electricity into power grids, permit procedure.
- Lack of qualified staff, especially in the field of service/maintenance. Technicians and buyers are often unfamiliar with wind technology, and in remote locations installments often break down because of a lack of servicing, spare parts, or trained manpower to administer them.
- Infrastructure to support the installation, commissioning and maintenance of wind generators is not developed. Users and technicians are generally unaccustomed to the technology.

- Investment Cost. Although the lifetime cost of wind is often less than diesel or petrol-powered pumps, the investment cost of purchasing a wind pump is usually higher than that of diesel pumps. Groups purchasing water supplies often have limited funds and cannot take a long-term view toward the technology.
- Wind energy does not have as consistent an output as fuel-fired power plants. Small-scale wind generators require battery storage to allow usage in periods of low or no wind. For grid connected systems, a stable grid is required to act as the storage. Wind pumps require water storage.
- Wind generators are designed to work over a given range of wind speeds, usually 4–12m/s. This means that the technology can only be used in areas with sufficient winds.

Solutions:

- Project management for setting up large scale wind projects in the coastal areas for generating power.
- Innovative electrical and physical design.
- Equipment specification and procurement.
- Construction management.
- Installation, testing, and commissioning.
- R&D at a greater scale by involving both private and public hands.

CONCLUSION

Cost efficiency is very essential as the country lacks in terms of money and is considered poverty stricken. But we cannot escape from our responsibilities of protecting the global environment. Development should not be hindered due to global environment issues but the country needs to reduce its dependence on the import of fossil fuels for its energy needs and focus more on increasing the concentration of renewable energy resources in the total energy consumption. India has now become a leading example in the growth of solar energy. India is establishing many wind and solar power plants at a very rapid pace but there are many problems which have been faced like in the desert regions such as Jaisalmer, where many wind turbines have been installed they are yielding lesser results. The problem is not with the technology or the capacity or their efficiency but it is the location of those turbines that is affecting the power generation. The turbines are found in resting place many times due to low velocity of wind blowing in the months of February, March, April and May. Rather these can be replaced by the solar power plants rather than installing them in the coastal areas where they are almost of no use in the months of rainy season as the sun is mostly covered by the clouds. Hence, efficient planning with respect to installation of both solar and wind plants at the desired locations is required.

Also the farmers should be promoted and provided incentives and subsidies to install the biogas power plant on their farms for energy production. Promoting organic farming becomes beneficial for both for the government and the farmers. Farmers should be made aware with its benefits and usage as ample of financial aid is given to the farmers by the government in this respect. Another method which can be adopted by the government is to plan a public private partnership in this area which it has done with the solar power plants project. Making such partnerships will help India to use its total capacity for biomass and for environment- friendly energy production. It will also help in the proper disposal of the agricultural and other wastes generated in the rural areas by utilizing it for the production of power in the biogas power plants. Therefore, the need of the hour is to make India a self- sufficient nation in the production of energy by utilizing its renewable energy resources to their full capacity.

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BRAIN DRAIN: AND ITS SOCIO-ECONOMIC CONSEQUENCES

VARTIKA THOLIA AND MOHIT JAIN
B.A ECONOMICS I

ABSTRACT

Brain drain is the movement of highly skilled and qualified people from developing countries to developed countries, where they can work in better conditions and can earn more money. It can also be named as "human capital flight" because it resembles the case of capital flight, in which mass migration of financial capital is involved. It is mainly the movement of technologists, scientists and doctors, from developing to advanced nations, as it provides them with better infrastructure and resources and also gives them higher perks and pay. India is a reservoir of skilled labour and professionals and thus accounts as one of the major suppliers of human capital to advanced economies. Indian Diaspora is geographically very diversified as it is spread in as much as 110 countries. As per Government of India, there is 30 million Indian Diaspora across the world. India is losing its efficient human resource at an alarming rate, which is indeed detrimental for nation's growth and development .As it affects the economy both in monetary and non-monetary terms. This is the current socio-economic problem of our country.

Keywords: Developing Countries, Human Capital Fight, Skilled Labour, Indian Diaspora.

INTRODUCTION

Brain drain is defined as when large numbers of educated and skilled people leave their own country and prefer to live and work in other countries, where pay and living conditions are better. The term Brain drain was introduced by observing the movement of technologists, doctors, and scientists, from developing nations to developed nations like United States, United Kingdom, and Germany etc. This phenomenon of Brain drain has dual aspect,as Brain drain of developing countries become Brain gain for developed nations. Reasons and causes leading to escalation of

Brain drain are lack of opportunities, political instability in a nation, favourable migration policies, lack of higher education facilities etc.

India stands at 4^{th} number in the list of countries with high Brain drain. As per UNDP (united nation's development programme.) India loses $2billlion a year because of emigration and also higher studies costs India a foreign exchange outflow of $10billion annually, as reported by BBC. Also 38% of doctors in United States, 36% of scientists at NASA and 34% of Microsoft employees, areIndians, as per Human Resource Development (2008). Ethiopia , Nigeria and Kenya, precedes India in the list of countries with high Brain drain.

Review of literature

Brain drain is the migration of skilled human resources for trade, education, etc. Trained health professionals are needed in every part of the world. However, better standards of living and quality of life, higher salaries, access to advanced technology and more stable political conditions in the developed countries attract talent from less developed areas. The majority of migration is from developing to developed countries. This is of growing concern worldwide because of its impact on the health systems in developing countries. These countries have invested in the education and training of young health professionals. This translates into a loss of considerable resources when these people migrate, with the direct benefit accruing to the recipient states who have not forked out the cost of educating them. The intellectuals of any country are some of the most expensive resources because of their training in terms of material cost and time, and most importantly, because of lost opportunity.

Main causes of brain drain

Higher education-

Recently, the cut-offs for admissions in the best Indian universities have become close to 100%. While only the best students get enrolment in these institutions, the ambitious youth who fail to meet the "irrational" demands had to compromise on their dream of occupying a seat in any of the prestigious Indian universities. This leads them to explore the scope of higher education abroad. Majority of students who try to seek admission in prestigious universities abroad, get selected as they have better knowledge and skills, when compared to students of other nations.

Also the academically well qualified people prefer going abroad for higher research because they don't get the best chances, resources, infrastructure and facilities for research in India and better and fruitful opportunities.

A recent survey conducted by Indian Institute of Management- Bangalore (IIM-B) shows that the students going for higher studies abroad has increased by 256% in the last 10 years. When 53,000 Indian students went abroad for higher studies in 2000, the figure shot up to 1.9 lakh in 2010. Also as per UNESCO's report (2009), India stands second in the list of countries facing high immigration of students abroad.

TABLE 1: COUNTRY-WISE DATA ON THE NUMBER OF STUDENTS GOIG ABROAD FOR HIGHER STUDIES

Country-wise data on the number of students going abroad for higher studies

Country	Students going abroad (per year)
China	421,000
India	153,300
Republic of Korea	105,300
Germany	77,500
Japan	54,500

Source: *UNESCO's Report- Global Education Digest, 2009*

Lack of Employment opportunities -

India’s population is expanding tremendously and there is increase in the number of job seekers which are well versed in English and thus we should harness these skilled and valuable resources. India has thus become a hub and reservoir of skilled and semi-skilled labour. But the country lacks in employment opportunities and thus natives fail to get employment. To state an example: if there is vacancy for 1 position 100 apply for the position and therefore lead to unemployment and dissatisfaction. Also many Indians don’t take jobs which are below their grades and qualification level. This forces them to seek job abroad. Not only this many organizations lure people by providing them with extraordinarily packages and perks and thus results in large outflow of human capital.

Also most of the students prefer staying back in the host country due to advantageous work opportunities and heavy pay packages. After getting good global exposure and being habitual to the high quality life and facilities, the students become reluctant to go back to the home country.

Over the years, India has become a major supplier of skilled and talented young people to the Western countries, particularly European Union. The major destinations for Indians in the EU in the beginning of the century were limited to UK, Germany, Italy, Austria and Spain. But, now, more and more Indians are immigrating to the countries like Poland, France, Ireland and Sweden.

TABLE 2: COMPARISION BETWEEN FIRST RESIDENCE PERMITS ISSUED TO INDIANS AND TOTAL NUMBER OF ISSUES IN EU IN 2009 AND 2010

Comparison between first residence permits issued to Indians and total number of issues in EU in 2009 and 2010

	Indians		Total EU	
	2009	2010	2009	2010
Highly Skilled Workers	11,784	12,852	39,027	40,786
Researchers	658	724	6,228	7,172
Seasonal Workers	4,163	3,783	56,518	114,311
Other Economic Reasons	47,844	56,488	546,749	645,493
Total Permits	**64,449**	**73,847**	**648,522**	**807,744**

Source: *Population Database – Eurostat*

Scarcity of resources -

In developed countries, researchers are provided with funds and necessary equipment to carry out study, which can be another reason that attracts those deprived of these opportunities. Most scientists in underdeveloped and developing countries do not possess laboratory facilities and researchers cannot get sufficient funds. Therefore, when developed countries offer these facilities, researchers and scientists naturally prefer to migrate to these countries. Traditional migration streams of highly-skilled Indian were directed toward the United States and the UK. In the 2000s, new non-English-speaking destinations emerged in Europe such as Italy, France, Germany and other European countries. The number of skilled Indian migrants moving to Australia, Canada, and New Zealand also increased.

Favourable migration policies

With increase in economic interdependence among nations, and with growing demand for skilled labour in the developed nations, India's position as a supplier of young, educated and qualified has strengthen. Owing to its demographic profile and its English-speaking population, India, with its large reserves of highly-skilled workers, has emerged as one of the most prominent country to fill the supply gaps in the labour-deficient economies of the developed world. In order to facilitate labour mobility, some EU countries signed labour-mobility partnerships with India. According to the Ministry of Overseas Indian Affairs, this kind of agreements was signed with Denmark, and negotiations are on-going with other European countries, EU and non EU, including Poland, the Czech Republic, Norway, Switzerland and Hungary, Sweden and France.

Thus, there are so many causes of the brain drain in India. There is the unemployment problem. Even a talented person cannot get job. India is lacking in facilities for higher research work. The top appointments are quite few in India. Thus the talented experts like to seek new avenues abroad.

Impact of Brain drain on Indian economy

Negative impact

The phenomenon of Brain drain has an adverse impact on developing countries including India. This problem is really very serious and must be addressed immediately. Thousands of Indian scientists, doctors, engineers and other highly qualified and trained persons have been immigrating to the advanced and developing countries. This emigration of our young, promising and bright professionals and scientists to developed countries, in search of greener pastures and better career opportunities, is a matter of great concern. There is a huge outflow of our scientific, technical and managerial manpower and a huge amount of our national income is being spent on their education and training and when they owe their country and become capable of serving the nation, they migrate. According to the recent report released by the Union Human Resource Development ministry about the fee structure of IIT's said that an average of 8 Lakh spent on every student for a 4-year BE course against a meagre 2 lakh paid by the student. This means that for every student that studies in the IIT and moves abroad to work for MNC's there is a loss of 6 lakh rupees. Also there is shocking and disturbing statistic about the impact of Brain drain which states that there is one Indian doctor in the United States for every 1325 Americans as compared to one Indian doctor in India for over 2400 Indians. Thus, it is detrimental for country's economic and social health.

Hence, it is a national tragedy that these personnel, trained and educated manpower leave their home country in lure of better packages and facilities.

Positive impact

The World Bank has said India continues to be the leading nation in remittances pulling in USD 70 billion from its global migrant workforce in 2014. Remittances to the developing world are expected to reach USD 440 billion in 2015, an increase of 0.9 per cent over the previous year. Global remittances, including those to high income countries, are projected to grow by 0.4 per cent to USD 586 billion. United States, Saudi Arabia, Germany, Russia and the United Arab Emirates (UAE) remained the top five migrant destination countries and apart from India, China, Philippines, Mexico and Nigeria are the top five remittance recipient countries, in terms of value of remittances. When foreign investments dropped significantly due to the global economic crisis in 2009, a remittance remained relatively stable and thus helps the economy in recovering. Another possible positive aspect of global migration and the movement of skilled people is the so-called brain circulation. According to this concept, migration makes a vivid exchange of knowledge and ideas possible, which is beneficial for everyone and thus helps in the growth of the developing countries.

Conclusion

Though India too has a positive impact of brain drain but that does not mean brain drain is good for the country, if the skilled human resource become the workforce for their own country rather than migrating for high perks and pay to other developed countries, it will definitely have a very positive impact on the domestic economy. For the overall development of the nation, it is imperative to palliate the phenomena of brain drain. This will help the country to use its citizen's talent and dexterity, for its benefit and growth. To hold these skilled workers at their native places, it is important to provide them with enough work opportunities and living facilities. They should be provided with sufficient employment opportunities which match their qualification. Government should invest in developing the infrastructure for research and development. Also an agreement should be signed between the government and the students (whose education is funded by the government), regarding serving their country for minimum number of years .More number of educational institutions with good facilities and faculties should be established, in order to minimize the emigration of its students. The UNDP estimates that India loses $2 billion a year because of the emigration of computer experts to the U.S. Indian students going abroad for their higher studies costs India a foreign exchange outflow of $10 billion annually. These statistics clearly shows the "human capital flight" of our country. This scenario must change for the sustainable growth of the nation.

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Section C

Emerging Economic World Order

SAARC and India, Achieving Goals?

Divyansh Sharma

Economics I

Abstract

SAARC or South Asian Association for Regional Co-operation is an economic and geopolitical organisation of eight countries, primarily located in the Indian Subcontinent. The SAARC policies aim to promote welfare, self-reliance and socio-cultural development in South Asia. Also, these countries formed a group for their exchange of technical know-how & raw materials; plus for the benefit of maximising the share of GDP in the world. Besides Cultural-Exchange, this regional group could also aim for strengthening their bargaining power authority in the world. The international outreach of SAARC can be proved by the external relations established with the EU, the UN (as an observer), and other multilateral entities. The official meetings of the leaders of each nation are held annually whilst the foreign ministers meet twice annually. This paper aims at the discussion on formation of SAARC, the multi-lateral relations and their effects on the political & economic condition of India, and the impact of China trying to enter into the SAARC and the reasons for it. Also, in context of trade and investment, a great stress has been laid on the FDI as it is the key factor in today's globalised world.

Keywords: SAARC, Cultural Exchange, Bargaining Power Authority, FDI.

Introduction

South Asian Association for Regional Co-operation (SAARC), the third-largest economy of the world, has its headquarters located at Kathmandu, the capital of Nepal.TheSAARC was formedon8thDecember,1985. The lucrativeness which these countries have in common are their low-price labour, availability of resources and the vast market for the developed countries.

Objectives

Following are the objectives of this research paper:

- To study India’s position in SAARC
- To examine whether China’s entry in SAARC is beneficial for India

Research Methodology

Mainly the method used in the research conduction was the secondary method. The data was collected from various articles and websites regarding the topic.

SAARC History: Formation and Trade Economy

Formed on 8th December 1985, the South Asian Association for Regional Co-operation is a group of eight countries, located in the South Asia. With a population of almost 1.5 billion, it is the most populated regional organisation, giving it an added advantage. The SAARC policies aim to promote welfare economics, collective self-reliance among the countries of South Asia, and to accelerate socio-cultural development in the region. The areas of co-operation of SAARC are

- Agriculture and Rural Development
- Telecommunications, Science, Technology and Meteorology
- Health and Population Activities
- Transport
- Human Resource Development

SAARC has 8 member nations and 9 observer nations. The common history of being colonies of imperial rule, strengthen the bonds between the member nations. SAARC has six Apex

Bodies, namely, SAARC Chamber of Commerce & Industry (SCCI), SAARCLAW (South Asian Association for Regional Cooperation in Law), South Asian Federation of Accountants (SAFA), South Asia Foundation (SAF), South Asia Initiative to End Violence Against Children (SAIEVAC), Foundation of SAARC Writers and Literature (FOSWAL). Summits are held in various different member nations represented by their head of nations. The 18th SAARC summit was held in 2014 in the capital city of Nepal, Kathmandu with the motto of 'Deeper Integration for Peace and Prosperity'.

In view of trade among the SAARC nations, we have 2 major agreements: SAPTA (South Asian Preferential Trading Agreement) which came into existence in 1995 and SAFTA (South Asian Free Trade Agreement) which came into force on July 1, 2006. Over the years, the economic relationship between the SAARC nations has seen a great improvement.

Most of the South Asian countries have undertaken far-reaching economic reforms. They have adopted industrial policies that encourage FDI. The trade relations have strengthened and the focus has been shifted to increase the trade activities with other regional group of countries like ASEAN. Also, for attracting Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII), various methods are being devised. FDI to the SAARC region is predominantly from outside the region. The sectors that have attracted most foreign investment vary from country to country. There are two SAARC countries, Nepal and Bhutan, where India is the predominant source of FDI.

No economy in South Asia is considered as a developed economy, but if the intra-regional FDI inflow is promoted, it will be a starting point for united South Asia and in future, this region will be as strong as other regional integrations like EU and ASEAN. Regional cooperation should be vigorously promoted through policies that facilitate cross-border trade and investment, hence promoting FDI regionally. It is important to note that intra-regional FDI in South Asia remains small compared to the levels in other Asian regions. India stands almost alone as an investor in its regional neighbours. Measures to encourage investment from India in other South Asian countries may help promote regional cooperation. Growth in FDI inflows is slow but South Asia has witnessed much greater expansion in its share in Global and Asian FDI stocks due to sharp rise in India's share, which would promote the intra-regional trade and commerce.

Coming to the major traded items from and within SAARC countries,the major bulk is dominated by primary goods, mainly from agricultural and semi manufactured commodities. The primary exports of agricultural products includes rice, fruits, vegetables, nuts, spices, cotton, tea, fish while in manufacturers, textiles, textile yarn, knit crochet fibres, garments and carpet are the major exporting products.

But due to clashes between India and other countries on the grounds of terrorism and oceanic territories, members of SAARC have shown more interest in the bilateral trading with other faster growing economies rather than multi-lateral trading among the group, for example ASEAN and China.Still SAARC remains a work in progress and most of its potential unachieved. If the potential is achieved, SAARC will become a centre of the world's economy, and also a model of regional integration.

India's Position in SAARC

India plays the role of a big brother in SAARC as it occupies over 70% of the area and population among these eight nations. India has a GDP of 1.877 trillion USD (2013), being the fourth-largest economy in the world. But continuous growth in population negates the effect of economic growth in India resulting in low per capita income. Also, major chunk of population is still engaged in primary sector, whereas it is the services sector which contributes the most to India's GDP.

India has laid stress on the use of foreign languages like English in higher education; which has eventually helped the country to export the final products of their technical know-how like software engineers & products, financial services, etc. After the economic reforms of 1991, which induced heavy policy changes towards opening up the economy for the rest of the world, the Foreign Investment has started pouring into the nation's boundary and by reducing the government control on foreign trade and investment, it has only accelerated further. This has also helped in the multi-lateral trading among the member nations.

Table 1: GDP growth rate of SAARC member countries

Country	Date/Period	GDP-Growth Rate

Afghanistan	12/2014	6.40
Bangladesh	12/2014	6.12
Bhutan	12/2014	4.00
India	09/2015	7.40
Maldives	12/2014	8.50
Nepal	06/2014	5.48
Pakistan	12/2014	4.14
Sri-Lanka	09/2015	4.82

This table shows the status of India in SAARC. The fastest growing economy is also the most developed state in the subcontinent which refers to the point that if multi-lateral trade in promoted, improvement in India's exports is certain.

On China's entry in SAARC

People's Republic of China occupies currently an observer status in SAARC. The most populated country has been seeking entry into the regional organisation. It has a special relationship with Pakistan, which it cultivates, in a bid to check India. China also wants stability in its region. It can be stable and prosperous only when the neighbourhood is stable and prosperous. Also, being a member of the largest growing demographic, China would have significant advantages when it comes to exports. China could use its clout to increase the exports to the member nations of SAARC.China's entry has been constantly backed by Pakistan, Sri Lanka and Maldives. Still, India has worked for the blockage of China's entry in SAARC. There are both pros and cons of having China as a permanent member of SAARC.

Pros:

- China is the development partner of almost all states in the SAARC. It has been involved in several construction and infrastructure projects in these countries.
- If China is invited into the SAARC, it will gain the respect of the international community since it will contain two of the world's fastest growing economies.

- Entry of China into SAARC can give much needed impetus to the "Slow moving Boat" nature of the SAARC.
- To India, China can come as a helping hand in the SAARC as India alone cannot fulfil the investment needs of member nations for infrastructure development, public health, medical facilities and bilateral trade, among others. Both India and China can bring their research expertise in medical care to tackle diseases such as Dengue, Malaria, AIDS and eradicate the problem of Malnutrition.

Cons:

- It will create a Pakistan-Nepal-China triangle against India which is clearly undesirable. If India is undermined, there can be only one effect-the wrecking of SAARC. This is so because India is the core member of SAARC and without India, a South Asian economic integration loses all meaning.
- China might veto important proposals relating to South Asian development. This would hamper the region's progress. The presence of China in the SAARC would likely develop the organisation as a ground for power politics. This would be at the expense of poor countries like Sri Lanka, Bangladesh, etc.
- The major reason India wouldn't want China to join SAARC is that India currently holds the monopoly in decision-making, a position it would not like to give up. It will always veto the decision.

China as a developed economy and a first-world country will boost this geopolitical and economic group, still it would hinder India’s growth and trade volume in the Subcontinent.

Conclusion

In the changing global environment, regional integration in South Asia has assumed a new strategic significance. SAARC countries have taken a major leap into the social and economic development of South Asian nations. Also, the potential political-economic and strategic gains from SAARC for all member countries have increased significantly. As the largest economy of the region, it is imperative and an opportune time for India to take a lead in building an environment of trust among SAARC members, which would encourage greater commitment to regional integration by all. Other than regional integration, the lucrativeness for the foreign investment should also be increased as it would benefit not only the country, but also the whole subcontinent. China's attempt of becoming member of SAARC is being viewed as more of a threat than opportunity by India; there would be equal pros & cons for the other member nations. Entry of China would mean a better market for the SAARC. Also it will provide the technical know-how for the betterment of the group. The member countries should fully exploit their potential and achieve their objective of achieving rapid and sustainable economic growth.

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Is the Chinese Economy really slowing down?

Isha Koolwal

ECONOMICS I

Abstract

A slowdown is an inevitable phase of every economic cycle anywhere across the world. So is the case with China. China seems to be slowing down after years of rapid growth driven by a boom in investment and borrowing. China's economic up-cycle was one of its kind which made it a superpower but the path which china chose i.e. growth through fixed asset investment via borrowings is something that the economists have started questioning now. In the past quarter there has been a fall in China's growth rate which was followed by a drastic drop in China's trade across the world. There has been a contraction in the construction output because of the overheated property market and the manufacturing sector has taken a dip because of a dip in the exports. A decline in heavy industries and construction has dented demand for oil, iron ore, and other commodities dragging growth in the other world economies which are the suppliers of such products. The People's Bank of China reduced the interest rates a few months ago, but this is not going to have an immediate impact on the economy as many of the business houses are closing down and many amongst those who had borrowed too much money in the recent past will struggle to repay. This supposed slowdown of the Chinese economy along with the devaluation of Yuan will have an impact on the countries across the world. This research paper will focus on the impacts of the above mentioned on the Indian Economy.

Keywords: China, fixed asset investment, recession, world economy

Introduction

The reason for China's slowdown lies in the history of the economy. During the late 1980's China gathered its large peasant class and provided them with the state of the art technology from the west which resulted in rapid industrialization and urbanization. The rapid industrialization and urbanization in china accrues to the huge amount put by it in the form of fixed asset investment.

For nearly two decades China's growth was led by exports and fixed asset investments. The country's early success resulted in more capital being used in the export sector as well as the fixed investments most of which was funded through debt. Oversupply and over investment became an issue in the last decade as the entire necessary infrastructure was already built. What normally should have come after this was delayed by China by adopting policies which extended its economic boom. In 2007 when U.S. was facing the great recession the Chinese economy also saw a rapid fall. To avoid the depression the central government resorted to one of the largest fixed asset investments which the world had ever seen. The infrastructure and real estate were given a big boost by the local governments. By 2011, misallocation of capital in infrastructure and the high real estate prices started creating a chaos. China's debt grew to around 250-300% of its GDP in a period of 8 years i.e. from 2007-2015. Its current debt is around 1/3 of the global GDP. China has now been trying to shift its growth away from the fixed asset investments and is moving towards a more balanced consumption driven economy. This justifies China's act of devaluating its currency various times in the recent past.

Reasons for this sudden imbalance of the Chinese Economy

The reasons behind China's downturn are similar to the normal trends of business cycles everywhere across the world - rising excess capacity in a growing number of sectors, excessive influence in the private sector and unreasoning liveliness in the asset market. In China's case, they were primarily two - real estate and equity. As compared to India, interest rates in china are low, around 6%. Bank deposits become unattractive whenever interest rates are low. Housing thus becomes a favourite proposition both for living as well as investment purpose. There is thus a massive supply of unsold houses which is financed by loans. People in China also tend to invest more and nearly 15% of the every household's income is invested in stock markets. Also, the exchange rate of the Chinese currency is not determined by the market forces. Chinese Yuan is a fixed currency unlike the Indian rupee which is a floating currency in the foreign exchange market. The long and short of all of this is that all these sectors i.e. the housing sector, stock market and currency never really portray the correct condition of the Chinese economy. So when one falters, the others simply follow.

All these sectors are at a low now and to maintain social stability China has adopted aggressive steps such as devaluation of currency, propping up the stock market and injecting money into the financial system. But all these seem to be desperate steps which may not be enough to bring the economy back on track.

This has been the classical path to recession in almost all the capitalistic market economies.

China is trying to change its economic engine from investment to consumption. Also, it is facing a demographic crisis because of the decades old one - child policy (which has now been removed.) the effective working age population growth is slowing, which is another concern for the economy. There are a lot of challenges facing the Chinese economy at this point and further steps have to be taken only after deep thought.

China's Annual GDP Growth Rate from January 2013- January 2016

Effect of China's devaluation and slowdown on Indian Economy

The world has been apart since 2008, first the 2008 sub-prime crises, then the Euro-zone crisis, and now the Chinese Crisis. China's devaluation of its currency Yuan will have a manifold impact on the Indian Rupee as well as the Indian Economy. The basic reason behind China taking this step is the fall in its exports. The devaluation was a planned move towards making Yuan more market determined so that it can be included in the International Monetary Fund's Special Drawing Rights. As a result of fall in Yuan many of the world currencies have become unstable. Currency rates are important for the export growth, but they are not the only determinant. There are some economies whose currency declined and they saw a boost in their exports but there are currencies that fell by less and they saw a severe decline in the exports. India is a part of the latter. Just like every coin has 2 sides, China's devaluation will also have both positive as well as negative impacts on the Indian economy.

One of the very few advantages that India will have as a result of Chinese slowdown is lower commodity prices. Commodities here mainly comprise of essential inputs like crude oil, copper, gold etc. which are used for industries and the final products of many of these industries are exported. A fall in the cost of inputs means a fall in the cost of production for these industries which in turn implies a boost to the fast falling export sector of India. A fall in the cost of production will also mean that the producers will try and spend some money on innovations which may result in the exports being more competitive in the international markets. In India most of the electrical consumables or their parts are imported from China. These may get cheaper as a result of devaluation. But the companies do not usually pass the benefit and pocket the difference. So the companies which import components of these consumables are clear gainers from this move. Most of the e-commerce websites get their products such as toys, electronics etc. from China and even they are set to benefit.

On the other hand devaluation of Yuan will make imports from China cheaper for the rest of the world and in areas where China and India are close competitors, India may lose its exports to China. A sharp devaluation in Yuan may also lead to dumping by China in the Indian markets which will impact the domestic manufacturers.

Sectors that will be affected the most and whose profit margins may dip further as a result of devaluation are:

1) Textile - Textile is one sector which competes head on with China, but has low profit margins. The profit margins of the Indian textile manufacturers may dip further as a result of devaluation.

2) Chemicals - Both India and China are large producers of organic as well as inorganic chemicals. The profit margins in case of complex chemicals are large as compared to the base chemicals. Thus the firms producing base chemicals may suffer.

3) Metals - India as well as other global metal producers are going to be impacted by the devaluation as China had already been selling/exporting the metals at a price lower than the cost price. The Indian steel players especially, have faced a stiff competition from the Chinese imports. The hike in the import duty has been nullified as result of Chinese devaluation.

Because of a slowdown in the Chinese economy India can reap a certain benefits. China accounts for nearly 40% of the global copper consumption, 12% of crude oil consumption and around 50.5% of coal consumption. As result of slowdown of the Chinese economy the demand for these commodities has fallen and the supply is comparatively high which has brought down the prices. For India as a consumer, this is a good sign as the cost of construction of infrastructure will go down. This will give a boost to the Smart Cities initiative taken by the NDA Government[i]. But for the producers of these metals in the country, low prices may turn to be nightmare in the already slumping economic conditions across the world. Automobile exporters and manufacturers (specifically owned by Indian entrepreneurs) will face a problem as China was a fast growing market for many companies and many companies were investing further to drive the growth, but investments will take a hit as China slows down. Oil prices were already touching new lows as a result of global slowdown; this will further drop the oil prices which will benefit India in two ways. The low prices will help India to keep its deficit under control and thus keep a check on inflation.

A famous saying goes by that when US sneezes the world catches a cold. This saying has now been modified to say that when US sneezes the world gets a flu and when China sneezes the world gets a cold.[ii]

Impact on the world

China's rapid growth in the past decade gave a new shape to the world economy and became a powerful driver of financial markets and influenced geopolitical decisions across the world. China's sole purpose behind this was to create a momentum that would provide a steady source of profit as well as capital. After the unrest in the global economies in the past 12-18 months, one message that has come out loud and clear is the fact that a bump in the Chinese economy cannot be taken lightly. It will affect the world economies, be it a sudden jerk or a smooth and slow process. Taking the amount of goods and services produced in an economy as the criteria China is the world's largest economy. According to the International Monetary Fund, by 2016, China will account for nearly 18% of the world economic activity. A fall in the growth rate of China from around 10% in 2010 to 6.3% in 2016 will have an impact by 0.75% on the global growth rate. Though the Chinese imports are still expanding, the slowdown will have an impact on the countries which were dependent on China for their exports, for commodities such as oil, metals and various machine tools. In Europe, Germany faces a threat as it is an important capital goods supplier to China. Australia, as an important supplier of copper, aluminium, and iron ores is also set to suffer. Countries which are geographically close like Japan and South Korea have integrated supply chains with China and the slowdown or the lack of demand may disturb their export sectors. All these effects, though are not immediate game changers. China is a net exporter of products and its dependence on the world for the same is way more that it is on its own economy. China's economic strength at this point is a matter of importance as the oil prices have touched an 11-year low of less than $33 a barrel.(one of the reasons being lack of demand as the consumption has fallen due to lack of profitability of investments). This has already resulted in an economic turmoil in Russia, Brazil and the gulf countries. Low oil prices are not a bad sign for all the world economies, there are some economies which are net importers of oil like India and Canada whose import bills have fallen and balance of trade has been maintained.

Not much time ago the Chinese stock market crashed twice in a week and an estimated wealth of around $1.1 trillion was lost. China spent nearly $0.5 trillion to stabilize its currency. Though the Chinese economy now seems to have stabilized it is expected that China is moving towards recession or prolonged stagnant growth. Money is fleeing the Chinese economies in huge amounts. The economic cycles are perennial is proved by the fact that China tried to avoid the 2008 crisis (by investing $585 billion in intercity highways, high speed rail lines, and other infrastructure projects). But no economic strategy can ever avoid the phases of the economic cycle, it can only postpone it. The repercussion of adopting those policies back then is an economic slowdown with even worse consequences.

The Chinese people themselves have lost faith in the economy and are taking their money out of the country.

Is this a sign of another recession or depression?

In the past 50 years, a global recession has on an average hit every eight years and lasted for about a year[iii]. Given the last recession was somewhere in 2008 going by the trends, the next recession is imminent, but whether it will occur in 2016 is hard to tell. But one thing which can be said with a certain level of certainty is that the next global recession may be 'Made in China' as China's debt is still growing twice as fast as the economy, which may create a problem in the near future. Since it began recovering in 2009, the world economy is now growing at the slowest pace of around 2.5% and is expected to fall below 2% in 2016. For the first time in recent history an economy other than US has emerged as the largest contributor to the global GDP with China contributing nearly one third of the total GDP, with US contributing around 17% and Japan and Europe both contributing about 10%, thus implying that the key to global growth is now in China's hands. The China slowdown is hitting the developing nations the hardest. China is the top export market for nearly 40 developing nations across the globe. Though only 5% of India's exports head to China, the fall in Global trade, which is mainly due to China's misery is hurting Indian Economy as well.

Is it just a coincidence that the Chinese slowdown coincides with the next phase of recession or is it because the next phase of recession is imminent that the Chinese economy is facing a slowdown. The cause and effect both have a deep nexus and will be clear only when this phase passes.

Will this successive devaluation lead to a currency war?

Devaluation of one currency followed by that of others may lead to currency war or what is commonly known as 'competitive devaluation'. This situation arises when countries try to compete against each other to achieve a relatively low exchange rate to make the exports cheap and imports costly. China's move to devaluate Yuan was followed by some other countries like Mexico, Thailand, Indonesia and other small countries like Libya, Oman, Congo etc. devaluating their respective currencies to make their exports competitive and to jumpstart the economy at home. The Central Banks of most of these countries cut the interest rates and took other steps to stimulate growth which created spill over, however money from these countries fled for countries with higher rates, pushing currencies higher and hurting exporters. Whether intentional or unintentional this creates peril.[iv]

The current scenario

The situation first arose when China devalued its currency in August 2015. Foreign exchange markets were further jolted when Switzerland further surrendered its three year old limit for the Franc against the Euro in 2015 and nations like Canada and Singapore unexpectedly eased their monetary policy. Around 24 countries cut interest rates last year. The currency wars have stewed for years as countries fought their way out of the recession triggered by the 2008 financial crisis. To stimulate their economies, US, Europe and Japan used bond buying plans along with rate cuts. As a slight relief in this currency war, countries like the US have started hiking their interest rates.

In modern economics, currency war is an incessant process whose intensity keeps on changing given the various economic scenarios. What is of importance here is the fact that it should not be aggravated to an extent that it causes harm to the producers and ruin the economies like it did after the second World war. This is where the role of International Monetary Fund comes in. The IMF must try to stabilize the currencies and avoid an intense currency war that may wreck havoc on the world economy. If IMF sticks to the aim with which it was created after World War II, the chances of a devastating currency war are bleak.

Conclusion

The steps taken by the Chinese government such as devaluating the currency, trying to push the stock market by putting a ban on short selling, and easy availability of finance to stock brokers simply tells that the economy is in grave trouble. No matter how hard the government tries this economic slowdown is inevitable. The government cannot take the same economic steps it took back in 2008 as they were in a different economic situation and come with their repercussions. To conclude, whatever is happening across the globe, in the economic arena is something that is beyond the control of any one economy. Though China may have been the stimulator, the global slowdown is just a part of the larger economic cycle. China is currently in a state of slowdown, but if it enters into recession, many emerging markets which are already weakened as result of global slowdown will follow, influenced by China's downturn on the demand for their exports.

Making a correct or close to correct analysis of the current economic situation with main focus on China is a hard nut to crack given the fact that the official real GDP released by the

Government of China is manipulated. China's GDP growth in 2015, according to its official releases was around 7%, whereas, many world economists claim it to be around 3% [v].It has been a regular practice in China to overstate the GDP during a slowdown and understate it during boom.

China is trying to make a huge magnitude of investment to make itself a consumption led economy from the current investment led economy. Only time will tell the economic implications this will have on the Chinese as well as the other world economies.

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THE DOLLARIZATION DEBATE

NITIKA JAIN RICHA CHARAYA

BA ECONOMICS II

ABSTRACT :

The US dollar is undoubtedly the power source of the world's financial systems. It still remains to be the main currency reserve inspire of an emerging euro domination. Because of its significant role in the global economy, the dollar's value is a matter of concern all around the globe. Most countries regulate in the value of their currencies through their dollar reserves , foreign central banks hold US Treasury bonds , and a majority of the oil cartel's holdings are still in dollars. In forex markets , the dollar is the most traded currency , figuring approx. 80 percent of all transactions.

The United States emerged as a alarming financial player in the aftermath of World War II, when most of Europe was in shambles. From a legal tender with a measurable equivalent in gold, the dollar became what some economists call a political currency.Things started descending for the US during the 1970s as its gold reserves depleted largely because of the Vietnam War. The dollar currently suffers from depreciation as other major currencies such as the euro and the yen are getting stronger.

In this paper we have inspected (I) History of Dollar. (II) Effect on trade and financial links. (III)Pros and cons of dollarisation. (IV)Present day scenario.

Keywords: US Dollar, World War II, Legal Tender, Foreign Central Banks.

INTRODUCTION:

The "dollar" originated in the city of Joachimsthal in Bavaria . Beginning in 1580s , silver from the mines in Joachimsthal was minted into silver with a standardized weight of 29.3 grams.

In due course , governments throughout Europe adopted this standardized coin for trade The silver came from many locations , and many governments produced the coins, but they were all identical. Europe was on a dollar standard.

European "thaler" coins from the 16th-18th centuries, with a modern quarter for contrast.

The Spanish silver dollar emerged from the rich mines of the Spanish colonies , particularly Mexico. The Spanish dollar became the most common coin in the American colonies, even though silver dollars from Europe also circulated.

In 1792, after the American Revolution, Congress adopted the European "thaler" as the standard in the United States. They were following standard practice throughout Europe. The U.S. dollar was just a bit lighter than the original thaler, at approx. 26.0 grams of silver. In those days , gold and silver traded at a ratio that barely varied over centuries. It was known as a "bimetallic" system. About 15 ounces of silver had the same value as 1 ounce of gold. Thus, the silver "thaler" system was also , in this regard , a gold system.

In time, gold became the central economic basis rather than silver. Britain went to a “monometallic”structure in 1816. The United States effectively put gold on top in mid 1830s , although British-style monometallism was not utterly adopted until 1900.

DATA AND METHODOLOGY:

The study is mainly based on secondary data collected from Ministry of External Affairs. Also included are experts’ opinions and published reports. Relevant pictures have been choosen and inserted at relevant places to illustrate the data.

OBJECTIVES OF THE RESEARCH:

1. To study the impact of dollar as a dominant currency.
2. Effect of dollarization on trade and financial links.
3. To review the pros and cons of full dollarisation.
4. Present day scenario.

ANALYSIS:

If HEGEMONS are good for anything, it is for conferring solidity on the systems they dominate. For more than 70 years the dollar has been the superpower of the pecuniary and monetary system. Inspite of the talk of the yuan’s rise, the pre-eminence of the greenback is unchallenged. As a means of payment, a store of value and a reserve asset , nothing can hold it. Yet the dollar’s rule has fragile foundations, and the system it hinge is unstable. Worse, the alternative reserve currencies are flawed. A transition to a more secure order will be atrociously hard.

HISTORY OF DOLLAR:

The US dollar is undoubtedly the power source of the world's financial systems. It still remains to be the main currency reserve despite claims of an emerging euro domination. Because of its important role in the global economy, the dollar's value is a matter of concern the world over. Most countries rein in the value of their currencies through their dollar reserves; foreign central banks hold US Treasury bonds; and a majority of the oil cartel's holdings are still in dollars. In forex markets, the dollar is the most traded currency, figuring in more than 80 percent of all transactions. The euro trails behind and is continually expanding in terms of international reach but forex trading is still primarily centered on the dollar.

The United States emerged as a formidable financial player in the aftermath of World War II, when most of Europe was in shambles. In the 1940s, the Bretton Woods system was established, which obliged each member country to maintain the exchange rate of its currency within a fixed range in terms of gold. This worked well for the US since it had the largest gold reserves at the time. The US poured money into the reconstruction of Europe and also opened liberal trade relations with a lot of countries, thus effectively increasing the stock of dollars in foreign central banks.

Things started going downhill for the US during the 1970s as its gold reserves depleted largely because of the Vietnam War. Central banks, fearing that the American currency was facing an imminent devaluation, started clamoring for gold in exchange for the dollars they were holding. Since the country had insufficient gold reserves, then President Nixon responded by abandoning the Bretton Woods system altogether. This led the currencies to shift to a floating status. From a legal tender with a measurable equivalent in gold, the dollar became what some economists call a political currency. Its continued use in international trade stemmed from the continued economic, political, and military domination of the United States. Since most financial transactions and commodities, particularly oil, were traded in dollars, the US currency enjoyed a strong demand despite the country's burgeoning trade deficit.

In 2006, the trade deficit reached a record of more than $800 billion. This is more than enough to put any other currency on a disastrous collapse and yet the dollar stays afloat, thanks to the US Treasury bonds and other government assets held by most foreign central banks. In essence, the dollar is supported by foreign borrowing. However, some economists contend that the deficit is actually helpful in maintaining liquidity in world trade. An $800 billion US deficit means that there is an extra $800 billion circulating in the global economy. If the US were to take drastic steps in balancing its current account, then it would effectively derail the financial movement of international commerce.

The dollar currently suffers from depreciation as other major currencies such as the euro and the yen are getting stronger. Apart from the obvious effects of the trade deficit, this was also brought about by the interest rates cuts of the Federal Reserve, a strategic move to jump-start an economy that threatens to plunge into recession. While this makes foreign importers and tourists happy, the European Union and other export players are bitterly complaining since the depreciating dollar makes their goods more expensive and edges them out of the trade competition.

For how long the United States can keep up with the dollar's weakening value and still convince its creditors to hold on to their T-bonds and cheques is a matter that remains to be seen. In reality though, it will take a long while and an awful lot of economic upheavals before the dollar is dislodged from its current position as the world's most important currency.

EFFECT ON TRADE AND FINANCIAL LINKS:

A powerful but still longer-term argument for full, legal dollarization is that it makes economic integration easier with the rest of the world, and insulation of the domestic financial system correspondingly more difficult. Dollarization may establish a firm basis for a sound financial sector, and thus promote strong and steady economic growth. The argument here is that dollarization is perceived as an irreversible institutional change toward low inflation, fiscal responsibility, and transparency.

Furthermore, dollarization may contribute to greater economic integration than otherwise would be possible with the United States, or any other country whose currency is adopted. A number of studies have found evidence that Canadian provinces tend to be more integrated in trade volume and price level differences among themselves than with U.S. states that are closer geographically, trading in the order of twenty times more among themselves than with nearby U. S. states. The use of a common currency may thus be a vital factor in market integration, given the fairly low transaction costs and restrictions to trade across the U.S.-Canada border.

Dollarization could also bring about a closer integration in financial markets. One of the most profound effects of Panama's dollarization is the close integration of its banking system with that of the United States and indeed with the rest of the world, particularly since a major liberalization in 1969–70.

PROS AND CONS :

Andrew Berg and Eduardo Borensztein, both at the IMF, tackle the pros and cons of dollarization by comparing it with its closest relative, a currency board.

First on their list of pros is lower interest rate. They analyze whether lower rates would result primarily from reduced currency risk or reduced default risk, and they conclude that at least some default risk would survive dollarization. A second, less immediate and less measurable set of gains from dollarization might come in the long run from "stability and integration."For developing countries this would mean fewer currency crises, as well as closer economic integration with the United States.

On the con side, loss of seigniorage is likely, though not necessary if the United States is willing to share it with dollarizing countries. **Berg and Borensztein** also discuss other downsides of dollarization: notably, loss of autonomous monetary policy, loss of an "exit option, "and reduced scope for lender-of-last-resort benefits, particularly under circumstances.

Like Berg and Borensztein, **Vittorio Corbo** concludes that for countries with a poor record of financial stability, and whose economic relations are mostly with the United States, dollarization can be very advantageous.

PRESENT DAY SCENARIO:

The financial market turmoil that begun in August has put serious pressure on the US dollar: by end-November the dollar had fallen by some 6% since August against a trade-weighted currency basket tracked by the US Federal Reserve. Dollar weakness is not a new issue: the currency has lost a quarter of its value against a broader range of currencies over the past five years. However, there are fears that, in the current environment, the dollar's decline could turn into a rout.current difficulties have reinforced some investors' worries about the longer-term role of the dollar as a reserve currency in the global economy.

In our baseline scenario for the global economy, the dollar is likely to stabilise in 2008 before beginning to recover later in the year--we forecast an average rate against the euro falling from US$1.37€1 in 2007 to US$1.46:€1 in 2008, before recovering to US$1.33:€1 in 2009. The US currency is likely to continue to weaken against the yen into the medium term, but this is mainly because the yen will appreciate strongly as Japanese interest rates rise and the carry trade unwinds.

The main reason to expect the dollar's fortunes to improve is that by late 2008 the current hysteria on global markets should have abated, and US growth should be beginning to emerge from a period of weakness, allowing for calmer consideration of the relative strengths of the US economy. Nevertheless, the risks of the dollar's decline into 2008 turning into a rout are high.

Even under our baseline scenario, in which the dollar avoids a sharp slump in the short term, there are substantial risks to the currency in the medium to long term. A period of below-potential domestic demand growth in the US will contribute to a moderate shrinking of the external deficit to around 4% in 2010 followed by a stabilisation in subsequent years, but this will still leave the deficit at a high level. Foreign investors will not accept low returns on their US holdings for ever, particularly as the US becomes a smaller part of the global economy and the supply of financial assets from emerging markets continues to develop, raising investment opportunities outside of the US. The dollar will therefore remain exposed to shifts in sentiment into the medium term.Having a weak dollar is not all bad, though. Since foreign travelers get more for their money, the US is an ideal vacation area.

CONCLUSION

Dollarization avoids currency and balance of payments crises. Without a domestic currency there is no possibility of a sharp depreciation, or of sudden capital outflows motivated by fears of devaluation.

A closer integration with both the global and U. S. economies would follow from lower transaction costs and an assured stability of prices in dollar terms.

And also dollarization will not eliminate the risk of external crises, since investors may flee because of problems of weakness in a country's budget position or the soundness of the financial system. This sort of "debt crisis" can be as damaging as any other,

Nevertheless, dollarization holds the promise of a steadier market sentiment as the elimination of exchange rate risk would tend to limit the incidence and magnitude of crisis and contagion episodes. Moreover, large swings in international capital flows cause sharp business cycle fluctuations in emerging economies even when they do not involve balance of payments crisis.

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WORLD FOOD CRISIS

SAMIDHA AGARWAL

BA ECONOMICS I

Abstract

Food crisis shocked the world earlier in 1974 and then in 2008. In layman terminology, it is basically a fight against hunger. The main sufferers are the poor people who are least responsible for waging the financial crisis underlying food scarcity but most affected. The causes are many such as initial cause was the increase in poverty, oil prices, wars, natural disasters, lack of production, no accessibility and discrimination with some section of the society even when the supply of food was sufficient. This leads to increase in the number of hungry people in the country in spite of available resources in the economy which leads to further deterioration of the condition of poor. It is now time to look at the vulnerable situation of people and governments should take measures to reduce the hike in the prices these days. Underprivileged should be given proper right to food that too at subsidies. Certain subsidies are required to be given but ensuring that there is not any negative impact on the manpower, especially the poor people and proper and effective utilization of the measures is taking place. There should be a certain pause at the use of bio-fuels and the trade barriers should definitely be broken now. We will deal with how poor people can be identified and what are the main impacts of the world food crisis. Examining the effect and the consequences of the world food crisis on Indian economy we will examine the government driven policies and how India can meet the world food crisis. The main impact of the world food crisis is on the underdeveloped countries which are to be studied in detail to have a better understanding about the topic.

Keywords: Food Crisis, Financial Crisis, Underprivileged, Trade Barriers.

The world food crisis- An Introduction

The world market prices of food products increased drastically in the year 2007-08 resulting in the rise of cost of imports and the household budgets of families as well. The rising prices of foodstuffs had repercussions on local markets and fuelled an unprecedented increase in the number of hungry people in 2007, 2008 and 2009, creating global crisis and political as well as economic instability in all the countries. the prices fell dramatically in the late 2000s but increased significantly in 2009 and 2010, peaking again in early 2011at a level slightly higher than 2008.

What creates the food crisis?

The food crisis is a result of many factors, which develop into hunger crisis if suffered on a continuous basis.

- Poverty

  The main reason is poverty, some individuals are unable to feed themselves just because they cannot afford that, food is available but not affordable by them. Poverty also reduces food outputs because of lack of fertilizers and outputs.

- Natural Disasters

  Natural disasters such as droughts, hurricanes and earthquakes can also be a reason for food crisis; the effect varies according to the level of poverty of people. . Droughts tend to hit the poorest subsistence farmers much harder than large commercial growers, climate change and global warming also pay a role in increasing the prices as due to them flooding and droughts became more common.

- Global food prices

  The main portion of income of a person is spent on buying food, especially for an urban poor. The hardest hits are not surprisingly the poor. Most affected countries are those which need high imports often because of failed harvests.

- Disease

  The HIV/AIDS pandemic in southern Africa has contributed to food shortages both through killing farmers, destroying critical local knowledge and pushing families deeper into poverty. Some other disease outbreaks, such as the 2014 Ebola outbreak in West

Africa, also put pressure on food supplies when people are afraid to deliver to affected areas, or because of travel restrictions

- Complex Emergencies

  The food crises that hit southern Africa in 2003 and 2005 were blamed on what aid workers called a "triple threat" - the combined impact of poor growing weather, high HIV rates and deepening poverty.

- War and conflicts

  Wars and conflicts have constantly affected people, disrupting their farming and food production. It forces people to flee from their homes, which further lead to hunger emergencies as the people now find themselves without any means to feed themselves.

- Sometimes food even becomes a weapon, leading people to fight with each other. Wars abandon people and leave them without any sources of income to feed them. Food supplies may be disrupted by fighting or deliberate blockade. War makes delivery of food much more difficult, particularly if aid workers are attacked and supplies are looted.

- Lack of investment in agriculture

  Many of the developing countries lack development in agriculture which further leads to high transportation costs, lack of storage facilities and unreliable water supplies. Basic agricultural infrastructure like enough roads, warehouses and irrigation are must for any country otherwise it leads to low yields and availability as well as access to food. According to a research done by UN Food and Agriculture Organization, investment in agriculture is five times effective in reducing poverty and hunger than investment in any other sector. Investments in making more resistant seed types, improving land management, and using water more efficiently can bring big improvements.

- Food wastage

  Producing food uses up natural resources which are required to feed humans every year. Food produced guzzles up a volume of water and also adds 3.3 billion tones of greenhouse gases to the atmosphere, harmful for the environment as further for food production. One third of all food produced (1.3 billion tons) is never consumed. This food wastage represents a missed opportunity to improve global food security in a world where one in 8 is hungry.

The main effect of rise in the global food prices is on poor.

Who are poor? How to identify them?

"**Poverty** is general scarcity, dearth, or the state of one who lacks a certain amount of material possessions or money.[1] It is a multifaceted concept, which includes social, economic, and political elements.[2] Poverty may be defined as either absolute or relative. Absolute poverty or **destitution** refers to the lack of means necessary to meet basic needs such as food, clothing and shelter.[3] Relative poverty takes into consideration individual social and economic status compared to the rest of society"

Poor can be identified on the basis of proxy means setting or PMT. It tests according to the basis of set of durables; if any person owes any five of them then he is not poor. Anybody who has a motor cycle is not poor; anybody who has gas cooker is not poor. The second way is community based targeting, that combines of going to a particular local community and asks for poor people, a list is then provided by them which further go to certain political process and reviews.

The third way is NREGA, they just let people come there, and they do not categorize them. They basically offer them a job for example. A job of digging ditches in the middle of summer, if a person agrees to a job like this then he is poor otherwise he is not, as no one would require a job like this, this is the philosophy of MNREGA.

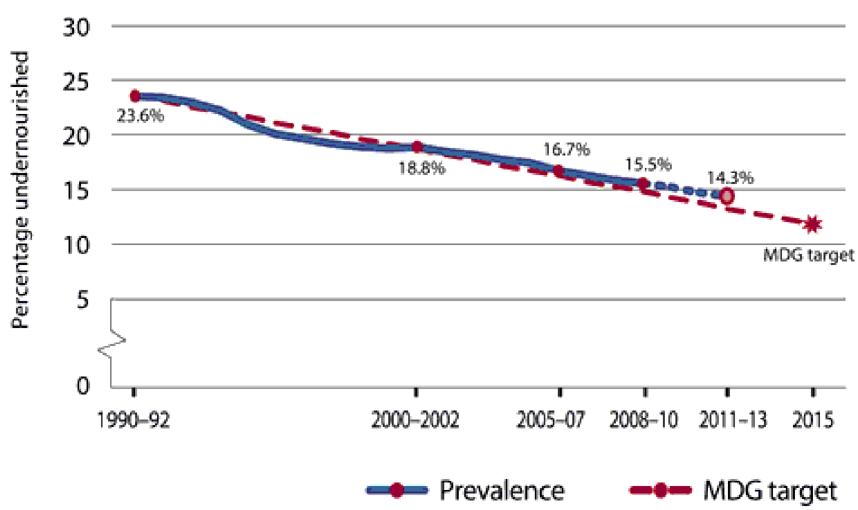
In what ways are poor people exposed to food crisis.

The poor households are the worst hit ever, especially the female headed households and those which have large number of dependence. Poor people spend major proportion of their income on food and feeding their families, they have too less to save and for credit. The global rise in the food prices have further led to the increase in the number of poor people i.e. the people below the poverty line. The worst affected groups were the casual wage laborers, land poor farmers, petty traders, and producers of commodities whose term trades decline against food grains. Social protection and pertaining financial systems often do not reach these people. Only a minority of farmers who are well established could benefit from rapidly increasing prices. Inequality is also a factor. Children are also the sufferers, they lose out education, have to drop out of schools and some of them never even return.

The increasing number of hungry people

The world food crisis in 2007-08 sparked unbelievable rise in the number of hungry people across the world. Approx 75 million people were affected by the world food crisis that stuck in the year 2007, as announced by Jacques Diouf, FAO Director-General, on October 16, 2008 on world hunger day, thus placing the number of the hungry at 923 million at the end of 2007. By the end of 2008 40 million more people were affected, thus raising the number of the hungry to 963 million. According to the estimates published in 2009, the trend of hunger did not stop here, it kept on increasing and more than a billion people went hungry by that time.

The picture below shows the percentage of undernourished.



Note: Data for 2011–13 refer to provisional estimates. Source: Adapted from FAO, SOFI 2013.

IMPACT OF WORLD FOOD CRISIS ON INDIAN ECONOMY

The global food crisis effect all the economies and Indian economy as well, though the impact is much lower than some other countries but it still plays a role. The trends in food prices have had three patterns in India. First, that inflation in Indian food prices increased from 2005-06 to 2006-07 when the global prices increased, but the rate of increase was of course lower in India. Second, inflation in the food prices declined in 2007-08 as compared to 2006-07 during a period when global prices rose significantly. In the third pattern, the global prices declined but inflation in food prices started increasing in the third quarter of 2008. These patterns show that the impact on Indian economy is limited due to less exposure. FAO food price index indicates that it increased more than 80 per cent during the period 2005-08. The wholesale price index for food grains in India increased by 21 per cent., cereal prices by 2%, wheat prices by 21%, rice prices by 16%. In India, the rise of food prices was higher in 2006-07 as compared to 2007-08. India almost insulated from the global impact of high price rise in wheat and rice. It does not mean that price increase in the prices of these two commodities is insignificant. Wheat prices increased significantly in the year 2006-07 by about 13%. There was decline in the production of wheat which further led to the higher price of wheat. Government also took certain measures to stabilize the prices such as release of adequate quantities under targeted public distribution and welfare schemes, rising domestic prices by Open Market Sales Scheme, ensuring adequate stocks in all the regions of country along with domestic availability and by permitting private trade to import at zero duty. In contrast to wheat, the price increase in rice was very low at 2.9% in the year 2006-07. Rice price increased to around 7% only in 2007-08 and it hovered around 5 to 8% in 2008-09. . As compared to other commodities, oilseeds and edible oils recorded higher inflation in 2007-08. Oilseeds showed 24% increase in prices in 2007-08 and it is still high in 2008- 09 although it declined. . Surge in demand including demand for bio-fuels, low stocks, higher oil prices contributed for the price rise. . Because of higher global edible oil prices, domestic prices also increased in 2006-07. The same situation continued in 2007-08. The impact of global rise in food prices is limited, and dependence on imports led to transfer of price shocks to domestic prices. Food prices in India for wheat and pulses was high in 2006-07and inflation were lower in 2007-08. The Indian market was more affected by the prices of edible oils and oilseeds. The food price inflation increased in first quarter of 2008 and the price index of industrial workers as well as agricultural laborers also increased in that time.

Price index for agriculture laborers and industrial workers also increased in recent months. Developed countries were the least affected by the world food crisis as they were financially stable and economically viable to surpass the crisis. The effect is born by developing and underdeveloped countries.

Domestic prices rose in many countries following the rise in world food prices. The effect o price varied from country to country, some were most affected while some were of affected to that extent. It mainly depends on the production capacity of a country; if a country suppose, produces wheat then the rise in prices of wheat internationally would not affect it much but the rise in prices of commodity suppose rice will. It depends on topography as well as development of a country, if a country is developed than it has more and more resources as well as technology to buy as well as produce. During the crises, the main commodities such as wheat and rice were normally the quickest change to price changes. . Transfer of world prices was slower and more muted in white maize in Africa, particularly in landlocked countries. . The price of predominantly-local staples such as cassava and cooking bananas rose later, after hard-pressed consumers started to substitute them for more expensive cereals. High domestic food prices have persisted in many countries long after world food prices started to come down. Among 22 from 37 countries, price rise in staple food was above20%. In 9 countries price rise was more than 50%. , which was followed y rise in domestic prices varying around 25% to 80% over the period 2005-07.

Poor people often pay a higher price than in the market, as they usually buy commodities in a smaller quantity in which they may not get the ensured quality of the product. For example Liberia Joint Assessment (2008) recorded in Monrovia that "rice purchased by cup is 32% more expensive than by bag". On the other hand, they may buy a cheaper quality than the standard quality for which prices are recorded. The poorest consumers also tend to buy less-processed food, for example a woman may buy maize grain instead of maize flour, and pound it into flour at home. This often means that international price changes in the staple grain affect the poorest most (although this does depend on what millers and traders decide to charge for their services as food prices rise.

High prices basically posed two problems in 2007 and 2008. The poor found that they may not afford food to buy and the governments of developing countries saw their popularity plunge because of food insecurity. Many countries were facing fiscal crisis earlier and then they found themselves in a difficult situation after the food crises. But the severity of the food crisis in ‘apparently’ food self-sufficient countries — such as Pakistan, Indonesia, India and Egypt — showed that food security could be as much an issue of food access and availability as it is an issue of food production. Even if food production in these countries should not have been an issue, the absence of good governance ensured that food did not reach all sections of society at a uniform price.

Policies

1. Responses on the basis of market coupled with targeted safety nets

Safety nets support the purchasing power of poor without distorting the domestic incentives to produce more food that too without affecting the income of poor. This helps to cure the immediate impacts of the world food crisis. This can take the form of targeted food subsidies, targeted cash transfers, food-for-work or workfare programs, and targeted conditional cash transfers.

2. Releasing stocks, reassuring the markets and reducing the import restrictions

Government reduced the taxes and tariffs on the commodities, earlier the taxes and the import restrictions were quite high which made the trading across the countries a bit difficult, but now after minimizing the taxes the trade could be more frequent and easier. Also, the stock of a country was publicized which made the price hike to end.

3. More focus on agriculture.

Agriculture is the base of food supply. Agricultural advancements and technology is indeed necessary in each and every country. So, countries focus in agriculture on long term basis so as to decrease their vulnerability at the time of crisis. Investment in agriculture included proper transportation, better seed quality, soil quality, distribution and supply chain bottlenecks, promoting sound market principles for agriculture sector development and trade. Private investments should be encouraged and appropriate use of public investments should be there. Agriculture need to be used effectively which includes: short run “next-harvest” responses which aim at reducing the gap in land productivity for smallholders who depend importantly on home production for family consumption, and medium run responses that restore the role of agriculture for development, and succeed in bringing a Green Revolution.

4. Emergency assistance

The communities, including NGO, international communities, private sector organizations and international partners should be fixe to provide assistance to people during any emergency situation.

5. Price policy

Vulnerable countries are only the importers of food. Policy instruments such as subsidies and import tariffs are there but these instruments are basically ineffective, the first because remaining tariffs,

; The second because they do not have the fiscal resources to subsidize food.

Because of weak fiscal regimes, import tariffs are an important contribution to Government tax revenues. For this, the World Bank's Global Food Crisis

Response Program has focused on compensating governments for the loss of fiscal

Revenues when lowering tariffs on imported foods. However, it can make a marginal contribution to the impact of the food crisis on the poor.

How can India meet the world food crisis?

The impact of world food crisis is huge on Indian economy as well. So we need to know that how can our country meet this crisis. India in coming days can emerge as the food sufficient and surplus country. We need to focus on agriculture as well as tackle the environmental changes as they adversely affect agriculture. Experts are required in each and every field so that new approaches and techniques could be introduced, which is best possible by fresh and new minds i.e. youth. Focus should be more on increasing the productivity of Lydia so that the proper utilization should take place. Steps for conservation of agro biodiversity and seed banks should be introduced for convenience of farmers.

Conclusion

After analyzing the various factors causes and consequences of the world food crisis. We know that this crisis can affect the world in deep manner and steps should be taken at grass root level to face crisis of these kind. A complete metrological data for the past 100 years should be collected to compile the trends in temperature variation and rainfall. Proper assessment should be made on the projections of one crop, two crops and three crops. Strategies should be made on the basis on zones to cope up with the loss in agriculture.

The world food crisis was manmade and the cure is also to be done by man only, for which everyone has to come up together. Main solution for such vulnerable group will definitely come from agriculture. For this, agricultural awareness should be increased to reduce hunger and malnutrition among people, especially poor. Identify investment for better investment in agriculture based projects and encourage private sector for investment purposes. Capacity need to be enhanced in terms of using agriculture at individual, collective, national and international levels. Political support need to be mobilized to elevate agriculture. Keeping in mind the interests of the individuals especially poor the government should take steps to prevent them from hunger and malnutrition s they are the only ones who are worst affected by the world food crisis. As we know that “poor can be sellers as well as the buyers of food”

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HPAE-From periphery to its core

Unnatee Golcha and Apoorv Mittal

BA ECONOMICS II

ABSTRACT

With the downfall of an economy another economy rises. The world has seen various countries drowning and developing. Asia has a notable record of high and sustained economic growth. The 23 economies of East Asia grew faster than rest of the world. Most of this achievement is apparently attributable to the miraculous growth of eight economies. The East Asian growth and trade shows the extraordinary efforts made by the economies to attain the trademark of high performing economies. For instance the Latin American economies were in the period of boom and Asian economies were on the path of becoming developed and developing countries to compete the Latin American countries and rest of the world. The difference in performance is usually recognized to fundamental differences in policy-orientation: that the HPAEs pursued “sound” macro “fundamentals”, outward-look strategy and “market-friendly” policies, while Latin American governments persisted with “closed economy”, import substitution regimes characterized by heavy state intervention. The growth of Asian economies is based on following factors:

- The trend towards raising the share of exports.
- the shift from low to high productivity sectors
- continued increases in the educational level of the citizens of the country
- Other improvements in the quality of output that are at present not accurately measured in national income accounts.

Keywords:

Import substitution, inflation, outward-look strategy, sustainable growth

Review of literature

- Dornbusch and Fischer, 1993 believed that research suggests that inflation below 20%, a level not breached by any of the HPAEs during the rapid growth periods, can be maintained for long periods without generating macroeconomic instability.[1]

- Behrman and Schneider (1992).the regressions control for a polynomial in average per capita income in the relevant year. The authors used per capita GNP at official exchange rates as the measure of income.[1]

RESEARCH METHODOLOGY

This study is mainly based on secondary data collected from the reports of World Bank, Forbes and NBER. Also included are economists' opinion and other published and unpublished reports.

OBJECTIVES OF STUDY

The research paper covers the following objectives

- To study the trends and pattern and changes in the situation of HPAE
- The impact of HPAE on other countries
- To evaluate the impact of HPAE

PREFACE

Asia being one of the strongest pillars of the world economy has accumulated over US$4 trillion of foreign exchange reserves (more than half of the world's total) owing to rapid economic growth and large trade surplus with the rest of the world. Asia has witnessed some of the world's longest economic booms including Japanese Economic Miracle (1950-1990), Han River (1961-1996), economic boom in china and High Performing Asian economies. The eight high performing Asian economies (HPAEs) -JAPAN; the four tigers HONG KONG, SINGAPORE, THE REPUBLIC OF KOREA and TAIWAN, and the three newly industrializing economies (NIEs) of South-East Asia –INDONESIA ,MALASIYA and THAILAND.

As a result of the rapid, shared growth, human welfare has improved dramatically. Life expectancy in the developing HPAEs increased from 56 years in 1960 to 71 years in 1990. The proportion of people living in absolute poverty (lacking basic necessities as clean water, food, and shelter) dropped, for instance poverty in Indonesia dropped from 58 percent in 1960 to 17 percent in 1990 and from 37 percent to less than 5 percent in Malaysia during the same period [2].Absolute poverty declined in other developing economies, but much less steeply. A host of other social and economic indicators also improved rapidly in the HPAEs and are now at levels that sometimes beat those in developed economies.

The real GDP grew at an average rate of 6.9% in the HPAEs during the 1980-1990 decade and 7.7% in the 1990-1995. The growth of real GDP in China was even greater- 10.2% and 12.8% respectively. At these rates, the growth of real GDP would double every 10 years in HPAEs. The rate of growth of exports was even greater than the growth of GDP. The growth of exports is certain to have provided a great stimulus to the growth of GDP and in turn have been stimulated by it. The table below shows the average growth of real GDP and trade in HPAEs, 1980-1995. [3]

AVERAGE GROWTH OF REAL GDP & TRADE IN HPAEs

	GROWTH OF REAL GDP			GROWTH OF EXPORTS	
	1980-1990	**1990-1995**		**1980-1990**	**1990-1995**
KOREA	9.4%	7.2%		12.0%	13.4%
HONGKONG	6.9%	5.6%		14.4%	13.5%
SINGAPORE	6.4%	8.7%		10.0%	13.3%
THAILAND	7.6%	8.4%		14.0%	14.2%
INDONESIA	6.1%	7.6%		5.3%	21.3%
MALASIYA	5.2%	8.7%		10.9%	14.4%
TAIWAN	10.2%	12.8%		11.5%	15.6%
JAPAN				7.0%	9.0%
DEVELOPING COUNTRIES	2.8%	2.1%		7.3%	5.2%
INDUSTRIAL COUNTRIES	3.2%	2.0%		5.2%	6.4%

Source: World Bank, World Development Report, 1997-2009

As shown in table the countries noticed tremendous growth in its exports. There were many factors at work that contributed to the extraordinary growth of HPAEs. These were high rate of savings and investments, significant improvement in education and training, new technologies adoption and shift from agrarian to industrial economies. This “EAST ASIAN MIRACLE” of growth and trade was indeed a great trademark for the growth and development of the economies as compared to the rest of the world.

However this growth could not be sustained for longer period as in July 1997 Thailand crisis quickly spread to other HPAEs, China and Japan being an exception. The cause of the crisis was excessive borrowings of short term funds in dollars and yen in international capital markets and using for real estate speculations and unproductive investments hence plunging the nations into deep recession. At the height of crisis in 1997-1998, the real GDP of Korea, Hong-Kong, Thailand, Malaysia declined by more than 5% and that of Indonesia by 15%, however the worst of crisis was over and the growth of HPAEs was resumed.

JAPAN

Japan has overcome various economic hurdles to achieve the position and include itself in the race of developed countries. The first period was seen in 1868 and extended through World War II; the second began in 1945 and continued into mid-1990s.The Japanese government liberalized; experienced revolutionary changes; and became a world power with carefully developed spheres of influence. The Japanese government encouraged economic change by fostering a national revolution and by planning and advising in every aspect of society .The Japan’s economy is the third largest in the world by nominal GDP and is the world's second largest developed economy.

The world has witnessed Japan growing and it is now said to be the world's largest creditor nation, running at an annual trade surplus and having a considerable net international investment surplus. As of 2010, Japan possesses 13.7% of the world's private financial assets at an estimated $14.6 trillion. The national goal of Japan each time was to make its economy powerful and wealthy such that its independence would never again be threatened and Japan succeeded in achieving their goal.

HONG KONG

Hong Kong has marked tremendous growth. Since its inception in 1995 Hong Kong has been ranked as the world's freest economy in the Index of Economic Freedom of Heritage Foundation for 20 consecutive years. Its economy is governed under positive noninterventionism, and is highly dependent on international trade and finance. The share of exports has increased tremendously with 14.4% in 1980-1990 enabling the country to achieve the GDP growth rate of 6.9%. Thereafter the country followed the path of growth and development hence was clubbed along with the 3 countries and named as four tigers.

The population of the country being 7.2 million having unemployment rate of 3.3% and inflation rate at 4.3% is a good sign for the growth and development. The FDI inflows considerably showed nice position with $76.6 billion. The 5 year compound annual growth rate was 2.7% with $52722 per capita. Hence the overall position of Hong Kong since 1950s is quite impressive and gaining position in the high performing Asian economies is justified.

INDONESIA

The Indonesian economy has recorded phenomenal growth over the past few decades, and the firm rate of economic expansion has been accompanied by reduced output’s inconsistency thereby achieving stable inflation .After witnessing precipitous recession in 1965 with an 8% fall in GDP, the country began to develop economically in the 1970s, earning much profit from the oil shock. This development continued throughout the 1980s and despite the oil counter-shocks in 1990s the country was economically strong. During the 1980-1990 decade country’s GDP rate was 6.1% which rose to 7.6% in 1990-1995 showing tremendous growth. Indonesia saw constant growth, with the poverty rate falling from 60% to 15%. The country’s endowment of natural resources, its young and growing workforce and the government policy helped the economy to grow and achieve the targets. Hence, Indonesia’s trade openness has increased over the past half century with the growth of industrialization. In 2011, Indonesia's inflation rate was 3.79 %, below the government-set target of 5.65%. It was the lowest inflation rate since 1998 which is a remarkable growth.

THE REPUBLIC OF KOREA

According to Forbes magazine, South Korea is “the Seoul of World Economy”. South Korea's real GDP grew by an average of more than 8% per year, from US$2.7 billion in 1962 to US$230 billion in 1989, breaking the trillion dollar mark in 2006. The most important factor in rapid industrialization was the implementation of an outward-looking strategy in the early 1960s.This strategy had a positive impact on the country's growth because poor natural resource endowment, low savings rate, and small domestic market. Hence the country promoted economic growth by focusing on labor-intensive manufactured exports, in which they developed a competitive advantage. Government policies played an important role in this process. These efforts enabled South Korea to achieve rapid growth in exports and subsequent increase in income. The export oriented policy had benefited the economy during the 1980s and 1990s as the share of exports increased from 12.0% to 13.4%. Openness to global trade and investment has been institutionalized through free trade agreements, and the regulatory environment has become more efficient thereby the country witnessed the real GDP growth of 9.4% in 1980-1990 .Over the past five years, South Korea's economic freedom has improved and furtherance the country into the "mostly free" category.

TAIWAN

Taiwan has achieved tremendous growth since the age of discovery. From 1966 to 1980, Taiwan's economy was gradually stabilized as the Ten Major Construction Projects had established a base in further economic developments. The role of government in the economy lessened as many government-owned corporations were privatized after 1980s.Also the share of public expenditure on education allocated to higher education had increased during 1980s and 1990s, this increase was consistent as there was a consequent rise in demand for technical and skilled workers such as engineers due to the change in structure of production and exports to more technology oriented and skill-intensive products. The privatization of companies led to increase in the efficiency and effectiveness of resources thereby increasing the share of exports. The country was successful in achieving the required inflation rate and unemployment rate which had reduced over the years and the exports have grown faster since World War II providing a boost to the industrialist and increasing the work-force participation thereby increasing the share of industrialization in the economy and thus enabling Taiwan to be classified as high performing Asian economy.

SINGAPORE

Since 1965, the Singapore economy has experienced rapid economic development. Singapore's open and outward-oriented development strategy reflects the strong economic performance. With the increase in country's growth and development, the composition of exports has evolved from labor-intensive to technologically oriented and high value-added products. Country realized the importance of services and focused on the growth of this sector and also witnessed the increasing share of the financial and business sectors of the economy. Singapore has a highly developed and successful free-market economy. The economy is open and has corruption-free environment, prices do not fluctuate easily, and per capita GDP higher than most of the developed countries. The economy depends on exports (in consumer electronics, information technology products and on a growing financial services sector). In 1980-1990 the country attained 6.4% GDP growth rate and increased to 1990-1995 8.7% in 1990-1995. The economy contracted 0.6% in 2009 as a result of the global financial crisis, but rebounded 15.1% in 2010. The government focuses on increasing productivity and will continue efforts to establish Singapore as Southeast Asia's financial and high-tech hub.

MALAYSIA

Malaysia accelerated economically and underwent rapid development during the late 20th century and dominated by the production of raw natural resource materials (such as tin and rubber) the country has adopted the outward-looking policy because of these reasons it comes under upper-middle income economy. Malaysia also succeeded in nearly eradicating poverty, helped in increasing the employment rate. Malaysia today has a diversified economy and has become a leading exporter of electrical appliances and components, palm oil, and natural gas. Malaysia grew at an average rate of 5.2% during the 1980-1990 decade and 8.7% in the 1990-1995 period. Despite the Asian financial crisis of 1997-1998, Malaysia noticed consistent growth rates, averaging 5.5 percent per year from 2000-2008.Later in 2009 again the country was hit by the Global Financial Crisis but recovered rapidly, posting growth rates averaging 5.7 percent since 2010. Malaysia's near-term economic outlook remains overall favorable, despite some risks. The economy has diversified and the Government has taken various important steps to broaden the economy.

THAILAND

Thailand has attained the position amongst the upper middle class countries in 2011. The development is in respect of Thailand's economic growth in the past decade in which GNI per capita has almost doubled. Thailand has a friendly business environment and has been doing well in attracting FDIs and achieving greater diversification in manufacturing production and expansion into new emerging export markets and increasing the exports growth rate from 14.0% in 1980-1990 to 14.2% in 1990-1995. Thailand has been one of the widely cited development countries, with sustained growth and poverty reduction, particularly in the 1980s as GDP was 7.6% in 1980-1990 which rose to 8.4% in 1990-1995.Over the last four decades, Thailand has noticed remarkable progress in social and economic issues, moving from a low-income country to an upper-income country in less than a generation.

Policy Implications

Since the study of economic development began in earnest at the close of Second World War, academicians and policymakers have debated the appropriate role of public policy in developing economies. The East Asian economies provided a policy of frameworks-extending from Hong Kong's nearly complete laissez faire to the highly selective policy regimes of Japan and Korea. The policies that the government of these eight high performing Asian countries had undergone were remarkable and appropriate under the dynamic conditions of the environment. For instance the Taiwan government had privatized their economy and South Korea implemented the outward looking strategy. Hence the Asian economies transformed themselves from being closed economies to open economies. Broadly speaking, implementing liberal policies for trade and integrating with rest of the world proved to be a boon for the Asian economies.

Conclusion

With the onset of reforms to liberalize the HPAE's -a new chapter has dawned for the countries and their billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the countries. Besides, it also marks the advent of the real integration of the Asian economies with the rest of the world. Numerous ingredients went into the recipes for success in Hong Kong, Indonesia, Japan, Malaysia, the Republic of Korea, Singapore, Taiwan, and Thailand. Yet, the market-oriented aspects experience of these eight high-performing East Asian economies can be recommended with few reservations. These economies have overcome various hurdles and hitherto deserve the tag of High Performing Asian Economies.

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Section D

Darjeeling Visit

Reports

Ging Tea Estate SURVEY REPORT

Isha Ramawat, Kritika Soni And Devrat Diwa

Introduction

Over the past few years the Indian tea industry is experiencing a crisis that is caused by a multitude of factors both global and local causing rampant incidents of closures and abandonment in many tea gardens in the states of Kerala and West Bengal. Centre for Education and Communication's interventions in the tea sector for over a decade is largely through fact-finding exercises, research and campaign by engaging with various stakeholders of the tea industry especially trade unions.

The Indian tea sector currently employs for over 1.1 million workers throughout the tea growing states. According to labor bureau, GOI occupational wage survey(6th round 2006) , the employment of women is more than 50% in this sector . the industry is characterized by an exclusive estate economy with a resident labor force comprising mainly of the socially excluded and marginalized communities who remain to be relegated even today in independent India.

The industry boasts as an organized sector with various legislation in place specially the plantation labor act 1951, implemented only from year 1954 after efforts put by the trade union movement. Historically, tea plantations were set up as family units for cultivation and production of tea which continues to mushroom with the increasing production by the small tea grower segment in India.

Background of the story

About Ging tea estate

Location of Ging Tea Estate:

Ging Tea Estate is located in the Lebong Valley, about 10kms north-east of the Darjeeling town over looking the Himalayan range across the valley. The main cultivation of the tea garden is between an altitude of 650meters to 1500meters. It has a cultivation spreading over an approximate area of 250 hectares.

Certification of Ging Tea Estate:

Ging Tea Estate is Organically certified and one of the smallest Darjeeling tea producing tea gardens of the Chamong group.

About the Darjeeling Teas of Ging Tea Estate:

Since Ging Tea Estate is ideally located to suit the tea plants to produce the best of Darjeeling teas, hence black teas, green teas andwhite teas of all flushes; first flush, second flush, monsoon flush and autumn flush are produced and exported.

Ownership/ Management of Ging Tea Estate:

Ging Tea Estate is managed by the Chamong Group, which has among other tea estates are the renowned Chamong tea estate in west of Darjeeling town, the Dhajea tea estate.

Population of Ging Tea Estate:

The total population of Ging Tea Estate is 4089, out of which 2037 is total male population and the total female population is 2052.

Only about 87 tea gardens in the world have the right to produce tea that can use the Darjeeling name and logo. All of these gardens can be found in a very small area: only about 19000 hectares spread over 7 main valleys in just 1 district in the state of West Bengal in India.The lower division of the Ging tea estate is spread in an area of 204 hectares with worker strength of 776.

This very beautiful, very unique, very lush and green region lies in the hilly beginnings of the North Eastern Himalayas. Here, 4000-6000 ft. above sea level, the perennially snow covered Kanchenjunga- the 3rd largest mountain peak in the Himalayas- dominates a landscape that is breathtakingly misty, mystic and absolutely magical.

An always crisp weather; pure and clean air; ice-sparkling waterfalls; innumerable clear mountain streams and a sun that pours liquid gold onto the fertile and luxuriant hills—these are the vital ingredients that make Darjeeling a tea without equal; and a taste that cannot be replicated anywhere else on Earth.

Darjeeling tea has 3 times the Volatile Flavoury Constituents of any other tea. Ging Tea Estate is organically certified and one of the smallest Darjeeling tea producing tea gardens of the Chamong group. It is managed by the Chamong group, which has among other tea estates are the renowned Chamong tea estate in west of Darjeeling town, the Dhajea tea estate.

So, to study the condition of tea garden workers a survey was conducted in the Ging Tea Estate area. 15 families- 71 individuals, 36 males, 34 females and 9 tea garden workers were surveyed in which questions of various dimensions were asked to analyze the various aspects of tea garden workers lives. Questionnaire consisted of 74 questions under different criterias such as:

- General information
- Economic information
- Basic amenities for Tea Garden Worker
- Work information
- Domestic work profile
- Community organization
- Asset information
- Consumption and Budget Expenditure
- Migration information
- Trade Union activities
- Decision making dimensions of household

Objectives

The proposed study is primarily concerned with an assessment of the socio-economic condition of the Tea Garden Laborers in the Ging Tea estates in The Darjeeling District of West-Bengal. This survey was done keeping in mind the following objectives:

- To study the causes of poverty , ignorance and illiteracy of laborers in Ging tea garden.
- To study the socio-economic backwardness of the tea garden workers.
- To study the awareness and involvement of laborers in common social and political aspects.
- To examine the role of state, trade union and the workers themselves in the time crisis.
- To assess the impact of the closure on workers particularly on women workers.

- ❖ To study the expenditure and employment pattern of tea garden workers
- ❖ To examine the social situations including education, health, and housing and sanitation of the garden laborers.

Statement of the problem

The problem that we have tried to touch is that of the tea garden workers, their lifestyle and availability of basic amenities, education status, income level, the amount of savings, power of women in the society, dependency on the working people, the capability of trade unions, the implementation of Plantation Labor Act of 1951 etc.

This report will include all the problems and conditions that were studied in the survey at Ging Tea Estate, Darjeeling.

Findings

The average size of families is 5-6 members with only 1-2 members working and rest of the family members are dependent on them. Even few people of those who are graduates are not working and therefore dependency ratio is very high.

The literacy rate is low as people are not much educated. Their education level varies between primary and secondary and even if someone is educated enough they are working outside or sitting idle at home.

Recently, in March 2015 the daily wages drawn by the tea garden workers has been increased from Rs. 90 to Rs. 120 – Rs. 122. The monthly income of households varies between Rs. 3,000-10,000 and on the other hand, people who are engaged in office or managerial work have salaries ranging from Rs. 30,000 to Rs. 1,00,000 per month. Thus, we can say that the average salary drawn by each tea garden worker is Rs. 122 per year. One more thing that can be highlighted is that as there income and expenditure are almost equal so, the scope for saving is negligible.

One more point that can be concluded is that the tea garden workers do not get water and electricity facilities. On the other hand, the tea garden workers are getting health care, medicine as well as maternity facilities. The reason for this can be that the management tries to find benefit by keeping the tea garden workers healthy i.e. the management acts selfishly so that their productivity can be increased.

Though, they are not getting any facilities at the garden but most of them have toilets in their houses. The workers in the tea garden receive only rice and Atta from the management and not kerosene, sugar etc. Also, they are mostly permanent tea workers.

They work for almost 8 hours in the peak season and 5-6 hours in the slack season. The location of Gram Panchayat office is more than 5 kilometers, which is inconvenient for the tea garden workers.

The people working in the tea gardens do not receive any kind of assistance regarding training, loans, educational or social support from the management. And not only the workers but also their family members do not receive any assistance.

Another point that could be noted is that, total land held by households varies from 0.5-3 Katha. Almost everyone has livestock holdings and T.V. and refrigerator as household assets.

The consumption expenditure by tea garden workers is mainly on rice and meat. Even we found that alcoholism was prominent in the tea gardens. They spent very less on milk and vegetables which are essential and thus, malnutrition was also observed there.

Many tea garden workers are unionized under trade unions which are capable of presenting their demand and views in front of the management committee. And in some cases, it was found that the demands of the workers were fulfilled because of the efforts of the respective trade unions.

The decisions taken in households regarding the consumption expenditure, education, buying and selling of assets etc. are joint, i.e. the say of male and female members of the family is equal.

Thus on the whole, though income is low people are very satisfied. They do not hesitate to spend on consumption. We can say they have “simple living high thinking, humanities still lies there”. Being there, we felt like we were at home.

One sad thing was that the people were unaware of the Plantation Labor Act of 1951. Therefore they have not got the basic facilities that they deserve.

They are illiterate to that extent that they do not know how much a quintal is.

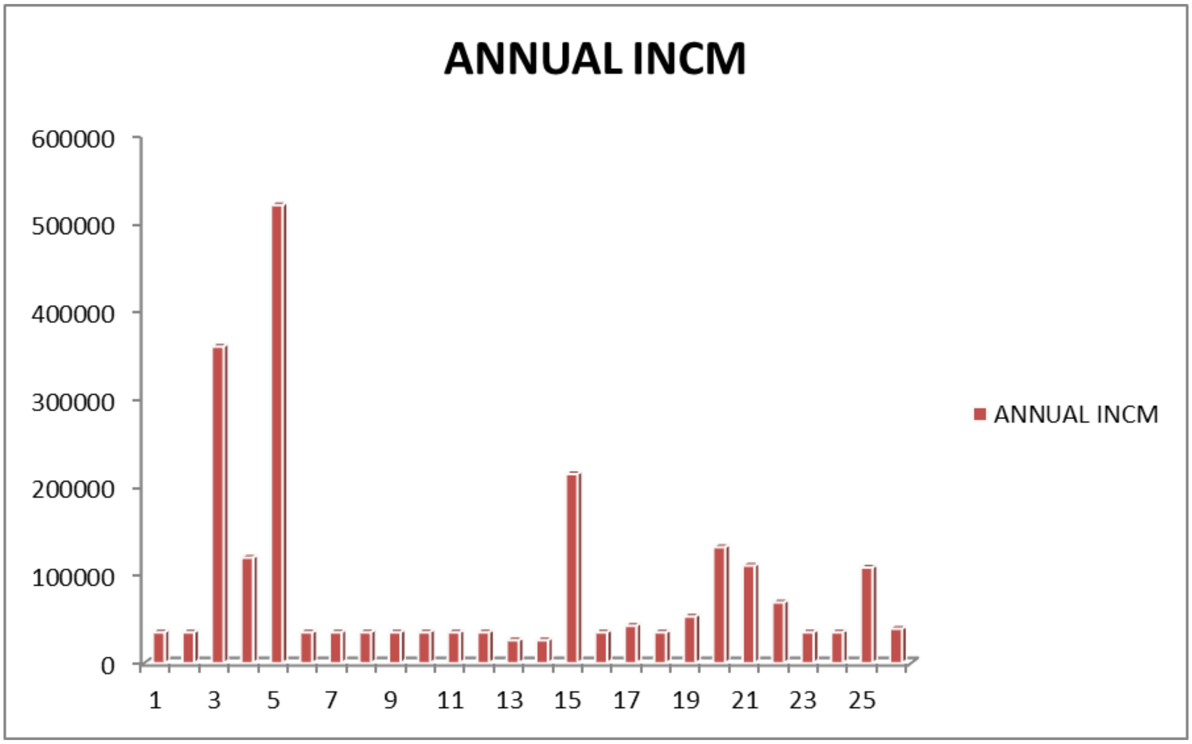

Figure-1

In this figure, we can see that conclude that the annual income varies on an average between Rs. 30,000 to Rs. 1, 00,000 in which the most common income is Rs. 35,000. As in some families, two people are working, thus the annual income has increased to around Rs. 70,000. Also, many tea garden workers have cattles like cows, goats, pigs and hens in their houses. Thus their annual income has increased to even more than a lakh or two per year.

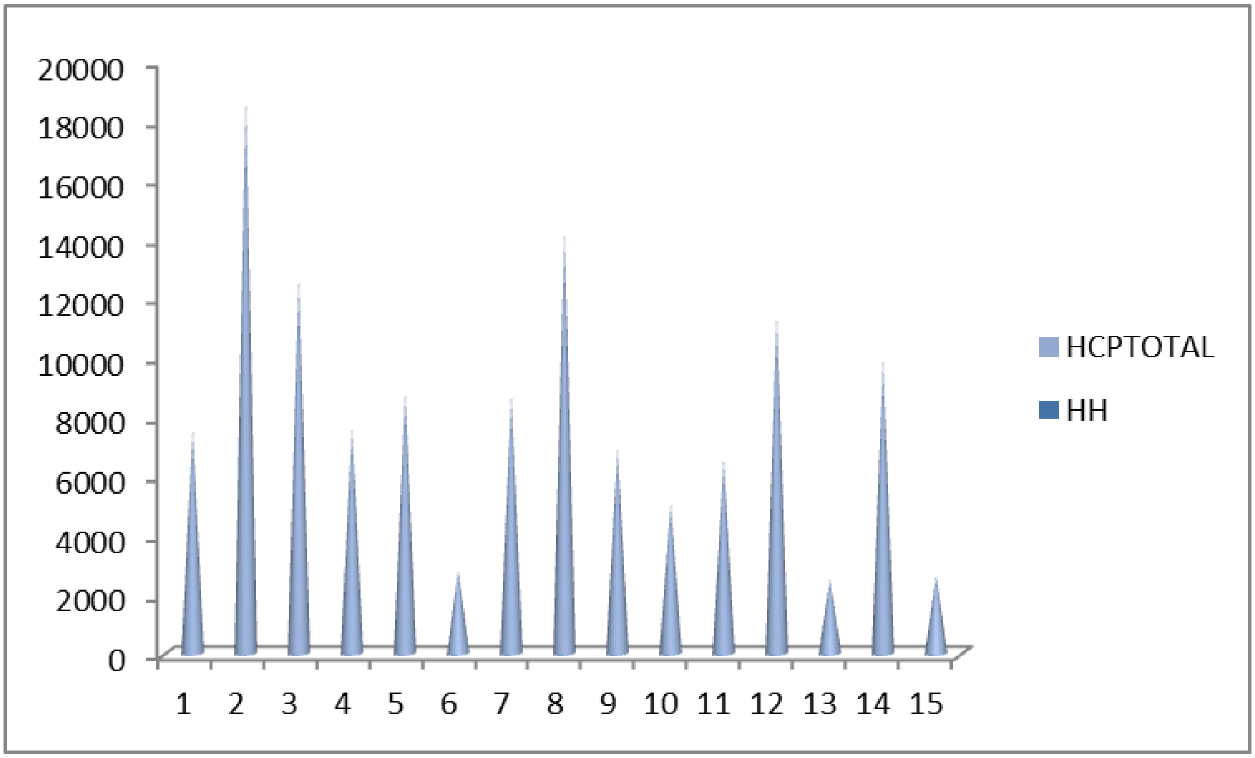

Figure-2

This figure explains the total consumption expenditure of the tea garden workers in Ging Tea Estate monthly. Though fifth household earns the most, their expenditure is very less. This shows that though people generally do not save much, but some people do save money.

Recommendations

The government and tea garden management should take care of the proper educational facilities for the children of tea garden workers so that the literacy rate could rise.

The daily wage rates of the workers should be raised so that their standard of living could be increased. Increase in income would increase their savings as their consumption expenditure is almost equal to their income.

People there do not have pucca houses so management should construct pucca houses for the workers.

The trade unions must start awareness programs and start working with the workers hand-in-hand.

Management should provide the tea garden workers with the basic facilities such as sanitation facilities, drinking water facility, electricity, health care facilities, maternity facilities and many other facilities.

It is highly essential to create a good relationship among owners, managerial staff and laborers. For this owners, managerial staff and Labor Union must come forward and through proper negotiations they must solve their problems. Otherwise some bad incidents will continuously affect the tea estate.

Conclusion

Thus, we can conclude that the condition of the tea garden workers has not improved much over the decades. The tea garden workers are highly deprived in socio-economic aspects .They also lack in awareness.Tea garden workers hardly manage to live with their present income. Their standard of living is not much modernised. Management have failed in some aspect to provide many facilities to the tea garden workers.Most of the tea garden workers are the permanent workers. The state of the workers can be further improved if the Union they have established works effectively and coordinates its activities. It is a high time for the government as well as the owners and management to come forward and uplift this particular society. Otherwise this section of our society remains static. Now-a-days though some facilities are provided by the Government and as well as by the management, but, this is not enough for overall development of the society.

Thus, it is a strict requirement by the management to take initiative for the upliftment of the tea garden workers as this will lead to the progress of the tea estate as a whole.

References ?????????????????????/

Ging Tea Estate SURVEY REPORT 2

Rishabh Gupta, Deepak and Riddhi Modi

Abstract

Tea Estate laborers play an important role in our society. Our society will never be complete without their involvement and contribution. Therefore, it is essential to study the socio-economic condition of this particular section. In our proposed study, we want to highlight the socio-economic conditions of this section not in general but specifically in connection with Ging Tea Estate of Darjeeling district. Accordingly, we have framed some objectives to study the living conditions of laborers of this particular Tea Estate.

Introduction:

From time immemorial tea has been eulogized in so many ways. According to eighteenth century English poet William Cowper, "It is the cup that cheers but not inebriates". And it is this very fact that has made tea such a wonderful beverage, popularity of which never seems to diminish. To add to that, it is also one of the cheapest beverages in the world. People right from the intellectuals, down to the ordinary manual workers in different fields of activities feel pleasure while sipping tea and get relief, relaxed and refreshed. In a country like India a day can only begin with a sip of tea. A survey conducted by the Indian Tea Board reveals that 89% of the people take tea as their habit, 8% for refreshing their minds and 3% for appeasing hunger. Tea is a labour oriented enterprise as it is agro-based. It requires labour at every stage of its work right from clearance of jungle, making the land suitable for plantation, work for the nursery, giving manure both in the nursery and in the plantation area, spraying of pesticides, drain cutting, path making, plucking, manufacturing and then finally dispatching it to different destinations. Hence, labour is the heart and soul of tea plantation. But, unfortunately as far as life situation of the tea labourers are concerned, things are not as ideal as it should be in our country and especially in

Darjeeling. Here a tea labourer hardly gets a chance to lead a good life let alone a rosy one.

Plantation is a unique sector, where most of the establishments are known to be century old. In plantation industry, majority of the workers employed are unskilled and many of them are not aware of the provisions of Minimum Wage Act, 1948, Equal Remuneration Act, 1976 and the various other labour acts enacted for their welfare. The high rate of illiteracy and low level of awareness make them more vulnerable to exploitation by the employer. Workers working beyond the normal hours have to be paid at double rate for overtime work, as is mandatory under the act. Majority of the workers are leaf pluckers in the tea garden and they are mostly female. The working conditions of workers employed in plantations are governed by the Plantation Labour Act, 1951 and the rules promulgated by the State Governments. The Plantation Labour Act inter-alia requires the employer to provide to the workers and their family members medical, housing, sickness and education facility and various other social security benefits.

The tea tribes, being basically labourers, live in village inside tea estates. These estates are located in interior places and this contributes to the backwardness and exploitation of them by the tea planters. The workers devoid of the basic amenities of life live in impoverishment and die in obscurity. The tea planters usually exploit the tea tribes in every possible way. Agitation of labour against the management is common. No education, poverty, poor standard of living and health facilities are the immutable problems in their lives.

To have an insight of the problems faced by the tea estate labourers in Darjeeling, we conducted a survey on 27 November in Ging Tea Estate of Darjeeling in West Bengal.

Objectives of the study:

The proposed study is primarily concerned with an assessment of the socio-economic condition of the tea garden labourers in the Ging Tea Estate in the Darjeeling district of West Bengal. The main objectives of the study are:

- To study the socio-economic conditions of labourers of our proposed tea garden.

- To study the awareness and involvement of the labourers in common social aspects.
- To study the expenditure and employment pattern of the labourers of Ging Tea Estate.

Methodology:

The proposed study is built upon the information collected from the primary sources. The primary data is collected from the structured questionnaires administrated at the household level.

Background:

Ging Tea Estate is a bio-organic garden and belongs to the B.D. Tea Estate Pvt.Ltd. The Estate is in Lebong Valley in Darjeeling and is one of the smallest Darjeeling tea producing tea gardens of the Chamong group. The area under tea cultivation is 250 hectares out of total tea estate area of over 600 hectares. About 230 hectares of area is maintained as natural forest and the rest is used for workers' village, bungalow, factory etc. The garden is located at an elevation varying from 2000 feetto 5000 feet. An always crisp weather, pure and clean air, ice-sparkling waterfalls, innumerable clear mountain streams and a sun that pours liquid gold onto the fertile and luxuriant hills-these are the vital ingredients that make Darjeeling tea without equal and a taste that cannot be replicated anywhere else. The estate is unionized under Darjeeling Terai Dooars Plantation Labour Union (DTDPLU).

Among the teas cultivated in India, the most celebrated one comes from Darjeeling Himalaya. The best of India's prized Darjeeling Tea is considered the world's finest tea. The region has been cultivating and producing tea since the last 150 years. The complex geo-environmental and agro-climatic conditions in the region lend to the tea grown in the area a distinct quality. However, in recent times, the industry is fraught with several problems.

Out of 79 houses, 15 houses were surveyed. These houses include both Tea Estate workers and other labourers as well. All the workers belong to Nepalese community consisting of different sub-communities. The household sizes vary from 1 to 5. Necessities like potable drinking water, electricity, healthcare facilities are provided either by the management or by themselves.

Sanitation facilities are inadequate and the labourers are even unaware of the total land held by them. The labourers are mostly permanent and their main source of income is plantation in the Tea Estate. Overall , these people are economically backward and socially unaware.

Findings and analysis:

The survey covers some of the foremost aspects of the plantation community of Ging Tea Estate including their general information, economic information, basic amenities , work information, domestic work profile, community organization, asset information, consumption and budget expenditure , migration information, trade union activities as well as decision making dimensions of the household. In our randomly selected 15 household samples, altogether there are 55 family members. Out of which 28 are males and 27 are females.As human society is dynamic, its socio-economic and political landscape go on changing constantly, due to physical, socio-cultural and political forces. The usual age at marriage is between 15-20. The monthly household income of most of the families is Rs.2928. Daily Wage of the labourers is Rs.122. Free housing facilities are provided to all the labourers. Domestic electrification as well as drinking water facilities are not provided by the garden although every household has its own electricity as well as water supply. There is a primary school situated inside the garden.The Garden has its own factory as well as a labour union named Darjeeling Terai Dooars Plantation Labour Union (DTDPLU).

From the data available it is clear that the general living conditions of the labourers are poor and unhygienic. Most of them are living inside their huts. At the same time they also use domestictap water for drinking. In our proposed study Tea Estate Management is available. Basically wheat and rice are distributed under the system.From our survey we find that electricity is available in almost all the households. For fuel they use wood and kerosene; only few families have LPG connection. Literacy can be considered as acid test of socio-economic and cultural improvement of a society. Education is considered as the major component of human resource development and socio-economic and political development of the society. In our limited sample most of them are educated only till primary level.Children in the tea garden have low levels of enrolment and education and a special effort is required to bring them into the school system. This is perhaps because both parents work in the plantation and the elder children, especially girls, often have to stay back at home to look after their younger siblings. There is one primary school which is run by government supervision.

It also has a primary health centre and ambulance facility.Children are properly vaccinated.The existing dispensary provided by the tea planter is under- staffed and not fully equipped and do not store the required medicines for which during medical emergencies they have to rush to the nearest Primary Health Centres or to the Civil Hospital.

Women workers are the most potential labour force in the Tea industry of Darjeeling. They are the victims of circumstances and they are struggling for their existences. Tea garden women workers are mostly illiterate and they are not aware of the minimum standard of living. Prejudice, superstitious beliefs, alcoholism etc. are high among this underdeveloped community. Socially they are less exposed, economically hard pressed and hand to mouth, educationally and culturally dwarf which cast gloomy picture on their posterity.

A large proportion of garden labourers still reside in kaccha and semi-pucca houses. The standards of living of these families are poor lacking basic amenities and sanitation facilities. Households lack proper sanitation and toilets. Open field defecation is still widely practiced in the area making them vulnerable to numerous health complexities, notably worm infestation. They also use open space for toilet in the present economic reforms era.Mostly direct pit toilets (without water seals) connected to open pits are used. The superstructure are mostly made of local materials (bamboo and thatched) walls but are often too cramped to allow individuals to use the toilets comfortably. . Similar is the situation with regard to safe drinking water and clean fuel.

Traditionally, tea estates in Darjeeling Hills and the villages therein have had the privilege of road communication unlike other ordinary villages scattered across spaces of the region.

Livestock constitutes major household asset across tea garden/estate villages. Ownership of vehicles including two wheelers is a rare phenomenon there. In recent times television is gradually penetrating the households.

There is negligence and highhandedness of tea management towards the social and economic development of garden labourers. Tea labourers who are directly associated with the gardens are also not quite satisfied with the paltry economic entitlements provided to them.

Conclusion and recommendations:

In conclusion it may be said that, the Tea community is highly deprived in all respects of socio-economic and political aspects. Therefore, it is high time for the government as well as the owners and management to come forward and uplift this particular society. Otherwise this section of our society remains static. Now days,though some facilities are provided by the government as well as by the management, but, this is not enough for all round development of the society. There should be proper labour development programme covering various aspects like the following: Minimum wages are not adequate to meet basic needs, or have not kept pace with rises in cost of living so increase of labour wage and labour compensation is most essential. Elementary Education should be made compulsory among the tea labour's children and school uniforms and books should be provided to every child. School drop-outs and the reasons for the same should be monitored. There should be one middle school also besides the primary school. Development of human resource employed in the tea gardens should be carried out through adult education, vocational and technical education. Provision of medical equipments of elementary type. Provision of sanitation and proper drinking water facilities. Provision of sports activities and training to the labours.

Raising awareness about good nutrition, health and sanitation practices through education programs. The plantation workers should be encouraged to produce the five most nutritious vegetables as well as raising poultry in their backyard for their own consumption can make a difference in improving diets for their households. . It has been seen that the superstitious beliefs are very prevailing in the tea garden communities and for that tea garden women are suffering more by their community itself. It is the education by which they can be organized socially.

Some undesirable incidents are taking place in different Tea Estate in the state in present situation. Therefore, it is highly essential to create a good relationship among owners, managerial staff and labourers. For this, owners, managerial staff and labour union must come forward and through proper negotiations they must solve their problems. Proper education and healthcare facilities will improve their lot to some extent. Wages must be high enough to improve the standard of living of the labourers. Lastly, awareness in every sense of the term will help the plantation community in improving their lifestyle.

St. Xavier's College, Jaipur