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Conference Volume –I

Theme I: Behavioural Economics
Theme II: Future of Multilateral Trade Agreements

Editor

D.K. MADAAN

Secretary, Indian Economic Association (IEA)

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Foreword

The historic Centenary Conference of the Indian Economic Association was organized towards the close of the year 2017 in the historic city of Jodhpur— a metropolis and the second largest city in the State of Rajasthan in the region of Marwar, known for both valour and commerce.

The Association was launched in Bombay in December 1918 with an Indophile Percy Anstey in Chair. It was a great occasion for us to give a serious thought to choose four themes as is the tradition. With inputs on the principle for application for choice of themes, viz., accommodation of interest areas of wide membership without compromising the interest of economics, four themes were chosen in the Executive Council meeting held at Patiala on 21 March 2017. We decided to deliberate on (1) Behavioural Economics, a very contemporary area of research, (2) Future of Multilateral Trade Agreements, with quarter a century post-WTO and emergence of regional blocks at different levels from trade treaty to economic unions in background, (3) Rural and Urban Development in India: Policies and Initiatives, a spate of which were launched in recent past and needed serious examination, and finally, (4) Economy of Rajasthan to give expression to researchers in the region where the Conference is held. Incidentally, Richard Thaler was subsequently selected for Nobel Memorial Prize in Economic Sciences for his contributions that "have built a bridge between the economic and psychological analyses of individual decision-making and … instrumental in creating the new and rapidly expanding field of behavioral economics."

With a view to guiding researchers in remote corners, a practice has been instituted in last few decades to organize a Plenary Session in which reputed scholars of the respective fields are invited to provide the perspectives on the theme and highlight fundamental issues of research. We chose ace contributor to Behavioural Economics theme, Prof SanjitDhami from University Leicester, reputed scholar of international affairs, Prof Sachin Chaturvedi for theme of Future of Multilateral Trade Agreement, and accepted policy analyst Prof R S Ghuman for Rural and Urban Development in India, and known contributor to Rajasthan economic affairs Prof Anju Kohli. We are thankful to them having made it or sending their contributions.

Economic Reforms have been a continuing them in India for almost three decades and within a broad framework of neoliberalism there have been nuanced incursions and, in our Chief Guest words, we are Economic Reforms 3.0. Of course, our Chief Guest Dr Rajiv Kumar, made it a point to make it despite his busy schedule as Vice Chairman of the NITI

Aayog. We requested Prof Dilip M Nachane, a former Director of IGIDR to deliver a lecture in the memory of Prof P.R. Brahmananda, who happened to be his teacher and colleague. We are beholden to him as well for doing this honour to the Association. The Secretary of IEA, Prof D K Madaan has wisely chosen to include these contributions in this compendium.

The Conference was very well attended and papers were presented in various technical sessions spread over three days. Prof Madaan, who was entrusted to select and edit the Conference volume has put in serious efforts in finally choosing 128 papers, categorizing them into themes, sequencing their order and editing the content before putting within covers. I am sure, they will offer kaleidoscopic panorama on several issues of interest to economics fraternity in India and abroad.

P.K. Chaubey
President
Indian Economic Association - 2017

Editor's Note

IEA is the oldest Association in Social Sciences and perhaps second oldest in the country in any discipline, after the Indian Science Congress Association (founded in 1914). IEA organizes annual conferences, special seminars, and lectures by eminent persons of the profession. The initiative taken by Charles Joseph Hamilton, then Minto Professor of Economics at Calcutta University established IEA in December 1917. IEA stands for promoting the interest of the discipline in terms of extension, expansion and professional competence in teaching, training, research, and consultancy. It promotes the interests of its members but more than that the interest of the public. The IEA has so far organized 100 annual conferences in different parts of the country. Last 100th Conference was held at J. N. Vyas University, Jodhpur. The present volume is in addition to some papers published in a book, entitled "Contemporary Economic Issues in India", printed by Bharti Publications, New Delhi, which was released during the Inaugural Session of Centenary Annual Conference of IEA at J N Vyas University, Jodhpur on 27 December 2017. In compilation of the present volume, we acknowledge the cooperation and support of a large number of IEA members. We are thankful to all those persons, who have contributed towards the success of this effort.

Special thanks and gratitude is due to Hon'bleDr. Rajiv Kumar, Vice Chairman, NITI Aayog, New Delhi, who delivered an inaugural address of the conference; Prof. Dilip M. Nachane, IGIDR, Mumbai for delivering P.R. Brahmananda memorial lecture; Prof. SanjitDhami, University of Leicester, UK; Prof. Sachin Chaturvedi, Director General, Research and Information System for Developing Countries (RIS), New Delhi; and Prof.Ranjit Singh Ghuman, Professor of Economics, CRRID, Chandigarh for their Keynote addresses on different themes. A sense of gratefulness is also due to Prof. P.K. Chaubey, President, IEA for his Presidential Address. Thanks are also due to Prof. V K Malhotra, Member Secretary, ICSSR, Prof. R.P. Singh, Vice Chancellor, J N Vyas University, Jodhpur, Dr. S.P Singh, Vice Chancellor, University of Lucknow, and Dr. Arvind Dixit, Vice Chancellor, Dr. BhimraoAmbedkar University, Agra for gracing the Inaugural Session of the Conference.

For chairing the different sessions of the conference, thanks are due to Prof. Pushpa Trivedi, IIT, Bombay; Prof A. Ranga Reddy, Tirupati; Prof. Rohini Prasad, Vice Chancellor, Sarguja University, Chhatisgarh Prof. A.P. Pandey, Vice Chancellor, Manipur University, Imphal: Prof. ADN Bajpai, former Vice Chancellor, Himachal Pradesh University; Dr. Mahesh Chand Sharma, New Delhi, Prof. JagdishShettigar, BIMTECH, Delhi; Dr. D.R. Agarwal, Director, IIT, Kolkata, Prof. Saurabh Agarwal, Dean, Indian Institute of Finance, Delhi; Prof. P Prajapati, Ahmedabad; Prof.Anuradha Jain, Dean, Vivekananda Institute of Professional Studies, Delhi; and Prof. B.L. Vaishnaw, J.N. VyasUniversity, Jodhpur.

Though a huge number of papers were received for presentation in the Centenary Annual Conference of the IEA, only some papers have been selected for this volume. The papers were selected keeping in mind importance of the area as well as the quality of contribution. The reviewers comprise Professors including P.K. Chaubey, NMP Verma, SatishVerma, Ashok Mittal, Shyam K Mishra, Prabir Biswas, Raj Kishore Panda, etc., who did their best in shortest possible time allotted to them. We are indebted to the contributors and reviewers without whose valuable support the volume would not have been completed. We wish a great success to the conference participants, paper presenters and the contributors of the article in this volume. Help and support of all in this endeavour is acknowledged without any liability for any error and omissions. Views expressed are author's own.

D.K. Madaan

Editor

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Rapporteur's Report

Jayesh N. Desai

Surat

It gives me immense pleasure and pride to present rapporteur's report of historical Centenary Conference of Indian Economic Association (IEA). It reminds me famous quote of great thinker Confucius who said – If you think in terms of a year, plant a seed; if in terms of ten years, plant trees; if in terms of 100 years, teach the people. How visionary our founders were to start this great association? We remember our founders and leaders of different times, who have continuously and tirelessly worked to further the cause of spreading knowledge of economics in our country and provided a nationwide platform for economic professionals to come together and discuss important economic issues affecting our country. It also encouraged young scholars and seasoned researchers to share and collaborate on contemporary issues of time. It provided platform for developing and disseminating knowledge of economics. I bow to all our illustrious predecessors and present the report with the permission of President Prof. P. K. Chaubey.

Day 1: 27-12-2017

Inaugural Session: 11.30-2.00 p.m.

1. **Chairperson**: Prof. R. P. Singh, Vice Chancellor, J. N. V. University, Jodhpur
2. **President IEA:** Prof. P. K. Chaubey, Director, IMS, University of Lucknow
3. **Chief Guest:** Hon'ble Dr. Rajiv Kumar, Vice Chairman, Niti Aayog, New Delhi
4. **Special Guest:** Prof. V. K. Malhotra, Member Secretary, ICSSR, New Delhi
5. **Guests of Honour:**
    1. Prof. S. P. Singh, Vice Chancellor, University of Lucknow
    2. Dr. Arvind Dixit, Vice Chancellor, Dr. Bhimrao Ambedkar University, Agra

6 Secretary IEA: Prof. D. K. Madaan, Punjabi University, Patiala

Inaugural function started with prayer, lamp lighting and welcome address by Prof. R. P. Singh, Vice Chancellor of J. N. V. University, Jodhpur, and Prof. D. K. Madaan. Secretary, IEA. Prof. V. K. Malhotra, Member Secretary, ICSSR, New Delhi; Special Guest in inaugural function started with appreciation for the conference and talked about the 100 years of IEA. He said that objective of ICSSR of furthering knowledge is satisfied by the conference. He also very briefly talked about relevance of themes of conference and gave his blessings to the conference.

Prof. P. K. Chaubey, President IEA, delivered his presidential address on 'State of Intervention in Public Affairs in India: Moving from Liberal to Neo liberal Reforms.' He introduced the state of Indian policymaking, referred to 'Growth Vs Welfare' debate, and said that we should not forget growth provides resources for welfare. He also underscored that idea of inclusion is ever evolving. He drew attention of economic researchers towards two points – one, distinction between liberal and neo-liberal reforms and two, the constitutional provisions for guiding the social and economic policies and development and welfare polices under Directive Principles of State Policy. He also highlighted that three major shifts in Indian policymaking has occurred. One, objective of inequality reduction has been substituted by poverty reduction. Two, focus of policy making has shifted from development to welfare measures, and three, focus of government has shifted to program designing from policy making. These shifts in policymaking has created some of the problems of the day. He completed his address by saying that the old saying 'Yatha Raja tatha Praja' is no longer true. In democracy, it is like 'Yatha Praja tatha Raja'. Therefore elected members don't frame policy of general interest but forms policies suitable to their

sponsors. However, He concluded with the hope that even amidst all this pressures elected members pursue some policies, which are in larger interest of people.

Chief Guest of the function Hon'ble Dr. Rajiv Kumar, Vice Chairman, Niti Aayog, New Delhi delivered his lecture on Reform 3.0. First, he made appeal to all the economists to start working on issues, which are our own (Indian) rather than following international issues for research. In his lecture, he gave timeline of reforms in India. According to him –

Reform 1.0 – 1991 – focused on external sector liberalisation

Reform 2.0 – 2001 - Focused on further liberalisation of tariffs, financial sector reforms etc.

Reform 3.0 – 2014 onwards – It has 4 themes

- Enhancing growth & employment
- formalising economy
- Social welfare & economic cleansing - Administrative efficiency.

Inaugural session concluded with vote of thanks by Dr. L. L. Salvi, local organising secretary.

After lunch, on first day of this centenary conference, we had session of keynote speeches on four themes of the conference.

3.00-5.00: Keynote Addresses on Conference Themes

Chair: Prof. Pushpa Trivedi, Department of Humanities & Social Sciences, IIT, Bombay

Co-Chair: Prof A. Rangreddy, Professor Emeritus, SV University, Tirupati

Theme 1 Behavioural Economics: Prof. Sanjit Dhami, University of Leicester, U.K.

Theme 2: Future of Multilateral Trade Agreements: Prof. Sachin Chaturvedi, RIS Delhi, in absentia paper reading by Prof A. Rangreddy, Professor Emeritus, SV University, Tirupati

Theme 3: Rural and Urban Development in India: Policies & Initiatives: Prof. R.S. Ghuman, Centre for Research in Rural & Industrial Development (CRRID), Chandigarh, in absentia paper reading by Prof. Arunachalam, Cochin University of Science and Technology

Theme 4: Economy of Rajasthan: Prof. Anju Kohli, Udaipur

In this session, leading economists working in respective field of economics provided excellent start to discussion on respective themes.

Professor Sanjit Dhami of University of Leicester, UK; said that behavioural economics is new and fast growing field of economics. It has already produced 6 Nobel Laureates in economics. Behavioural economics has evolved based on Dan Ariel's notion'…wouldn't economics make a lot more sense if it were based on how people actually behave, instead of how they should behave…'. Professor Dhami said that behavioural economics has emerged due to lack of respect for evidence in neoclassical economics. Behavioural economics depends on two main notions – one, human utility is based on reference dependence and two, loss aversion.

In his keynote speech, Professor A. Ranga Reddy, Professor Emeritus, SV University, Tirupati; said that in recent times there is diminishing return from Multi-lateral Trade Agreements at WTO. Increasing trade agreement activities are taking place at bilateral and at regional block level. In regional trade blocks also both kind of actions are visible. In some cases regional trade blocks appears to be strengthening on other side some weakening actions like BREXIT are also visible.

Professor P. Arunachalam of CUSAT, Cochin, read the paper in absence of Prof. Prof. R.S. Ghuman on the theme Rural and Urban Development in India: Policies & Initiatives. He started with select statistical indicators to highlight present condition of our rural and urban areas. He gave a brief account of Rural and Urban Development in India in last few decades. Based on this background information, he underscored need for strong policy initiative by government. He made detailed discussion on different policies and programs initiated by

government for rapid development of rural as well as urban areas. He also discussed certain hurdles faced by government programs and provided certain suggestions for faster development of rural and urban areas of the country.

Professor Anju Kohli delivered keynote speech on the theme Economy of Rajasthan. She highlighted demographic and economic challenges of Rajasthan economy. She talked on range of issues faced by Rajasthan economy. She covered challenges faced by agricultural sector, industries in Rajasthan, Poverty, education and health. See also discussed issues of gender gap in Rajasthan.

Chair Person Prof. Pushpa Trivedi in her concluding remarks congratulated IEA for centenary conference. She complemented office bearers for selection of very relevant themes for its centenary annual conference and appreciated keynote speakers for their detailed exposition on their respective topics. She also thanked all the speakers for adhering to the time allotted to them and co-operating in management of session.

5.30-6.30 PM. **P. R. Brahmananda Memorial Lecture**:
Chair: Prof. Rohini Prasad, Vice Chancellor, Sarguja University, Chhatisgarh
Co-Chair: Prof. A.P. Pandey, Vice Chancellor, Manipur University, Imphal
Speaker: Prof D M Nachane, Chancellor, Manipur University &Ex Director, IGIDR, Mumbai

On day one, final session was one of the most awaited session. Prof. Dilip Nachane, Vice Chancellor, Manipur University delivered Prof. Brahmananda Memorial Lecture of Centenary Annual Conference of IEA. Professor Nachane congratulated office bearers of IEA for Centenary Conference. He spoke on range of issues concerning economics today. He also discussed antecedents that led to development of many of the economic problems today. He also enlisted some of the policy prescriptions to overcome these problems.

Day 2 28/12/2017
Day 2 started with parallel sessions I, II, III, and IV. Time: 9.30 to 11.30 AM
Parallel Session I: Theme I - Behavioural Economics
Chair: Prof. P Prajapati, Ahmedabad
Co-Chairs: Dr. Kanwaljit Kaur, Chandigarh
Dr. Surya Prakash, SRCC, New Delhi
Special Address: Dr. C.M. Muthuraja, Madurai, Tamil Nadu
Rapporteur: Dr. Jayesh Desai, Surat
Discussant: Dr. Angrej Rana, Jind, Haryana

Technical session 1 discussed research papers on theme of behavioural economics. In which 15 papers were listed for presentation on the theme. A very interesting paper in this technical session focused on how behaviour influences choice process in uncertainty. Couple of other papers focused on persistence of earning and savings behaviour of Indians. Majority of the paper focused on behavioural implications of current policy issues. They studied mainly behavioural impact of demonetisation on different stakeholders, effects of digital and cash economy, savings behaviour of households and behaviour of stock market participants etc. These papers indicated that behavioural aspects like positive perception of people about government policies led to acceptance of economically difficult decisions like DeMo, GST etc. Papers on stock market behaviour suggested that markets are driven by greed and fear rather than economic issues in short run. Discussant Dr. Angrej Rana raised some very important issues related to appropriateness of forceful implementation of some of the policy and its long-term implications on Indian economy. Co-chairperson Dr. Kanwaljit Kaur from Chandigarh gave her views on demonetisation and gave guidance to paper presenters about themes on which they should work. Chairperson Prof. P. Prajapati concluded by appreciating

efforts of researchers. He also emphasised on importance of Behavioural Economics as emerging field of economics. He advised young researchers to focus on this field of economics.

Parallel Session II: Theme II - Future of Multilateral Trade Agreements

Chair: Prof. Anuradha Jain, Dean, Vivekananda Institute of Professional Studies, Delhi
Co-Chairs: Prof. G.M. Dubey, Dr HS Gaur University, Sagar, Madhya Pradesh
Rapporteur: Rajesh Kumar, Central University of Jammu, Jammu
Discussant: Dr. Dushyant Kumar, Meerut
Dr. Manjul Singh, Delhi

Technical session on future of multilateral trade agreements kick started with welcoming of paper presenters by Chairperson. In this session there were 12 papers listed for presentation. Some of these papers were very interesting and covered burning issues of ongoing multi-lateral trade negotiations.BREXIT clearly indicates direction of future of trade integration. One of the paper termed BREXIT to be paralytic attack, which is likely to disrupt ongoing movement of globalisation. Papers presented argued that multi-lateral trade agreements at world level through platform of WTO are not likely to progress fast one of the paper made critical analysis of Doha round of agreements. Major part of negotiation will take place and regional level rather than at global level. Papers presented discussed some of the regional trading blocks. Reintegration of SAARC into global economy and impact of AIFTA on India – ASEAN trade relationship were focus of some papers. One paper studied patterns of NAFTA and EU trade. It also tried to understand dimensions of trade between these two very important trade blocks. Common currency happens to be important part of regional union. However European experience suggests that keeping common currency for all the countries of a trading block is not easy task. One of the paper studied different hurdles faced by European Union in maintaining common currency amongst member countries. It found that common currency raises many challenges. It reduces power of central banks of the country to effectively use instruments of monetary policy to give direction to economy and stimulate it.

Failure to take multilateral trade negotiation further is likely to cause lot of aberration in trade agreements. In absence of progress in multilateral trade, bilateral trade has increased its importance. Therefore some of the papers evaluated India's bilateral trade with it's neighbours like Pakistan, Myanmar etc. Discussant Dushyant Kumar made some important interjections regarding bilateral trade agreements between different countries.

Parallel Session III: Theme III - Rural and Urban Development in India: Policies and Initiatives

Chairperson: Dr. Debotpal Goswami, Guwahati
Co-Chairpersons: Dr. Dinesh Kumar CCS University, Meetut
Special Address: Dr. Dimple Vij, Ghaziabad
Rapporteur: Dr. Sandeepa Malhotra, Gwalior
Discussant: Dr. V. D. Sharma, Dean/FMS, Panjab University, Chandigarh
Dr. Shree Chand Jha, Sahrsa, Bihar,

The Chairperson Dr. Debotpal Goswami, initiated this session by welcoming all the paper presenters to 100th Centenary conference. In this session, 45 papers were listed for presentation on the theme of Rural and Urban Development in India: Policies and Initiatives.

This theme covered major development issues of country and policies of government and therefore, it generated highest interest amongst researchers and attracted highest number of papers. The papers listed in this theme could be broadly classified in to two categories. One, Papers aimed at studying status of Rural and Urban Development of the country in

different aspects of interest and Two, Papers aimed at assessing government's various developmental initiatives.

The papers studied status of development in rural and urban area. The main area focused was Rural development, Agricultural condition and development of agriculture, Urbanisation and issues of migration, Rural development, Employment, and condition of cold chain infrastructure. Papers on Agriculture and Rural development made some state level studies about rural distress and farm suicides, sustainability of agriculture for reducing distress, status of literacy in rural areas, health conditions, and present state of rural and agricultural economy. Different researchers also studied migration and urbanisation by focusing on pattern and determinants of migration, rural – urban disparities, remittances by migrant labour and benefits to migrants and their family, issues and challenges of rapid, unplanned migration, impact of rapid migration on environment etc.

Many papers made evaluation of government's developmental initiatives. The majority of researchers focused on new initiatives of government like Make in India, Digital India, Skill India, Swachha Bharat Mission, and some social sector schemes like Prime Minister Jan Dhan Yojana (PMJDY), MNREGEA etc. Some researchers focussed on success and failure of these schemes in different regions of the country, whereas others focussed on different aspects of these schemes and tried to gauge extent to which these schemes have achieved their objectives. Chairperson of the session Dr. D Goswami and Co-Chairperson Dr. Dinesh Kumar, both appreciated the efforts of researchers for coverage of themes and extensive studies carried out by paper presenters in their concluding remarks.

Parallel Session IV: Theme IV - Economy of Rajasthan

Chair: Prof. B.L. Vaishnaw, J.N.V University, Jodhpur
Rapporteur: Dr. Dev Karan, Jodhpur
Discussant: Dr. Rekha Mehta, Jodhpur
Dr. Shilpi Gupta, Manipal University, Jaipur

The Chairperson Prof. B. L. Vaishnav of J. N. V. University Jodhpur, initiated this session by welcoming all the paper presenters to 100th Centenary conference. In this session, 7 papers were listed for presentation on the theme of Rajasthan Economy.

Papers on Rajasthan Economy focussed on different aspects of Rajasthan economy. It's major focus was on agriculture. One paper studied agricultural transformation and its impact on development of Rajasthan economy. One more paper studied impact of draught on agricultural produce of Rajasthan. It also studied use of inputs at time of draught. One more paper evaluated critical role of political leadership in development of agriculture in Rajasthan. One another researcher took interest in trend and future prospects of livestock development in Rajasthan. Some papers also studied structural changes in composition of income and employment in Rajasthan. In case of employment, another researcher studied female participation in workforce. They also tried to understand implication of increase of female in work force participation in overall economic growth of Rajasthan. One another paper found Shining Rajasthan in context of industrial development. Thus, selected paper in this theme took all-round view of economy of Rajasthan. They also found out limitation of Rajasthan economy and suggested ways to improve its condition. Chairperson concluded the session by taking note that number of paper presented on theme were very less. He suggested researchers to work more on state economy, as it can give much better solution to our own problems rather than taking up topics world's interest. However, he showed satisfaction towards presented papers and their quality.

12.00_ 2.00 p.m. Panel Discussion I: Challenges to Indian Economy'

Chair: Prof. Lal Sahab Singh, Magadh University, Bodh Gaya

Key Speakers:

1. Prof. NMP Verma, Lucknow
2. Dr. D.R. Agarwal, Director, Institute of International Trade, Kolkata
3. Prof. Raj Kishore Panda, Former Director, Nabkrushna Choudhury Centre, Bhubaneswar

On day 2 after first tea break, first panel discussion started on topic Challenges to Indian Economy. All participants gathered to listen to expert panellists. Prof. Lal Sahab Singh of Magadh University chaired the discussion. He allotted equal time to all panellists and requested to complete their presentation in stipulated time.

Discussion covered range of issues concerning Indian Economy. Panellists tried to cover all major challenges to Indian economy. They talked on issues of unemployment, declining productivity in agriculture and resulting agrarian crises. They also covered need to increase share of manufacturing in GDP and challenges to government's Make in India Initiative. Concerns over large parallel black economy and efforts to control it was also highlighted.

It was also discussed that present status of human development is not satisfactory. There is urgent need for rapid development on achievement of UN's Sustainable Human Development Goals. India has very large young population, failure to secure health and inappropriate skilling is likely to result into disaster rather than giving benefits to Indian economy. It was raised that balancing between expansion of education system and maintaining quality of education is one of the biggest challenge of the time. Government needs to increase its allocation to education as percentage of GDP, in order to improve education in the country.

Chairman concluded the discussion with his closing remarks on major challenges to economy and his take on some of the recent initiatives by government to tackle these challenges. He congratulated IEA for excellent organisation to Centenary Annual Conference of IEA.

3.00- 5.00 p.m. Panel Discussion II: Implementation of GST in India

Chair: Prof. Satish Kumar Verma, RBI Chair Professor, CRRID Chandigarh

Co-Chair:. Prof. D. K. Madaan, Punjabi University, Patiala

Key Speakers:

1 Prof. NMP Verma, BBA University, Lucknow
2 Prof. Saurabh Agarwal, Dean, Indian Institute of Finance, Delhi
3 Prof. Jagdish Narayan, Ex-Dean, Faculty of Commerce, Allahabad University

Panel discussion on Implementation of GST in India took place on day 2 in post lunch session. It started with opening remarks of Prof. Satish Kumar Verma. He highlighted some nuanced features of GST and critical aspects on which its evaluation should happen. He gave equal time to all panellists to put forward their respective views. He appealed panellists to adhere to allocated timing so that some questions from audience can be taken up towards end of the discussion.

Panellists came out with their diverse views on implementation of GST in India. However, everyone had a common view that implementation of GST was need of hour. It was essential to remove the cascading effects of web of indirect taxes, which were being levied in previous taxation system. There were diverse views on effectiveness of implementation. Major points, which raised debate, were date of implementation, number of tax slabs, problems of business community due to requirement to file many returns and difficulties faced in filing returns. Some panellists appreciated government's efforts to

remove some of the identified problems. It was also felt that GST might create some short term pain for smaller businessmen. There was overall agreement that GST was good for economy in long run. Panel discussion ended with concluding remarks of session chair Prof. Verma, who thanked IEA office bearers and local organisers for organising the conference and creating very conducive environment for discussion of topic of relevance.

5.15- 6.45 PM. Parallel Technical Sessions V, VI, VII

Session V: Theme I - Behavioural Economics

Chair: Prof. C.B. Singh, Bundelkhand University, Jhansi
Co-Chairs: Dr. Vinod Srivastava, RML University, Faizabad
Dr. G.V.K. Patil, Nasik, Maharashtra

Parallel Technical Session V on Behavioural economics started with welcome from the Chair to all presenters. Total 12 papers were listed for presentation in this session. Chairperson allotted equal time to all the presenters to express their views and communicate about their research outcomes.

Majority of paper presented in this session studied different outcomes of demonetisation policy of the government. Co-Chair Prof. Vinod Srivastava said that a full year has passed since demonetisation; in last one year, large number of commentators have given their views on the theme. However all these comments have been based on assumptions, and anticipations Now one year has passed since demonetisation and economic results have started emerging. Economic units have sufficient experience with post demonetisation and therefore it is right time to come out with detailed analysis of this major policy. Some of the Papers presented evaluated impact of demonetisation on our economy, and long-term economic consequences of demonetisation. One interesting paper assessed effect of demonetisation on consumption pattern of salaried class in Bhopal region. It found that behavioural response to such event affects consumption more strongly than actual impact of the policy. One more useful study by Dr. Anirban Sarkar, tried to assess impact of demonetisation on different sectors of economy rather than evaluating its impact on entire economy. This paper provided useful insight by breaking down overall outcomes into sector specific problems.

Government during period of demonetisation promoted digital payment system extensively, some papers studied growth of digital payment systems during demonetisation. In one of the interesting papers, Dr. Jayesh Desai studied growth of digital payment system in India. He compared rate at which adoption of digital payment system took place before announcement of demonetisation policy, rate of adoption of digital payment during period of demonetisation and rate at which digital payment system is growing post demonetisation. The paper found that adoption of digital payment system had started increasing even before announcement of demonetisation policy. However, growth of digital payment system has substantially increased post demonetisation. One more paper studied importance of digitisation in economy, for further financial reforms in country.

Technical session concluded with final remarks of chairperson and co-chairperson's concluding remarks on the session. They motivated young researchers to take more such research and come out with outcomes that provides meaningful suggestions for policy of future.

Session VI: Theme II - Future of Multilateral Trade Agreements

Chair: Dr. Anirban Sarkar, West Bengal State University Barasat, Kolkata-West Bengal
Rapporteur: Navpreet, Punjabi University, Patiala
Discussant: Dr. Rajneesh Tyagi, Agra

In absence of Chairman Prof. Rajinder Gupta of Jammu University, Co-Chairperson Dr. Anirban Sarkar chaired this session. Total 10 papers were listed for presentation in this session. One of the paper started with the notion that in coming years' regional trade blocks are likely to emerge much stronger than today. Therefore, all multilateral trade negotiation will involve one or the another trading block. The paper further studied India's trade relation with other BIMSTEC countries. Many papers studied FDI in India. Some of these papers studied trends and patterns of FDI in India, whereas others studied impact of FDI in Indian economy as well as in some of the individual sectors of the economy. Researchers also studied India's bilateral trade relation with neighbouring countries like Afghanistan, Bhutan. They found that trade with such countries can bring substantial welfare benefits to these countries. Researchers suggested increasing trade with neighbouring countries rather than putting efforts to increase trade with distant countries. Couple of other papers studied India's competitiveness in Health care and medical tourism industries. Session concluded with closing remarks of Chairperson on future of multilateral trading agreements.

Session VII: Theme III - Rural and Urban Development in India: Policies &Initiatives
Chairperson: Dr. Sujeet Singh, Roorki, Uttrakhand
Co-Chairs: Dr. Deepak Shelar, Chinchani, Maharashtra
Special Address: Dr. Indu Varshney, D.S.College, Aligarh
Rapporteur: Dr. Jyoti Bala, Mansa, Punjab
Discussant: Prof. R.S. Jalal, Kumaun University, Nainital
Dr. Vashali Acharya, Ahmedabad

The session focused on the policies and initiatives for rural and urban development in India. Several dimensions of the current policy status and future needs were assessed. The session started with Special Address of Dr. Indu Varshney, D.S.College, Aligarh. Her address set the tone of the subsequent discussion.

In this session, total 36 papers were listed for presentation. The research papers presented in the session focused on different policies and other aspects pertaining to rural and urban development in India. Papers on Pradhan Mantri Jan Dhan Yojna (PMJDY) assessed its impact on financial inclusion as well as on inclusive growth and development, Papers on Make in India studied aspects like swadeshi movement, women's contribution in entrepreneurship, and national development in context of governments Make in India policy. Papers on Rural development studied rural-urban developmental gaps, role of ICT in rural development, workforce participation, rural development in certain areas of the country etc. Interesting papers were presented on employment condition and employment related policies of government. Researchers studied MGNREGA and its impact on rural consumption, evaluation of implementation of MGNREGA in state of Jammu and Kashmir. Many researchers worked on Agriculture, and farm development related issues. The major focus was on farm suicides and recommendations of Swaminathan Committee; role of banks in agricultural finance; area under agricultural production and productivity of horticulture in India etc. Migration was another topic, which attracted researchers. Papers presented covered rural – urban migration and developmental issues of migration in hill areas. Gender issues attracted maximum papers. Researchers studied women entrepreneurship, gender gap in literacy, female workforce participation in specific area as well as inter-state comparisons on the theme. Papers also covered other aspects of economy and development like literacy, skill development, National Pension Scheme (NPS), Swachh Bharat Abhiyan etc.

Day: 3 29-12-2017

9.30- 11.00 AM Panel Discussion III:

Pt. Deendayal Upadhyaya's Thoughts on Economic Democracy

Chair: Prof. ADN Bajpai, Former Vice Chancellor, Himachal Pradesh University

Co-Chair: Prof. Shayam Kartik Mishra, BHU, Varanasi

Speakers: 1. Dr. Mahesh Chand Sharma, New Delhi
2. Prof. Jagdish Shettigar, BIMTECH, Noida, Delhi
3. Prof. S. R. Agrawal, Former Pro Vice Chancellor, Bundelkhand University
4. Dr. A.K. Tomar, Joint Secretary, IEA & Former Principal, D.S. College, Aligarh

Prof. ADN Bajpai chaired the session. He congratulated the IEA members for success of centenary conference and started by giving best wishes for future progress. Panellists brought forward different salient features of Pt. Deendayal Upadhyaya's thought on Economic democracy. A very scholarly panel connected Pt. Deendayal Upadhyaya's thought on economic democracy with its roots in Indian culture. They highlighted that he strongly felt that democracy without sanskaras is nothing. They painstakingly provided logic behind his views on centralisation of power, democracy and socialism, honouring to public opinion etc. The anecdotal examples from mythology aroused lot of interest amongst those who were present. Prof. S K. Mishra, Co-chair of the session appreciated office bearers for keeping a very relevant theme for discussion and underscored need to take message of Pt. Deendayal Upadhyaya's philosophy to masses.

Valedictory Session: 11.30- 1.00 p.m.

Chair: Prof. P. K. Chaubey, President, IEA

Chief Guest: Prof. N. K. Taneja, Vice Chancellor, CCS University, Meerut, U.P.

Guests of Honour:

1. Prof. Baltej Singh Mann, Member, National Commission for MinorityEducational Institutions, New Delhi
2. Prof. Sandeep Sancheti, Vice President, Association of Indian Universities & Vice Chancellor, Manipal University, Jaipur

Introduction: Prof. D.K. Madaan, Secretary, IEA; Punjabi University, Patiala

Report Presentation: Dr. Jayesh Desai, Surat

Vote of Thanks:

Dr. Rekha Mehta, Conference Co-Convener, Department of Economics, JNV University.

In Valedictory session, Prof. P. K. Chaubey, President of IEA was in Chair for the session, showed satisfaction in organisation of conference and highlighted what was achieved during the three days of conference. He also talked about efforts that had gone into planning and organising of conference. He thanked IEA members for their co-operation in organising the centenary conference. Prof. D. K. Madaan, Secretary IEA, also thanked IEA members for their support in organisation of conference. He also introduced Chief Guest Prof. N. K. Taneja Vice Chancellor, CCS University, Meerut, U.P. and Guests of honour Prof. Baltej Singh Mann, Member, National Commission for Minority Educational Institutions, New Delhi; Prof. Sandeep Sancheti, Vice President, Association of Indian Universities & Vice Chancellor, Manipal University, Jaipur. Dr. Jayesh Desai, EC Member from Gujarat, read the detailed report of the conference. He started with congratulating IEA members for completion of centenary of the IEA and gave tribute to illustrious predecessors who pioneered this great association and shaped it over the span of century. He provided account of the proceedings over the three days of centenary conference. Guest of Honour

Prof. Sandeep Sancheti congratulated IEA members on completion of centenary and gave outline about changing scenario of Indian Economy. Guests of honour Prof. Baltej

Singh Mann said he felt proud to be present in the valedictory session and became nostalgic while remembering past IEA conferences and his participation. He showed eagerness to support IEA in all possible ways. Chief Guest Prof. N. K. Taneja, appreciated office bearers of IEA for creating intellectually stimulating atmosphere for economic discourses during centenary conference and members of local organising committee for wonderful arrangements. He in his address connected themes of conference and highlighted need for rigorous research. He gave his views on branch of Behavioural Economics and progress achieved by this branch of economics. Simultaneously he also warned economic researchers against undermining theories of classical economics. He concluded with wishes to the IEA for its future course activities. Conference concluded with vote of thanks by Dr. Rekha Mehta, Conference Co-Convener, and Dr. L.L. Salvi, Local Organising Secretary, JNVUniversity, Jodhpur.

Thank you

Jai Hind!

INAUGURAL ADDRESS

Rajiv Kumar

Vice Chairman, NITI Aayog

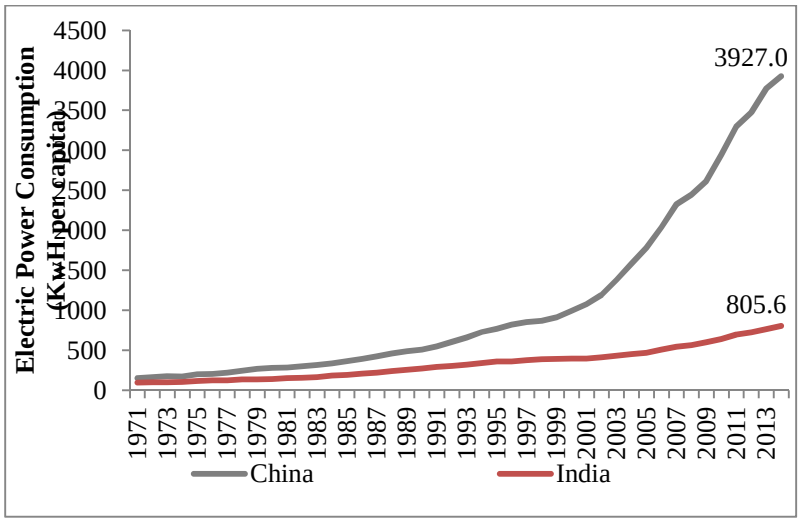
Reforms 3.0

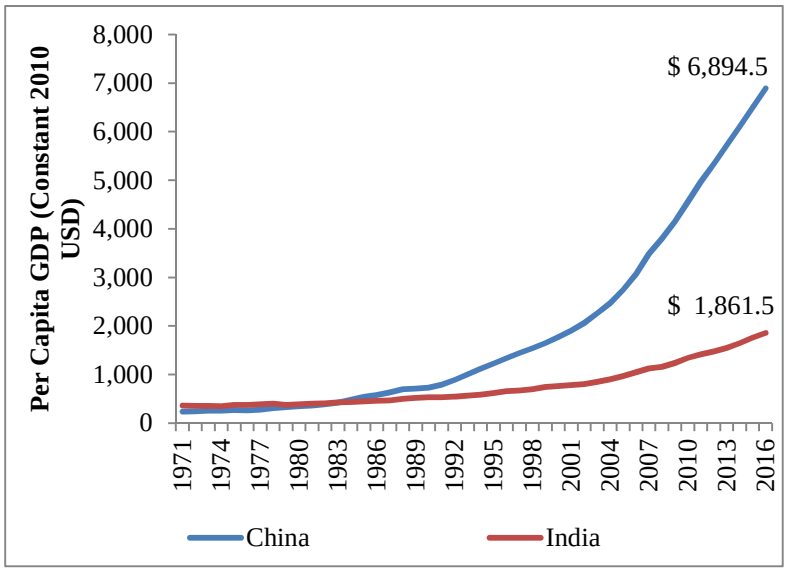
Indigenous Model for Indian Development

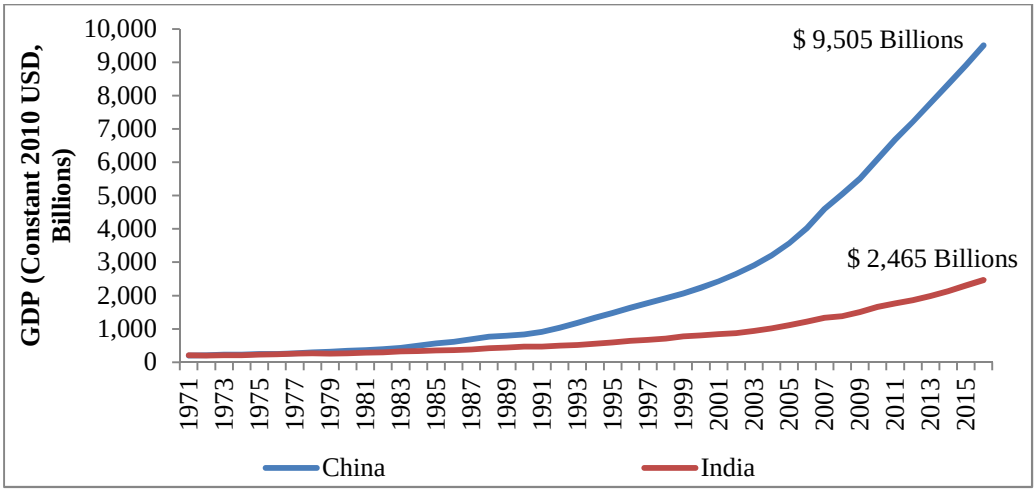
Talking Points:

Pervasive and Persistent Pessimism:

INDIA VS. CHINA







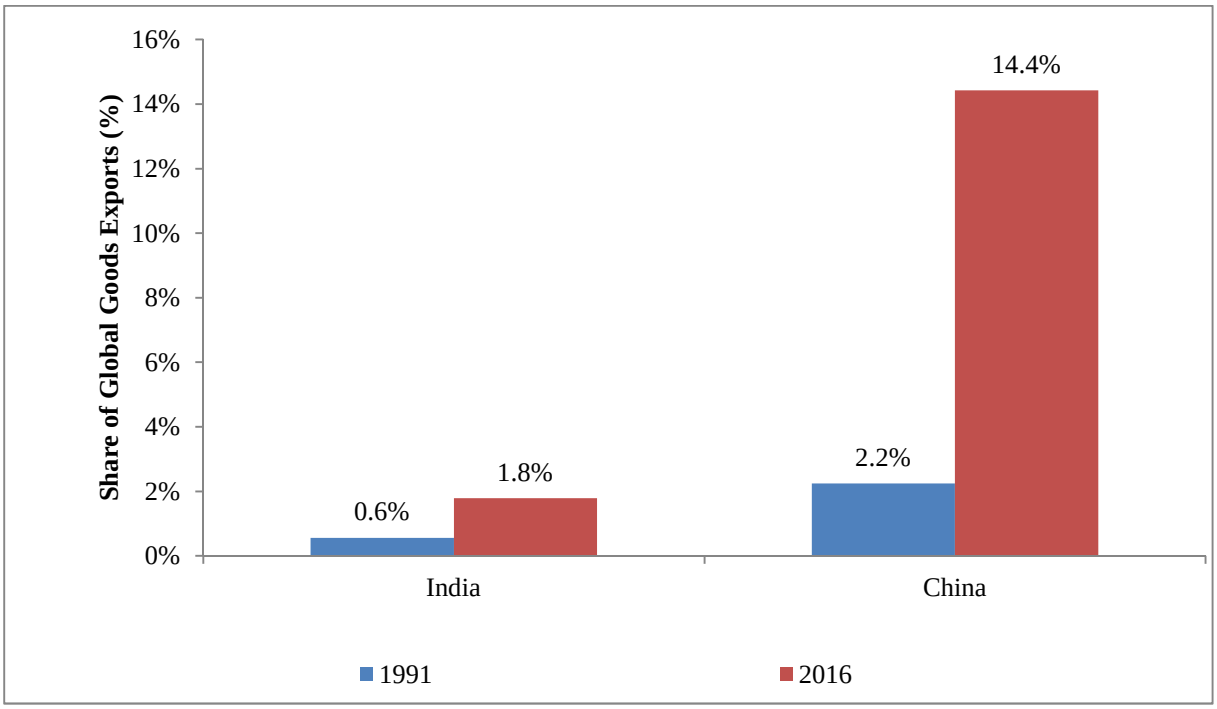
1. While we should not underestimate what we have done, we also should not rest on our laurels.
2. Juxtaposing India's economic performance with China highlights that we still have a significant way to go to realize our full potential.

Source for Electricity Consumption Data: International Energy Agency (IEA)

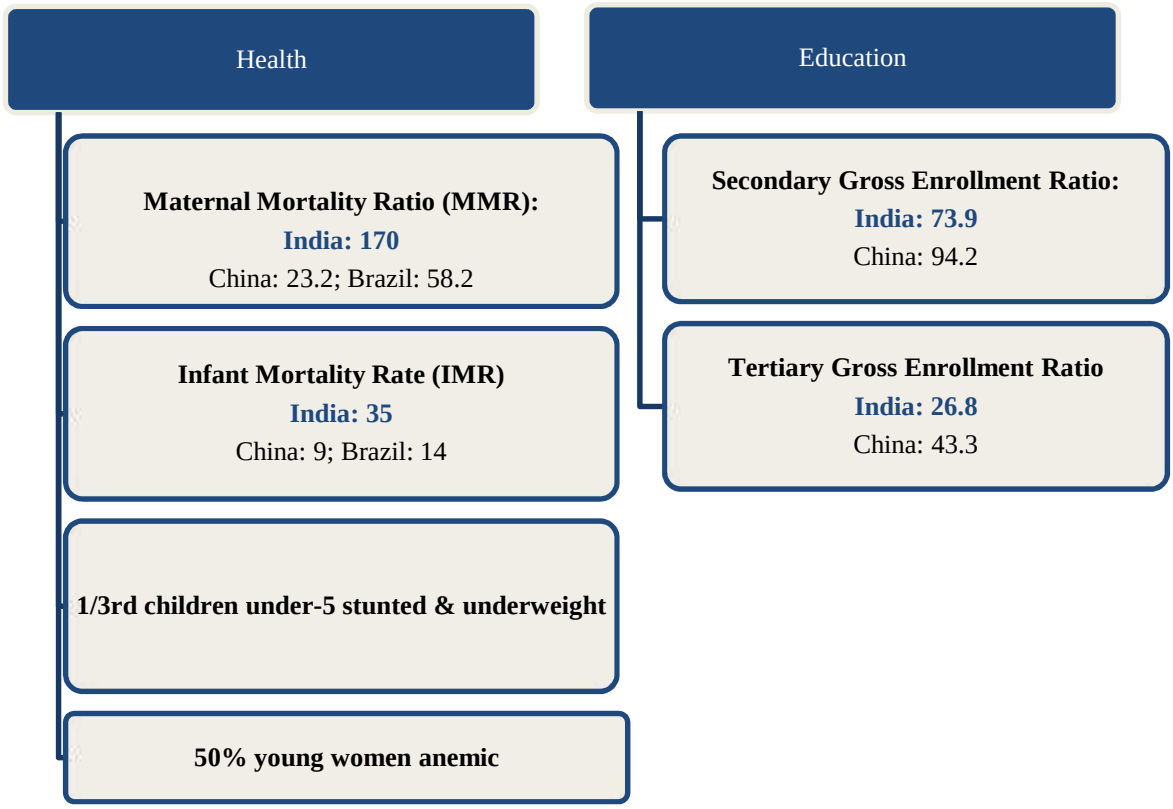
Source for GDP and Per Capita Income Data: World Development Indicators, World Bank

Pervasive and Persistent Pessimism (2/3)

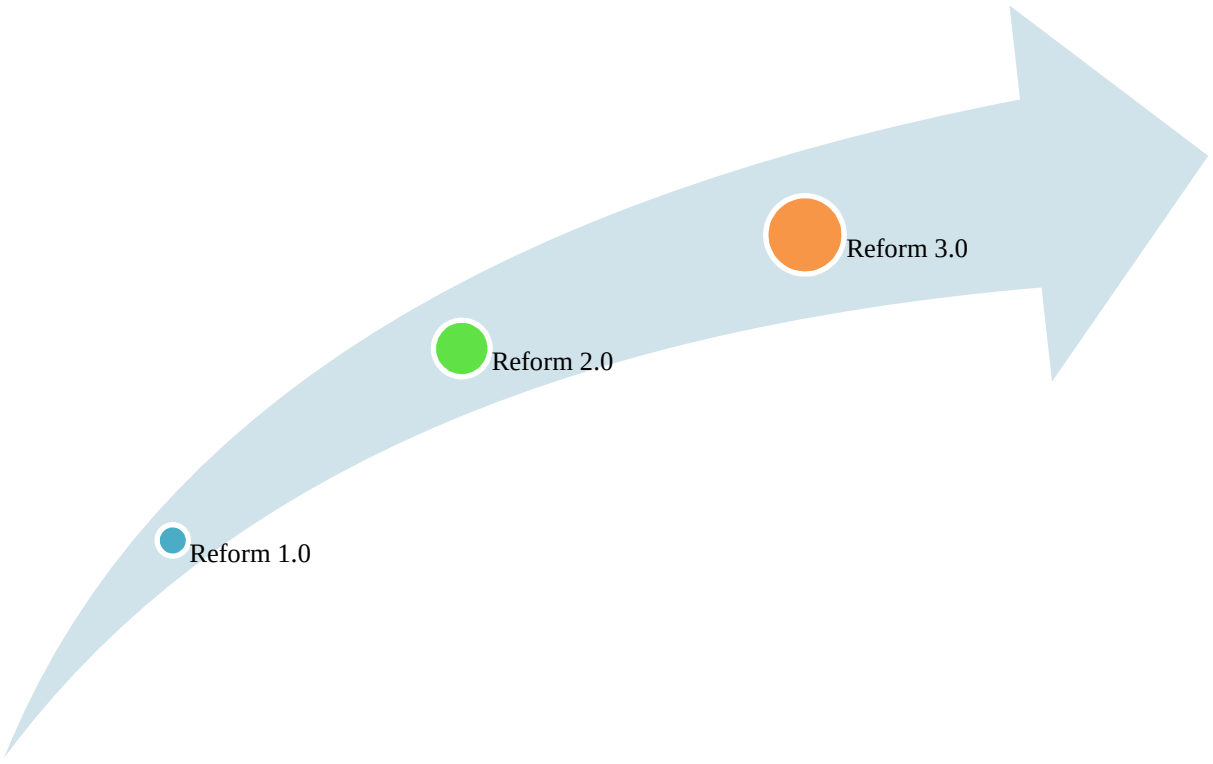
India vs. China



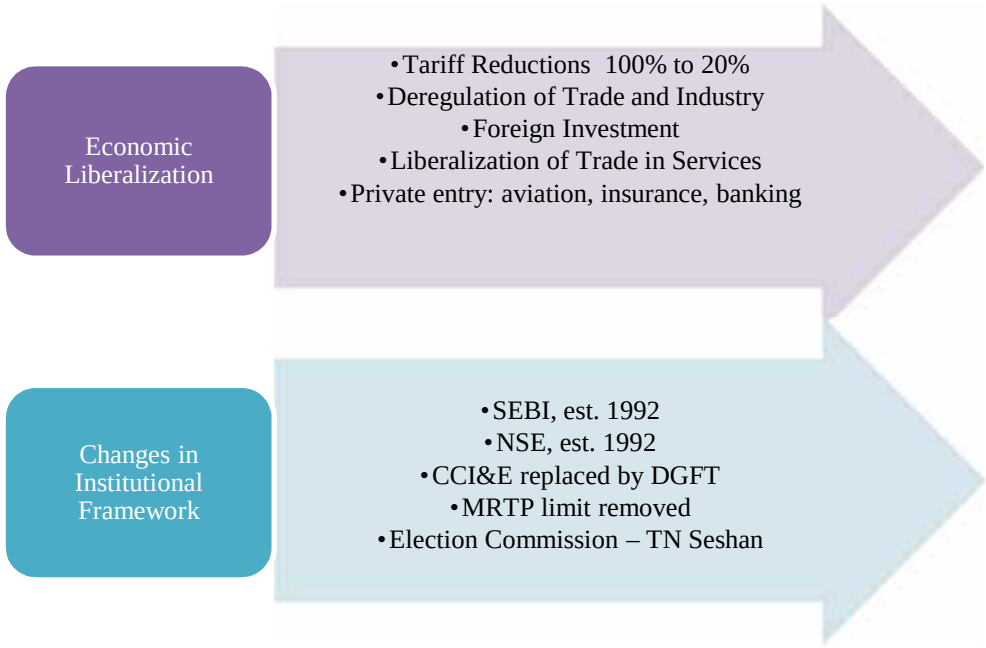
PERVASIVE AND PERSISTENT PESSIMISM (3/3)



TOWARD REFORM 3.0



PREVIOUS REFORMS: REFORMS 1.0



1. India has had 2 previous reform episodes. The first of these, Reforms 1.0, were in the early 1990s.

Notes on Trade liberalization in the 1990s:

1. Gradual tariff cuts were applied in all sectors, and at the same time, non tariff barriers and licenses were removed.
2. During this period India also became a member of the WTO (World Trade Organization) in 1995, with the commitment to continue the process of trade liberalization started in the early 1990s.
3. Average tariffs were reduced by 47 percentage points between 1990 and 1997.
4. However, at the end of the 1990s, tariffs remained high relative to other countries.

Chief Controller of Imports & Exports – CCI&E

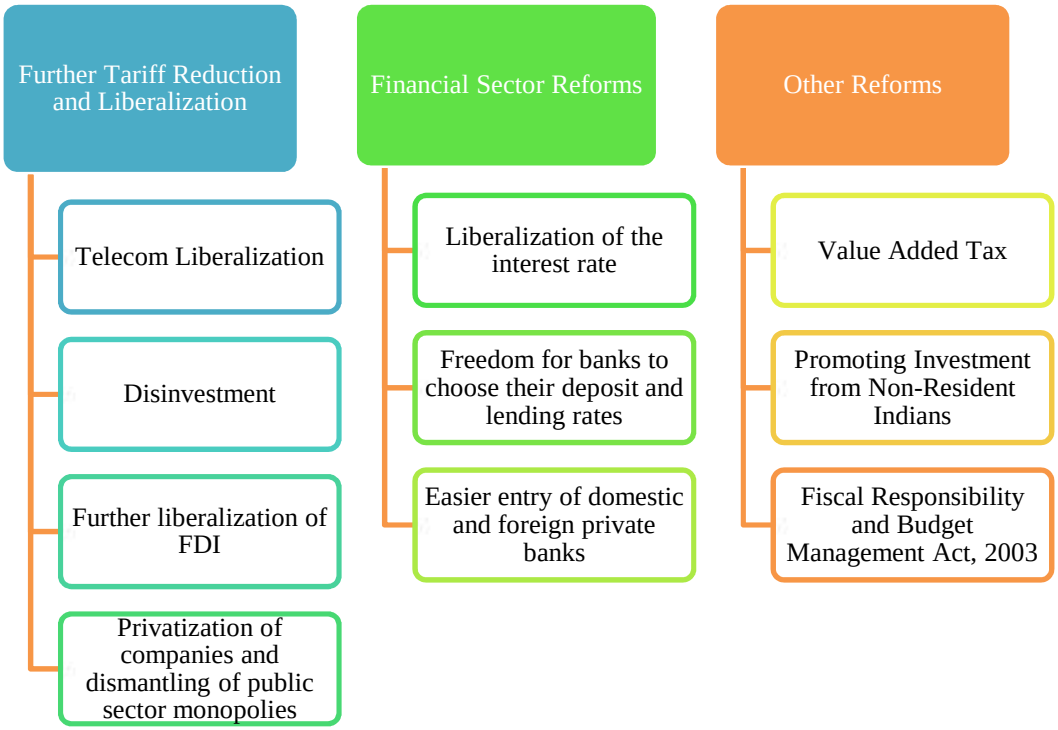
Deregulation of Trade and Industry: removal of investment licensing and firm entry restrictions

MRTP Limit – removal in 1991:

- Firms with assets of Rs. 25 Crore or more were put under the obligation of taking permission from the government of India and they were called MRTP companies. This upper limit of Rs. 25 Crore was known as MRTP limit.
- It was later relaxed to Rs. 50 crore in 1980, Rs. 100 Crore in 1985 and in 1991 this limit was removed.

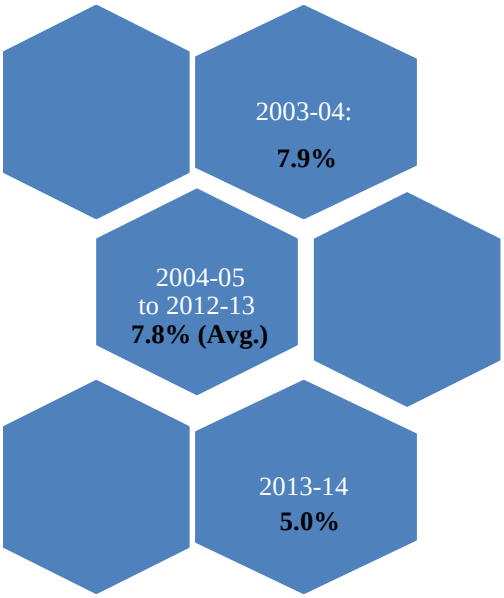
Now only companies having more than 25% market share were called Monopolies.

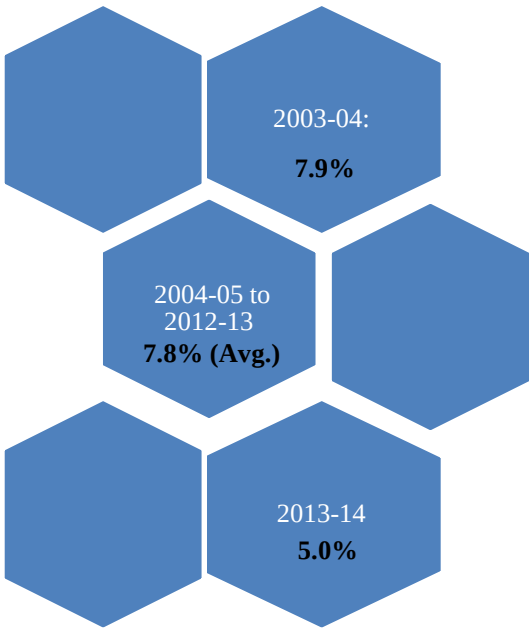
PREVIOUS REFORMS: REFORMS 2.0



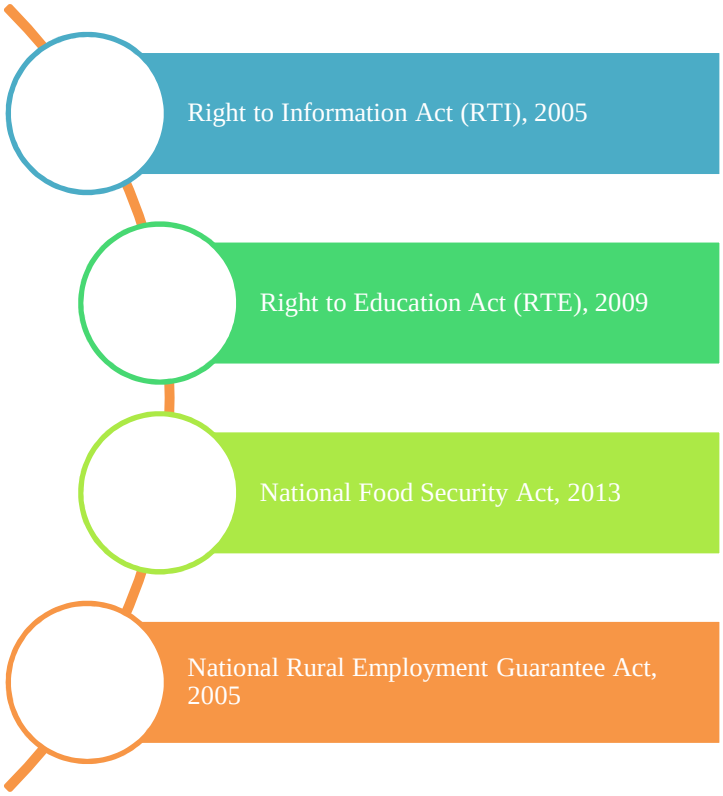
TAKING GROWTH FOR GRANTED:

2004-2014





Reforms during the period



Notes

- The Right to Information Act 2005 mandates timely response to citizen requests for government information.
- 'The Right of Children to Free and Compulsory Education Act' or 'Right to Education Act ' (RTE) was enacted in 2009, providing free and compulsory education for children between 6 and 14 in India under Article 21a of the Indian Constitution. It also specifies minimum norms in elementary schools. India

became one of 135 countries to make education a fundamental right of every child when the Act came into force on 1 April 2010. It requires all private schools to reserve 25% of seats to children (to be reimbursed by the state as part of the public-private partnership plan).

- The National Food Security Act, 2013 (also Right to Food Act) provides subsidized foodgrains to a large share of India's population. It includes the Mid-day meal scheme, ICDS and Public Distribution System (PDS).
- The National Rural Employment Guarantee Act, 2005 (NREGA) guarantees the right to work. It provides 100 days of wage employment each financial year to every household whose adult members volunteer to do unskilled manual work.

GDP (at market prices, base year = 2004-05) growth rates:

- 2003-04: 7.9%
- Between 2004-05 and 2012-13: 7.8%
- 2013-14: 5.0% (provisional estimates for 2004-05 prices)

NOTE THAT 2013-14 growth would be 6.4% if we base year = 2011-12

REFORMS 3.0

Key Reforms – Enhancing growth and employment



Bharatmala

- Highways works worth Rs 8 lakh crore to begin before the end of 2018



Sagarmala

- 415 projects Announced in June 2016
- identified with an outlay of Rs. 8 lakh Crore


Bullet Train

- Mumbai – Ahmedabad High Speed Rail agreed between Japan and India with Make in India and Transfer of Technology objectives

Digital India
Power To Empower
BharatNet

- Connecting 2.5 Lakh Gram Panchayats with broadband access

 *Textile & Apparel package*

- Multiple measures taken for employment generation and export promotion

Skill India

- Launched in 2015 with an aim to skill 40 Crore youth by 2022

UDAN

- Promotes regional connectivity
- Innovative market-based mechanism in which airlines bid for seat subsidies

UDAY

- Aimed to ensure financial turnaround of DISCOMs, operational improvement, reduction of cost of generation of power etc
- Bharatmala
    - Providing highway linkage to 550 districts. Currently, only around 300 Districts have NH linkages
    - Bharatmala will give the country 50 national corridors (we have 6 at present)
    - Source: *http://pib.nic.in/newsite/PrintRelease.aspx?relid=171930*
- Sagarmala
    - Port modernization & new port development, port connectivity enhancement, port-linked industrialization and coastal community development
    - Phase wise implementation between 2015 and 2035
    - 6 new port locations identified - Vadhavan, Enayam, Sagar Island, Paradip Outer Harbour, Sirkazhi and Belekeri
    - 14 Coastal Economic Zones identified Under Sagarmala
    - Source: *http://pib.nic.in/newsite/PrintRelease.aspx?relid=159037*
- Bullet Train
    - Soft loan worth Rs. 88,000 Crore at 0.1% interest with a repayment period of 50 years
    - Any such loan even from World Bank or such other agencies costs about 5-7% with a repayment period of 25-35 years

    - Expected to create jobs for about 20,000 workers in the construction phase
    - Source: *http://pib.nic.in/newsite/PrintRelease.aspx?relid=170676*
- Bharatnet
    - "Backbone of Digital India"
    - Currently (as of 17th December 2017), optical fibre laid in 1.07 lakh GPs with c. 88k GPs ready for service
    - Source: *http://www.bbnl.nic.in/index1.aspx?lsid=570&lev=2&lid=467&langid=1*
- Textile & Apparel package
    - Announced in June 2016
    - Expected to lead to a cumulative increase of US$ 30 bn. in exports and investment of Rs. 74,000 crores over next 3 years
    - Includes Employee Provident Fund Scheme reforms, Introduction of fixed term employment, Enhanced duty drawback coverage among others
    - Source: *https://www.narendramodi.in/cabinet-approves-special-package-for-employment-generation-and-promotion-of-exports-in-textile-and-apparel-sector--485561*
- Skill India
    - Launched in 2015 on World Youth Skills Day
    - Includes the following schemes:
        - National Skill Development Mission
        - National Policy for Skill Development and Entrepreneurship, 2015
        - PradhanMantriKaushalVikasYojana (PMKVY)
        - Skill Loan scheme
        - Rural India Skill
- UDAN - UdeDeshKaAamNaagrik
    - Aims to create affordable yet economically viable and profitable flights on regional routes
    - Envisages providing connectivity to un-served and under-served airports of the country through revival of existing air-strips and airports
    - In operation for a period of 10 years
    - Source: *http://pib.nic.in/newsite/PrintRelease.aspx?relid=151850*
- UDAY
    - Approved by Union Cabinet on 5th November, 2015
    - States take over 75% of the DISCOM debt as on Sept 30, 2015 - 50% in FY 2015-16 and 25% in FY 2016-17.
    - Source: *https://www.uday.gov.in/about.php*

REFORMS 3.0

Key Reforms – Formalizing economy

Goods & Services Tax

- One of the biggest tax reforms helping formalize Indian businesses
- c.96 lakh tax payers registered as of November
- GSTN collecting significant data to enable analytics on tax filings

Direct Benefit Transfer

- *AapkaAdhikar, ApneDwar*:total savings of Rs. 57,000 crore till FY 2016-17
- Cumulative benefit transfer of more than Rs. 2.7 lakh crore till date
- Jan Dhan accounts - 30.7 crore beneficiaries (as of 13th December 2017) with Rs. 70,400 Crore in deposits

Digital Payments

- >200% increase in volume between August 2016 and August 2017
- Recent Cabinet resolution approved refund of Merchant Discount Rate for transactions up to Rs. 2,000

eGovernance

- Aadhaar: largest biometric identification system in the world. 119 croreAadhaar Cards issued
- The Government e-Market place (GeM) has introduced transparency in procurement
- GST:
- Idea introduced 16 years ago - launched on July 1, 2017 (Source: *https://www.gst.gov.in/about/gst/history*)
- Formalizing the economy
    - Increased tax base: c.96 lakh tax payers registered as of November. 80 lakh under VAT, Service Tax and Central Excise Duty (Source: PIB - *http://pib.nic.in/newsite/PrintRelease.aspx?relid=173899*)
    - Around time of launch – GSTN saw c. 50,000 applications per day (Source: *http://www.livemint.com/Industry/dB7O9EuvPmvZ62CBBwKMmJ/Number-of-taxpayers-under-GST-set-to-eclipse-that-under-prev.html*)
    - Total GST collected from August to November has been 87k Crore by States and 58k Crore by the Centre
- Initial glitches are behind us
    - Refund delays were a problem for exporters initially. Recent data shows that exports increased in November by 31%
    - Reduction of GST in FMCG has benefitted consumers. Building materials is benefitting from formalization of unorganized players in the supply chain
- Direct Benefit Transfer
    - Source for DBT savings *https://dbtbharat.gov.in/*
    - Source for Jan Dhan Accounts *https://www.pmjdy.gov.in/account*
- More details on Digital Payments
    - 218% increase in volume of digital payments and 136% increase in value between August 2016 and August 2017 (*Source: https://www.narendramodi.in/category/infographics*)
    - Cabinet resolution for Merchant Discount Rate (MDR) refund passed on 15th December
    - For transactions made with debit card (credit cards still attract MDR), Aadhaar and BHIM
    - For a period of 2 years from January 1, 2018
    - Average debit transaction in India is Rs. 1,500
    - *Source: https://inc42.com/buzz/digital-payments-government-mdr/*
- eGovernance
    - Source for Aadhaar implementation *https://uidai.gov.in/*

REFORMS 3.0

Key Reforms – Social welfare and economic cleansing

Demonetization

- Undisclosed income of Rs. 29,123 crore detected & admitted
- 3 lakh shell companies uncovered & 2.2 lakh shell companies de-registered

Insolvency & Bankruptcy code

- IBC gives banks more powers to ensure that their debt is paid

Bank recapitalisation

- Rs. 2.11 lakh Crore bank recapitalisation program over two years – to support credit growth and job creation

Benami Act 2016

- 621 properties with total value of around Rs. 1,800 Crore attached as of November 2017

Thrust on Affordable housing

- Approved 1 Cr. houses under PMAY-G (2016-17 to 2018-19)
- Recent increase in carpet area for houses eligible for interest subsidy

Swachh Bharat Abhiyan

- Budgetary allocation to Swachh Bharat Mission increased to Rs. 16k Crore in BE 2017-18 compared to Rs. 12k Crore last year (RE)

BetiBachao, BetiPadhao

- Recent expansion of scheme to all 640 districts across India with proposed outlay of Rs. 1,132.5 Crore (2017-18 to 2019-20)

UJJWALA

- Provision of clean cooking fuel
- 3.2 Crore BPL LPG connections released

REFORMS 3.0

Key Reforms – Administrative efficiency

National Nutrition Mission

- Robust geographic and convergence mechanism
- ICT based real time monitoring system
- Incentivising states / UTs for meeting the targets
- Involving masses through Jan Andolan for their participation in nutrition

National Medical Commission (NMC) Bill, 2017

- Drafted by a committee chaired by Vice Chairman, NITI Aayog
- Selected instead of elected regulators
- Change in regulatory philosophy – from inputs to outputs/outcomes
- End of inspector raj
- National entrance and exit examinations

Indian Institute of Management Bill 2017

- Passed by the RajyaSabha in December 2017
- Greater autonomy to the IIMs

- Power to award degrees instead of post graduate diplomas
- Flexibility to hire faculty members

<u>All the reforms listed on this slide have been announced in the last month by the Government</u>

1. National Nutrition Mission
    - National Nutrition Mission (NNM) with a three year budget of Rs.9,046.17 crore commencing from 2017-18 (50% funded by Government and 50% by International Bank for Reconstruction and Development)
    - NNM will be an apex body that will monitor, supervise and fix targets and guide the nutrition related interventions across the Ministries
    - Impact: The programme through the targets will strive to reduce the level of stunting, under-nutrition, anaemia and low birth weight babies
    - More than 10 crore people will be benefitted by this programme
    - Source: *http://pib.nic.in/newsite/PrintRelease.aspx?relid=174025*
2. National Medical Commission (NMC) Bill
    - The Bill requires creation of a Medical Advisory Council with one member (from health universities of the state) from each state Government
    - The council will be a platform through which states will put forward their views an concerns with the NMC
    - NMC to perform functions including, among others:
        - Human resources for health
        - Health care infrastructure
        - Medical education
    - Source: *http://www.prsindia.org/uploads/media/draft/Draft-National%20Medical%20Commission%20Bill,%202016.pdf*
3. IIM Bill 2017
    - Part of Government's push to grant autonomy to the best educational institutes in the country
    - Another reform in education was announced by the Finance Minister, who in his 2016 budget speech, announced an enabling regulatory architecture 10 public and 10 private institutions to emerge as world class institutions for teaching and research.
        - UGC guidelines containing the eligibility criteria, selection procedures etc have been issued and the selection process is underway.
        - The idea is for these institutes to push the envelope for the quality of higher education in the country.
    - Source: *http://mhrd.gov.in/sites/upload_files/mhrd/files/IIMBill2017English.pdf*

REFORMS 3.0

Focus on Implementation

- Focus on Outcomes
- Measuring Outcomes vs. inputs
- Examples: Rankings on Ease of Doing Business, Education, Water, District Hospitals and Health
- Monitoring and Evaluation

- Drawing lessons and correcting course as necessary
- Examples: NITI Aayog's DMEO
- Driving Reforms
- Governance: competitive populism to competitive good governance
- Cooperative Federalism: NITI Aayog as the States' outpost at the Center

  Notes:
- NITI's composite annual health index highlights incremental performance by India's states.
- NITI's composite annual Educational Quality index shows incremental improvement by States. It aims to shift the focus of states towards outcomes, set objective performance benchmarks, and share best practices.

  A NEW INDIA AT 2022

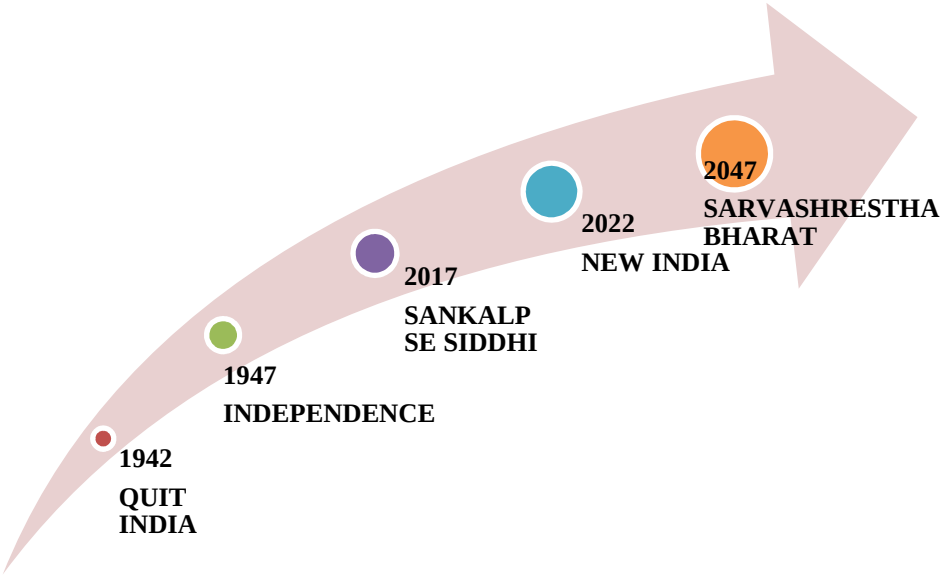
  THE ROAD AHEAD

  What reforms do we need next?
- Participative Development
- Government alone cannot transform India
- Need to shed mindset of *mai-baap*Sarkar (legacy of colonialism, feudalism & socialism)
- Private Solutions to Public Problems → Greater Participation in Social Change

  Focus on Antyodaya
- Address Malnutrition
- Improve Education
- Enhance Law and Order

  Mass Movement
- Development should be a mass movement
- From entitlement to empowerment
- Greater accountability of the elite

DEVELOPMENT AS A MASS MOVEMENT



- In 1942, Quit India came after 80 years of struggle for independence that started in 1857.
- Mahatma Gandhi's call in 1942 galvanized the nation for national independence and started an inexorable momentum that culminated in our independence five years later in 1947.
- Now, we are completing 70 years of post-independence development
- It is time to generate the same momentum today so that we can achieve a New India by 2022.

PRESIDENTIAL ADDRESS

STATE OF INTERVENTION IN PUBLIC AFFAIRS IN INDIA

MOVING FROM LIBERAL TO NEO-LIBERAL REFORMS

P K CHAUBEY

President, Indian Economic Association

INTRODUCTION

I propose to discuss the development of development debate in India on why poverty has been quite persistent while inequality has risen by many parameters despite good performance on growth front. There exists a great contention between liberal and neo-liberal economists of the day and across political spectrum. While the former want inclusion through welfare provisions even before one talks of acceleration of growth rate, the latter feel that all that matters is growth and that is needed is acceleration of growth because growth provides resources for undertaking welfare activities.

However, both agree that welfare states stand on two planks of democratic policy and capitalist economy caring for the welfare of have-nots in terms of provision of universal minima for essentials of life—which will differ from society to society and will depend on the stage of development of the economy. Sometimes, equality of opportunity is written as the basic principle of a welfare state though it has little meaning when total number of opportunities under existing institutional dispensation is far less than people seeking for them.

Everybody wants growth and at that accelerated growth even those who champion sustainable development. This culmination could be seen in the subtitle of the Twelfth Five Year Plan prepared under UPA government, that wanted growth all the way, faster, more inclusive and sustainable: in the writers' view, faster than ever in the past, more inclusive than it was supposedly during the period of Eleventh Plan and sustainable which it was perhaps never. Idea of inclusion had been having several shades as we moved from growth with redistribution, growth with social justice, growth and removal of poverty, pro-poor growth and finally inclusive growth. This evolution is more in keeping with phrases evolved in the international development literature or that sponsored by multilateral organizations but also with demand for addressing the sectional concerns. For example, in India, horizontal equality was superimposed on vertical equality. In recent years, it became so important that overshadowed the concern for vertical equality. This version of social justice coupled with neo-liberal reforms with focus on poverty removal led to a huge increase in vertical inequality in wealth and income—not captured by Gini of consumption expenditure distribution.

In this backdrop, I will focus on three hesitant shifts that have taken place over time in our development policy matrix, which need serious reconsideration for course correction. One is substitution of the objective of poverty reduction in place of inequality reduction. Another shift is about focusing more on welfare schemes in terms of grants and pensions and on employment more as a welfare measure than on development like roads, power and irrigation, etc. Well intended capability approach also blurred the distinction between welfare measures and development measures for governments across the globe. Subsidies had both components of development and welfare but not well managed and fell out of favoring neo-liberal dispensation as they were to be inefficient mechanism of redistribution yet were continued for political considerations. The third shift is about programmes overshadowing policies. The governments were accused of policy paralysis, not programme paralysis as programmes too many, bloating the size of bureaucracy and all attendant problems. More and more schemes and programmes, campaigns and missions have been gaining importance where state departments and their agencies are spending time and energy. Centrally sponsored schemes have been notorious in this context as they shift the priorities of the states for making good use of money that the union government is willing to pass on to the states. *Yojanas* replaced the *yojana*; yojanas were for welfare and the yojana was for development and they conflicted.

However, before I attempt to elaborate on these points, I would draw the attention towards two important points. One is the distinction between liberal and neo-liberal reforms and, two, the constitutional provisions for guiding the social and economic policies and development and welfare policies under the rubric of Directive Principles of State Policy.

Liberal Reforms and Neo-liberal Reforms

Classical liberalism drew upon natural law, utilitarianism, and progress and was built upon minimal government and individual freedom as promoted by the likes of political theorists Thomas Hobbes and John Locke and economists Thomas Malthus and David Ricardo. This influenced the Government in the UK to amend the Poor Laws in 1834 to limit the provisions of social assistance with the belief that markets are the efficient mechanism to lead to wealth. It was this position that led Marx to oppose Malthus ruthlessly even on his law of population which seemed to Marx buttressing Malthus' position on the Poor Laws of the day. Social liberalism or modern liberalism or new liberalism which succeeded classical or traditional liberalism, anchored in individual freedom, believed in all that classical liberals believed in but also considered that a legitimate role of the government was to address the issues of poverty, health care and education. While the Conservative Party wished little role for the government and the Labour Party proposed substantial role for the government, the Liberal Party sought government role in critical areas.

It has to be noted that Liberal Party formed the government in Britain in the second half of the nineteenth century and early decades of twentieth century. Interventionist reforms under Gladstone during 1892-95 and under Asquith during 1908-1916 were initiated through several legislations that aimed at guaranteed freedom and removing obstacles to it like poverty and unemployment. They put the elementary education in public domain (which incidentally inspired Indian leaders to demand for it India), introduced factory inspection for working conditions, tried to improve wages and reduce working hours, etc. Later on, they introduced various welfare measures like providing free school meal, school medical inspection, children charter, pension, health insurance, and certain standards of accommodation. These reforms came to be known as liberal reforms that virtually ushered in the idea of welfare state in the UK. They in fact addressed the concerns raised in the poverty studies carried out by Charles Booth and Benjamin Row tree and were of a different genre than the earlier Poor Laws which were made out of only compassion. Therefore, reforms of present genre could be called neo-liberal reforms as phrase 'conservative reforms' does not sit well with either of two words. They are exactly like traditional reforms which suggests no economic role to the state and absence of any fiscal policy.

Reformists were supposed to be not conservatives who by definition have little faith in the agency of State. They had more faith in free market mechanism. Progressives called themselves liberalists and reformists while communists and socialists were often considered revolutionists rather than reformists. Liberalisation of the present day in fact means loosening or relaxing restrictions imposed by rules and regulations. Read many of our Acts: they bracket regulation and development. With passage of time, it was felt that rules evoking regulation and development at the same time actually verged with passage of time more towards stricter restrictions while promotion demanded loosening them. Loosening the restrictions goes with the word 'liberalisation', that is nothing but making rules liberal, not promoting liberal ideas that were equated with the progressive.

But, let us remember at this stage, agrarian reforms encompassing land ownership reforms and tenancy reforms, industrial reforms promoting industries within public arena, labour reforms favouring welfare of labour and banking reforms promoting savings, carried out in the 1950s, 1960s and 1970s were also known as reforms. In fact, those who sought to establish socialist pattern of society called themselves liberal and progressive and painted right-wing factions as conservatives and reactionaries, though both emerged from the same Congress. It is therefore better to call the present forms of reforms neo-liberal reforms.

What are reforms then? Reforms to my mind are significant or even drastic changes in the policy axis and policy matrix but within a broad framework, which is short of revolution. Revolutions are not brought by State. Reforms are by nature evolutionary and set only to accelerate or decelerate the pace towards achieving the goals, not overthrowing them. Reformists are a kind of Protestants. [Social reformists are better known.] In this sense, the reforms carried out in the period from 1950s to 1970s were actually liberal reforms. Reforms carried in 1990s and thereafter could therefore be called neo-liberal reforms. Within neo-liberal reforms there were expressions of first generation and second generation reforms though this distinction has no clear meaning. In response to a query made to the-then Union Finance Minister YashwantSinha who was invited to IIPA to

inaugurate an academic programme, said that the first generation reforms could be carried out through executive orders but the second generation reforms needed Parliamentary node. The present set of reforms sought to reform the reforms carried out in early decades after Independence.

Directive Principles of State Policy

State took upon the activities of welfare and development much later in the day as it came into existence primarily to protect people from external aggression and internal disturbances. Regulation of economic activities came as an extension of regulation of social activities. Practically, all modern constitutions do incorporate regulatory, development and welfare duties for the state.

The Constitution of India clearly laid out, particularly in Art 39 (b) and (c), the conditions under which the State will intervene in the distribution of ownership and control of the material resources and in the operation of economic system. The state shall see that the distribution of material resources sub-serves the common good at its best possible manner. It could be interpreted as distribution of resources between private hands and public hands but also among private hands. Efficiency and equity both could be the purpose and the instrument is redistribution but not through fiscal instruments. The State shall also see that the operation of economic system should not result in concentration of wealth and means of production to the common detriment. The intervention could be administrative and regulatory or it could well be fiscal and monetary. The purpose is clear that even if the operation of economic system, and read it market, is efficient, it should not result in making the distribution of resources more iniquitous. So, there is a clear bias for equity.

There is a lot of flexibility for interpretation as well as laxity afforded in the provisions made in Directive Principles of State Policy as they are couched in, the wording like ‘shall strive’, ‘shall endeavour’, or ‘shall take steps’. It is within the same framework that resolution on Socialist Pattern of Society was passed and word ‘socialist’ was added as an additional adjective in 1976 for describing the Republic in the Preamble of the Constitution. It is again within the same framework that neo-liberal policy frame was invoked in early 1990s. They did not need to amend the articles.

Long Term Objectives

It may be recalled that, for socialist caucus within Congress, formally known as Congress Socialist Party, socialistic pattern of development was the avowed principle. It shaped many of the Congress resolutions and resolves. Planning was their instrument. National Planning Committee was formed in the Conference of the Provincial Ministers of Industry in 1938 by Congress President Subhas Chandra Bose to address the issue of industrialization and State’s role in this endeavor. Jawaharlal Nehru, known for his socialist proclivities was persuaded to become its Chairman and this was the background that Nehru became Chairman of the Planning Commission in his personal capacity when it was formed by the Cabinet Resolution within 50 days after the full promulgation of the Constitution of India. John Mathai, the Finance Minister, resigned in protest as it seemed to be an encroachment on the turf of Finance Ministry.

The First Plan document quotes the Directive Principles in extent so before it writes out four long term objectives viz., (i) to increase production to the maximum possible extent so as to achieve higher level of level of national and per capita income; (ii) to achieve full employment, (iii) to reduce inequalities of income and wealth; and (iv) to set up a socialist society based on equality and justice and absence of exploitation. Word poverty did not exist, despite wide-spread poverty with the understanding that striking at the root of inequalities would automatically reduce poverty, so eloquently suggested in PitambarPant’s Perspective paper in early 1960s.

We can note in passing that multiple objectives pose the issue of reconciliation but political exercises do come in such forms. The First Plan document therefore noted that none of them can be pursued to the exclusion of others and that a plan of development should put balanced emphasis on all of these.

What we should note here that Directive Principles were given so much importance that certain articles of Fundamental Rights. Fundamental Rights were amended by the very first constitutional amendment within 15 months only in the Provisional Parliament before the First General Elections were held and a new schedule IX was added to include retrospectively Zamindari Abolition Acts carried out various provincial/state governments and courts were debarred to adjudicate in such matters. Concentration of wealth, particularly in terms of land, was then the focus. This institutional reform unleased the growth forces as well though there are limits to what institutional reforms can be capable of. Yet, nationalization of several service industries like banking and insurance and industries like textile was carried out. Concentration of means of production in the hands of

private hands was resisted. Growth rate became several times more, from 0.5 percent per annum witnessed during pre-Independence half century to an average of more 3.5 percent per annum. Hindu rate phrase unfortunately de-emphasised the achievement.

Yet, by the early sixties, the issue of inequality was raised by socialist comrades. Ram ManoharLohia, a socialist, refuted the claim that general living standards of the poor had risen in last ten years of planning. He claimed that the bottom 70 percent did not spend more than three annas a day, equivalent to Rs 6.5 a month, and not five times of it (fifteen annas) as claimed by the Planning Commission. A committee was set up under Mahalanobis to study distribution of income and levels of living. It was livid on levels of living but was scathing on distribution of wealth. The Report on *Distribution of Income and Wealth and Concentration of Economic Power* produced by this committee confirmed that there existed a high concentration of income and wealth. It suggested that the operation of economic system in 1950s, covering first two Plans, resulted in concentration of wealth and means of production—which was supposed to be against the spirit of Directive Principles and the objectives of planned development. It further pointed out that much of this was facilitated by financial help by public institutions like Industrial Finance Corporation. It was noticed that 14 large banks in the private hands had handsome deposits and served the interest of private industrial houses. The fact of huge inter-corporate investment was also revealed. This was neither in tune with Industrial Policy Resolution of 1956 nor with Socialist Pattern of Society Resolution of 1955. This all was further confirmed by several other committees, including Monopolies Enquiry Commission which argued in favour of establishing a Monopoly and Restricted Trade Practices Commission through legislation, which took a few years but finally constituted in 1969. It is another matter that it did not do much good. It had to be replaced by Competition Commission. Both seem to be having similar mandate but they differ in subtle ways. While Monopoly Commission was supposed to be watchful on concentration from equity angle, Competition Commission has to be watchful on it from efficiency angle.

Poverty Set Against Inequality

Now, let me take up first shift which is substitution of inequality reduction by poverty reduction. Thus, poverty was set against inequality.

For a given rate of growth, it should be noted, while reduction of inequality in all probability will result in reduction in poverty while vice-versa may not be true. While growth rate during quarter a century after Independence, compared to the first half of the twentieth century was impressive though it was considered to be too low by many who subscribed to the thesis of 'Hindu' rate of growth. That inequality, particularly concentration of means of production, rose enormously was ignored. Concentration of wealth rose despite land reforms aiming at redistribution through Zamindari Abolition Acts, the last such Act was Urban Land Ceiling Act of 1976—which was however later on repealed. Several committees/commissions pointed out that state financial agencies were no less responsible than private banks in helping this growth of concentration. These findings resulted in nationalization of 14 private banks and. To repeat, institution of Monopoly and Restricted Trade Practices Commission.

Policy makers in early days well understood the limitations of fiscal policies in terms of its impact on savings and work-effort and perhaps entrepreneurship that they struck on the redistribution of wealth and concentration of means of production and economic power rather than income and helped the poorer section through provision of public consumption which have characteristics of merit good and large spillovers.

An economy needs loosening both demand constraints and supply constraints in the long run while in the short run it may be facing one of them. It was argued by the likes of Pitambar Pant and Tarlok Singh that redistribution in favour of the lower fractiles would boost the demand while encouraging saving by not too stringent tax laws would improve savings rate which was too low.

This continued even when, defeating a serious contender within CongressMoararji Desai, Indira Gandhi came to power as Prime Minister in 1966, and Morarji Desai had to be made Deputy Prime Minister but removed subsequently in 1969. DR Gadgil was invited to become Deputy Chairman of the Planning Commission in 1967 to revive Five Year Plan formulation, which had to be shelved in 1966, thanks to several dislocating happenings and insistence of multi-lateral organisations, like IMF. Gadgil introduced quite a few reforms in the planning firmament but also introduced two agencies as recommended by Rural Credit Review Committee set up by RBI. Besides, ushering in of Green Revolution, several 'socialistic' steps were taken, chief among them being nationalisation of 14 major banks in 1969.

However, Indira Gandhi fought March 1971 elections on the plank of GaribiHataoor Poverty Removal or Poverty Eradication. When it came to implementing agencies, the slogan was quickly turned into Poverty Reduction or Poverty Alleviation. For poverty indices, these phrases have a lot of meaning. But the short point here to make is that objective of poverty reduction was slowly but subtly set against that of inequality reduction. There were no doubtsseveral studies on income inequalities in terms of shares of deciles and a few poverty estimates made by scholars. However, officially there existed only a poverty line but no poverty estimates. Poverty line was set at Rs 20 per month in 1960-61 prices. But general concentration was on raising average monthly consumption of the bottom 30 percent. To quote Minhas, 'the objective of removal of poverty was translated into a neat numerical target in the 'Approach to the Fifth Plan 1969-74' and the 'preferred variant accepted by the NDC in January 1973 promised to raise the average monthly per capita consumption of the poorest 30 percent of the population from Rs. 23.24 in 1973-74 to Rs. 37.10 in 1978-79, both estimated in 1971-72 prices.' The implied increase of 60 percent was considered by Minhas as blatantly infeasible and deceiving oneself, who resigned from the Planning Commission in protest. However, it should be noted the plan model put up by another Planning Commission member SukhamoyChakravartyadopted the strategy of raising growth rate and reducing inequality along with self-reliance in terms of import substitution and export promotion. Numbers arrived were result of fixing growth rate and inequality parameter of log-normal distribution which fitted well with distribution of consumption expenditure.

There were no official poverty estimates till 1979 when a Task Force was set up by the Planning Commission in 1979 under Janata Party regime. The very nomenclature suggests that it was asked to project Minimum Needs and Effective Consumption Demand. And it was for estimating the effective consumption demand in the terminal year that rural and urban poverty lines were devised by using nutritional norms of 16 groups of people weighted by their shares in population. The purpose was never to track any poverty measure or attempt to identify the poor. It was to prepare a final consumption vector to be fed into the input-output model to project overall sectoral output. Slowly and steadily, objective of poverty reduction was substituted for inequality reduction as an objective. Story of allocation of resources on the basis of poverty estimates in several schemes and, later on, identification of poor families is too well-known to be told here.

Yes, with rising awareness social inequality became a more important issue and in each case and every case, social equality was demanded. Then sections started vying with each other. Scheduled castes and scheduled tribes had constitutional protection but then came OBCs and minorities and in rare cases gender. Let each section have the same proportion of the poor kind exercises started. We became unmindful of whether each section and therefore whole society is getting more iniquitous. Horizontal equity thus dominated vertical equity. Reservation raised its ugly head. Society became fractious. Government found it hard to fight but for judiciary. Electoral politics made it necessary to make people for jobs where they did not exist or were not created. Socialist chimera persisted with no scope in otherwise capitalist regime.

Development Vs. Welfare

With this shift in the emphasis from inequality reduction along with growth to poverty reduction, focus shifted from development to welfare. Over time, it is true, State has been assuming the role of providing grants, assistance and pensions. Scandinavian countries are quoted as ideals in social security context. But they have developed, they do not require growth, their economies are described as economies of enough, and their demography is tilted towards gerontology. You cannot be at the same time China in one aspect—say manufacturing, South Korea in another— growth front and Scandinavia in still another—welfare measures.

No society goes without welfare operations whether State carries it out or there are other societal forums like mandir, masjid and gurudwara. There will always be people who cannot participate in the production process. The Perspective Paper put up by the Planning Commission about the launch of the Third Plan which bemoaned on inequality issue but exhorted for raising growth rate pointed out that 10 percent people would always require direct assistance. But we cannot have an approach where everybody is in queue for assistance. Schemes after schemes by the Union and now in contesting polity by constituent states are geared towards transfer payments. In many cases, target dates are mentioned as if they are projects and it is said the scheme would run in mission mode. But the fact is that they are run in perpetuity with no end in sight. Our designs of many schemes are so faulty that they do not see an end. Even if they are conceived as self-liquidating, department involved sees to it that they continue ad infinitum as they are the real beneficiary. Let there be drought, not drought-proofing. Serious analysis would show that welfare multiplier of development

investment would be far higher than development multiplier of welfare expenditure. Welfare is the ultimate objective but development is the right means.

We often point out towards existence of potential demographic dividend but no state government has ever put emphasis on skill development, employment of people in development or pure and simple production activities. Every state government is advertising its welfare schemes and so does the Union in many cases. Post-Sen, we started talking of entitlement which he did in a particular context of famine. We must realise that best entitlement is through employment and at that quality employment. And at some stage redistribution of employment by making working people opt for leisure activities, making non-working into working ones.In the medium run, it is raising the level of development. Development is not carried by government alone but by the whole society and economy but welfare activities are by and large undertaken by Government except minuscule element of philanthropy and now Corporate Social Responsibility.

Raising the rate of development would reduce the requirement for welfare schemes.

Policy Making Vs. Programme Designing

The result is that policy making takes backseat and programme design, the front one. Programmes get set against policies—policies that facilitate, promote and regulate the activities involving a variety of stakeholders. Programmes give satisfaction to the government that it is doing something. Policies require deliberations at much wider level. They may require legislative actions and interaction with wider sections of the society and various stakeholders in the economy. In earlier phase of our democracy, policies often sought resolutions in the Parliament. Thus, Parliament functioned as a deliberative forum too. Of late, governments have chosen to issue policy statements in an autocratic style.

We may note that economy-wide and sectoral policies emanate from a broad policy frame consistent with a vision of society stated in terms of long term objectives. Policies are generally directed towards securing certain results from all actors and stakeholders, not necessarily through state apparatus. They often influence different sections, sectors and regions indirectly. They may be a kind of strategic games. Fiscal policy and monetary policies are instances of economy wide policies. Sectoral policies could be catalysts for sectoral developments. Agriculture Policy, Industrial Policy, Education Policy and Health Policy could be such as to provide incentives and disincentives or facilitate certain processes. Programmes on the other hand are carried out by government departments or agencies constituted for the purpose.

Except the fact that broad policy environment is neo-liberal, the governments have chosen to directly reach a variety of sections with all kinds of lollipops. These populist measures do not square up to any consistent policy. Moreover, the implementation at the hands of bureaucracy remains weak. A programme is implemented the best the very first year it is launched. It does not take much time for it to lose momentum. Leaky bucket is the phrase for siphoning of resources allocated to schemes.

The Fifth Plan which had twin objectives of Poverty Removal and Self-reliance also launcheda lot of programmes, chief among them being Minimum Needs Programme. There were several others like Area Development Programme in (i) Canal Commands Areas and (ii) Drought Prone Area, Programmes for Small Farmers and Marginal Farmers and Agricultural Labour, Sub-Plans for the Tribal and Hill Areas and Special Provisions for the Metropolitan Areas. However, when we read the components of Minimum Needs Programme, we find inclusion of Rural Education, Rural Health, Rural Water Supply, Elementary Education, Adult Education, Nutrition, Environment Improvement of Urban Slums and Houses for Landless. The point to note is that they were area based cross-sectoral programmes, not yet directed / targgetted to the identified poor. Regional disparities which were otherwise missed were thus incorporated in some measure.

Instead of integrated plan, plan itself started becoming a collection of populist programmes or schemes. Word Yojanano longer stood for Plan but for schemes. We did not have one yojana but several yojanas.

We witnessed that number of programmes and schemes kept on increasing. Now divided, then united, again segmented and then amalgamated, under pressure or prompted—many a time keeping in mind electoral prospects. Centrally sponsored schemes are a case in point, which of late Planning Commission thought the best it can do. The distinction between Planning Commission and the Government got blurred. Both were having parallel structures. Guidelines were often issued by the Ministries whose officials did not have any field experience.

One word about so-called Public-Private Partnership, which did not work in the social sectors at all and scholars tried to change the meaning itself and success was lukewarm in economic infrastructure as two partners

have separate goals. Guiding from arm's length distance would be a wise policy rather than manipulating and twisting terms to make them as success stories.

End with Skepticism? No.

Where do we go from here? It is a moot question. We often read and heard 'yatha raja thathapraja'. May be true in the case of corruption. But in democratic dispensation, 'yathaprajathatha raja' may equally be true. In the wee hours of Independence, we were led by many ideals. Kennedy's quote was used for exhorting us in our childhood. No leader is using this language anymore. They all seek exchange of votes, earlier for roti, kapdaaurmakan and now for bijli, sadak, paani, though this change suggests that poverty levels have down and size of middle class has budged.

Public choice scholars hold that our choice behavior in economic arena of market and that in electoral politics are not different. I am quite willing to subscribe to these theorists who paraphrase Lincoln's view on democracy as a system in the government is off the people, far the people and bye the people. But I have to listen to these theorists. We do not choose the best among us to rule us. Generally, and particularly in a divided society, we tend to choose 'our men'. And 'our men' would choose to toe the line we are interested in.

Yet, it is surprising that 'our men' do not give in completely and pursue some goals which are in larger interest of the society in the distant future. Men will continue to be guided by social values as by personal interests.

It is in this mood that I bow out in hope than despair.

Thank you.

P.R. BRAHMANANDA MEMORIAL LECTURE

Dilip M. Nachane

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ECONOMIC GROWTH AND FINANCIAL STABILITY

Talking Points

MAINSTREAM MACRO-ECONOMICSA VERY QUICK OVERVIEW

Post World War II (1945-70) Macroeconomics Consensus (Neo-Keynesianism)

- 1. IS-LM Synthesis
- 2. Stable Trade-off between inflation and growth (Phillips Curve)
- 3. Fixed exchange rates ($ parity)
- 4. Emphasis on demand management /income policies for promoting employment & growth

Inter-regnum (1970-80)

- 1. Milton Friedman's critique of the Phillips Curve and Fixed Exchange rates
- 2. New Keynesian School : Attempts to reconcile Keynesian wage and price rigidities within a rational representative agent framework
- 3. Post-Keynesian School . Approach very Keynesian but with emphasis on theories of income distribution, growth, trade and development in which money demand plays a key role,. One of their lasting contributions has been the recognition that money supply responds to the demand for bank credit, so that the central bank cannot control the quantity of money, but only manage the interest rate by managing the quantity of monetary reserves. Another important contribution is In the field of finance, where Hyman Minsky put forward a theory of financial crisis based on financial fragility, which has recently received renewed attention.

NEW CONSENSUS MACROECONOMICS (NCM) (1980 - ?)

- **Basic Building Blocks :**
- **1. Rational Expectations (Muth (1961)) – economic agents exploit all available information about the macro economy efficiently.**
- **2. Neutrality of money (i.e. resource allocation guided only by relative rather than absolute prices). Absence of money illusion.**
- **3. Continuously clearing markets with wage and price flexibility (no nominal rigidities)**
- **(1) -(3) >> Efficient Markets**
- **4. Micro foundations based on neo-classical choice theoretic Walrasian general equilibrium framework.**
- **5. Real Business cycles**
- **6. Futility of policy intervention for stabilization (NAIRU hypothesis)**
- **See the many papers by Barro, Sargent, Wallace etc.**

FINANCIAL LIBERALIZATION : MCKINNON-SHAW THESIS AND THE POST –CRISIS CRITIQUE

Financial Liberalization

- 1. Deregulation of the Financial Sector
- 2. Growth of Financial Conglomerates
- 3. Increasing Scope for Financial Innovation
- 4. Cross-Border Flows of Funds (FDI, Portfolio Equity, Commercial borrowings)

Rationale For Post-1980s Financial Liberalisation

- The intellectual basis for the wave of financial liberalization that rose in the 1980s was three-fold:
- 1. The McKinnon –Shaw thesis which argued that financial liberalization was a precondition for "real" economic growth
- 2. The intellectual ascendancy of the New Consensus Macroeconomics especially its stress on the efficient market hypothesis which assured us that financial markets allocated resources efficiently and that they were driven by fundamentals rather than speculation
- 3. The "Jackson Hole" Consensus which insisted that financial stability was a by-product of inflation stabilization
- All three of the above hypotheses are strongly rooted in the free market philosophy. The recent global Crisis has subjected all 3 hypotheses to serious criticism.

McKinnon-Shaw thesis

- Right upto the 1970s a "passive" view of the financial sector seems to have been the predominant view among academic economists as well as policymakers (i.e. the role of financial developments and institutions is incidental to economic development (e.g. Seers (1983), Lucas (1988)).
- McKinnon (1973) and Shaw (1973) in their influential contributions developed an anti-thesis to this position and assigned a key role to financial intermediation and innovation in overall development reminiscent of Schumpeter (1912).
- There is now general acceptance of the role of finance in
- (i) efficient resource allocation
- (ii) mobilization of savings for investment
- (iii) expanding goods & services markets
- (iv) facilitation of pooling, hedging and diversification of risk
- (v) monitoring managers and exercising corporate control
- and (one may add in the EME context)
- (vi) providing credit to informal sector (microfinance) (see Levine (1997), Archer (206) etc.).

POST-CRISIS (2008) REAPPRAISAL OF M-S THESIS

- The post-crisis critique , recognizes of course that financial development and liberalization can have important macroeconomic benefits and be conducive to economic growth but also sees definite limits to this process. Financial liberalization imposes important limitations on macroeconomic policy and excessive financial development can be detrimental to growth. The relationship between financial development and economic growth has an inverted-U shape.

Financial Liberalization : Challenges and Possible Adverse Effects

- Excessive financial development could broadly impact the economy adversely via several channels
  . 1. Reducing the effectiveness of monetary policy
- 2. Systemic risk and financial instability (increased vulnerability to financial crises)
- 3. Introducing a disconnect between "profits and investment"
- 4. Competing away resources from other sectors of the economy and thus impending long-term growth

FINANCIAL LIBERALIZATION, MONETARY POLICY & FINANCIAL STABILITY

Financial Liberalization & Monetary Policy

- **Financial Developments and the "weakening" of monetary policy.**
- **"Slipping Transmission Belt" syndrome :**
- **(i) unchecked financial innovation leading to the emergence of several new near substitutes for *money***
- **(ii) a relative decline in the role of banks in credit creation**
- **(iii) the switchover from a reliance on direct monetary policy instruments such as CRR, SLR, credit ceilings etc. to indirect measures such as OMO and repo rates and**
- **(iv) unrestricted global capital flows.**
- **Details may be found in D'Arista (2002), Nachane (2009)**

PRE-CRISIS CONSENSUS ON MONETARY POLICY

- **Prior to the Crisis there seemed to be a loose Consensus among mainstream academics and policymakers regarding three issues viz.**
- **(i) that commodity inflation control should be the overriding (if not exclusive) objective of monetary policy**
- **(ii) that asset price bubbles are better left alone as attempts to control (or worse "prick") such bubbles could lead the economy into dangerous territory and (iii) if, and when, asset prices burst central banks should "mop up the mess" i.e. go into the " lender of last resort" act**
- **(see Greenspan (2002), Blinder & Reis (2005), Mishkin (2007) etc.).**
- (Jackson Hole Consensus -- **Issing (2009))**
- **JACKSON HOLE CONSENSUSBernanke &Gertler (1999) cryptically summarize this viewpoint as " central banks should view price stability and financial stability as highly complementary and mutually consistent objectives".**
- **Based on a conventional Friedmanian argument that *financial instability* is the outcome of *unexpected shocks* to the inflation level, mainly arising from over-enthusiastic central banks trying to stimulate the economy beyond its *natural* rate (see Friedman & Schwartz (1963), Schwartz (1998) etc.).**
- **The global crisis brought out the fatal flaw in this consensus.**

ALTERNATE POST-CRISIS VIEWPOINT ON FINANCIAL STABILITY

- **Alternate viewpoint : *monetary stability* canco-exist with *financial instability*. Often there is a causal nexus from the former to the latter.**
- **Periods of monetary stability (e.g. Great Moderation (1990 - 2007) →output growth and bullish expectations of future prospects → booms especially in equity markets and real estate → High Demand for credit to invest in highly profitable rising asset markets.**

If concurrently, central bank (exclusively focussed on commodity market inflation) keeps interest rates low this stimulates high risk speculative investment.

IMPLICATIONS OF ALTERNATE VIEWPOINT (contd.)

- **Central Bank cannot afford to play the combined role of a *bystander* while an asset boom is in progress and a *good Samaritan* once the boom goes bust of its own accord.**
- **Central Bank intervention could assume either of three forms (including combinations).**
- **(i) Firstly monetary policy could be made responsive to asset price developments**
- **(ii) Secondly, by a stricter system of controls on capital requirements in banks and other financial institutions and**
- **(iii) Thirdly, by restricting certain types of trades in asset markets (see Friedman (2010)).**

INDIAN CONTEXT

- In recognition of the need to revisit the conduct of monetary policy, an Expert Committee was appointed (Urjit Patel Committee or UPC for short) by RBI in 2013.
- The theoretical framework of this Report closely follows that of its antecedents viz. the Percy Mistry Committee Report and the RaghuramRajan Committee Report. This theoretical framework, rooted in the twin hypotheses of rational expectations and continuously clearing efficient markets is precisely the NCM approach, which we have criticized above.

Inflation Targeting for India?

- The theoretical framework (NCM) espoused by the UPC drives it inexorably to a *flexible inflation targeting* framework (i.e. one where the inflation target is expected to be maintained on the average over the business cycle).
- By and large, the empirical evidence does indicate that inflation targeting regimes are successful in their avowed purpose of moderating *commodity* inflation and tempering its volatility .
- However such regimes could unfavourably impact several other macroeconomic dimensions of direct /indirect significance for social welfare (see Blanchard (2005), Akram&Eitrheim (2008), Lo (2010), Nachane (2014) etc.).
- Phillips Curve becoming flatter or perhaps backward bending.

Financial Liberalization , Systemic Risk & Vulnerability to Crises

- **"Systemic Risk" may be defined as " A risk of disruption to financial services that is (i) caused by an impairment of all or parts of the financial system and (ii) has the potential to have serious negative consequences for the real economy" (see IMF-BIS-FSB (2009))**

How Does Financial Liberalization Increase Systemic Risk

- 1. Financial Liberalization can lead to
- (i) excessive leveraging in finance and non-finance companies
- (ii) weak links in the securitization chain (shift from "originate & hold" model to "originate and distribute" model)
- (iii) emergence of financial conglomerates exploiting economies of scale & scope
- (iv) growth of "shadow banking" institutions esp. hedge funds
- (v) increased interlinkages across institutions
- (vi) increasing co-movements of risks across different financial institutions (domino effect)

- (vii) weakening regulatory oversight and instead placing greater reliance on "market discipline" especially shareholder discipline and increased reliance on "credit rating" agencies.

PROFITS-INVESTMENT DISCONNECT

DISCONNECT BETWEEN INVESTMENT & PROFITS

- **Stylized fact about Western Capitalist economies :**
- **1. Share of Profits (including interest) in Value Added of the manufacturing sector has been steadily rising since the 1980s with a corresponding fall in the wage share**
- **2. The ratio of investment to profits has been declining.**
- **This is a paradox for almost all schools of economic thought (including Marxists who presume that all profits are re-invested).**

Why the Disconnect Arises

- 1. In the post-war years, regulations were in place in various countries (e.g. The Glass-steagall Act in the U.S.) which insulated the real sector from the financial sector.
- 2. This led to the critique (se e.g. Jensen &Meckling (1976)) of the conflict between management & shareholders (so-called principal-agent problem), which led to " lack of shareholder control over management, and the pursuit of market share and growth at the expense of profitability".

How Fin. Lib. Encourages The Disconnect

- **The onset of financial liberalization had the following effects :**
- **1. The emergence of new financial instruments (e.g. junk bonds) which provided a convenient means for hostile takeovers, by groups of shareholders who were dissatisfied with the performance of the management**
- **2. An increasing proportion of profits was distributed as dividends to keep shareholders satisfied, instead of being re-invested. Frequent buybacks of shares to keep share prices buoyant**
- **3. Hostile takeovers were often preceded by substantial "downsizing" of the enterprise.**
- **4. Hence financial liberalization made possible a shift from the earlier "retain and reinvest" philosophy of the firm to "downsize and distribute".**

LONG-TERM GROWTH EFFECTS OF FIN. LIB.

Fin. Lib. & Long-term Growth

- **In recent years a number of influential economists have raised serious doubts about the perceived benefits of financial liberalization (beyond a point) (see e.g. Friedman (2011), Cecchetti&Kharroubi (2012), Shiller (2012), Reddy (2012) etc.). Specifically two arguments are advanced :**
- **1. The "profits-investment" disconnect means that the aggregate national income identity has to be satisfied by a rise in domestic consumption and imports.**
- **2. Shareholder value orientation. Increasing focus on short-term profits. Additionally, as retained profits decline and shareholder payouts increase investment shifts from "real investment" in machinery etc. to investment in consumer durables or real estate.**
- **3. The financial sector is skill-intensive and as it expands it draws talent from others sectors esp. those using high skilled personnel (R&D intensive sectors like pharma or micro-electronics).**

INCOME INEQUALITY EFFECTS OF FIN. LIB.

Fin. Lib. and Income Inequality – Theories

- Greenwood &Jovanovic (*JPE,* Oct. 1990) posit an inverted-U relationship between financial sector development and inequality. Financial development increases inequality in the early stages but tends to lower it with increase in average incomes and more equitable financial access.
- Galor&Zeira (*REStud. 1993),* Banerjee & Ne wmann (*JPE 1993)* put forth the hypothesis of a linear relation between financial development and inequality. Financial development through the elimination of capital market imperfections and provision of easy credit access to poor households for investment in human capital increases the opportunity set of the poor, thereby promoting better income distribution.
- Other strands include the human capital investment theories of Becker and Tomes (Chapter 10 in G. Becker (ed) *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education (3rd Edition) 1994)*

Fin. Lib. and Income Inequality : Some Stylized Facts

- **Since the late 1970s studies for developed countries (esp. the US) exhibit some clear trends (See Palley ((2013) *Financialization : The Economics of Finance Capital Domination) which seem to contradict the theories above*.**
- Increasing share of national income accruing to capital rather than labour
- Increased share of profits relative to interest income in capital
- Increased share of financial sector vis-à-vis the non-financial sector in total profits
- Financial sector salaries rising relative to non-financial sector salaries (Philippon&Reshef *QJE 2012).* In a case study Goldin& Katz (AER 2008) showed that the earning profile of Harvard graduates in the 1980s was similal in the financial and non-financial sectors. By 2000, the salaries of the former were tree times those of the latter (controlling for grades, age, etc.)
- Real Wages in manufacturing not keeping pace with growth in productivity
- Evidence on EMEs is scarce on this aspect and could be an important subject matter for future studies.

STRATIFICATION IN LABOUR MARKET

Fin. Lib. and Race & Gender Stratification in Labour Market

- Two salient (and hitherto ignored) aspects of the financialization process are now coming to light in the US economy (see Akerlof&Kranton (*QJE* 2000) , Darity, Mason & Stewart (*JEBO 2006),* Arestis, Charles & Fontana, *CJE 2014*).
- *1*. Growing wage premium for individuals working in financial institutions over their counterparts in the non-financial sector
- 2. Additional wage premium for those in managerial as opposed to technical positions
- 3. Unequal distribution of this wage premium across ethnic groups and gender. White men lead the field followed by Hispanic men. Black men, white women, and Hispanic and black women constitute the rear.
- Similar data for Europe and EMEs is lacking.

FINANCIALIZATION

The Phenomenon of Financialization

- Carried to excess financial development can lead to the phenomenon of financialization.
- The phenomenon is viewed from various angles as evident in its varying definitions.

- "The increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies" (Epstein (2005))
- Foster & Magdoff (2009) : Profits from financial activities rather than commodity production and non-financial service activities
- I may add than in EMEs this is also evident in the increasing control of the financial sector over activities in the social services sector such as health, education, rural development, micro-finance etc.
- Ultimately a situation may arise (the so-called "inverted triangle" hypothesis) in which a dwindling real sector becomes an adjunct to a bloated financial sector

CONCLUSIONS

Shift in Macro-Policy: Seven Point Agenda

- A thorough overhaul of Monetary Policy
- Strengthening and expanding the scope of regulation and supervision (R & S)
- Improved Prudential standards for financial institutions
- Special attention to non-performing assets (NPAs)
- Reducing costs of financial failures
- Devising market incentives for prudent behaviour
- A Shift from Micro-Prudential to Macro-Prudential Regulation

Theme I -

Behavioural Economics

BEHAVIOURAL ECONOMICS

Sanjit Dhami
Professor,
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Talking points:

Neoclassical Economics (NE)

- Neoclassical economics (NE) the main paradigm in economics proxies humans by ECONS.
- Features of ECONS that we teach to students:
- Selfish, amoral, and emotionless.
- Unlimited cognitive abilities. Use latest maths/statistics in decision making. Mathematically optimize.
- Use expected utility, EDU, Nash equilibrium.
- Each of these features is empirically rejected. These features are often not even approximately true!!!

Behavioural Economics (BE)

- BE uses Economics, Psychology, Biology, Neuroscience, Sociology to explain human social & economic behaviour.
- Offers better predictions than NE.
- Uses experimental, field data, and neuron economic data.
- Lab experiments allow severe testing of theories.
- Now mainstream. Nobel winners: R. Thaler, D. Kahneman, G. Akerlof, R. Shiller, H. Simon, R. Selten.

Aim OF the Talk

To provide some insights from BE, in a non-technical manner. BE is now clearly the future of economics.

Reason for Emergence of BE: Lack of respect for empirical evidence in Economics

- "Modern mainstream economic theory is largely based on an unrealistic picture of human decision making. This view of economics is not based on empirical Evidence…" [Reinhard Selten (2001), Nobel prize winner in economics.]
- "But there are no direct observations that individuals or firms do actually equate marginal costs and revenues." [Herbert A Simon (1978), Noble prize winner in economics.]
- Risk seeking in losses and risk aversion in gains
- Tversky-Kahneman (1981): The US is preparing for the outbreak of a major disease, that is expected to kill 600 people.

Loss aversion: A defining feature of humans

- Humans are 2.5 times more sensitive to losses than gains. This is "Loss aversion."
- So a loss of $100 feels like a loss of 100 x 2.5 = £250.
- Also true for monkeys. Common evolutionary ancestor.
- Much of risk aversion is probably just loss-aversion.

Why is it so hard to find a taxi on a rainy day in New York?

On rainy days, w of taxi drivers high.

Should work longer quit too early. Why?

NE: Backward bending labor supply.

BE: Daily reference earnings $100. Don't want to quit below (loss aversion). Target met early on rainy day

Using loss aversion to incentivize teachers

- Fryer et al. 2012 field study Chicago school teachers
- Group 1: Upfront bonus, but taken back if the students do not achieve high grades.
- Group 2: Bonus paid at the end of the year conditional on high student grades.
- Which set of teachers will be more effective?
- Answer: Group 1, because the bonus becomes the reference point; wished to avoid losses?
- No statistical difference between Group 2 and a control group where no bonuses paid.
- Loss aversion & finance: Equity-premium puzzle
- Over 1926-1996, return on stocks 7%, return on bonds is 1%.
- Equities fluctuate more, so will have a higher return.
- But the return of 7% on stocks is still too high (CRRA of 50).
- Benartzi-Thaler (1995): When equities fluctuate below reference return, the downside risk is multiplied by 2.5 (loss aversion), so a an extra premium of exactly 6% return on equities is needed to hold them in portfolios.

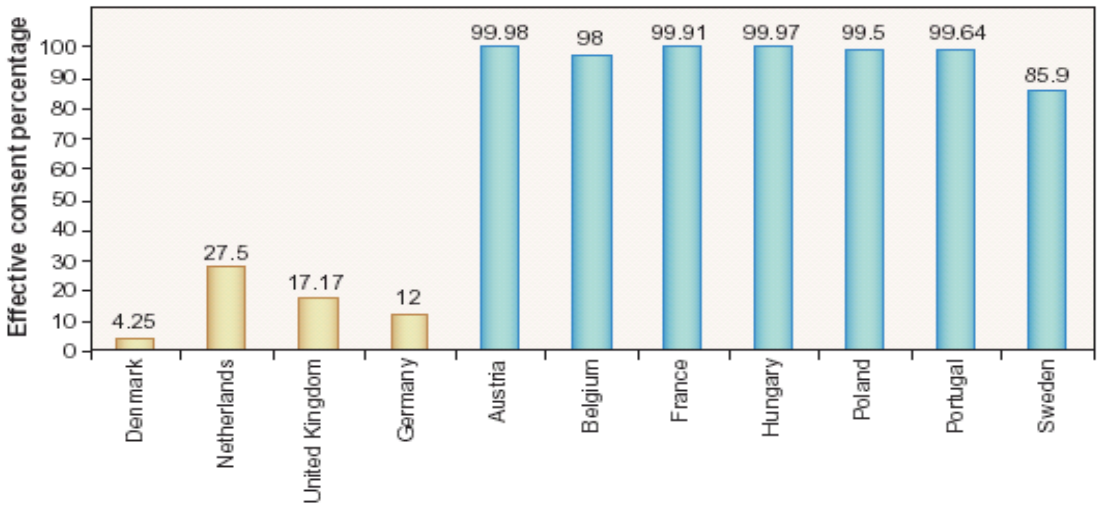
Humans are conditional co-operators

- NE agues: Bonus contracts should not exist and incentives should be relatively high powered.
- NE neglects that humans are conditional co-operators: Respond to kindness with kindness and unkindness with unkindness.
- (Fehr et al., 2007) Firms often prefer bonus contracts to incentive contracts and workers reciprocate with higher effort.
- Bewley (1997, HUP) ALL existing mainstream theories of unemployment are REJECTED. In a recession, firms lay-off workers but do not cut wages because it reduces worker's morale. The only satisfactory theory is the fair wage hypothesis (Akerl of, 1982). Do you teach it in macro?

Framing Effects and Mental Accounting

- In NE, rational humans are not influenced by framing the same information in different ways.
- Evidence shows that framing of information has dramatic effects, e.g., advertising.
- Consider two methods of participation in some program--opt-out and the opt-in methods.
- Opt out: automatic enrollment but free to opt-out by ticking a box.
- Opt in: Not enrolled but free to opt-in the program by ticking a box.
- These options are equivalent in NE because ticking boxes is costless.

Opt-in/Opt-out options in organ donation



Effective consent rates, by country. Explicit consent (opt-in, gold) and presumed consent (opt-out, blue).

Opt-out/Opt-in: Pensions and Savings

- Automatic enrolment (opt-out option) in 401(k) savings plans in US increased the participation rate from 49% to 86%. Madrian and Shea (2001).
- Thaler and Benartzi's (2004) "Save More Tomorrow" (SMarT) program: Employees commit to contributing a x% of future salary increase towards savings (eliminates self-control problems) but can opt-out. This had increased annual savings by $7.6 billion between 2011 and 2013.
- More effective than any other government policy.
- Default options are an example of "Nudges" and "Libertarian Paternalism" idea of Thaler and Sunstein.

Do people optimize?

In NE, people choose actions by mathematical optimization.

Time/computational ability are limited. People often use simple rules of thumb (heuristics) e.g. "do not go into debt", "use a tried and trusted method" etc. These rules are fast and frugal.

The problem of catching a ball ("gaze heuristic").

CONCLUSIONS

- The evidence rejects many features of NE, yet we teach them uncritically.
- A better alternative- behavioural economics- is available. Rigorous and predicts far better.
- Would you prefer a framework that describes HUMANS in BE or ECONS in NE?
- Come join us in changing Economics for good, and for the good mankind!!!

A COMPARATIVE STUDY OF IMPACT OF DEMONETIZATION WITH SPECIAL REFERENCE TO SELECTED COUNTRIES

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Abstract

This paper is an attempt for analyzing the impact of demonetization in India and some selected demonetizing countries of the world. The analysis focuses on comparative impact of demonetization for both random as well as systematic demonetization. The study has observed that the causal relationship between demonetization and inflation may be looked from two angles- one, demonetization is the cause of inflation and second, inflation is the cause of demonetization. This study examines such facts and also compares demonetization effects on selected countries. The paper is divided into five sections. Section I discusses important keywords, objectives of the study and formulation of hypothesis. Section II focuses on relevance of the study, review of literature and transmission mechanism of impact of demonetization. Section III focuses on research methodology, analysis of data and findings & testing of hypothesis. Section IV focuses on policy recommendation. Section V focuses on limitation of the study and scope for further research questions.

Keywords: Demonetization, Random Demonetization, Systematic Demonetization, GDP growth rate, Inflation rate and Policy interest rate.

I. INTRODUCTION

On November 8, 2016, one of the most unprecedented steps in international economic scenario took place in India after 1978 that is demonetization in higher denomination of two legal tenders. It is unprecedented in the sense that if it is observed through the overview of historical background of demonetization in demonetizing countries, it came to know that this had been occurred when they were facing the adverse circumstances such as hyperinflation, terrorism, political up heals, or other extreme circumstances, but India's demonetization is a denovo case as it combined secrecy and suddenness amidst normal economic and political conditions. But India's action is not so unprecedented in its own economic history because there were two previous instances of demonetization in 1946 and 1978.The table-1 provides the overview of history of demonetization in higher denomination in India since 1946 to 2016 respectively.

Table 1: Overview of History of Demonetization in India

Date	Governor of RBI	Govern-ment	Objectives	Demonetised Higher denominations notes	% of Demonetised higher denomination to the money stock	Amount of Demonetised higher denomination backed to the RBI	No. of days for exchange(excluding grace period)
Jan. 12, 1946	Chintaman Deshmukh	British Rule (governor general of India –Archibald Wavell) and Winston Churchil – PM of Britain	To stop - unaccounted money -tax evasions	Rs 500 , , 1000 & 10000 Notes	80 %	Rs 134.9 crore out of 143.97 crore.(93.7%) Only Rs 9.07 crore were not exchanged by end of 1947	10 days
Jan. 16, , 1978	I.G. Patel	Janta party PM -Morarji Desai	To combat -Black money -counterfeituring	Rs 1000 , 5000(introduced in 1954 with the re-introduction of 1000 & 10000) & 10000 Notes	86.6%	Rs 2.1 thousand crore out of 2.8 thousand crore.(75%) Only Rs 0.70 thousand crore were not exchanged.*	3 days
Nov. 8, , 2016	Urjit Patel	BJP PM -Narendra Das Modi	Aimed at addressing Corruption; black money; counterfeit currency; terror funding	Rs 500 & 1000 Notes	86%	Rs 15.28 lakh crore out of 15.44 lakh crore(98.96%)by the end of june-2017	50 days

Sources: History of RBI Vol I (1935-1951) pg-706; History of RBI Vol III (1967-81) pg-450; RBI annual report 2016-17;

**Indian economy (development and planning) pg-560 by Dr. Badri Vishal Tripathi*

Key Words, Objectives of the Study & Formulation of Hypothesis

This section discusses the meaning of keywords, objectives of the study and formulation of hypothesis.

Keywords (demonetization, random demonetization, systematic demonetization, GDP growth rate, inflation rate, policy interest rate)

Demonetization

Demonetization may be regarded as the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Or Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In economic survey report 2016-17, it defined as "Analytically, demonetization can be seen as comprising the following-

- A money supply contraction but only of one type of money - cash.
- A tax on unaccounted private wealth maintained in the form of cash –black money and
- A tax on saving outside the formal financial system."

It can also be said that demonetization is a policy change, and since a policy change may be of two types 1- random change 2- systematic change. Thus demonetization can also be regarded as random demonetization and systematic demonetization.

Random demonetization

In random demonetization it possesses the following characteristics-

- Sudden demonetization.
- Without prior announcement.
- Very short period for exchange(some days or months)

Some major instances of random demonetization across the worldwide are provided below:

Table-2:- Major instances of Random demonetization

Country	Year	Objectives	Effects
Ghana	March ,1979	Excess liquidity and inflation	Loss of public confidence in the banking system
Myanmar	Nov.1985	Need to fight black money	Public protest; Hurry to buy stocks goods pushed up inflation
	Sept. 1987	,, ,, ,, ,, ,, ,, ,,	
Brazil	1990	To fight hyperinflation	Output contraction; price moderation
	1993	,, ,, ,, ,,	Economy stabilized gradually
Soviet Union	1991	Fight organized crime and address money overhang;	Loss of public confidence;hyperinflation;cash drying up; job losses
Russia	1993	Need to complete exchange of old notes and control inflation	Problems for neighbouring currencies; public protest
North Korea	2009	To crack down black currency market and fight inflation	Activities halted for a week public panic and protests
Venezuela	2016	To fight inflation	Public protests
India	Jan,1978	To curb black money & tax evasion	Public panic
	Nov.2016	Tocurbblackmoney;counterfeiting;corruption;terror funding	Public protests & public support both

Sources: Economic Survey Report 2016-17 pg.- 53-79

Systematic demonetization

In systematic demonetization it include the following

- Pre-announced demonetization
- Gradually demonetization or step manner demonetization
- Sufficient for exchange(some months or years)

Some major example of systematic demonetization across the worldwide are provided below:-

Table 3:- Major instances of systematic demonetization

Country	Year	Objectives
Australia	1988 & 2015	Prevent counterfeiting
Singapore	2014	To mitigate higher money laundering risks associated with large value cash transactions
Canada	2011	Improve public confidence in currency; deter counterfeiting
Denmark	2012	Fight counterfeiting threats
Sweden	2013-2016	Decisions were part of preparations for the replacement of the banknote and series which was scheduled begin in 2015
Pakistan	June2015	Fight corruption ;black money; terrorism

Sources: Economic Survey Report 2016-17 pg- 53-79

GDP growth rate

GDP growth rate may be defined as the percentage change in the GDP of a country in a given financial year.

Inflation rate

Inflation rate may be defined as the percentage change in price level in a given financial year.

Policy interest rate

Policy interest rate represents the rate in the concerned countries which is assumed to be policy interest rate.i.e. In India, repo rate is assumed to be policy interest rate.

II. OBJECTIVES

1. To overview the history of demonetization in higher denomination in India since 1946 to 2016.
2. To compare the India's demonetization with selected demonetizing countries in terms of GDP growth rate, inflation rate, and policy interest rate.
3. To compare the results of random demonetization with systematic demonetization.
4. To find the implication of demonetization.

Formulation of Hypothesis

Ho1:- There is positive relationship between demonetization and GDP growth rate.

Ho2:- There is positive relationship between demonetization and policy interest rate.

Ho3:- There is positive relationship between demonetization and inflation rate.

Ho4:- Random demonetization leads to more reduction in GDP growth rate as compared to systematic demonetization.

Relevance of the Study, Review of Literature and Transmission Mechanism of Impact of Demonetization

This section focuses on the relevance of the study, review of literature and transmission mechanism of impact of demonetization.

Relevance of the study

Demonetization which has been occurred in most of the countries keeping in view different objectives like as – to curb the hyperinflation, black money, counterfeiting, corruption and the use of higher denominations for terrorist activities. Some demonetization were of random nature while some were of systematic nature.(see table no.2&3).Most of the studies have been made on demonetization in different perspective .The present paper focuses on the relationships between demonetization and GDP growth rate, Inflation rate and Policy interest rate.

Further this study seeks to answer, is demonetization appropriate tool for curbing the black money or not in the context of India having thrice use of it for the same purpose? Is there any efficacy of demonetization on hyperinflation? And so on. So there is a need to study the use of demonetization in different countries and the impact of demonetization on GDP growth rate, Inflation rate and Policy interest rate.

Review of Literature

- RBI (2017) in its paper "Macroeconomic impact of demonetization –a preliminary assessment" finds there is short term impact of demonetization on GDP growth rate on the basis of monthly data. Further, it made no prediction about the impact of demonetization on Inflation rate. Finally the paper has observed that there is negative relationship between demonetization and policy interest rate in the context of India.
- RBI in its book History of RBI volume I, II, III provides the historical background of demonetization in 1946 and 1978 respectively.

Transmission Mechanism of Impact of Demonetization

This subsection discusses the transmission mechanism of impact of demonetization which shows how demonetization will affect the GDP growth rate, inflation rate and Policy interest rate with the help of Quantity Theory of Money. Impact of demonetization can be understood theoretically like as-

Demonetization is -

- An aggregate demand shock because it reduces the supply of money and private wealth.
- An aggregate supply shock to the extent that cash is an input to production .(for example agriculture)
- An uncertainty shock for investors and consumers.

Theoretically, it can also be shown with the help of Quantity Theory of Money (QTM) which states that

MV =PY where M-money supply-velocity (the rate at which money turns over),P- price level ,Y-real GDP

Now, if M decreases, V increases, either or the Nominal GDP decreases (a negative impact on both price and real activity).

Research Methodology, Data Analysis, Testing of Hypothesis & Findings

This section includes the research methodology, data analysis, testing of hypothesis & findings.

Research Methodology

- Research design

Entire study is based on causal comparative research model. "The causal comparative design of research seeks to establish causal relationship by comparing the circumstances associated with observed effects and by noting the factors present in those instances which are given effect occurs or does not occurs". C.V. Good, A.S. Barr, D.E. Scates in "methodology of educational research"

- Data collection

The study is based secondary data collected from RBI reports, Economic survey reports and official sites of concerned coutries.For every country the study include five years annual data on GDP growth rate, inflation rate and policy interest rate.

- Tools of analysis

The study is based on the use of graphs and trend analysis. On the basis of trend analysis , the hypothesis have been rejected and accepted.

Data Analysis

The data analysis contains the study of relationship between demonetization and GDP growth rate, inflation rate & policy interest rate and

the impact of demonetization on GDP growth rate , inflation rate and policy interest rate regarding selected countries i.e. India ,Pakistan, Australia ,Sweden.

1- India- Jan. 1978 and Nov. 2016

In case of India, the study has two instances of random demonetization. One is related to 1978 and the last one is related to 2016.

Figure-1(1978)

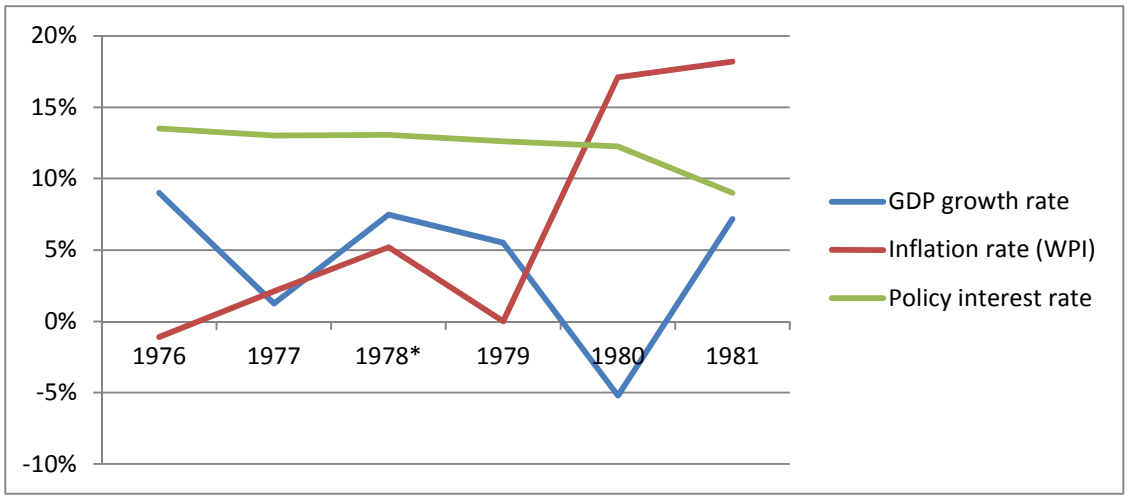


Figure 1 shows the trend in GDP growth rate, inflation rate and policy interest rate. It shows that GDP growth rate, inflation rate and policy interest rate which were 1.25%, 2.10% and 13.0% in 1976-77 and it rose to 7.47%, 5.2% and 13.05% in 1977-78 respectively. It connotes that there was no realization of impact of demonetization in the same FY but the data suggests that in the next FY (1978-79) , there was much reduction in GDP growth rate ,inflation rate and policy interest rate. In 1978-79 , the GDP growth rate ,inflation rate and policy interest rate reduced to a level of 5.50% ,0.1% and 12.60% as compared to 1977-78 respectively. If there would no stimulus action taken to boost the economy, the impact of demonetization would exist also for the subsequent years. For example, in the FY 1979-80 GDP growth rate became -5.20%, but in FY 1980-81, the economy recovered and approached to 7.17%,while inflation rate rose to 17.1% in 1979-80 and 18.2% in 1980-81,it put pressure on the RBI to cut the policy interest rate so the policy interest rate further reduced to 12.25% in 1979-80and 9.0% in 1980-81 respectively. This concludes that the government alone cannot remove the impact of demonetization, it also need a helping hand from RBI.

Figure1.2-(2016)

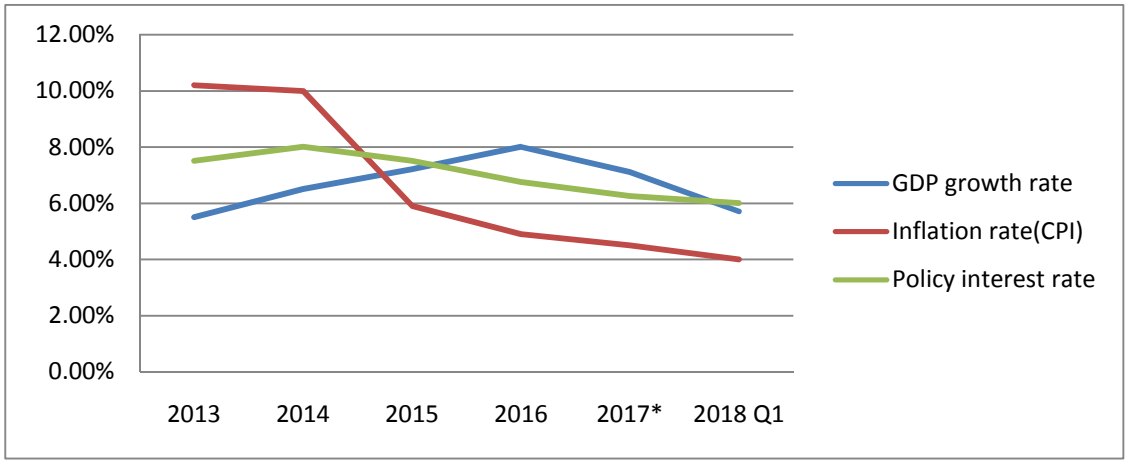


Figure 1.2 shows that in 2015-16, GDP growth rate, Inflation rate and Policy interest rate were 8%, 4.9% and 6.75 % and these rates reduced to 7.10%, 4.5% and 6.25% in 2016-17 respectively. It shows that there is realization of impact of demonetization in the same FY, but in the case of 1978, it was not found. The study observed that the demonetization of 2016 fell in the period of Q3 of FY 2016-17.The Q1 of estimate of FY 2017-18 issued by CSO states that the GDP growth rate is 5.7% for the first quarter while the Inflation rate is 4%. And according the second Bi monthly monetary policy report 2017-18, the Policy interest rate is 6%.The reduction in policy interest rate is the indicator of increase in investment demand for money while on the other hand, decreasing inflation rate is affecting the expectation of the producers. The government is adopting a lot of measures to boost the economy.

2- Australia(2015)

Figure 2(2015)

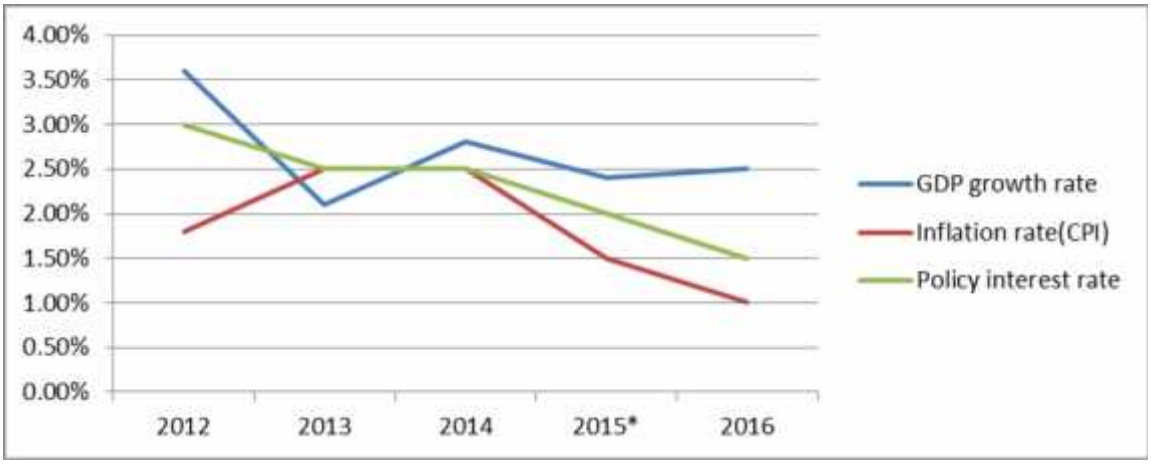


Figure 2 shows that GDP growth rate which was 2.8% in 2014 reduced to 2.4% in 2015, Inflation rate which was 2.5% reduced to 1.5% and policy interest rate which was 2.5% also reduced to 2.0%. After 2015 there is upward trend in GDP growth rate i.e. in 2016 it is 2.5% while there are downward trend in both inflation rate as well as policy interest rate. Reduction in GDP growth rate in Australia is less than India in both instances of demonetization. i.e. In India GDP growth rate fell down by 2% and 0.90% in 1978-79 and 2016-17 respectively while in Australia GDP growth rate fell down by 0.40% in 2015.Further, inflation rate and policy interest had also fallen down.

3- Sweden (Dec.2013-2016)

Figure 3

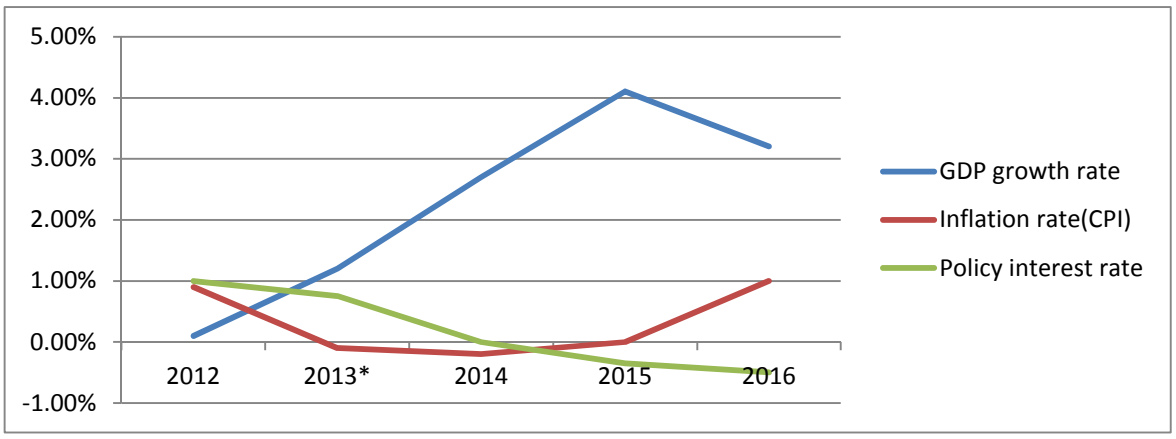


Figure 3 shows the inverse trend in the case of GDP growth rate only. It means that the GDP growth rate rose to 1.2% from 0.1% as compared to 2012 whereas it should be reduced. The same trend as in the case of India &Australia found for the inflation rate and policy interest rate. There is downward trend in inflation rate and policy interest rate. Sweden achieved success in avoiding the impact of demonetization on the GDP growth rate but it could not avoid the impact on the Inflation rate and policy interest rate. Here the study has also observed that the negativity of policy interest rate. This is the lowest value of policy interest rate in the selected demonetizing countries.

4- Pakistan – June 2015

Figure 4

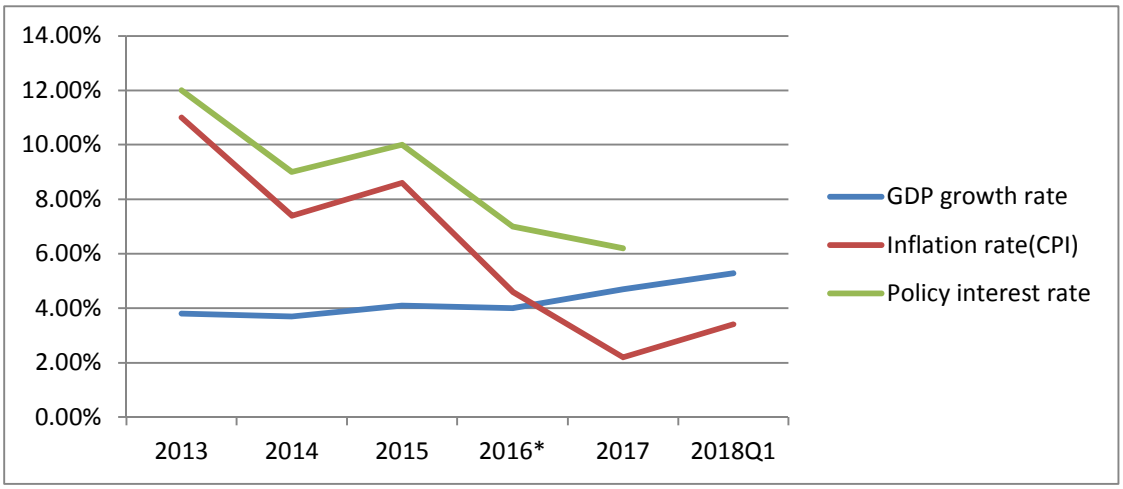


Figure 4 shows the GDP growth had fallen by 0.10% from 4.10%, inflation rate and policy interest rate had also fallen by 4% and 3% from 8.60% and 10% respectively. There is no much reduction in GDP growth rate as compared to 2015 and the economy revived soon i.e.in 2017 the GDP growth rate became 4.7% .But if the reduction in GDP growth rate is compared with India's reduction in GDP growth rate, it is found that there is much reduction in GDP growth rate in case of India as compared to Pakistan.

III. FINDINGS

The major findings of the study are as under-:

- In 3 out of 4 demonetizing countries the GDP growth rate had fallen post demonetization. Thus it may be hypothesized that there is negative relationship between demonetization and GDP growth rate. This leads to rejection of first null hypothesis and acceptance of alternative hypothesis.
- It has also observed that the demonetizing countries had revived soon from the impact of demonetization. In 2 out of 3 demonetizing countries had revived in the next FY after having negative impact on GDP growth rate in the previous FY and 1 out of 4 countries did not face the negative of demonetization on GDP growth rate which may be accepted as an exception. So demonetization has short term effect in the form of negative shocks on the GDP growth rate. Since it is a shock which may endure for one month, two month and so on. The durability of shock would negatively depend upon the corrective action measures.
- In all 4 selected demonetizing countries, it has observed that the policy interest rate reduces post demonetization. So it may be hypothesized that there is negative relationship between demonetization and policy interest rate. This leads to rejection of second null

hypothesis and acceptance of alternative hypothesis.

- The data on inflation rate of demonetizing countries shows that the inflation rate has fallen in all 4 countries post demonetization. So it may be hypothesized that there is negative relationship between demonetization and inflation rate. As further the study observed that in Indian circumstances demonetization is the cause and its shocking impact on inflation rate is the effect. But in other countries like Ghana (1979) , Brazil (1990&1993), North Korea (2009), Venezuela(2016), Inflation is the treated as cause(see table no.2) and demonetization is shocking effect .Therefore, at global level causal relationship might be bidirectional, not unidirectional, and therefore global shocks impact must be measured in terms of simultaneous equation perspective with econometric tool limitation while in case of India, these shocks might be measured in terms of one way causal relationship with econometric tool limitation.
- From the above figures, it seems that random demonetization leads to more reduction in GDP growth rate as compared to systematic demonetization. This leads to acceptance of fourth null hypothesis and rejection of alternative hypothesis.
- On the basis of results obtained in the selected demonetizing countries, this prediction can be made that India will also face upward trend in GDP growth rate in the FY 2017-18 and downward trend in Inflation rate and policy interest rate for the going FY 2017-18 and some subsequent years.
- The Table -1 indicates that India has demonetized thrice times in higher denomination for addressing the black money. Every time on an average 90 % of demonetized higher denomination notes went back to the RBI. So it concludes that demonetization alone is an inappropriate tool for curbing the black money in the context of India. Since India's objectives of demonetization in 2016 were fourfold i.e. Addressing corruption, black money, counterfeit currency and terror funding. One thing should be remembered that demonetization is not a panacea. Like as GDP growth rate, demonetization has also short term effect on corruption and terror funding. Some official news is this that there is reduction in the terrorist activities in sensitive areas like as J&K.As it was stated that the demonetization would hit the black money; it seems to be fruitless effort. As in 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that demonetization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties, bullion and jewellery.According to data from income tax probes, black money holders kept only 6% or less of their wealth as cash, suggesting that targeting this cash would not be a successful strategy. While another statement given by the former Governor of RBI about the demonetization of 1978 in his book Glimpses of Indian Economic policy: an insider view, I.G. Patel, "Most people who have black money and who are involved in such operations rarely keep their ill-gotten gains in cash. They will have converted much of it into assets or even into white money. Only a small percentage of the total amount of what might have initially been black money is likely to exist in cash." Thus these views also

strengthened the aforesaid observation of the study.

- The study has observed that demonetization is an economic policy tool which should be used with great precaution. First of all, the government should have clear cut objective for its use.i.e. Demonetization of 2016 in India, during the announcement of the policy, the government of India, explicitly aimed at addressing black money, corruption, counterfeiting and terror funding but now the government stated different implicit objectives. In the study, it was observed that those countries that had demonetized keeping in view controlling the inflation –i.e. Brazil and Ghana (see appendix) – they got success in this field. On the basis of this, it can be easily concluded that demonetization is an appropriate tool for controlling hyperinflation or inflation.

Policy Recommendations and Limitation of the Study

This section focuses on the policy recommendation and limitation of the study.

Policy recommendations

Now on the basis of above data analysis and discussion some policy recommendation could be made for the further use of demonetization in the context of India:-

- Random demonetization may be replaced by systematic demonetization in India having thrice times failed in achieving desired objectives.
- But so far as the question about the efficacy of demonetization in achieving specific objective, it is necessary to consider upon the nature of demonetization. A list of such matching is given below:

Table :4 Hypothetical Projection on the Implication of Demonetization

Objective	Nature of Demonetization	Examples of adopting countries	
		Random	Systematic
Hyperinflation/Inflation	Random/systematic	Ghana(1979) Brazil(1990 &1993) Russia(1993) North korea(2009) Venezuela(2016)	Zimbabwe(2015)
Black money	Systematic	Myanmar(1985 &1987) North korea(2009) India(1978 &2016)	Pakistan(2015)
Counterfeiting	Systematic	India(2016)	Australia(1988&2015 Canada(2011) Denmark(2012) Pakistan(2015)
Terror funding	Random	India(2016)	Pakistan(2015)
Corruption	Systematic	India(2016)	Pakistan(2015)

The effective results of demonetization in India and Pakistan would help us to predict more accurately about the efficacy of Random and Systematic demonetization because of both having demonetized with same objective.to predict about the efficacy.

Random demonetization	Systematic demonetization
India(2016)	**Pakistan(2015)**
Aims at addressing - Corruption - Counterfeiting - Black money - Terror funding	Aims at addressing - Corruption - - - - - - - Black money - Terror funding

Source: History of RBI Vol. I & III available at www.rbi.org/history of RBI

There is a need of surgical strike on Benami properties, bullion & jewelries. If the government wants to generate the effective results, the government should bring legal changes in the Benami properties, bullion and jewelries statutes. For this the government can initiate to link aadhar with the property registration and make online record of property ownership. This action would definitely lead to reduction in tax evasion and prices of physical assets.

- The government can consider upon the use of polymer notes in India as it is in circulation in Australia. This will help to check the counterfeiting problem in India.

Limitation of the study

- This paper examines only the impact of demonetization on GDP growth rate, Inflation rate and Policy interest rate in India, Sweden, Australia and Pakistan.

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Appendix

Table of Figures

India (1978 &2016) (in percent)

Year	GDP growth rate (constant prices)	Inflation rate (CPI)	Policy interest rate
1975-76	9.00	-1.10	13.5
1976-77	1.25	2.10	13.0
1977-78	7.47	5.2	13.05
1978-79	5.50	0.0	12.60
1979-80	-5.20	17.1	12.25
1980-81	7.17	18.2	9.0
2012-13	5.50	10.2	7.5
2013-14	6.50	10.0	8.0
2014-15	7.20	5.9*	7.5
2015-16	8.00	4.9	6.75
2016-17	7.10	4.5	6.25
2017-18 Q1	5.70	4.0	6.0

**due to combining CPI-IW and CPI-AW in 2014*

Source: Economic survey report and Handbook of statistics on Indian economy 2016

Australia (2015)

2012	3.6	1.8	3.0
2013	2.1	2.5	2.5
2014	2.8	2.5	2.5
2015	2.4	1.5	2.0
2016	2.5	1.0	1.5

Source: central bank of Australia

Pakistan (2015)

2012	3.8	11.0	12.00
2013	3.7	7.4	9.0
2014	4.1	8.6	10.0
2015	4.0	4.6	7.0
2016	4.7	2.2	6.2
2017Q1	5.28	3.4	---

Sources: central bank of Pakistan

Sweden (2013)

2012	0.1	0.9	1.0
2013	1.2	-0.1	0.75
2014	2.7	-0.2	0.0
2015	4.1	0.0	-0.35
2016	3.2	1.0	-0.50

Sources: central bank of Sweden

Ghana (1979)

1977	2.27	116.45	n/.a
1978	8.48	73.09	n./a
1979	-2.51	54.44	n./a
1980	o.47	50.07	n./a

Source: Data book, December 2014

Brazil (1990&1993)

1988	3.28	1430.72	n/a
1989	-3.10	2947.73	n/a
1990	1.51	432.78	n/a
1991	-0.47	951.50	n/a
1992	4.67	1927.98	n/a
1993	5.33	2075.85	n/a
1994	4.42	66.01	n/a
1995	2.21	15.76	n/a

CONSEQUENCES OF DEMONETIZATION ON INDIAN ECONOMY

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Abstract

While in isolation demonetization might not be effective in shrinking the black economy in the long run, it will definitely bring in most of the money back into the system from where tracing and tracking can be done with much ease. Further moves by the government like not allowing high amount of cash expenses as a tax deductible expense is expected to increase the tax revenue of the government. Demonetization will hit the economy. The demonetization of the 500 rupee note and the 1,000 rupee note—the two highest currency denominations available in India—will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.

Keywords: Demonetization, Indian economy, black economy

I. INTRODUCTION

The impact of demonetization on the Indian economy, a cash based society moving to digital payments has been analyzed in the present study. Prime Minister of India, Mr Narendra Modi, took the entire country by surprise when he declared demonetization of INR 500/- and INR 1,000/- currency on 8th November, 2016. As per Modi Government, the agenda of this move was three fold:

- To eliminate counterfeit currency;
- To shrink the size of the parallel economy and black money in India; and
- To reduce corruption.

While this is the third time in the Indian history that Indian high value currency has been stripped of its status as a legal tender, the first two instances of demonetization did not have an impact like the recent one. This is primarily because, this time, the demonetized currency represents 86% of the total currency in circulation.

In a country where 68% of the transaction are cash based (as per CLSA data), a move like this is definitely going to have several long- as well as short-term impacts. The growth in Bank deposits, which was at a 53 year low at the end of March 2016, has seen a spike ever since the demonetization was announced in India. The total deposits collected by banks amounted to Rs 6 trillion (~USD 92bn) by 23rd of November 2016. With this rate of money deposited, entire INR 15 trillion (~USD230 bn) of currency demonetized is expected to be deposited by end of December 2016. If most of these deposits being made in the banks are emergency savings of households, most of these deposits will be withdrawn after government uplifts the withdrawal limit.

Given the huge surge in liquidity post demonetization, major banks in India like the ICICI (NYSE:IBN), HDFC (NYSE:HDB) and SBI have lowered their interest rates. For fixed deposit

between 390 days to 2 years, ICICI bank has lowered interest rate to 7.10% from 7.25% while HDFC has made a reduction of interest rates up to deposits of 1 year to 6.75% from 7% and to 6.5% from 6.75% on maturities ranging from one year to years. Similarly, SBI has also announced reduction of interest rates on deposits for select tenors. With the reduction in fixed deposit rates, a reduction in lending rate was on the cards. However, on Saturday, 26th November Reserve Bank of India (the Central Bank of the country) released a circular that banks will have to deposit a 100% CRR with the RBI on any incremental deposits due to demonetization. Although banks are seeking further clarification from the central government, if applied this move will shatter expectations of a sharp decline in interest rates.

The limitation on cash withdrawal has forced many Indians to move to alternative forms of payment like digital transactions, e-wallets, internet banking and plastic money. As per data collected by Economic Times, in FY 2015 cashless transactions through credit card, debit card, NEFT, and online wallets stood at around INR 92 lakh crore (~USD1.42 Trillion). Retail electronic clearing comprised of more than 71% of this number. In the current scenario, E-wallet firms and other e-commerce platforms have noticed a surge in their business. For example, Paytm has witnessed a fivefold increase in overall traffic while downloads of applications have tripled with a 250% surge in transaction number and value. Ola money also saw a 1500% increase in recharge immediately after the announcement of demonetization. Similarly, Razorpay's numbers also shot 150% in the morning post the decision was announced which further surged to 200% by afternoon.

To promote digitalization further, the government has announced certain incentives on electronic payments using debit card, Internet and mobile phones till December end. While moving to a non cash economy largely will be difficult for a country like India, demonetization has and will further result in strengthening of the digital transactions.

Impact on Indian Economy of demonetization

According to many economists of India and world but particularly the US economists Steve H Hanke criticized the Demonetization in India. He say it leads to depression in the market and attack on cash is very bad thought its effect on manufacturing sector are negative and slowing the pace of economic growth of the economy. It is very crucial for farmers and small traders.

The Central Government is expecting to make a one-time gain. The government is expecting that a significant percentage (~20%) of the demonetized currency will never be exchanged. If this happens (although in my view it is less likely as people have various options to convert their currency (refer table 1 in appendix)), the central bank will see a reduction in liability which becomes a one-time profit and can be distributed as one-time dividend to the government. The currency in circulation on Dec.16, 2016 is Rs. 958230 billion. And less non-demonetization is Rs. 251644 billion and less new issued is Rs. 592613 billion and demonetization currency returned to the banks is Rs. 1431843 billion.

Table 1

Since donation to temples are exempted from being questioned; temple management are charging a commission to convert the black money into white
Co-operative Banks and Credit Societies issue back dated FDs
Since a deposit of an amount of 2.5 lakhs is not questionable, deposits are being made into accounts of poor people, relatives, etc.
A black note mafia has come into picture who is exchanging old notes for new notes.
Paying advance salaries to employees
Businesses like highway transport that run completely on cash are being used by professional money launderers to convert black money to white

India's economic growth remained solid in the quarter from April to June 2016 (the latest available). In India, a financial year begins in April and ends in March of the following year. The previously mentioned quarter is the first quarter of fiscal 2016–2017. During that period, the GDP (gross domestic product) rose 7.1%, while the GVA (gross value added) rose 7.3%. The relationship between the GDP and GVA is:

GDP = GVA + taxes on products – subsidies on products

The base year for calculating the GVA is 2011–2012.



The fall in economic activity due to demonetization could last from two to three quarters. As a result, GDP and GVA growth in the quarters from September to December 2016 and January to March 2017 could be significantly lower than previous years. Some bounce back should be seen in the first quarter of fiscal 2017–2018. In the medium term, the Indian economy can grow considerably after curbing the debilitation caused by counterfeit money and an increase in economic activity.

A fall in discretionary consumption will hurt companies operating in this space. However, a rise in tax flow and lower interest rates, are expected to help the Indian economy grow stronger.

Consequences of Demonetization on Indian Economy

- **Impact on GDP and economy - Negative**

The GDP growth of India is expected to slow down due to the impact demonetization has

on various sectors. The decline in demand due to unavailability of cash is expected to bring down the GDP growth by 0.5% as per a forecast by CARE. A significant proportion of business in India is transacted in cash which employs a huge proportion of workforce. Demonetization can result in disruptions in these businesses posing a threat to the employment of the weaker section of the society.

- **Impact on Tax Revenue - Positive**

Any abnormally high deposits will be scrutinized and will be subject to a 200% penalty. At least a part of the money being deposited will be subject to tax and penalty. This will result in an increase in the government revenue and hence reduced budget deficit.

- **Measures of inflation in India**

The RBI (Reserve Bank of India) considers the CPI (consumer price index) as its primary gauge of measuring inflation. Prior to the RBI adopting the CPI in India, another measure of inflation—the WPI (wholesale price index) was the key gauge of inflation and it's still considered for reference. To learn more about these measures of inflation. The RBI has CPI growth targets to adhere to while deciding its monetary policy stance. By January 2016, it was supposed to keep inflation below a target of 6%, which it was able to do. Its next target is to keep inflation at or below the 5% mark by March 2017.

- **Repo rate cut by RBI**

In its last policy meeting on October 4, the RBI's (Reserve Bank of India) Monetary Policy Committee reduced the country's repo rate by 25 basis points on October 4, 2016. The rate reduced 6.3% from the said date. The October meeting marked the second rate cut in 2016. The combined quantum of the cuts for the year stands at 50 basis points. The repo rate, or repurchase option rate, is the key monetary policy rate for the RBI. It's the rate at which the RBI lends to commercial banks. The reverse of the repo rate—the rate at which banks park money with the central bank—is known as the "reverse repo rate."

A change in the repo rate signals an increase or decrease in rates to commercial banks. Other rates, like the reverse repo rate and the MSF (marginal standing facility), are fixed against the repo rate. The rate impacts the movement of the rupee, which impacts the revenue of exporters and tech companies. It feeds into India-focused funds as well.

- **More rate cuts to follow**

With the announcement of demonetization and the subsequent impact on cash transactions and consumption, inflation will likely fall. Banks already started reducing their deposit rates. Lending rates are expected to fall as well. Due to the expected fall in inflation, the RBI will likely undertake more cuts in the repo rate.

These rate cuts will aim to boost consumption. They will work to get the temporarily derailed economic growth back on track. A cut in interest rates boosts economic activity and raises hopes that after a lull for two to three quarters, economic growth will rise.

- **Rates are already on the decline**

After the demonetization announcement on November 8, Indian banks saw a rise in deposits. According to data from the Reserve Bank of India released on November 21, deposits crossed the 5 trillion rupee mark from November 10 until November 18. At 68.2 rupees to one US dollar, it translates to $75 billion in deposits in just eight banking days.

Banks also saw a rise in term deposit accounts since the demonetization. Due to these factors, commercial banks like State Bank of India, ICICI Bank, HDFC Bank, and Punjab National

Bank, among a host of others, sharply reduced their deposit rates.

- **Loan burden will also fall**

Apart from cutting deposit rates, banks reduced their lending rates as well. In India, loans sanctioned from April 1 are with reference to the MCLR (Marginal Cost of funds-based Lending Rate), instead of the Base Rate, which was used earlier. It will translate into lower interest rates on existing floating rate loans and new loans. The reduction in lending rates is expected to stoke lending by tempting consumers to take out loans for purchasing expensive consumer discretionary items like vehicles and houses.

- **Demonetization can help monetary transmission**

Monetary policy transmission is the translation of monetary policy actions into the financial system through banking and trading channels. The RBI (Reserve Bank of India) has been on a rate reduction cycle since January 2015. Before the January 2015 meeting, the repo rate stood at 8%. Its journey from that level to 6.3% currently includes six rate cuts totaling 175 basis points. However, banks have been slow in transmitting the benefit to consumers. After being flush with deposits, it's expected that banks will reduce their lending rates sizably, improve monetary transmission, and benefit consumers—both corporate and individual. Any increase in economic activity due to more consumption on account of lower rates can be beneficial to India-focused funds as well.

- **Equities fall, but prospects are better**

Indian equity markets have been on a near secular falling trend since the government demonetized the 500 rupee and 1,000 rupee currency notes after midnight on November 8, 2016. The two benchmark equity indices—the Nifty 50 and the S&P BSE Sensex—fell on each trading day since the demonetization except for November 10 and November 22. While the Nifty 50 fell 6.3% from November 8 until November 22, the S&P BSE Sensex fell 5.9% during the same period. Due to the rise in the US dollar, the dollar equivalents of the Sensex and the Nifty fell more than 8% each.

The S&P BSE 100 Index, which is comprised of 100 stocks compared to the Sensex's 30, fell 6.6% during this period. Mid and small-cap indices have been hit much harder than broader market indices. Even after a rise on November 22, the S&P BSE Mid Cap and the S&P BSE Small Cap indices fell 8.2% and 10.9%, respectively, in the previously mentioned period. Apart from concerns about demonetization, Donald Trump's victory and concerns about his restrictive trade philosophy led to foreign investors pulling out of Indian equities. According to Bloomberg, foreign investors have net sold Indian equities worth $1.4 billion from November 9–17. However, once the short-term impact of demonetization is over, Indian equities will likely bounce back sharply. A rate cut from the Reserve Bank of India would be helpful and easy monetary conditions are generally beneficial for equities. Consumption-driven sectors and stocks will continue to be hit in the short term.

- **Indian rupee devalued**

The Indian rupee fell against the US dollar. It mainly fell due to Donald Trump's victory in the US presidential election. Given the pressure on the local unit and its relative stability, it seems like the Reserve Bank of India has been working hard to keep the currency stable. India's tech companies saw a sharp correction since the demonetization was announced. However, the rupee's weakness can benefit these stocks. For now, Donald Trump's trade philosophy will be the main driver of the Indian unit.

) Other Impact of demonetization

The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices. Food item inflation, measured by changes in the Consumer Food Price Index, accounts for 47.3% of the overall CPI. Due to 86.4% of the value of the currency notes in circulation going out of the financial system and re-monetization being slow, the supply and demand of food items fell. It will exert more downward pressure on inflation. Investors in India-focused funds should continue to monitor CPI inflation. It will determine future rate cuts by the RBI. A change in the repo rate will impact interest rate–sensitive sectors and industries like financials and automobiles, among other sectors like the tech sector.

II. CONCLUSION

While this move by the Indian Government will definitely eliminate the counterfeit currency, its impact on the black economy and corruption is highly debated. While in isolation demonetization might not be effective in shrinking the black economy in the long run, it will definitely bring in most of the money back into the system from where tracing and tracking can be done with much ease. Further moves by the government like not allowing high amount of cash expenses as a tax deductible expense is expected to increase the tax revenue of the government. Demonetization will hit the economy. The demonetization of the 500 rupee note and the 1,000 rupee note the two highest currency denominations available in India—will likely hit the economy hard in the short term. The surprise move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.

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IMPACT OF DEMONETIZATION ON DIGITALIZATION OF PAYMENTS

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Abstract

Digitalization is a need of the hour especially in making payments as country like India has high cash to GDP ratio compared to various developed V KXGM3 economy in several ways. As many countries in today's world are getting digitalize, so it is a dire need for India to transform herself from cash to cashless economy. Following this the Government of India has also launched the initiative of Digital India Programme with an aim to promote digitalization and transform India into a digitally empowered society and knowledge economy. "Faceless, paperless, cashless" is one of professed role of Digital India. The present study is an attempt to examine the impact of demonetization on digitalization of payments, as one of the intermediate objectives of demonetization was to create a less-cash economy. Digitalisation of payments will make the tax evasion difficult and will also increase the tax compliance. It will also help fighting money laundering and criminal activities.

Keywords: Digitalisation, Demonetization, Cashless, Tax Compliance.

I. Introduction

The digital economy is rapidly developing worldwide as the largest driver of innovation, competition, and growth. Inspite of the limited access to digital services at present, tremendous opportunities are available for the digital economy to support financial inclusion for sustainable economic development. As a result of the significant advances in the accessibility and affordability provided by digital financial services, millions of poor customers are moving from exclusively cash based transactions to formal financial services. The cashless transaction system is growing rapidly and with the growth of banking sector, the people are moving from cash to cashless system. The emergence of e-commerce market predominantly based on cashless transaction system is one of the suitable examples of digitalization.

One of the intermediate objectives of demonetization is to create a less-cash economy, as this is a key to channelize more saving through the formal financial system and to improve tax compliance. India is far away from this objective at present as Watal Committee estimated that cash accounts for about 78% of all consumer payments. According to Price water house Coopers (2015), India has a very high predominance of consumer transactions carried out in cash relative to other countries accounting for 68% of total transactions by value and 98% by volume**.** Whereas in some developed countries about 90% of the transaction happens through cashless mode like Sweden (97%), Belgium (93%), France (92%), Canada (90%) and UK (89%). These countries mainly use debit card as digital payment instrument. In India, the ratio of cash to GDP is 12.25% which is is one of the highest in the world as compared to other countries like Sweden (1.73%), UK (3.72%), Brazil

(3.82%), South Africa(2.39%), Japan(20.66%), Switzerland(11.76%), US(7.9%) (BIS, 2016).There are many reasons for preference of cash over digital payments as it is convenient, costless and accepted everywhere. Cash transactions are also anonymous, helping to preserve privacy, which is a virtue as long as the transactions are not illicit or designed to evade taxation.

In contrast, digital transactions face significant impediments. They require special equipment, cell phones for customers and Point-of-Sale (PoS) machines for merchants, which will only work if there is internet connectivity. They are also costly to users, since e-payment firms need to recover their costs by imposing charges on customers, merchants, or both. At the same time, these disadvantages are counterbalanced by two cardinal virtues. Digital transactions help bring people into the modern "wired" era. And they bring people into the formal economy, thereby increasing financial saving, reducing tax evasion, and leveling the playing field between tax-compliant and tax-evading firms (and individuals). Digitalization can broadly impact three sections of society: the poor, who are largely outside the digital economy; the less affluent, who are becoming part of the digital economy having acquired Jan Dhan accounts and RuPay cards and the affluent, who are fully digitally integrated via credit cards. One simple measure that illustrates the size of these three categories is cell phone ownership. There are approximately 350 million people without cell phones (the digitally excluded), 350 million with regular "feature" phones, and 250 million with smart phones (GOI).

In the wake of the demonetization, the government has taken a number of steps to facilitate and incentivize the move to a digital economy like launch of BHIM (Bharat Interface for Money) app for smart phones. This is based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions. The 250 million digital-haves can use their smart phone to make simple and quick payments. Launch of Aadhaar Merchant Pay, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhaar number and a bank account to make a merchant payment using his biometric identification. Aadhar Merchant Pay will soon be integrated into BHIM and the necessary POS devices will soon be rolled out.

The Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI. There have also been relaxations of limits on the use of payment wallets. Tax benefits have also been provided for to incentivize digital transactions. Encouraging the adoption of PoS devices beyond the current 1.5 million, through tariff reductions etc. The impact on the digitally excluded category can be gleaned via transactions in the Aadhaar-Enabled Payments System (AEPS). The total AEPS transactions have been steadily rising before November 8, 2016 but have accelerated thereafter. As people have started to use such e-payment systems, they have discovered that it is more convenient to conduct financial activities electronically. And they are finding that such transactions are feasible in many more places, because demonetization is creating network effects as first movers embrace e-payments, others find it worthwhile joining them and as more households participate, more firms are participating as well. That said the security features of these e-payment systems will need to inspire trust, to ensure this trend continues (Economic Survey GOI, 2016-17).

In India, the value of retail transactions carried out through cash is about 97%. So, only 3% of the transactions happen through cashless mode. As per the World Bank data, 11% people in India

use debit card for payment where only 6% traders accept electronic payments. According to the RBI Annual Report 2016-17, the push to a less cash society received an impetus facilitated by the quick policy measures and initiatives by the Reserve Bank following demonetization. The initiatives taken by the Bank along with enhancement in infrastructure and addition of innovative products in the payment space enabled the spread of electronic payments to a larger base across the country.

Literature Review

There is an extensive literature available on digitalization and demonetization. Singhal (2017) found in his study that post demonetization awareness and usages of e-banking has significantly increased in both rural and urban areas. He also highlighted that the rural people are facing difficulty in using banking sites due to lack of infrastructure or education. The study suggests that the banks should make an effort to create awareness on the use of e-banking services. Mehta (2016)in his study highlighted the various advantage and disadvantages of recent demonetizations in India, Gupta (2013) states that mobile technology is revolutionizing the global banking and payment industry as it offers new opportunities for banks to provide added convenience to their existing customers in developed countries, and reach a large population of unbanked customers in emerging markets. Goerdeler (2015)found that consumer behavior is changing towards rapid adoption of digitization and also that demographic dividend is likely to create a large digital savvy customer segment along with GOI initiatives, offer natural growth opportunities, Increasing mobile penetration and smart phone usage. World Bank Report (2014) describes the benefits for governments when they implement digital payments, which increases transparency, lowers cost, increases control, increases incentive to save, increases risk management, improves speed and timely delivery and increases financial inclusion. Focus mainly on the increasing importance of remittances, expanding access to digital payments in rural areas. Das and Agarwal (2010) describe cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc. enhance financial inclusion and integrate the parallel economy with main stream. World Economic Forum (2016) in its report the digital transformation of industries and digital enterprise in which they focus on the digital business models, digital operating models, digital talent and skills. Shivnani and Ahuja (2015) conducted a critical study of digitalization in the Indian banking sector in which they find that internet banking or digital banking is comprise of three levels or strata first the basic level which comprises bank's websites, provide information on a variety of products and services to the public in general. Second level comprises of simple transactional websites and third level includes fully transactional websites. Examine the risks associated with digitalization which consist of removal of traditional geographical barriers, security of banking transactions, increasing complexity, potential risk of loss etc.

II. OBJECTIVES

The study is primarily based on the following objectives

1. To ascertain the impact of demonetization on digital payments.
2. To examine the usage of different modes of digital payments post demonetization.

Hypothesis of the study

- The proportion of digital payments in the overall payments has increased post demonetization.
- The majority of the cashless transactions post demonetization has been carried out through credit and debit cards.

Methodology

The present research study is based on secondary data which has been taken from RBI and other Govt publications supplemented by different books, journals and relevant websites.

Electronic Payment Systems

As per National Payments Corporation of India (NPCI), there has been an increase in the usage of debit and credit cards at Point of Sale (PoS) terminals at retail outlets in the country. There were 311 million transactions in Dec 2016 against 205 million transactions in Nov 2016. Further the value of these transactions in Dec 2016 were □522.2 billion against □352.4 billion in Nov 2016. This can be seen as the immediate impact of the demonetization where people switched over to the electronic payments as a result of the cash crunch in the economy.

Electronic Payment Systems																						
Volume in million, Value in Rs. billion																						
Data for the period	RTGS		NEFT		CTS*		IMPS*		NACH*		UPI*		USSD**		Debit and Credit Cards at POS &		PPI #		Mobile Banking		Total	
	volume	value	volume	Value	Volume	value	volume	value	volume	value	volume	value	volume (in thousand)	value (in Rs. thousand)	Volume	value	Volume	value	volume	value	volume	value
Nov-16	7.9	78479.2	123.0	8807.8	87.1	5419.2	36.2	324.8	152.5	606.6	0.3	0.9	7.0	7302.6	205.5	352.4	59.0	13.2	72.3	1244.9	671.5	94004.2
Dec-16	8.8	84096.5	166.3	11537.6	130.0	6811.9	52.8	431.9	198.7	626.8	2.0	7.0	102.2	103718.4	311.0	522.2	87.8	21.3	70.2	1365.9	957.5	104055.3
Jan-17	9.3	77486.1	164.2	11355.1	118.5	6618.4	62.4	491.2	158.7	541.4	4.2	16.6	314.3	381760.2	265.5	481.2	87.3	21.0	64.9	1206.7	870.4	97011.4
Feb-17	9.1	74218.8	148.2	10877.9	100.4	5993.9	59.7	482.2	150.5	592.0	4.2	19.0	224.8	357055.2	212.3	391.5	78.4	18.7	56.2	1080.0	763.0	92594.5
Mar-17	12.5	123375.8	186.7	16294.5	119.2	8062.8	67.4	564.7	182.1	829.4	6.2	23.9	211.2	337962.4	229.7	416.2	90.0	21.5	60.8	1499.9	893.9	149589.1
Apr-17	9.5	88512.2	143.2	12156.2	95.3	6990.6	65.1	562.1	212.6	905.2	6.9	22.0	188.9	301650.5	231.1	431.4	89.2	22.3	61.0	1443.8	853.1	109602.2
May-17	10.4	90170.5	155.8	12410.8	97.1	6745.9	66.7	585.6	194.4	692.4	9.2	27.7	192.6	316723.7	233.4	450.8	91.3	25.3	64.9	1940.7	858.5	111109.3
Jun-17	9.8	92812.6	152.3	12694.2	91.9	6409.9	65.8	596.5	197.3	708.6	10.2	30.7	198.9	313277.0	232.4	468.2	84.7	24.1	77.1	1584.7	844.7	113745.2
Jul-17	9.4	87149.3	148.1	12011.6	92.2	6342.5	69.1	604.8	204.3	771.7	11.4	33.8	190.7	302097.8	237.6	439.3	88.7	25.1	69.5	1019.2	861.1	107378.4
Aug-17	9.5	89163.4	151.6	12500.4	92.1	6224.3	75.7	651.5	205.2	752.4	16.6	41.3	191.8	294239.4	243.0	457.1	89.7	27.2	70.8	1033.0	883.4	109817.9
Sep-17	9.6	102348.1	157.7	14182.1	92.2	6271.5	82.9	717.6	176.0	628.4	30.8	52.9	202.7	323578.5	240.3	478.2	87.5	27.6	86.3	1121.6	877.0	124706.8

Source: NPCI

Notes:
1. Data is provisional.
2. *: Source is NPCI.
3. **:Figures Negligible, Source is NPCI
4. Card transactions of four banks.
5. #: PPI issued by 8 issuers for goods and services transactions only.
6. Mobile Banking figures are taken from 5 banks. The total volume & value of electronic payment systems does not include mobile banking.
7. NACH figures are for approved transactions only
RTGS – Real time gross settlement
NEFT – National electronic funds transfer
CTS – Cheque truncation system
IMPS – Immediate payment service
NACH – National automated clearing house
UPI - Unified Payments Interface
USSD - Unstructured Supplementary Service Data
POS – Point of sale
PPI – Prepaid payment instrument

Payment System Indicators

Item	Volume (million)			Value (₹ billion)		
	2014-15	2015-16	2016-17	2014-15	2015-16	2016-17
1	2	3	4	5	6	7
Systemically Important Financial Market Infrastructures (SIFMIs)						
1. RTGS	92.8	98.3	107.8	754,032	824,578	981,904
Total Financial Markets Clearing (2+3+4)	**3.0**	**3.1**	**3.7**	**752,000**	**807,370**	**1,056,173**
2. CBLO	0.2	0.2	0.2	167,646	178,335	229,528
3. Government Securities Clearing	1.1	1.0	1.5	258,917	269,778	404,389
4. Forex Clearing	1.7	1.9	1.9	325,438	359,257	422,256
Total SIFMIs (1 to 4)	**95.8**	**101.4**	**111.5**	**1,506,033**	**1,631,948**	**2,038,077**
Retail Payments						
Total Paper Clearing (5+6+7)	**1,196.5**	**1,096.4**	**1,206.7**	**85,434**	**81,861**	**80,958**
5. CTS	964.9	958.4	1,111.9	66,770	69,989	74,035
6. MICR Clearing	22.4	0.0	0.0	1,850	0	0
7. Non-MICR Clearing	209.2	138.0	94.8	16,814	11,972	6,923
Total Retail Electronic Clearing (8+9+10+11+12)	**1,687.4**	**3,141.5**	**4,206.0**	**65,366**	**91,408**	**132,255**
8. ECS DR	226.0	224.8	8.8	1,740	1,652	39
9. ECS CR	115.3	39.0	10.1	2,019	1,059	144
10. NEFT	927.5	1,252.9	1,622.1	59,804	83,273	120,040
11. Immediate Payment Service (IMPS)	78.4	220.8	506.7	582	1,622	4,116
12. National Automated Clearing House (NACH)	340.2	1,404.1	2,057.3	1,221	3,802	7,916
Total Card Payments (13+14+15)	**1,737.7**	**2,707.3**	**5,450.1**	**3,326**	**4,483**	**7,421**
13. Credit Cards	615.1	705.7	1,087.1	1,099	2,407	3,204
14. Debit Cards	808.1	1,173.6	2,399.3	1,213	1,589	3,299
15. Prepaid Payment Instruments (PPIs)	314.5	748.0	1,963.7	213	488	838
Total Retail Payments (5 to 15)	**4,621.6**	**6,945.2**	**10,861.7**	**154,126**	**177,752**	**220,634**
Grand Total (1 to 15)	**4,717.4**	**7,046.6**	**10,973.2**	**1,660,158**	**1,809,701**	**2,258,711**

Note: 1. Real Time Gross Settlement (RTGS) system includes customer and inter-bank transactions only.

2. Settlement of Collateralised Borrowing and Lending Obligation (CBLO), Government securities clearing and forex transactions are through the Clearing Corporation of India Ltd. (CCIL). Government Securities includes Outright trades and both legs of Repo transactions.

3. Consequent to total cheque volume migrating to the cheque truncation system (CTS), there is no Magnetic Ink Character Recognition (MICR) Cheque Processing Centre (CPC) location in the country as of now.

4. The figures for cards are for transactions at point of sale (POS) terminals only.

5. The National Automated Clearing House (NACH) system was started by the National Payments Corporation of India (NPCI) on December 29, 2012, to facilitate inter-bank, high volume, electronic transactions which are repetitive and periodic in nature.

6. Figures in the columns might not add up to the total due to rounding off of numbers.

The table gives a picture of the growth of electronic payments and settlements over the three years between 2014-15 and 2016-17 by volume and value of transactions. The payment and settlements system has shown a continuous growth during 2016-17 with volume growing at 55.7% and value growing at 24.8% respectively as compared to the volume and value of payments which increased by 49.4% and 9% respectively in 2015-16. Again the share of electronic transactions has increased in the total volume of non cash payments which stand at 89.0% in 2016-17 against 84.4% in 2015-16. Among the electronic payments the real time gross settlement (RTGS) which handled 98.3 million transactions in 2015-16, increased in volume by handling 107.8 million transactions 2016-17. The NEFT volumes also showed an increase after demonetization where it handled 1622.1million transactions in 2016-17 valued at Rs 120,040 billion rupees. The report also shows the growth in the volume and the value of transaction carried out through credit, debit cards and prepaid instruments. The volume of transactions carried out by cards payment in 2016-17 stands at 5450.1 million valued at 7421 billion rupees.

According to the annual report of the RBI At end march 2017, the RTGS facility was available through 198 banks whereas the NEFT facility was available through 130,013 branches of 172 banks.

III. CONCLUSION

Digitalization of payments in India has been in progress for more than a decade now. In the recent past the Government of India was trying to create a base for the less cash society by various policies and schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY). The cash crunch as a result of the demonetization of 86% of the currency undoubtedly led to a greater use of cashless payments in India. It was also an endeavor towards bringing the black money generating informal sector into the formal one. In the recent period after demonetization the electronic payments have rapidly grown. There has been an increase in retail transactions by credit and debit cards via PoS devices. The funds transfers through NEFT/RTGS have also grown via the mobile phone and desktops. But still there is a long way to go for India to become a less cash society. It has to address certain issues such as digital literacy, banking infrastructure, Internet connections and above all the security in digital transactions.

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EFFECT OF DEMONETISATION ON DIGITAL INDIA PROGRAMME IN BUNDELKHAND UP REGION

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Abstract

Digital India programme is the beginning of digital transformation. It is a big dream for cashless, paperless and faceless economy which is created by the Government of India. The aim of Digital India programme is government services are made available to citizens electronically, improving online infrastructure and increasing Internet connectivity. It has one mission and one target that is the nation will be forward totally digitally and electronically. The purpose of this research paper is to present the effect of the recent demonetisation on a Digital India programme in Bundelkhand UP region. This paper, through a case study method of cashless/digital payment system, showed how this payment system of and shoppers increase or decrease before the demonetisation and after the demonetisation in Bundelkhand UP region. This paper is concluded by a positive tool as demonetisation for digital India programme.

Keywords- Demonetisation, Digital India programme, Cashless Economy, paperless Economy, Faceless Economy

I. INTRODUCTION

On November, Prime Minister Narendra Modi had announced the Demonetisation of old Rs 500 and Rs 1000 Notes. This decision taken by government to demonetise Rs 500 and Rs 1000 notes for reducing the problem of blackmoney, income tax raids and stop the corruption. Many countries have used the demonetisation policy with restriction and discomfort as it disrupts both the economy and population. India has demonetized three times since Its Independence – 12 January 1946, than 16 January 1978, and most recent 8 November 2016. Current Demonetisation is a memorable experience of our time and is going to be one of the economic events in India. Every Indian citizen felt the impact of demonetisation. Demonetisation affects the Indian economy through the liquidity of currency. According to the annual RBI report, the economic transactions in perspective, on 28 October 2016, total banknotes in circulation in India were ₹17.77 lakh crore (US$260 billion) and as per the annual RBI report (March 31, 2016), total bank notes in circulation valued to ₹16.42 lakh crore (US$240 billion) of which nearly 86% (around ₹14.18 lakh crore (US$210 billion) were ₹500 and ₹1000 banknotes. In terms of volume, 24% (around 22.03 billion) of the total 90,266 million banknotes were in circulation.

India uses too much cash for transactions. After the demonetisation, online transactions and alternative modes of payment to cash transactions are affected. According to Finance Minister in 2016 budget speech, Indian citizen mostly use of cash for all types of payment and only less than 5% of all payments happen digitally. He conveyed about the idea of "Making India - a cashless

society." RBI has also recently unveiled a document — "Payments and Settlement Systems in India: Vision 2018" —A plan to encourage electronic payments and to enable India to move towards a cashless society. A cashless society or cashless economy is one in which all the transactions are done using cards or digital mode.

Digital India Programme

Digital India programme launched by the Prime Minister of India Narendra Modi on 1 July 2015. It is a big programme of the Government of India with a vision to transform India into a digitally empowered society and cashless economy. The Motto of Digital India programme is "POWER TO EMPOWER". **"Faceless, Paperless, Cashless"** is one of the professed and lead role of Digital India. As part of promoting Cashless, Paperless and faceless transactions and converting India into less-cash society, various modes of digital payments are available-Banking Cards, USSD (Unstructured Supplementary Service Data), AEPS (Aadhar Enabled Payment System), UPI (Unified Payments Interface), Banks Pre-paid cards, Internet Banking, Mobile Banking and Micro ATMs.

The way of digital India programme ---

(Figure no. 1)

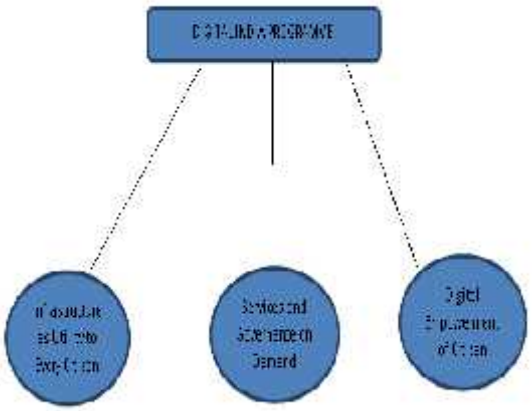


Three key vision area of Digital India Programme—

This programme consists of three core components. They are-

1. Development of secure and stable Digital Infrastructure
2. Delivering government services digitally
3. Universal Digital Literacy

(Figure no. 2)



II. OBJECTIVE

This study is based on two objectives-

1. To understand the importance of Digital India Programme on one particular sector, i.e. digital payment.
2. To study the impact on digital payment sector due to Demonetisation in Bundelkhand UP region.

Research Methodology

This qualitative research used case study approach of analysing digital India programme and digital payment system. This study is based on primary and secondary data which was collected and analysed from various research journals, government report, books and internet. The sample size of this study was 200 included 50 and 50 shoppers, 50 rural villagers and 50 urban workers in Bundelkhand UP region.

III. FINDINGS AND DISCUSSION

Importance of Digital Mode of Payment

The recent Demonetisation was historical decision of Indian Government. It was bold and necessary decision for every Indian citizen. After Demonetisation to deal with shortage currency notes, cashless or digital transactions were recommended as pills for us. Many benefits of cashless transactions after Demonetisation. Cashless transaction can reduce cash notes and

wallets thefts. Digital wallets and Mobile wallets allow for cashless transactions in many places like movie theatres, malls, shops, utility bill payment, etc. These Digital wallets and Mobile wallets can be loaded with money through paperless plastic cards (debit or credit cards). Cashless transactions can reduce cost of printing money for Indian Government treasury. Black money, Tax evasion and Corruption can be reduced substantially.

The following cashless or digital transactions are available in India

United Payment Interface (UPI)

Unified Payments Interface (UPI) is a system that powers any bank accounts into a single mobile application (of any participating Bank), seamless fund routing, merging several banking features and all payments into one hood. UPI also collect request which can be scheduled and paid as per requirement and convenience. All participating Bank provides its own UPI App for Android mobile, Windows and iOS mobile platform(s). This system fuses all payment services in a unified platform, allowing receipt or transfer of money using through an Android phone.

Unstructured Supplementary Service Data (USSD)

Unstructured Supplementary Service Data (USSD) channel is an innovative payment service. USSD allows mobile banking transactions using basic feature mobile phone because there is no need to have mobile internet data facility for using Unstructured Supplementary Service Data (USSD) based mobile banking. It is more beneficial for every citizen who do not have Smartphone. It is provide financial service and inclusion of underbanked society in the mainstream banking services.

Aadhar Enabled Payment System (AEPS)

Aadhar Enabled Payment System **(**AEPS) is a new model for banking transaction which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.

Banking Cards (DEBIT / CREDIT / CASH / TRAVEL / OTHERS)

Banking cards (Debit card/ Credit card/ Travel card) is a plastic/paperless money and it is more beneficial, security and convenience for consumers and control than any cash and other payment method. Many variety of cards available – including credit, debit and prepaid – offers huge flexibility in any type of payment. Banking cards provide two factor authentication for secure payments - secure PIN and OTP. Visa, MasterCard and RuPay are some of the example of card payment systems. Banking cards give people the power to purchase items in direct or indirect stores, on the Internet, through mail-order and over the telephone. They save time and money of both and merchants.

Mobile Wallet

A **mobile wallet** is an easy and convenient way to carry cash in digital/ cashless format. It is linked by credit card or debit card information in mobile device to mobile wallet application. This application provide us transfer money online to mobile wallet. It is innovative application for online transaction. Instead of using your plastic card to make purchases, you can pay with your smartphone, laptop, tablet, or smart watch. An individual's account is required to be linked to the digital wallet to load money in it. There are several Mobile Wallets companies in the markets across India. Most banks have their Mobile wallet/e-wallets and some private companies. e.g. Freecharge, Paytm, Mobikwik, mRuppee, Oxigen, Jio Money, Airtel Money, SBI Buddy, Citrus Pay, Vodafone M-Pesa, Axis Bank Lime, ICICI Pockets, SpeedPay **etc.**

(Table no.1)-- E-Wallets in the Indian Market

E-wallets (work Independently)	E-Wallets Introduced by Banks	E-Wallets Introduced by private companies
Freecharge	ICICI Pockets	Airtel Money
Paytm	State Bank Buddy	Idea Money
Mobikwik	Chillr (HDFC)	M-Pesa (Vodafone)
PayU Money	LIME (Axis bank)	Reliance Jio Wallet

Source- Economic Times, newspaper and website sources

Internet banking

Internet banking, also known as online banking, e-banking, net-banking or virtual banking, is a digital payment system that enables of a bank. These conventional online transactions, favoured by majority of consumers, are electronic money transfer services offered exclusively by banks. National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS),Electronic Clearing System (ECS), Immediate Payment Service (IMPS) are example of internet banking system in India.

All the above Digital payment options are evident of the changing dynamic Scenario of digital payment sector in India. These cashless transaction would be pillar of Digital India Programme. Due to these digital payment options, there would be more transparency as all the data would be made online and would be accessible to Indian Citizen. Digital payment will help in reducing corruption and cashfraud. These online tools help small industry to expand their business and would generate large number of jobs in IT, Telecommunication and Electronics sector directly or indirectly.

Effect of Demonetisation on payment system in Bundelkhand UP Region

Bundelkhand region is located in Southern part of UP and Northern part in MP. It includes seven districts of UP region and six districts of MP region. Bundelkhand includes 13 districts- Jhansi, Lalitpur, Jalaun, Hamirpur, Mahoba and Chitrakot (all in UP) and Datia, Tikamgarh, Chhatrpur, Panna, Sagar and Damoh (all in MP). In Geographical area of around 70,000 sq.km. Agriculture is main occupation in Bundelkhand region but the land availability for cultivation in this region is considerably lower than in other agriculture zones of the country. So the economic condition is very poor of villagers and workers in Bundelkhand region. Here the rural economy exist. The people of Bundelkhand UP region uses to much cash for transactions and least uses of online transactions due to digital illiteracy. This region dominated by small retailers. They don't have enough resource to invest in electronic payment infrastructure. But online payment of customers and retailers had increased after current Demonetisation. According to 100 sample size of and shoppers in Bundelkhand UP region, Before Demonetisation 96% cash payment used by and 92% cash payment used by shoppers, 28% payments through debit card by customers and 24% used by shoppers. 22% payments through credit card by customers and 26% used by shoppers. Only 16% payment through E-wallet by and 12% used by shoppers.

Before Demonetisation

(Table no.2)-- Payment method of costumer and shopper in Bundelkhand UP region (According to 100 sample size of costumer and shopper)

Payment method	Number of costumer	%	Number of shopper	%
Cash payment	48/50	96%	46/50	92%
Debit card	14/50	28%	12/50	24%
Credit card	11/50	22%	13/50	26%
E-Wallet	8/50	16%	6/50	12%

Source- primary data

After Demonetisation its positive effects on Digital payment mode and miner effects on cash payment. 94% cash payment used by customers for transactions and 84% cash payment used by

shopper via Demonetisation. Transaction payment through debit card is 40% of customers and 42% of shoppers. Payment through credit card is 38% of customers and 34% of shoppers. 24% payment through E-wallet by customers and 36% used by shoppers. So after Demonetisation decreased the number of cash payment users in minor amounts and increased the number of online payment users in large amounts including debit card, credit card and E-wallet payment method.

After Demonetisation

(Table no.3)-- Payment method of costumer and shopper in Bundelkhand UP region (According to 100 sample size of costumer and shopper)

Payment method	Number of costumer	%	Number of shopper	%
Cash payment	47/50	94%	42/50	84%
Debit card	20/50	40%	21/50	42%
Credit card	19/50	38%	17/50	34%
E-Wallet	12/50	24%	18/50	36%

Source- primary data

Internet Users in Bundelkhand UP Region (According to 100 sample size of rural villagers and urban workers)

In Bundelkhand approximate 50% people use the internet before Demonetisation in which the use of internet for online communication most at 80%, entertainment at 35% and online shopping at only 9%. It results that Demonetisation is to increase the number of internet users. Approximate 63% people use the internet after Demonetisation in which the use of internet for online communication at 59%, entertainment at 28% and online shopping at 13%. We can see in this table the percentage of internet users for online shopping or online payment has increased after Demonetisation in the Bundelkhand UP region.

(Table no.4)

Before demonetization	After demonetisation
Number of Internet users 51/100	Number of Internet users 63/100
Internet uses % of internet users	Internet uses % of internet users
Online communication 66%	Online communication 59%
Entertainment 35%	Entertainment 28 %
Online shopping 9%	Online shopping 13 %

Source- primary data

Bank Accounts (According to 100 sample size of rural villagers and urban workers)

89% of household in both rural and urban Bundelkhand UP Region at least one member with a bank account. The study shows a big jump in banking access compared to before Demonetisation that only 52% households had access to banking.

IV. CONCLUSION

This study showed how an impact of demonetisation on Digital India Programme with reference to Digital payment system in Bundelkhand UP region. The recent demonetisation has implications for an emerging sunrise sector like the Digital Payment. The online payment system has increased after Demonetisation. In rural Bundelkhand UP Region it is not more but in order to increase after demonetisation. Transaction in debit card, credit card and E-wallet has increased via Demonetisation. Slowly but surely the digital payment are becoming popular. To say nothing of many difficulties in way of digital India programme because the rural consumer and retailer who transacts mainly in cash find in difficult to make a card purchase. It would take a long way for the rural costumer and shopper to adopt to the process of digital payment and small business that are mainly cash driven have to accept the new mode of payment. The Government of India to instigate this demonetisation and create enabling

environment through positive policies for rural, low income and illiterate person to accept the online payment mode.

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DEMONETIZATION AND ITS IMPACT ON COMMON MAN

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Abstract

Indian Prime Minister Narendra Modi took a historic decision by announced that the high-denomination notes then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy. It has created a shortage of cash in the system, leading to a lot of discomfort for the general public and businesses. Impact of demonetization on common man is understood by analyzing both positive and negative impacts of this policy. India is being primarily agrarian, rural, informal economy and it needs to improve in terms of higher growth rate, more employment and high quality of life. India's demonetization move was apparently mismanaged in the beginning but the effects at micro level look advantageous. Demonetization as a cleaning exercise may produce several good things in the economy. Trade across all aspects of the economy has interrupted, and sectors like agriculture, fishing, and the huge informal market were almost shut down during the initial days of announcement. The informal sector in India employs more than a majority of the workers and most transactions are in cash. Disruption to this system could endanger the employment and livelihood of weaker sections of society. The change disturbed the lives of ordinary people, led to widespread need and major job losses for the poor. Even though demonetization move created adverse short-term policy impact the real impact of must be assessed in the medium/long term. The steps should be followed to avoid ill effects of this policy and to get more benefit to the common man are working towards effective governance, effective use of e governance, creating and functioning of policy on 'Welfare of Demonetization victims', economic governance of 'Digitalization Process', providing more accessible digital infrastructure to all, Energy / Electricity initiatives through tax and subsidy policy, Working towards 'Economics Literacy for All', use of voluntary organizations / self help organizations to help the common people, use of appropriate technology in digitization, use of local language / mother tongue in digitization process, use of Mass Media and Social Media in creating awareness on demonetization and policy on 'Economics Education at School Level'.

Keywords: Demonetisation, cleaning economy, impact

I. INTRODUCTION

On November 8, 2016 Indian Prime Minister Narendra Modi took a historic decision by announced that the high-denomination notes (Rs 500 and Rs 1,000) then in circulation would cease to be legal tender. With demonetization effort 86% of India's currency was nullified that aimed to wash the

stock of 'black market's cash supply' and counterfeit notes out of the economy and convert it into the licit, banked and taxable, part of the economy. It has created a shortage of cash in the system, leading to a lot of discomfort for the general public and businesses .Demonetization is a process of removing or abolishing the values attached to the money or monetary system of any institution or the government bodies in a country or the world. It is executed to replace the old currency with a new one, and is necessary whenever there is a need to bring about a change in the national currency of any country. The prime motto of implementing this system is to get rid with the practice of using money for unfair means in the society. When a currency note of a particular denomination ceases to be a legal tender it is termed as demonetization.

Impact of Demonetization in India

Impact of demonetization on common man is understood by analyzing both positive and negative impacts of this policy. India is being primarily agrarian, rural, informal economy and it needs to improve in terms of higher growth rate, more employment and high quality of life. India's demonetization move was apparently mismanaged in the beginning but the effects at micro level look advantageous. For instance, all sorts of illegal activities, like terrorist financing, etc. have been completely hit after the announcement. The demonetization process has also repaired India's counterfeiting problem for the near to mid-term. The real-estate market is likely to come to a standstill with property prices likely to fall and the possible tax inquiries following demonetization will affect both consumption and investment in the formal and informal sectors. The leading consumer internet companies in India have applauded the move, saying it will pave the way for digital payments, aid the process of financial inclusion and the overall transformation in the economy will translate into long-term benefits for the industry. According to market experts, the growth of digital payments and wallets is the first phase of the impact and will give big boost to lending and credit as the digital records of merchants will expand and create more demand in the second phase.

Gender and Demonetization

According to Sharmistha Mukherjee, there is a huge human cost to demonetisation that the government is completely overlooking .The severe cash crunch has adversely affected the small and medium business and daily lives of people. Rather than the rich, demonetisation has impacted the poor and the marginalized sections of the society, including majority of women. Demonetization amplifies the inherent discrimination against women in Indian society. Majority of women in India do not have easy and equal access to resources, education and paid employment. In terms of financial inclusion, they lag far behind compared to the women in developed nations. If a family has one account, it's usually in the name of the head of the family, which inevitably would be a man. It's the men who control the financial resources within a family. The housewives all across India save surreptitiously from household expenditure that gives her a sense of security and empowerment. Though the government has made a provision for such women by providing income tax relief of deposits up to 2.5 lacs, it is going to be ineffectual in practice as most of the women, especially in rural areas do not have access to banks, she added

Demonetization also majorly hits employment prospects of women in the informal

sector that accounts for nearly 45 per cent of India's GDP, but provides almost 80 per cent of employment. Informal sector functions primarily on cash transactions. Most of the women work force is absorbed in the informal sector due to lack of formal education or skill. One of the immediate consequences of cash crunch or economic slowdown is job retrenchment. In such a situation, it's the women who are going to suffer the most. Third gender also facing tremendous hardships due to demonetization, but their travails have largely been ignored. The main source of income for the transgender is getting money from households celebrating functions like weddings and childbirth. As this is not sufficient, many of the transgender are forced to resort to sex work for survival. Now they would be deprived of that too, due to cash crunch.

Agriculture and Demonetization

According to Ramesh Chand and Jaspal Singh Member and Consultant, NITI Aayog on their work on Agricultural Growth in the Aftermath of Demonetization expressed that demonetization can affect agriculture directly in four ways. These include area sown, crop pattern, productivity and market. The trend and pattern in sowing and marketing of crops during the seven weeks following the announcement of demonetization provide useful indications to discern effect of demonetization on agriculture sector. The study shows that growth story of agriculture is in-tact as demonetization is found to cause small and insignificant effect on growth of output as well as farmers' income. Agriculture, which is largest informal sector of Indian economy, has shown strong resilience to effect of demonetization.

Renu Kohli stressed that cash is the primary mode of transaction in agriculture sector which contributes 15% to India's total output. Formal financing in many parts is significantly from cooperative banks, which are barred from exchange-deposit of demonetized currency. Agriculture is impacted through the input-output channels as well as price and output feedback effects. Sale, transport, marketing and distribution of ready produce to wholesale centers or mandis, is dominantly cash-dependent. Currently, many of these networks are operating sub-optimally or altogether at a standstill, depending upon location, market links and other item-specific factors. The input side is equally affected as many payments/purchases, such as seeds, fertilizers, implements and tools, are outright in cash. Borrowing-financing operations of larger farmers and organized producers are also cut off or severely clipped.

Informal Sector and Demonetization

Informal economy has limited access to Internet, online payment, says Abhishek Waghmare. The informal economy—which presently employs more than 80 percent of India's workforce—includes workers in small and medium industries, grocers, barbers, maids and others. Roadside vendors, cab drivers, kirana stores and medical stores have stopped accepting Rs500 and Rs1,000 notes. People who do not use debit or credit cards, access the internet or use mobile banking and e-wallets will be the worst hit, said the Deloitte report. India has about 700 million debit and 25 million credit cards, according to this Reserve Bank of India data; about 950 million people (78% of the population),do not have digital connection.

The demonetization-led slowdown may also impact a key economic driver, private consumption, the things that people buy. It is observed that private consumption, as a percentage of Gross Domestic

Product (GDP) has been steadily rising over five years to 2015-16.

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Positive Impact of Demonetization

Counterfeit currency is generally circulated in highest denomination notes to impact most. So, by demonetizing the highest currency notes India could almost eliminate 100% fake currency out of circulation in one stroke. People having black money generally keep their black money in highest denomination currency notes. This step would abolish black money from the economy as the owners will not be in a position to deposit the same in the banks. This step would make black money kept in cash which generally used to create chaos and terror or is lying with terrorists, Maoists, naxalites, scrap.

This process will lead to more amounts being deposited in Savings and Current Account cash lying out of economy flow is now coming into circulation. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. Government opened Jan Dhan accounts for financial inclusion purpose, but people were reluctant to keep money in the bank, but after this step of government, people will start depositing their cash into banks thereby strengthening Indian banking system, citizen are and will become beneficiaries of financial inclusion .This step led to higher tax collection as business people are depositing cash lying with them as current year income with advance tax.

Price level is expected to be lowered only marginally and temporarily due to moderation from demand side. Small vendors who generally deal in cash would now start using cashless modes for transactions or digital methods.Now from this step almost all that black money would get out of circulation from this sector. Eventually the sky touching prices of properties will come down to the reach of a common man. Currency exchange rate of any country depends upon reserve assets which includes a country's holding of foreign currency and deposits, securities, gold, IMF special drawing rights (SDRs), reserve position in the IMF, and other readily available claims. Eventually the government will also print less money, it means value of rupees will increase in comparison to foreign currency.

This step will subdue corruption up to a certain level and for a considerable time period which in return will attract foreign investor to Indian market. Indian market has been the first choice of investors considering its large size and huge number of consumers. Larger the money in circulation results in better the conditions of banks now banks no longer for a considerable time from now face liquidity

issues. That will result into lower Bank rates. Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn't have the digital transaction culture.

Negative Impact of Demonetization

Since our economy is heavily dependent on cash, as only less than half the population uses banking system for monetary transactions, demonetization has hit trade and consumption hard. With people scrambling for cash to pay for goods and services, the move is likely to take a big toll on the country's growth and output during the current fiscal. Consumption makes up for around 56% of India's GDP, hence, a drop in spending will pull down growth. Players of informal sector as they mainly deals in cash only are facing tough time due to this policy. Sudden removal of cash from market put their business on a dormant phase. It is important to understand that their income is not black as they don't come under income tax slab because of less income which has become even lesser now. Lack of liquidity would result in distress to primary producers who don't have much money, so that they could hold their produce for long and on the other side due to lack of currency in flow they are offered very less by the buyers in the market.

Many prescribed business houses and establishments are not accepting old currency notes from common people, thus leaving them helpless. The fact that such people have no remedy against such people/ business houses makes the situation worst. Milk Booths, Chemists and Petrol Pumps etc. are among others. These are dealing with basic necessities of common people. This is a clear fact that there is an excessive burden on bank employees to cope up with the situation and even after working so hard they are not able to satisfy the need of people. This is a fact that black economy does support the real economy from demand side, that is to say black money used by the consumers to buy goods or services increases demand for those. Although you may say this is unethical or wrong but it is beneficial from economy's point of view. De-facto currency is a currency that is not recognized by the government as legal tender, but is accepted by a majority of the population. If required money is not injected into the circulation there are chances that people belonging to different regions would start using old currency as de facto currency.

II. CONCLUSION AND APPEAL

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society. The demonization initiative has caused a sudden breakdown in India's commerce and the unbanked and informal economy is hard hit. Trade across all aspects of the economy has interrupted, and sectors like agriculture, fishing, and the huge informal market were almost shut down during the initial days of announcement. The informal sector in India employs more than a majority of the workers and most transactions are in cash. Disruption to this system could endanger the employment and livelihood of weaker sections of society. The change disturbed the lives of ordinary people, led to widespread need and major job losses for the poor.

Even though demonetization move created adverse short-term policy impact the real impact of must be assessed in the medium/long term. The reduction in overall investments, both in the formal

and informal sectors, would certainly reduce economic growth potential. However, the moves need to be followed up with ensuing actions to remain effective. These actions relate primarily to structural changes to make the system more lawful, reducing too much bureaucracy, make the tax system simple and transparent. In addition, a greater effort is required to include the informal sector and ensure effectiveness and the illegal activities such as generation of black money and corruption should not be channeled back into the economy. The following steps should be followed to avoid ill effects of this policy and to get more benefit:

- Working towards effective governance
- Effective use of e governance
- Creating and functioning of policy on 'Welfare of Demonetization victims'
- Economic governance of 'Digitalization Process'
- Providing more accessible digital infrastructure to all
- Energy / Electricity initiatives through tax and subsidy policy
- Working towards 'Economics Literacy for All'
- Use of voluntary organizations / self help organizations to help the common people
- Use of appropriate technology in digitization
- Use of local language / mother tongue in digitization process
- Use of Mass Media and Social Media in creating awareness on demonetization
- Policy on 'Economics Education at School Level'

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IMPORTANCE OF DIGITIZATION IN ECONOMY FOR FINANCIAL REFORMS IN INDIA

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Abstract

India have followed an eccentric path on 8th November 2016 by cancelling the high denomination of 500 and 1000 rupee notes — 86% of currency in circulation [1], commonly known as 'notebandi'. According to the government, it was an effort to curb tax evasion, black money and counterfeiting. This paper addresses a wider spectrum of monetary reform concerns caused by the demonetisation. In particular, it provides an analysis through distinctive factors concluded from different perspectives. Furthermore, our findings underscore the benefits to phasing out paper currency towards economic development.

Keywords: Demonetisation; Cashless; Digitization

I. INTRODUCTION

During historical times of barter system, direct exchange of goods for goods with mutual benefits was a common practice. However, economy has evolved over time into a complex system resulting in a gradual adoption of paper currency around the world. Today, technology has become more ubiquitous than ever and is now an essential part of everyone's lives, regardless of their age or gender. Specifically, we now live in a world where everyone is surrounded by an increasing number of 'smart' devices (for eg. smartphone, smartwatch and smart eyewear). Further, recent developments of secure cryptographic systems architecture have allowed people to do transactions in a digital world from almost anywhere with just a few clicks. This digitization of economy presents unprecedented opportunities for service provider and service consumer, which includes requesting a taxi ride from mobile or promptly splitting the bill with friends. Additionally, interactive graphics for tracking the spending eliminates unnecessary cognitive overheads.

Medium of payment

Medium of payment based on legal system can be broadly characterized as follows:

Legal Tender Money: It is defined as the money acknowledged by the law of the land, as valid mode for payment of a debt. The Reserve Bank of India Act, 1934 [2] mentions that only Reserve Bank of India the has sole right to issue legal tender currency notes that is acceptable nationwide.

Two types of Legal Tender Money are:

- Limited Legal Tender Money: This is a form of money which can be paid in discharge of a debt upto a certain limit and beyond this limit, a person may refuse to accept the payment and no legal action can be taken against him. Coins are limited legal tender in India.
- Unlimited Legal Tender Money: Under this form, legal action can be taken against the person who refuses to accept this form of money. Note, paper note currency is unlimited legal tender in India.

Non-Legal Tender Money

It is a form of money which is generally accepted, but there is no legal binding for acceptance. Cheques, Bank Drafts, Bills of Exchange, Postal Orders and several others are examples of non-legal tender money and are accepted only at the discretion of the creditor, lender or seller. It is also known as *Optional Money* since it does not have any legal backing and its acceptance is optional.

Demonetization

By definition, demonetization is an act of scraping the legal tender status of a currency note before a new currency note is introduced to replace the old one. It is the ruling government which demonetizes the old currency. According to the Finance Minister, Arun Jaitley [3]

Demonetization is a tool. "Confiscating the money" was not the aim. Demonetization was certainly a shake-up which achieved its "principal objectives" of decreasing cash transactions, expanding the tax base and increasing digitization.

Object of Demonetization

This will help to understand the ways to curb corruption and the flow of black money which will result in an increase of economic growth. It will also help to prepare a roadmap to boost transparency and financial inclusion.

Research Methodology

The study of this paper is based on secondary sources of data/information, various books, journals, newspapers, expert comments and relevant websites have been consulted in order to make the study an effective resource. The study attempts to examine the cashless payment system in Indian diaspora.

Future of Economy

Cash is the most powerful instrument of financial inclusion. Anyone can access it directly without depending on rent-seeking technology or any financial intermediaries. Once you have cash, you can spend it as per your convenience and needs without anyone else tracking of transactions. This is a basic right and freedom which people have taken for granted. It is because of this freedom that there is a resistance to the loss - a loss that is given in a cashless society. Are we moving to a cashless society? This is only a start of a mission towards becoming a cashless society. Going cashless brings fear free life and benefits individuals too. It gives the convenience of banking from anywhere by using electronic devices. Digital payments have made life easier. As per the present Finance Minister, digital transactions are a parallel mechanism not a substitute for cash transactions and cashless economy is actually a less cash economy, as no economy can be fully cashless. Less cash can be gradually substitute to the possible extent through digital transactions. In India, people prefer using cash for transactions. Less than 5% of total transactions are done electronically. Cashless economy if the goal of India. India has been weaving the mantra of digital economy and all efforts have been streamlined in this direction. The demonetization of the physical economy translates to the remonetization of digital economy.

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.

Digital Payments Method

In today's world, we have the freedom to choose amongst a wide variety of payment options, such as:

- Banking Cards - Debit cards, Credit cards, Travel cards, Rupay by National Payment corporation of India.
- USSD - Unstructured Supplementary Service Data

- AEPS - Aadhar Enabled Payment System
- UPI - Unified Payment Interface
- Mobile Wallet / E-Wallet - Paytm, Freecharge, Mobikwik.
- Bank issued pre-paid cards
- Point of sale Machines
- Internet Banking - NEFT, RTGS, ECS, IMPS
- Mobile Banking - BHIM [5], TEZ [6]
- Micro ATMs

The government of India, in collaboration with the telecom industry and IT industry has launched a 14444 toll free helpline number to address consumer queries regarding digital payments on 5th January 2017 [4]. This helpline addresses the questions regarding various platforms including but not limited to newly launched BHIM, e-wallets, AEPS, RUPAY card and USSD.

Benefits of Cashless Economy

Cashless economy gives the power to leverage many possibilities including:

- Full transparency
- No queue in banks
- No extortion against kidnapping
- Paper will be saved and environment conservation
- Time saving
- Full honesty
- No robbery
- Control over black money
- Control over fake currency
- Combat inflation
- No funding to terrorism or Naxalism
- Better tax compliance
- No illegal political funding
- Reduction in expenditure of printing and distribution of currency notes.
- Sharp decline in real estate industry
- Financial inclusion will automatically reduce poverty

Precautions while doing Cashless Transactions

One should always consider careful measures to protect themselves while performing any type of digital transaction. Some measure for security includes:

- Usage of secure password protocols
- Don't respond to emails or telephone calls asking for personal informations
- Keep a close eye on your accounts and credit reports
- Avoid public computers or network for banking transactions
- Always use official source of mobile apps
- Don't share your passwords or PINs
- Always change your passwords and PINs every 2-3 months.
- Keep On-Time Password (OTP) service activated and associated with your own mobile number.
- While shopping through e-commerce websites or apps, always opt for Cash on delivery.

Challenges for Cashless Transactions

Like every other transformation, cashless transactions needs to overcome some hurdles like

- Current insufficient infrastructure is a major barricade for cashless transactions. For a large country like India, there are only 2-3 lakh ATMs and 14 Lack POS terminals.
- Digital illiteracy is another major challenge in the path of cashless transaction. 22.95crore (35% of total population approx.) people of total population of India are illiterate and 97% of the working population is from the unorganised sector.
- Another challenge to cashless transactions is prone to hacking. It is one of the major concerns for online frauds and cybercrimes. Information Technology should be free from frauds.

- Scarcity of ATMs in rural areas is another challenge. As per the latest statistics, out of total ATMs across nation there are only 20.8% ATMs of public sector banks and 8.5% ATMs of private banks in rural area.
- E-Wallets and mobile payment systems need a smartphone or Android phone and an internet connection but only less than a quarter of the total population owns a smartphone.
- Fast and reliable internet connection is expensive and it's difficult to find public wifi hotspots and battery charging stations.
- The rural areas are still looking for basics like electricity, sanitation, and fresh water asking them to use debit card, credit card or paytm. No words to express the pain of our poor belong to economically weaker persons.

What the Government must do to make the Transition Smooth

- In a country like India, where poverty, illiteracy and unemployment are the major issues, cash in hand symbolized safety, security and respect.
- Government should assure the basic necessities and focus on developing infrastructure especially in rural areas.
- Special drives through school, colleges, panchayats etc. can help create awareness about cashless / banking transactions.
- Financial literacy is the must for bringing more and more people to digital platform, digital payment or payment through bank, instead of paying cash should be encouraged.
- Linkage of all welfare activities with bank account is very appreciative step.
- According to an estimate, urban area contributes about 70% in GDP, so initially more focus can be given to urban areas to make them cashless where infrastructure is already developed. Rural area can be covered gradually.
- A strong banking base is the basic prerequisite for the cashless economy.
- Lack of Cyber safety creates fear even for literate people and makes it difficult for them to do online money transactions.

According to IMF, India is one of the fastest growing economies in 2017, so transformational reforms like mandates for a digital India are the need of the hour. This government's initiative for financial inclusion and the JAM (Jan-dhan Aadhar Mobile) trinity has set a strong background for digital transactions. There is visible increase in digital push in recent time with the schemes driving the BHIM app, Aadhar Pay, UPI, IMPS, NEFT, USSD and Debit card or Credit Card.

According to Moody's study of world economy, if India increase their electronic transactions, its GDP may grow 0.8%. Cashless India is a mission which has been started by the current Prime Minister, Mr. Narendra Modi. The aim of this mission of India Economy is less dependency on cash. In the present scenario, it is absolutely possible to implement the less cash system. It will take time but the people of India have shown positive and progressive attitude towards implementation of less cash economy.

The Indian Government has introduced few schemes to increase the digital transactions. The most talked about schemes are:

- **Vittiya Saksharta Abhiyan:** The main purpose of this campaign is to create awareness and to encourage the people and to motivate them to go digital. The Ministry of Human Resource Development appealed to the people to use a digitally enabled cashless economic system for funds transfer. It also appealed to private and government

institutions of higher studies to develop a cashless campus.

- **Lucky Grahak Yojana and Digi-Dhan Yojana**: 'Lucky Grahak Yojana' is for customers, and 'Digi-Dhan Yojana' is for merchants. Both the schemes are aimed at encouraging people to move towards higher usage of digital transactions through the offer of incentives. The schemes will be implemented by National Payments Corporation of India (NPCI). Only those transactions that are done using Rupay cards, USSD, UPI or AEPS will be eligible for the benefit under these schemes.

II. CONCLUSION

Although, critics mention digitization in economy is an end to user privacy. We believe the positive aspects on this path with privacy and protection at pinnacle can lead to a positive transformation. This currency transformation is an essential starting point in this new digital world resulting into myriad number of unprecedented possibilities.

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EFFECTS OF DEMONETISATION ON CASHLESS TRENDS OF INDIAN ECONOMY

(A Study of Youth of Chandigarh, Panchkula and Mohali)

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Abstract

India is going through the change process especially in the economic field. There are some moves of the govt. for the economic improvement and development like demonetization and GST. Demonetization is the hot topic these days in country. Great scholars and the economists are now presenting the various reports on the demonetization. It was the evening of November 8, 2016 when PM Modi was addressing the nation and announced the demonetization of the currency notes of Rs 500 and 1000. This move of the govt. is totally based on the futuristic approach of the govt. and the future of the country is our youth. So, we did a basic research on the Demonetization and its effects on the cashless trends of the Indian economy, specifically on the young population on India to know about the exact impacts of demonetization. In this research paper, we collected the primary data with the help of the questionnaires to get the feedback of youth regarding the demonetization and the cashless trends of the economy. We use the different techniques for the analysis of the collected data. The whole of the research is done on the IBM SPSS and Reliability, Normality, Correlation, Regression is calculated. Youth is our basic population for this paper. This paper tries to find out the situation of the cashless trends in economy after and before the Demonetization.

Keywords: Demonetization, Cashless Trends and Youth.

I. INTRODUCTION

Youth of every country is the powerhouse and foremost asset of the country. Govt. tries to provide the best resources to the youth of country so that the country can progress, along with the progress of youth, and both will make such a good environment that will make the nation super power in coming years. All the Economic, Political, Social, Legal and Technological moves are done by the govt. by keeping these things in mind.

India is going through the economic reforms once again after the reforms of 1991.The Demonetization, GST are the major steps by the govt. to bring the reforms in the Indian economy for its betterment. Although these reforms are in the introductory stage but are affecting the economy to the great extend. With the move of the demonetization, the govt. has targeted the youth of the country by encouraging the usage of the cashless methods.

Research Question

Do People, who are not familiar with the cashless trends face difficulties? What are reactions of the common man on demonetization? What changes occurred in their habits?

Need and Objective of the Study

Demonetization will lead to the cashless methods of the transactions. The young generation follows these methods but there are some facts and figures which remain untapped. They must be studied for the formulation of further plans and policies of economy.

- What is the impact of demonetization on the cashless trends of financial transactions?
- To check the inclination of youth towards the cashless methods.
- What are the changes in the level of usage of cashless methods before and after the demonetization?

Review of Literature

Cashless economy is not the complete absence of cash, it is an economic setting in which goods and services are bought and paid for through electronic media

According to Alvares, Cliford (2009) in their reports — "The problem regarding fake currency in India" opined that the country's battle against fake currency is not getting easier and many fakes go undetected. They also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Jain, P.M (2006) in the article —E-payments and e-banking‖ opined that e- payments will be able to check black —An Analysis of Growth Pattern of Cashless Transaction System. Taking fullest advantage of technology, quick payments and remittances will ensure optimal use of available funds for banks, financial institutions, business houses and common citizen of India. He also pointed out the need for e-payments and modes of e-payments and communication networks.

Srinivas, N. (2006) in his study —An analysis of the defaults in credit card payments‖, has tried to analyze the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggested relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable installment.

Ashish Das, and Rakhi Agarwal, (2010) in their article "Cashless Payment System in India- A Roadmap" Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a cashless (electronic) payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc. enhance financial inclusion and integrate the parallel economy with main stream.

Research Methodology

Research Design

The research design used is a Descriptive Design. Survey research method (Questionnaire) was used for research design.

Sampling Procedure

Unit of Population: Individuals

Sampling Unit : Youth (18-28 years).

Sample Size : 110-120

Data collection : Questionnaire (Self-made)

Data Collection

Variables

It is a Bi-variant study. We took two variables for this study.

1. Demonetization
2. Cashless Trends in Indian economy

Demonetization

Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. According to Investopedia, demonetization is the act of stripping a currency unit of its status as legal tender.

For the purpose of this research, we look some of the sub variables, those sub-variables are:

- Extend of Black Money in India
- Effect on Demonetization on corruption
- Benefits to economy
- Arrangements for demonetization
- Inconvenience due to demonetization
- Support to move of demonetization.

Cashless Trends

Cashless Economy **is** an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but through the transfer of digital information (usually an electronic representation of money) between the transacting parties. Here, the transactions involving the physical cash are discouraged and the efforts are made to maximize the use of digital cash with the use of the various methods.

The sub-variables of this are

- Awareness of the Cashless Trends
- Ease of doing the cashless transactions
- Sense of security while using the cashless methods
- Cost Involved in the cashless methods
- Comfort ability while using the cashless methods
- Inclination towards the cashless methods due to benefits
- Technology of India for cashless technology
- Awareness of the cashless methods before the demonetization
- Use of the cashless methods before demonetization
- Use of the cashless methods after the demonetization
- Security Issues in the cashless methods
- Comfort ability with the cashless methods

Hypothesis

There is significant relationship between the Demonetization and the Cashless trends of the Indian economy

Scales

Likert scale is used to get the questionnaires filled. It is a psychometric scale. When responding to a Likert questionnaire item, respondents specify their level of agreement or disagreement on a symmetric Agree / Disagree scale for a series of statement.

Data Analysis

The first phase of data analysis is to conduct Reliability Testing and Normality Testing.

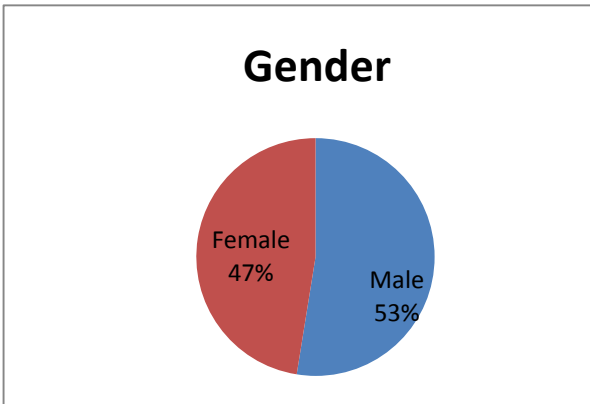
This is followed by the second phase which is the hypothesis testing with the help of the correlation and the Regression methods.

The third phase includes applying Mann-Whitney and Kruskal-Wallis testing in order to measure the impact of demographics on the cashless trends of the economy.

Gender

The data is collected from both men and women. The chart given below shows the distribution of gender.

Figure 1

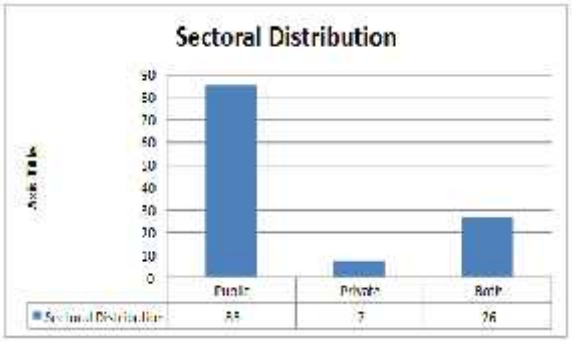


respondents are almost equal from both of the genders. So, we can say that the results are not biased towards the particular gender.

Bank Accounts

The data is also collected from the respondents related to their bank accounts in the particular sector of bank.

Figure 2



The data shows that 85 respondents have bank accounts in the Public Sector, 7 in Private Sector and 26 in both of the banks. People have more faith in Public sector banks.

Normality Test

The data normality testing is done on the data with the help of Shapiro-Wilk's test for Normality and the data is found to be not normal.

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AVGC	.130	118	.000	.932	118	.000
a. Lilliefors Significance Correction						

The p Value is less than .05 shows that data is not normal and Mann-Whitney and Kruskal-Wallis (On Demographics) and Spearman correlation tests are applicable.

Reliability Test

The reliability Testing is done by calculating the Cronbach's Alpha which is the best measure to evaluate consistency of data. The value of Cronbach's alpha for independent as well as dependent variables should be greater than 0.70 to ensure reliability of the data.

Reliability Statistics

Cronbach's Alpha	No of Items
.809	18

Case Processing Summary

		N	%
Cases	Valid	118	100.0
	Excluded	0	.0
	Total	118	100.0

a. Listwise deletion based on all variables in the procedure.

It is found that the value for Cronbach's alpha is greater than 0.70. It means our data is reliable.

Correlation

Correlation analysis is carried out further to test the defined hypothesis. Therefore in this section the analysis was done in multiple segments to test each of the hypothesis defined for the study. The correlation coefficient may range from –1 to +1,

where –1 or 1 indicates a "perfect" relationship. The further the coefficient is from 0, regardless of whether it is positive or negative, the stronger the relationship between the two variables. Positive coefficients tell us there is a direct relationship: when one variable increases, the other increases. Negative coefficients tell us that there is an inverse relationship: when one variable increases, the other one decreases.

If the probability value is .000 (the value is rounded to three digits), which is well below the conventional threshold of $p < .05$, our hypothesis will be supported. There is a relationship (the coefficient is not 0), it is in the predicted direction (positive), and we can generalize the results to the population ($p<.05$).

The correlation between the Demonetization and Cashless Trends of the Indian Economy is given below:

Correlations

			AVGD	AVGC
Spearman's rho	AVGD	Correlation Coefficient	1.000	.329
		Sig. (2-tailed)	.	.000
		N	118	118
	AVGC	Correlation Coefficient	.329	1.000
		Sig. (2-tailed)	.000	.
		N	118	118

r= 0.329, p= 0.000

As the probability value is 0.000 (the value is rounded to three digits), which is less than the conventional threshold of $p < .05$,

We can say that our hypothesis is accepted.

Regression

Regression is an extension of simple linear regression. It is used when we want to predict the value of a variable based on the value of two or more other variables.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.375[a]	.141	.133	.63498
a. Predictors: (Constant), AVGD				

Interpretation

We got the value of R = 0.375 and R square = 0.141. The value of R square tells what percent of the variance in the dependent variable has been explained by the considered independent variables. Thus, in our research, authentic leadership can explain 13.3% or approximately 13% of the variance in the Organizational Commitment.

Tests of Demographics

Mann-Whitney Test (Gender)

The data which we collected is not normal in nature. So, to test the demographic variables of the research, there are two options i.e. Mann-Whitney U-Test and Kruskal-Wallis Test. As Gender has two different groups so we will go with the Mann-Whitney Test.

Following are the results of the Mann-Whitney Test done on the Various Gender groups:

Ranks

	Gender	**N**	**Mean Rank**	**Sum of Ranks**
AVGC	Male	61	57.43	3503.50
	Female	57	61.71	3517.50
	Total	118		

Test Statistics

	AVGC
Mann-Whitney U	1612.500
Wilcoxon W	3503.500
Z	-.679
Asymp. Sig. (2-tailed)	.497

The Significance value (2-tailed) is 0.497 which is more than the value of 0.05.

So, we can say that there is no difference in the gender groups.

Kruskal-Wallis Test (Age)

The data which we collected is not normal in nature. So, to test the demographic variables of the research, there are two options i.e. Mann-Whitney U-Test and Kruskal-Wallis Test.

As Age has three different groups so we will use the Kruskal-wallis test.

Following are the results of Kruskal-Wallis Test on the various Age groups

Ranks

	Age	N	Mean Rank
AVGC	18 to 22	32	55.16
	22 to 25	49	60.10
	Above 25	37	62.46
	Total	118	

Test Statistics[a,b]

	AVGC
Chi-Square	.809
Df	2
Asymp. Sig.	.667

a. Kruskal Wallis Test

b. Grouping Variable:Age

The Significance is more than the value of 0.05.

So, we can say that there is no significant difference in the Age groups. It implies that opinion is same in the selected age groups i.e, Youth.

Kruskal-Wallis Test (Education)

The data which we collected is not normal in nature. So, to test the demographic variables of the research there are two options i.e. Mann-Whitney U-Test and Kruskal-Wallis Test.

Education has three different groups so we will use the Kruskal-wallis test.

Following are the results of Kruskal-Wallis Test on the various Educational groups:

Ranks

	Education	N	Mean Rank
AVGC	Under- Graduate	36	59.86
	Post-Graduate	63	61.09
	Research Scholar	19	53.55
	Total	118	

Test Statistics[a,b]

	AVGC
Chi-Square	.715
Df	2
Asymp. Sig.	.700

a. Kruskal Wallis Test

b. Grouping Variable: Education

The Significance is more than the value of 0.05.

So, we can say that there is no significant difference in the various educational groups. It implies that graduate, post graduate students and research scholars have same opinion.

Kruskal-Wallis Test (Area)

The data which we collected is not normal in nature. So, to test the demographic variables of the research there are two options i.e. Mann-Whitney U-Test and Kruskal-Wallis Test.

Area has three different groups so we will use the Kruskal-wallis test.

Following are the results of Kruskal-Wallis Test on the various Area groups

Ranks

	Area	N	Mean Rank
AVGC	Urban	68	56.06
	Semi-Urban	32	62.28
	Rural	18	67.56
	Total	118	

Test Statistics[a,b]

	AVGC
Chi-Square	1.900
Df	2
Asymp. Sig.	.387

a. Kruskal Wallis Test

b. Grouping Variable: Area

The Significance is more than the value of 0.05.

So, we can say that there is no significant difference in the various area groups.

Kruskal-Wallis Test (Income)

The data which we collected is not normal in nature. So, to test the demographic variables of the research, there are two options i.e. Mann-Whitney U-Test and Kruskal-Wallis Test.

Income has three different groups so we will use the Kruskal-wallis test.

Following are the results of Kruskal-Wallis Test on the various Income groups:

Ranks

	Income	N	Mean Rank
AVGC	0 to 5000	61	57.69
	5000 to 10000	16	66.72
	Above 10000	41	59.38
	Total	118	

Test Statistics[a,b]

	AVGC
Chi-Square	.885
df	2
Asymp. Sig.	.642

a. Kruskal Wallis Test

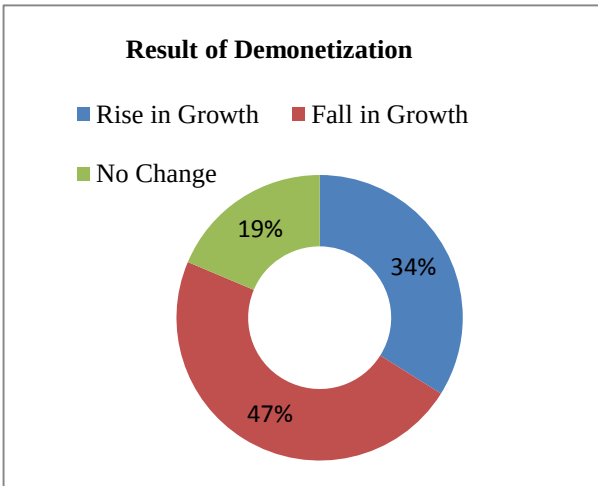
b. Grouping Variable: Income

The Significance is more than the value of 0.05. So, we can say that there is no significant difference in the various Income groups.

Opinion of Respondents

A question was asked to the respondents related to the effect of the demonetization on the economy of the country.

Their responses are presented in the chart given below:



The majority of the respondents (47%) are of opinion that it will lead to the fall in the growth rate.

Feedback of Respondents

Below are some of the feedback statements from the respondents:

- Online theft has been increased many times after the demonetization. I personally feel it's not successful until you have a strong cyber security. I lost Rs 12000 for a ATM debit in Mumbai and SBI claimed it that it was not their fault. It will be looked after by police. It's not possible to make cashless society when you don't have internet access for 3- 4 days due to violence created by Babas.
- Won't say much noone believes a commoner in India anyways. But to quote RBI about 99% of the old currency was returned back to the banks. So yeah good thing demonetization ceased that 1% black money. I am not a critic about change but it needs to be a productive one.
- There can be long run relationship between the variables, apart from short run. There are institutional factors which have strong effect on the performance of the economy. The nature of

reality is chaotic and complex in these phenomena of demonetization.

- BLUNDER
- The approach of Demonetization should be holistic in the sense, that there should be proper technical inclusion before the announcement. The people who were supposed to have no black money suffered more than any other.
- None can change spending habit overnight. Cashless economy is a dream for India and demonetization is certainly not helping in longer term. End user is not aware of tech, methods.

Results

- The questionnaire and the scales used are reliable, means that there is internal consistency in the data.
- The data which we collected is not normally distributed. Population is not normally distributed.
- The value of the correlation is 0.329 and the sig value is 0.000 so our hypothesis is accepted. Hence, there is positive relation between the demonetization and cashless trends.
- The value of the regression is 13.3, which shows that there is 13.3% effect of demonetization on cashless trends.
- There is no significant difference on the two groups of gender, on the views of Cashless Trends, means that both of the genders have the same opinion regarding the Cashless trends of the Indian Economy.
- There are no opinion differences between the different Age, Educational, Income, Area groups, means that there is no difference in the opinion related to cashless trends in various age, educational, income and area groups.

All of them have the same behavior regarding cashless trends.

II. Conclusion

From the primary survey of 110 students of Chandigarh, Panchkula and Mohali, results show that the move of demonetization has created problems in the country. Government should have made proper arrangements before this move. The training is needed for the use of cashless methods. Most of the people think that it will lead to the slow-down of the economy. People used the cashless methods at the time of demonetization but with the normality of time, people again switched to hard cash.

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DIGITAL INDIA A CASHLESS ECONOMIC GROWTH

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Abstract

Prime Minister Narender Modi on wednesday launched the Digital India week as part of a larger initiative to empower the people and extend services better with the use of information technology and its tools. The initiative aims to bridge India's digital segmentation and bring big investments in the technology sector. Nowadays, digital information booms modern world, which is vulnerable. More and more output from institutions and research centers are born digital. Every nation wants to be fully digitalized and this programme strives to provide equal benefit to the user and service provider. The Digital India program is just the beginning of a digital revolution, once implemented properly it will open various new opportunities for the citizens.

"If the Atal Bihari Vajpayee government is remembered for laying down national highways, the Narender Modi government will be known to have laid the digital highway of the country"

"Communication Minister Ravi Shankar Prasad"

Keywords: Demonetizations, digital India, cashless economy

I. INTRODUCTION

The growth of a country depends on the socio-economic growth of its citizens. In today's scenario, digital inclusion is the starting point for empowerment. While the digital technologies pervade day-to-day life of Urban Indians, the rural India is still digitally illiterate. The rural India has a significant role to play in the growth of the country as it is home to 70% of our population.

Digital India is a programme to prepare India for a knowledge future. Hon'ble Shri Narender Modi, Prime Minister of India has laid emphasis on National e-governance plan and has gave its approval for Digital India- A programme to transform India into digital empowered society and knowledge economy. Digital India is a Rs. 1.13 lakh crore initiative launched by the Indian government in order to create a fully 'tomorrow ready', internet enabled e-government for improved responsibility, responsiveness and transparency. Three major objectives of Digital India are-

- Create and improve the digital Infrastructure of the country to enable every citizen, everywhere to be connected to the World wide Web. This includes providing high-speed internet, mobile phone and bank account enabling participation in digital & financial space, shareable private space on a public cloud, and creating a safe and secure cyber space.
- Encourage "cashless" transactions and improve digital literacy.
- Provide seamless cross-department integration and availability of on-demand, immediate and real-time services from these departments.

Economic growth is how much more the economy produces than it did before. In other words, economic growth is an increase in the

capacity of an economy to produce goods and services, compared from one period to another. A country's economic growth is usually indicated by an increase in that country's gross domestic product, or GDP. Increase in the capital stock, advances in technology, and improvement in the quality and level of literacy are considered to be the principle cause of economic growth.

II. OBJECTIVE

1. To know about the Digital India
2. To see the relationship between digital India and economic growth
3. Evaluate the impact of digital India on Economic growth.

Methodology

The present study is mainly descriptive in nature and totally based on secondary data. The data was drawn from various sources which have been duly acknowledged. Information on Digital India and various issues related to Digital India and economic growth was obtained by consulting the websites concerned.

Need of Digitalization

A decade ago, India has a massive problem: nearly half its people did not have any form of identification. When you are born in a village without hospitals or government services, you don't get a birth certificate. If you can't prove who you are, you can't open a bank account or get a loan or to insurance; you are doomed to be a part of the informal economy- whose members live in the shadows and don't pay taxes. In 2009, the government launched a massive project, called **'Aadhar',** to solve this problem by providing a digital identity to everyone based on an individual's fingerprints and retina scans. As of 2016, the program had issued 12-digit identification numbers to 1.1 billion people. This was the largest and most successful IT project in the world and created the foundation for a digital economy.

Digital technologies have permeated into more and more aspects of our private and public life spaces. A lot of us increasingly depend on them to order groceries, book a taxi ride or train and flight tickets, file tax returns and apply for a passport. The entire basket of Information and Communication Technologies (ICTs), which include laptops, tablets, smart phones, broadband and Wi-Fi connectivity, are seen to represent a new wave general purpose technologies, similar to what electricity was in the early 20th century and steam engines were in the early 19th century.

It is of crucial importance to data processing, storage and transmission, because it "allows information of all kinds in all formats to be carried with the same efficiency and also intermingled". Unlike analog data, which typically suffers some loss of quality each time it is copied or transmitted, digital data can, in theory, be propagated indefinitely with absolutely no degradation. This is why it is a favored way of preserving information for many organizations around the world.

9 Pillars of Digital India

- Highways to have broadband services
- Easy access to mobile connectivity
- Provide public access to internet
- E-Governance
- e-kranti
- Global Information
- Manufacturing of electronics
- IT Training for jobs
- Early harvest programs

Highways to have broadband services

This covers three sub components, namely Broadband for all Rural, Broadband for all Urban and National Information Infrastructure. The government with the vision of "Digital India" has allocated rupee 5 billion to build high speed broadband highways connecting all the villages,

government departments, universities, R&D institutes, etc. The digital development sees broadband as a key driver in addressing the challenges in the Millennium development goals primarily through fibre networks.

Easy access to mobile connectivity

Mobile phone is the basic need of present time. Under this pillar mobile connectivity is provided to uncovered areas. Mobile phone connectivity is being provided to 42,300 villages in next 4 years.

Provide public access to internet

The two sub components of Public Internet Access programme are Common Service Centers and Post Offices as multi-service centers.

E-Governance

The National e-Governance plan (NeGP) has been formulated by the Department of Electronics and Information Technology (DeitY)and Department of Administrative Reforms and Public Grievances (DARPG). The e-Governance project works in both centralized and decentralized way. The centralized way focuses on inter-operability of various e-Governance applications and ensures optimal utilization of ICT infrastructure and resources while allowing for a decentralized implementation model.

e-kranti

The e-kranti project provides electronic delivery of services to the citizens. The government has allocated 5 billion for the e-kranti project which includes many sub-level projects as-

- Technology for Education (E-Education)
- Technology for Health (E-Health)
- Technology for Farmers
- Technology for Planning
- Technology for Security
- Technology for Financial Inclusion
- Technology for Justice
- Technology for Cyber Security

Global Information

Information is the backbone for planning and decision making it is useful for all (Citizen, Industry and Government). Government will connect with citizen through social media and internet. It will make a two way communication medium for exchange ideas/suggestions with government.

Manufacturing of electronics

This pillar focuses on promoting electronics manufacturing in the country with the target of NET ZERO imports by 2020 as a striking demonstration of intent. This ambitious goal requires coordinated action on many fronts, such as:

- Taxation, incentives
- Economies of scale, eliminating cost disadvantages
- Focus areas- Big Ticket items
- Incubators, clusters
- Skill development, Enhancing PhDs
- Government procurement
- Safety Standards- Compulsory registration, Support for Labs and MSMEs
- National Award, Marketing, Brand Building
- National Centres
- R&D in electronics

IT Training for jobs

This pillar focuses on providing training to the youth in the skills required for availing employment opportunities in the IT/ITES sector. There are eight components with specific scope of activities under this pillar-

- Training to 1 Crore students from rural and urban areas over 5 years.
- Establishment of BOP in every north east state.
- Focusing on 3 lakhs service delivery agents.
- Training of 5 lakhs strong rural workforce for telecom service providers.

Early harvest programs

Areas covered under Early Harvesting Programme

- It platform for Messages
- Government Greeting to be e-Greeting
- Biometric attendance
- Wi-Fi in all Universities
- Secure Email within Government
- Standardize Government Email Design
- Public Wi-Fi hotspots
- School Books to be ebooks
- SMS based weather information, disaster alerts
- National Portal for lost & found children

Digital India and Economic Growth:

After knowing the concept of "Digital India and Economic Growth" a question arises in our mind that will Digital India help to push economic growth or not?

Arun Jaitely, finance minister said about it that digital India initiative has huge potential to empower the country and aid economic growth by harnessing technology. This initiative will empower India by utilizing the technology to the foremost.

The digital Economy is the new productivity platform that some experts regard as the third industrial revolution. Digital revolution, also known as 'The Internet Economy' is expected to generate new market growth opportunities, jobs and become the biggest business opportunity of mankind in the next 30 to 40 years.

India's new leadership considers the digital economy as a major growth enabler. This major opportunity of the digital economy has the power to change the lives of millions of people of India.

- **Government Initiatives**

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. Mr. Narender Modi, Prime Minister of India, has launched the Make in India initiative with an aim to boost the manufacturing sector of Indian economy. This initiative is expected to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors.

Under the Digital India initiative numerous steps have been taken by the Government of India, as- the Government of India has launched a digital employment exchange which will allow the industrial enterprises to find suitable workers and the job seekers to find employment.

- **Factors that will fuel growth**

A significantly low (19%) but fast-growing internet population of 243 million in 2014 is an indicator of the sector's huge growth potential in India. In absolute terms India's internet users are short by only 36 million as compared with 279 million in the US and higher than that in Japan, Brazil and Russia. However, in relation with its population, only 19% Indians use the internet. This indicates the potential of internet use in India and as internet penetration increases, the potential of growth for the e-commerce industry will also increase.

- **Economic Impact**

The Digital India plan could boost GDP up to $1 trillion by 2025. It can play a key role in macro-economic factors such as GDP growth, employment generation, labor productivity, growth in number of businesses and revenue leakages for the Government.

As per the World Bank report, a 10% increase in mobile and broadband penetration increases the per capita GDP by 0.81% and 1.38% respectively in the developing countries. India is the 2nd largest telecom market in the world with 915 million wireless subscribers and world's 3rd largest internet market with almost 259 million broadband users.

- **Financial Services**

Financial services are the lifeblood of an economy, enabling household and businesses alike to save, invest and protect themselves against risk. Yet in many emerging economies today, the majority of individual and small businesses lack access to even basic savings and credit products, which hinders economic growth and perpetuates poverty.

Digital technologies starting with a mobile phone have the potential to resolve this problem. Households and businesses can use digital payments and financial accounts to interact seamlessly and efficiently, unleashing large gains in productivity and investment, and prompting greater financial inclusion. Rapidly spreading digital technologies now offer an opportunity to provide financial services at much lower cost, and therefore profitability, boosting financial inclusion and enabling large productivity gains across the economy.

- **The Industry Digitalization Index**

Countries that have increased their digitalization level have realized gains in their economies, their societies and the functioning of their public sectors. The more advanced a country becomes in terms of digitalization, the greater the benefits. The ability of digitalization to boost output and employment has measurable effects globally, by country, and by sector.

- **Create Employment Opportunities**

The digital platform can enable more creative and service-oriented business models that create employment opportunities. The digital India project itself will create employment opportunities for 17 million. Government has planned to give IT training to 100 million students in smaller towns and villages as employment opportunity in IT sector is very high in India.

- **Social Impact**

Social sectors such as education, health and banking are unable to reach out of the citizens due to obstructions and limitations such as middleman, illiteracy, ignorance, poverty, lack of funds, information and investments. These challenges have led to an imbalanced growth in the rural and urban areas with marked.

Modern ICT makes it easier for people to obtain access to services and resources. The penetration of mobile devices may be highly useful as a complementary channel to public service delivery apart from creation of entirely new services which may have an enormous impacton the quality of life of the users and lead to social modernization.

- One million Indians enter the workforce each month. Admittedly not all of them can get cutting-edge jobs, but either manufacturing jobs or services-sector jobs flowing from the impact of a robust manufacturing economy have to be found for as many of them as possible. In the past quarter century, the country has focused on software but not hardware. As a result it is not part of global and Asian supply chains that go in and out of so many regional countries, including China and the ASEAN members. Digital India, with its stress on making India a manufacturing base, hopes to change that.

Major Hurdles to Digital India's Success

Digital India project is a highly talked about initiative taken by Indian government. It was although it is a wonderful initiative, there are many hurdles to its success.

- Security Concern
- Infrastructure Issues
- Training of Government Officials
- Expected Delay in Delivery

- Unavailability of smart devices, and lack of Education,

Challenges

The centre's ambitious Digital India programme is facing multiple challenges in successful implementation due to lack of clarity in policies and infrastructural bottlenecks.

- The issues pertaining to taxation and other regulatory guidelines have proved to be roadblocks in advancing with the programme, while contracting challenges also played a spoilsport.
- 'Some of the common policy hurdles include lack of clarity in FDI policies, which have impacted the growth of e-commerce. Transport services like Uber have had frequent run-ins with local governments due to legacy policy frameworks which have not become attuned to the changing business landscape'.
- The biggest challenge faced by Digital India programme is the slow/delayed infrastructure development. Spectrum availability in Indian metros is about a tenth of the same in cities in developed countries. This has put a major road back in providing high speed services.

III. CONCLUSION

- Digital India will be vast in scale, and ambitious in its aims in true Modi style.
- Digital India will play a vital role in the driving the Indian economy.
- Telecom minister Ravi Shankar Prasad quoted, 'The government of Prime Minister Narender Modi wants to ensure a smart phone in the hands of every citizen by 2019. Currently, nearly 74% of the population has mobile phones, most of which though is in the hands of urban India.
- India is the 2nd largest telecom market in the world with 915 million wireless subscribers and world's 3rd largest internet market with almost 259 million broadband users.
- Modi hopes to reduce corruption in government services by making most of that available online.
- It could be an important vehicle for change and it could provide the opportunity for India to dramatically expand its role and influence in the global economy and become a powerhouse of digital innovation.
- PM's Digital India initiative would prove to be a significant step towards 'One connected India' and generate employment, investments, FDIs.
- The biggest challenge faced by Digital India programme is the slow/delayed infrastructure development.

We can say that India would become a very powerful digitally connected world. This would lead to a good architecture for electronic delivery of service. Digital India not only means empowerment for citizens but also offers significant scope for economic progress and growth and the opportunity to position. A digitally connected India can help in improving social and economic condition of people living in rural areas through development of non-agricultural economic activities apart from providing access to education, health and financial service. India as a global technology hub and knowledge economy that other developing countries can learn from and emulate. The overall growth and development can be realized through supporting and enhancing elements such as literacy, basic infrastructure, overall business environment etc.

IV. FINDINGS

- India's top businessmen committed Rs. 4.5 lakh crore to build various parts of the program, expected to generate 18 lakh jobs.

- Positions of chief information officers (CIO) would be created in at least 10 key ministries so that e-governance projects could be designed, developed and implemented faster.
- Currently, the manufacturing sector in India contributes over 15 percent of the GDP. The Government of India is trying to give boost to the contribution made by the manufacturing sector and aims to take it up to 25 percent of the GDP.
- The Digital India plan could boost GDP up to $1 trillion by 2025.
- The government has allocated 5 billion for the e-kranti project
- IT Training to 1 Crore students from rural and urban areas over 5 years.
- The digital India project itself will create employment opportunities for 17 million
- NET ZERO imports by 2020

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EFFECT OF DEMONETISATION ON INDIAN ECONOMY AND ITS SOLUTIONS THROUGH DIGITAL MONEY

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Abstract

Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. A cashless society describes an economic state whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. However this article discusses and focuses on the term "cashless society" in the sense of a move towards, and implications of, a society where cash is replaced by its digital equivalent . In other words, legal tender (money) exists, is recorded, and is exchanged only in electronic digital form. The justifications given for this move were disrupting proliferation of counterfeit notes, making cash hoarded from undeclared sources of income (black money) worthless, disrupting drug trade or terrorism activities which are mainly funded by black money and encouraging cashless transactions. But it came up with certain cons whose main victims were the general middle class people who were actually not the black money hoarders. This research paper aims at studying the effects of this bold move on the Indian economy and the key strategic decisions taken by the Government of India to make India a cashless economy.

Keywords: Digital money, Cashless Society, Post Demonetization, E-Wallet, Net Banking.

I. INTRODUCTION

Demonetization will render India on the path of being cashless economy. It will help to boost the digital payment system in India, as people will be lured to adopt e-payment systems, as the cash availability will be lowered. Given the sheer size - the decision to withdraw 85% of the cash in circulation has thrown India into disarray. Such a large and unexpected policy change naturally carries with it a large collateral damage at least in the short run. This is particularly true for India where a large section of the economy is comprised of the informal or unorganized sector (not registered with the government and hence not subject to taxation) which functions on cash but is not illegal. Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever

there is a change of national currency. Money can be replaced with new currency.

The demonetization of the 500 rupee note and the 1,000 rupee note; the two highest currency denominations available in India will likely hit the economy hard in the short term. This move is expected to grind the consumption activity in the Indian economy to a virtual halt. The service sector, which dominates economic activity and involves a sizable chunk of cash transactions, will likely be hit the hardest.

The demonetization that has been in effect since November 9 is expected to have a negative impact on inflation. Consumer spending activity fell to a near halt. Consumers are refraining from making any purchases except essential items from the consumer staples, healthcare, and energy segments. Activity in the real estate sector, which includes a lot of cash and undocumented transactions, slowed down significantly, Metropolitan and Tier 1 cities reported up to a 30% fall in house prices. Loan burden will also fall from this step.

History of Demonetizations in India

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word and the policy with immense restriction and discomfort, for it disrupts economics and population at large.

India has demonetized before also:

- First time on 12 Jan 1946 (Saturday)
- Second time on 16 Jan 1978 (Monday)
- Third time on 8th November 2016 (Tuesday).

In the first time, the measure did not succeed, as by the end of 1947, out of a total issue of Rs. 143.97 crores of the high denomination notes, notes of the value of Rs. 134.9 crores were exchanged. Thus, notes worth only Rs. 9.07 crores were probably 'demonetized', not having been presented. The results of the demonetization measure were summed up by Sir Chintaman, in his Dadabhai Naoroji Memorial Prize Fund Lectures, delivered at Bombay in February 1957, as under :

It was really not a revolutionary measure and even its purpose as a minatory and punitive gesture towards black-marketing was not effectively served. There was no fool-proof administrative method by which a particular note brought by an individual could be proved as the life-savings of the hard-working man who presented it or established as the sordid gains of a black-marketer. Another loophole of which considerable advantage was taken was the exemption of the princely States from scrutiny or questioning when such notes were presented by them. In the end, out of a total issue of Rs.143.97 crores, notes of the value of Rs.134.9 crores were exchanged up to the end of 1947 as mentioned in the Report of the Board of Directors of the Reserve Bank. Thus, notes worth only Rs.9.07 crores were probably "'demonetized", not having been presented. It was more of "conversion", at varying rates of profits and losses than "demonetization".

In the second time, The Finance Minister H.M. Patel in his budget speech on 28 Feb 1978 remarked: The demonetization of high denomination bank notes was a step primarily aimed at controlling illegal transactions. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements. As the FM did not say anything about the success of the exercise, one can almost guess that it did not create much impact like in 1946.

In January 1946, banknotes of 1000 and 10000 rupee were withdrawn and new notes of 1000, 5000 and 10000 rupee was introduced in 1954. The Janata Party coalition government had again demonetized banknotes of 1000, 5000 and 10000 rupee on 16 January 1978 as a means to curb counterfeit money and black money.

In 2012, the Central Board of Direct Taxes had recommended against demonetization, saying in a report that "demonetization may not be a solution for tackling black money or economy, which is largely held in the form of Benami properties, bullion and jewellery".

Reasons of Demonetisation

- To tackle black money in the economy.
- To lower the cash circulation in the country which "is directly related to corruption in our country
- To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India.
- To provide a boost to the financial inclusion programme of the Indian economy as demonetization will bring people under the ambit of formal banking and promote digital payments in the economy.

Advantages of Demonetisation

Attack on Black Money Holders

- People who possess huge amounts of black money in hard cash are at a complete loss now .
- Their black money in hard cash is now a pile of trash.
- Now If a Black money holder Want to Deposit Money in Bank Account Than he/she Has to Show ID .
- There Will Be 200 % Penalty on Income tax Amount .

Death Knell To Fake Currency Rackets:

- Most of the fake currencies used were in the denominations of Rs. 500 and Rs. 1000.
- By banning Rs. 500 and Rs. 1000 notes, Modiji has busted all these unethical rackets completely.

End of Terrorist Funding

- Huge sums of money especially in hard cash in the denominations of Rs. 500 and Rs. 1000 was used to fund Islamic terrorists , Naxalites and other non-state actors
- Now, these Organizations will suffer from shortage of funds.
- Most of These terrorist ,Maoist Organization Used These Funds For Buying Arms and Weapons
- Buying arms is an extremely difficult task now after this ban

Transparency

- Online transaction = More transparency = Financial Intelligence Unit will tack All Online transactions
- Now there Will be More Transparency In Real Estate Sector

End of Huge Donations

- Huge amounts of donation that is taken in the private education and healthcare sectors would be stopped.
- Schools, engineering and medical colleges and hospitals used to take huge amounts of money as donations especially in the form of hard cash in the denominations of Rs. 500 and Rs. 1000 these money-minded people running these institutions will not be able to make any easy money now.
- Same applies to the real estate sector.

Towards a Cashless Economy

- While it is practically impossible to have a 100% cashless economy , the proportion of hard cash

in the economy will decrease and our economy will get more digitized.

- This will result in greater transparency.
- Now government has put some limitation for Cash Withdraw from bank Accounts. People Will go for online payments, they Will Use PayTM Or other Online payment Companies For Buying goods or Making payments.
- More Use of Debit and Credit Card

Hawala Transactions End

- Most Hawala transactions used to be carried out in the denominations of Rs. 500 and Rs. 1000 .
- With this ban, Modiji has delivered a fatal blow to the unethical Hawala traders as they can't trade anymore using denominations of Rs. 500 and Rs. 1000.

Support government finances

- With some part of unaccounted money making way into the formal channel, the government stands to benefit from higher income tax collections. This should help cushion the government's FY17 fiscal deficit target, especially post the shortfall in anticipated spectrum revenues.
- The latest move will move the economy from the unorganized to organized sector, dovetailing into the GST architecture that is expected to come on board next year. This is likely to enhance the government's ability to tax commercial transactions resulting in a structural improvement in tax to GDP ratio in the economy.

Positive impacts from a bond market perspective

- Improvement in bank deposit base leads to higher SLR (statutory liquidity ratio) demand.
- On the supply side, with tax buoyancy seeing an improvement, supply of g-secs is likely to get more rationalized due to gradual reduction in fiscal deficit over time as the impact of FRBMA (Fiscal Responsibility and Budget Management Act) is underway.[4]
- Anticipation of monetary easing to further support bonds.

Disadvantages of Demonetization

Rush at Banks

- Banks will be extremely over-crowded by people.
- People will forget everything else and throng to the places where the banned notes are being officially exchanged leading to a tremendous chaos.

Shortage of Money to Common People-There will be Shortage of Money for Common people

Stock Market

- Due to currency being sucked out of the market coupled with Trump's victory, the mood at the stock market was completely bearish.
- Sensex lost 1600 points at open. This can adversely have a negative effect on trade in general.

Problem For House Wives

- Many Indian homemakers store money secretly so that they could be of help during times of financial crisis in their households.
- The accumulated money of our respected Indian homemakers is of no use now until they exchange in the banks and post-offices.

Short Term Inflation

- Due to shortage of money in the market, short-term cost push inflation will occur.
- The price of gold has already become sky high.
- Prices of vegetables and fruits have also soared burdening the common man.

Marriage Season

- Difficult For Those Families those have Weddings.

As much as 97 per cent of currency notes, outlawed by the government on November 8, 2016, have reportedly returned to banks, posing a huge question mark on Prime Minister Narendra Modi's demonetisation move.

According to a report by Bloomberg, quoting sources in the know, banks have received 14.97 trillion rupees ($220 billion) as of December 30, which was the deadline set by the government for individuals to return their currency notes. The government and the RBI faced criticism for their inability to implement the move in an efficient manner, continuing to cause hardships to citizens across the country.

Effect of Demonetizations on Service Sector of Indian Economy Transportation

Government's suspension of Rs 500 and Rs 1000 denomination notes has hit the truckers hard as they are unable to transport essential food items, including milk and vegetables, due to scarcity of smaller denomination currency and unacceptance of notes by state authorities, toll plazas and labourers. More than 20 crore people are associated with the sector. Aggrieved industry representatives said truck drivers across the country are unable to purchase diesel using old currency notes and given the limited availability of new currency, they don't have enough money to buy fuel.

The body said that the sector is facing an acute financial crunch as 80% of its operational costs are cash-driven. Movement of goods and passenger vehicles has also been impacted as tourist buses and cabs are supposed to pay taxes in cash at state borders. The Delhi Transporters' Association has echoed similar thoughts, saying the trucking business is largely cash-reliant for its en-route expenses that include fuel purchase, toll payments and covering costs for truckers' boarding, vehicular repairs and payments to loaders and un- loaders.

The demonetisation exercise has put the trucking business, one of the largest unorganised, cash-based sectors in the country, in great difficulty. Operators say their truck transport business has been badly hit by the demonetisation of Rs 500 and Rs 1,000 notes as they have no new cash even to pay the drivers, while clients are finding it tough to pay them in the new currency.

The demonetisation announcement on November 8, while many decided to look for ways to acquire accepted currency, truck drivers, single operators and many in the business have found themselves at the receiving end. Hardships in getting the money exchanged quickly at fuel pumps or banks have further added to their woes, they said.

With cash shortage in the market, delayed deliveries of products and reduction in number of trucks and tanks they can operate a day are other worries. With each one in their line of business refusing to accept old notes, bigger players in the market have offered to ply on credit till things are settled.

Banking sector

The move by the government to demonetize Rs.500 and Rs.1000 notes by replacing them with ne Rs. 500 and Rs.2000 notes has taken the country with surprise. The move by the government is to tackle the menace of black money, corruption, terror funding and fake currency. From a market perspective, we think that this is a very welcome move by the government and which has taken the black money hoarders with surprise. The total value of old Rs.500

and Rs.1000 notes in the circulation is to the tune of Rs.14.2 trillion, which is about 85% of the total value of currency in circulation. This means that the total cash has to now pass though the formal banking channels to get legitimacy. The World Bank in July, 2010estimated the size of the shadow economy for India at 20.7% of the Gross Domestic Product (GDP)in 1999 and rising to 23.2% in 2007. Assuming that this figure has not risen since then (quite unlikely though) and that the cash component of the shadow economy is also proportional (it could be higher), the estimated unaccounted value of the currency could be to the tune ofRs3.3 trillion.

Now, post the announcement of demonetization by the government this money would have to either account for by paying the relevant tax and penalties or would get extinguished. There are higher chances of larger proportion of this unaccounted currency getting extinguished as the tax rate and subsequent legal issues could be prohibitively high for such money.

The move is also likely to have a habit changing impact in the Indian populous and there could be increased belief of keeping cash in the banks rather than stashed at home and use formal banking channels for their spending needs. With a large part of the cash moving through the banking channels, the banking sector is likely to be flush with funds in the near term and this would help them reduce cost of funds for such period. Also with more money being kept in the banking channel, some of these low cost deposits may be sticky and improve the medium to long term Current Account and Savings Account (CASA) ratio of the banks .Another element of the demonetization would be reduction in cash transactions in real estate. This is likely to reduce to real estate prices and make it affordable to some extent. This may be visible more in the rural belt, where many non-farming entities purchase fertile farmland, not for farming but for money parking purpose**.** The demonetization and consequent reduction in shadow economy would bring the demand for such farm lands down**.** This move is likely to lead to better tax compliance, raise the Tax to GDP ratio and improved tax collection. This could lead to lower borrowing and better fiscal management. Also with lower cash transactions in the near term, inflation may see downtrend in the near term. Also with higher tax to GDP ratio, the government may also get enough headroom to reduce the income tax rates, which can lead to higher disposable income with people and can improve consumption demand in the medium to long term.

Insurance sector

Overall, this step is hailed as bold and transformational. It is expected to have a positive impact on Indian economy and people from a long term perspective.

In short-term it would have negative impact on consumption behavior. This will

- Create a sense of loss of cash in a mind of spending population. It is similar to when stock market crashes and a lot of wealth disappears in front of consumer eyes.
- Create a cash scarcity and less cash in circulation.
- Impact certain businesses (such as restaurants, entertainment etc.) and consequently will have ripple effect on employment and downstream supply chain.
- Life and Retirement products might see a slow-down in sales due to lower consumption behavior. Car and bike should be largely

unaffected as it is mandatory to have a motor insurance.

- Consumers might consider buying health insurance as a more attractive option due to scarcity of cash in circulation.

In long-term, assuming government would bring more measures to keep a check on the size of cash economy, this would

- Move the median income up at the bottom of the pyramid.
- Migrate more transactions from cash to electronic or mobile form.
- Give more power and legitimacy to Digital India and India Stack (e-KYC, Digital Locker, Unified Payment Interface, E-Signature).
- Create more productive money for the economy – either in the bank or higher tax collection which in turn can be ploughed back to the economy through low interest loans or government investment in infrastructure.
- More small businesses would consider buying insurance to cover the risks as the cash transactions become limited.
- Market for insurance may expand as income at the bottom of the pyramid (individual and business) is expected to rise. This would be positive for the overall Insurance industry. Online and mobile channels will become more effective channels for sale and service due to increased online and mobile adoption. Influence and contribution of Web aggregators will increase over agent force in long-term.
- Penetration of Insurance in India is less than half compared to developed countries. India is one of the fastest growing Insurance markets in the world. Such initiative would further help the momentum.
- Insurers should look to develop effective products for the market at the bottom of the pyramid. From Distribution perspective, most effective way to reach to these consumers will be Online, Mobile channels, Bancasurance and Web Aggregator. From servicing standpoint, Insurers should accelerate integration with Digital India and India Stack framework. Both Insurers and consumers will win in long-term due to this move.

General Impact

The impact of demonetization on tax revenue and collection is already visible. There has been a 26.2 percent increase in central indirect tax collection till November 30, 2016. Direct tax collection increase has been to the extent of 14.4 percent against a growth rate of only 8.3 percent previous year.

After demonetization of Indian currency on 08 Nov. 2016, rupee has become weaker than currency of 96 countries or economies. Out of 161 countries' currency, rupee has become stronger than 60 currencies and is at same exchange rate with 5 currencies.

If we take data for past 6 months before demonetization from 08 may 2016 to 08 nov 2016, rupee has become stronger than 125 currencies. But after 26 days of ban on Rs 500 and Rs 1000 notes, rupee has become stronger than only 47 currencies.

Rupee has become weaker by 2.66% against US Dollar ($) from 66.40 to 68.17 INR per unit US Dollar. Rupee has become weaker against some popular currencies like British Pound, Canadian Dollar and Hong Kong Dollar too. But also became stronger than Euro, Australian Dollar, Swiss Franc, Singapore Dollar and Japanese Yen.

Indian rupee (INR) became weaker than currencies of other south asian nations Pakistani Rupee, Sri Lankan Rupee, Bangladeshi Taka and Nepalese Rupee.

Period	Stronger	Weaker	Same
	(no. of currencies)		
After 50 days of demonetization (08-11-16 to 28-12-16)	60	96	5
6 month before demonetization (08-05-16 to 08-11-16)	125	32	4
In Modi government (26-05-14 and 28-12-16)	94	65	2
In Modi govt before demonetization (26-05-14 and 08-11-16)	93	66	2

The demonetization, by removing 86 per cent of the currency in circulation, has resulted in a very severe contraction in money supply in the economy. This contraction, by wiping out cash balances in the economy, eliminated the number of transactions for a while, since there was no or not enough of a medium of exchange available. Since income and consumption are intrinsically related to transactions in the economy, the above lead to a severe contraction in income and consumption in the economy. This effect was more severe on individuals who earn incomes in cash and spend it in cash. To a lesser extent it also affected individuals who earn incomes in non-cash forms but need to withdraw in cash for consumption purposes, since a number of sectors in the economy still work predominantly with cash.

In terms of the sectors in the economy, the sectors adversely affected were all those sectors where demand was usually backed by cash, especially those not within the organized retailing. For instance, transport services, kirana, fruits and vegetables and all other perishables, faced compression in demand which was backed by purchasing power

The time was the sowing season for the Rabi crop in some parts of the country and the harvesting season for the Kharif crop. Most of the purchases and sales in this segment of the economy were carried out through cash. With the elimination of cash from the economy, sale of kharif crop became difficult unless the crop was sold on the promise of payment in future. Given the limited bargaining power of the farmer, the price they can realize for the crop was adversely affected. On the other hand, in the sowing activity, people could not get access to the inputs required since most of the inputs were purchased from the market unless they seeked access to credit from the supplier. In other words, with demonetization, there was a significant strengthening of the informal sector credit market in the rural economy. Further, the agents who did not get access to credit from the informal sector agents, their sowing activity and hence their incomes in the next season were adversely affected. Thus, in spite of a good monsoon in large parts of the country, the farmer could not get the benefits.

With cash transactions facing a reduction, alternative forms of payment saw a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. saw

Strategic Decision to Become a Cashless Economy

What is a Cashless Economy?

A cashless economy is one in which all the transactions are done using cards or digital means.

The circulation of physical currency is minimal. It can be defined as a situation in which the flow of cash within an economy is non-existent and all transactions have to be through electronic channels such as direct debit, credit and debit cards, electronic clearing, payment systems such as Immediate Payment Service (IMPS), National Electronic Funds Transfer and Real Time Gross Settlement, Unified Payment Interface etc.

Why should India move towards a cashless economy? Was demonetization the step to move towards the cashless economy?

Cash is anonymous. This is a safeguard for the privacy of their users, a privacy that can be a benefit but also a hazard to the society. This anonymity is used both by criminals, but also by illegal immigrants and tax payers. A society where all transactions are recorded will be a society with less crime but also less freedom.

Advantages

Reduced Tax Evasion

Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left. Reducing use of cash would also strangulate the grey economy, prevent money laundering and even increase tax compliance, which will ultimately benefit the customers at large.

Curbs Black Money

It will curb generation of black money and will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate markets. Usage of cashless mechanisms would also ensure that loopholes in public systems get plugged, and the intended beneficiaries are able to avail the benefits due to them.

Lower Cost of Running Cash Economy

In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. This could be avoided if we become cashless society. There will be efficiency gains as transaction costs across the economy should also come down.

Reduced threat of Fake Note, Soiled Currency

1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going cashless, that can be avoided.

Banking Availability

It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital. Reduced costs of operating ATM. Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required. A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money.

An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

Cashless Economy will eventually have the following Chain Effect

- Improvement in credit access and financial inclusion, which will benefit the growth of SMEs in the medium/long run.
- Reduce tax avoidance and money laundering thanks to the higher traceability of all the transactions.
- The increased use of credit cards will definitely reduce the amount of cash that people will carry

and as a consequence, reduce the risk and the cost associated with that.

- Though a cashless economy provides with the above benefits, abolishing cash altogether may not result to a more efficient system, but it will possibly increase social exclusion and will constrain further the private sphere. However, the benefits of increased growth cannot be ignored and hence India should move on the path to become cashless.

Solution of Demonetisation through Digital Money

Digital Money

Digital currency or digital money is distinct from physical (such as banknotes and coins) that exhibits properties similar to physical currencies, but allows for instantaneous transactions and borderless transfer-of-ownership. Both virtual currencies and crypt to currencies are types of digital currencies, but the converse is incorrect. Like traditional money these currencies may be used to buy physical goods and services but could also be restricted to certain communities such as for example for use inside an on-line game or social network.

Digital cash brings benefits as well as problems. One major advantage of digital cash is its increased efficiency opening new opportunities, especially for small businesses. On the other hand, it will encourage potentially the worsening of problems over taxation and money laundering. In turn, these problems may alter foreign exchange rates, disturb money supplies, and encourage an overall financial crisis.

The trans nationality of digital cash - the ability of digital cash to flow freely across national borders - encourages these benefits and problems, and could have significant repercussions internationally.

From an economic view, this trans nationality is the most important characteristic of digital cash. If digital cash behaved like traditional currencies, circulating within a national border and controlled by a central monetary authority, there would be few economic implications that would be worth analyzing. In this scenario, digital cash would be nothing more than a convenient transaction method such as a credit card.

However, digital cash's very trans nationality has the potential to cause conflict between cyberspace and nation states. If digital cash spreads successfully in the next century, its history may be written as a transcript of economic battles between nation states.

The past couple of months have been very crucial for the Indian economy. The demonetization of old Rs 1000 and Rs 500 notes was a bold decision by the government and in a country which is still developing, it was an important step.

About 98 percent of the country has been dependent and driving on physical currency, and with withdrawal limits, it wasn't surprising to see banks and ATMs bombarded with people trying to take out money. Now we're not sure how much of the 'black money' was curbed out, but we do know that a good chunk of the population got familiar or had a certain idea about the various ways to pay and do transact digitally.

Shopkeepers, cabs, even the local pan shops started using digital wallets or accepted debit/credit cards, and we think it's brilliant. Sure, the new currency has started to roll out, but this is way more convenient. We don't have to visit the ATM every now and then.

That seems like a valid point. ATMs started opening up in metros and towns in the early 90s when the country saw an increase in consumerism. However, according to the central bank data, only 9 percent new ATMs in the financial year ending March 2016, were added across India. This is a huge drop when compared with 25.4 percent in 2008-09 and 37.8 percent in 2009-10.

Digital transactions in the past one month have registered a 40 percent month-on-month growth; payments through cards have jumped to 39.1 percent while usage of Point of Sale machines has increased 41 percent. Rather than focusing on ATMs, banks should now focus more on improving their apps and Aadhar-based payment systems. Having a secured and user friendly bank app is what India needs right now.

II. CONCLUSION AND SUGGESTIONS

The demonetization drive initiated by the Indian Government is going to have far reaching impact on the Indian Economy. It is being considered as one of the most significant step in tackling the black money issue that has gripped our country since many years.

The justifications given for this move were disrupting proliferation of counterfeit notes, making cash hoarded from undeclared sources of income (black money) worthless, disrupting drug trade or terrorism activities which are mainly funded by black money and encouraging cashless transactions. But it came up with certain cons whose main victims were the general middle class people who were actually not the black money hoarders. The whole demonetization scheme was considered a good initiative but lacked in the implementation part.

This impacted the whole of Indian market especially consisting of unorganized sector where majority of dealings takes place in cash. There was huge fall in the demand due to illiquidity and unawareness of digital payments. Organizations benefiting from this scheme were the payment intermediaries like Paytm and e wallet apps as there was no option left for the customers and retailers to make the dealings. It was also a good initiative to make India move towards the cashless economy and curb the problem of unaccounted incomes, counterfeit notes and illegal transactions.

The cashless transaction system is reaching its growth day by day , as soon as the market become globalised and the growth of banking sector more and more the people moves from cash to cashless system. The cashless system is not only requirement but also a need of today society. All the online market basically depends on cashless transaction system. The cashless transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. So, it is without doubt said that future transaction system is cashless transaction system.

A number of agents in the economy would be required to move from the informal sector to the formal sector. For these agents as well as for agents who have been operating through the medium of cash and find the transition difficult, certain informal cash substitutes might emerge. Here it is important to explore the possibility and acceptability of peer to peer payment instruments – a category which has been evolving in recent times.

In spite of the initial hiccups and disruptions in the system, eventually this change will be well assimilated and will prove positive for the economy in the long run.

- Black money hoarders will definitely lose out, eventually boosting the formal economy in the long run.
- Short term fall in real estate prices might benefit middle class citizens.
- This move by the Government along with the implementation of the GST will eventually make the system more accountable and efficient.

I feel demonetization has affected both the common people and black money holders.

No doubt the common people had to face lot of troubles like waiting in long queues in front of ATMs and in the banks in order to withdraw or exchange their money. The first two days were a nightmare. But the black money holders were equally affected.

Black money holders tried to convert their money into white by buying gold, diamonds or by bribing bank officials and poor people. But govt. also made such stringent rules that their money just became garbage in the end. They had to throw it in the pond or dustbin.

So overall the common people were affected but for a short period of time but this bold move had a deep impact on all the black money holders as now they will think twice before practicing corruption.

Demonetization affected on common people. Our Government started Demonetization for Black Money, but now it's come to cashless India. Even as per survey 15600 crores money should be deposited in bank but only 15400 Crores money deposited in bank. So where is remaining 200 crores rupees? That mean till now also there is black money holder. In case of cashless transition, how can it possible in rural area where ATM is 5-6km far from village, and what about uneducated people. And one of the most things is what did you saw any politician or business man in queue of bank. Only Rahul Gandi seen in queue only once but at that time only we can withdraw only 2000 Rs. Even I went in ATM more than 20 times because of Long queue and sometimes cash was not available, so how can he satisfy only one time stand in line.

Our Government should make its foremost objective to control black money in our country.

E-Governance should be started by the Government i.e. the use of technology be made as far as possible like E Registration with Revenue Authorities, E-Filing of Returns, etc. because more the involvement of human beings, more is involvement of corruption, ultimately generating Black Money.

Black money revolves around in cash only so the Government should put restriction on cash transactions wherever possible and instead should increase the use of Plastic Money like Debit Cards, Credit Cards, etc. and by other such means.

Agriculture income should be taxed for those who have both the agricultural as well as non-agricultural income.

The Government should not give absolute power of work to any one person as it creates monopoly and instead should segregate the work among many persons.

All the aspects of its generation should be looked into and stopped. Competitive bids should be motivated.

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DEMONETIZATION: CLEANING BLACK MONEY TO DIGITALIZATION OF ECONOMY

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Abstract

To combat the evils of black money, corruption, counterfeit currency and terror financing, took the decision on November 8, 2016 to demonetize old Rs500 and Rs1000 currency notes. Govt's very first cabinet meeting was set up an SIT on black money. Inflation, balance of payments, current account deficit and the fiscal deficit have been consistently reduced since 2014. Foreign Direct Investment (FDI) flows in 2015-16 at $55.6 billion were the highest ever in any financial year. The global and Indian Capitalism has made the concentration of wealth among few companies and households. Developing Countries lose $ 100 billon every year to tax dodging. The two extreme differences of wealth were made to think of economic reforms in India in Particular and in general at global level. Corruption is ruling the nations. In democracy by extending financial donations to ruling parties the industrialists can avoid taxes and Crop up of black money either in their own country or abroad. 86 per cent of currency was withdrawn, whereas 80 per cent of Junk notes entered into bank accounts. The equity market tumbled after that but has gained momentum to pre-demonetization levels. To combat the evils of black money, corruption, counterfeit currency and terror financing, it is necessary. Demonetization has been the exploration of alternative methods of Payment such as credit cards, online money transfer and payments, use of e-wallets, digital transaction apps such as BHIM etc. Recently, 1 per cent of Indians paid income taxes in 2013. Demonetization helps to transfer resources from tax evaders to the Government which can use the resources for the welfare of the poor and deprived. Political will and action is highly needed to bring equality and social justice for India.

Keywords: Demonetisation, black money, digitization, Indian economy

Monstrous Inequality in Global Capitalism

In the history of capitalism, except 1914 to 1975, marked two World Wars, the Russian and the Chinese Revolutions, the great depression, and the welfare State in the post World War II up to 1975, set the capitalism. The grotesquely unequal distribution of income and wealth in countries like the US, the dominant political form more a plutocracy than democracy emerged.

Oxfam report 2016 tells that the bottom 50 per cent of the World's population has just 0.2 per cent of the world's wealth, and if one sums up the wealth of world top eight billionaires, six of whom are from the United States (US), these ultra rich

persons together have more wealth than what bottom 50 per cent of the world's population owns. The inequality is that a Chief Executive Officer (CEO) of India earns 416 times the salary of a typical employee in his company.

In India, the richest 1 per cent own 58 per cent of the total wealth. Infact, the wealth of 57 Indian billionaires, at $ 248 billion, is higher than the total $ 216 billion of 70 per cent of the Country's 1.3 billion population. Oxfam considered whoever have $1 billion as the super rich. One third of the world's billionaire wealth is derived from inherited wealth, while 43 per cent can be linked to cronyism.

Apple allegedly paid 0.005 per cent of tax on its European profits in 2014. Developing Countries lose $100 billion every year to tax dodging. The annual share dividends from Zara's Parent Company to Amancio Ortega – the World's second richest man – are worth € 1,108 million, which is 8,000 times the annual wage of worker employed by a supplier garment factory in India.

History of Demonetization at Global Level: Glimpses

The first instance was in 1946 and the second in when an ordinance was promulgated to phase out notes with denomination of Rs 1000, Rs 5000 and Rs.10000. Chintamani Deshmukh, Governor, felt that we may not get even as much as Rs 10 crores as additional tax revenue from tax evasion and that contemplated measure. In 1978, I.G Patel was Governor, who felt that the black money was not kept in currency in long.

In 1982, Ghana rolled out the decision to demonetize their 50 cedi currency notes to monitor money laundering and corruption. Nigeria's economy collapsed after the 1984 demonetization move that did not go as planned. The Military Government of then president Mahammadu Buhari introduced different coloured notes to invalidate their old currency in order to fight Black Money. Around 80% of Myanmar's currency was demonetized in 1987 by the Military to curb block money, but the move resulted in a lot of protests and the Country witnessed several killings. Gorbachav-Mikhail, President in 1991 the then Soviet Union demonetized the higher denominations of ruble bills, the 50s and 100s. The move did not go well within 8 months. North Korea faced demonetization their currency in 2010, which led major breakdown. Zimbabwe once had hundred trillion dollar note, which was demonetized and was exchanged in a mocking way dropping Trillion dollars to $0.5 dollar. India, in third time on mid-night of Nov.8, 2016 demonetized Rs 500 and Rs 100 old notes, 86 per cent of circulation notes

Erase Colonial Legacy and Strengthen Dharma

Demonetization was not a sudden plan, but part of a well thought out strategy against corruption and black money. The rationale behind the decision to merge the Railway budget with the general budget and to advance the latter's presentation as part of a long term vision to erase the colonial legacy and plan in accordance with Indian conditions and the public interest.

Look at the period before May 2014, how much was lost in corruption in coal allotment, 2G spectrum scam? People would ask how much the Country lost. Now, how much people gained under Modi. The time for demonetization was taken before Diwali, the business is peak, after it is a slump. Generally, before operation, we have to see the patients Diabetes and blood pressure in right way. Likewise that Country's body is in healthy, then only we did operation of demonetization. Former Government have done many laws of Dharma but lacked the will and the ethical strength to implement these very schemes.

Impact of Demonetization have no Significance

The impact of demonitization on the economy, investment cycle and earnings will not be significant, Japanese financial services firm Nomura said in a report. Nomura has projected about 20% returns for the sensex by the end of Jan. 2017 as multiples are likely to rise with normalizing growth. The equity market tumbled after that but has since gained momentum and is now back to pre-demonetization levels.

The firm is overweight on a mix of public and private sector banks, downstream oil and gas utilities, four wheelers and selects industrial companies, while it is underweight on Telecom and Pharmaceutical sectors.

Currency circulation worries are also likely to come down. In a separate report. Nomura said the rising currency in circulation to 6.5% of GDP as of Jan.20, 2017 from all time low of 5.9% on January, 6 points to good progress in remonetization. Currency in circulation was at 11.8% of GDP on November 4, before the demonetization. Nomura expects currency to GDP ratio to raise to about 9% by March end 2017.

Bold Decision at right time

Pranab Mukerjee, President of India in a Joint Parliamentary address considered the decision as bold and remarkable. The Country's macroeconomic fundamentals were very strong, creating a platform for sustained high growth. To combat the evils of black money, corruption, counterfeit currency and terror financing, took the decision on November 8, 2016 to demonetize old Rs500 and Rs1000 currency notes. Govt's very first cabinet meeting was set up an SIT on black money. Inflation, balance of payments, current account deficit and the fiscal deficit have been consistently reduced since 2014. Foreign Direct Investment (FDI) flows in 2015-16 at $55.6 billion were the highest ever in any financial year.

Shock Announcement

The suffering has been greatest for those whose living depends on the cash-based informal economy, which accounts for an estimated 45 per cent of India's GDP and 80 per cent of its workforce, supply chains in agriculture were a massive blow, hurting farmers at the critical rabi sowing season. A slowdown in construction and allied industries compelled migrant workers to return to their villages. The rural poor were hit particularly hard due to the low penetration of bank accounts and ATM machines outside of Urban Centre's.

During the first changes to the rules for the deposit and withdrawal of money fuelled uncertainty.

Recently released data show, that only 1 per cent of Indians paid income taxes in 2013. 50 days, the RBI issued 59 public notifications. Adhoc India's tax to GDP ratio of 16.6 per cent is much lower than the 21 per cent average for emerging economies and 34 per cent for OECD Countries. The State's ability to Catch and Punish tax evasion is demonstrably weak, a problem that demonetization cannot tackle on its own. Tax agencies are in need of painstaking reform. Taxation capacity depends on societal compliance, which turns on the trust that citizens have in public institutions. The Government has the opportunity to reform tax agencies in a professional direction. Yet, the motivation to enact, visible, disruptive policy measures runs counter to the complicated long term endeavor of State building. If demonetization "works" electorally, one must ask whether it comes at the cost of India's Institutions.

A Right Cause Never Fail: Gandhi

Demonetization has strong potential to generate long term benefits in term reduced corruption, greater digitalization of the economy, increased flow of financial savings and greater

formulation of the economy all of which eventually to lead to higher GDP growth and tax revenues. Demonetization helps to transfer resources from tax evaders to the Government which can use the resources for the welfare of the poor and the deprived. There is early evidence of an increased capacity of Banks to lend at reduced interest rates and a huge shift towards digitalization among all sections of society. We firmly believe that demonetization and GST – which were built on the transformational achievement of our Government, namely the JAM vision will have an epoch making impact on our economy and the lives of the people.

Junked Notes Back

With an estimated Rs 15 lakh crore in junked notes back in the banking system. The banking system post demonetization, the Income-Tax Department has started the process of engaging private entities to match the data with IT return or other information of assesses. The IT Department has already found that post-demonetization more than Rs 2 lakh was deposited in over 60 lakh bank accounts and the total amount deposited in these accounts is over Rs.7.34 lakh crore. The Managed Service Provider (MSP) for data analytics would be required to match and analyse the demonetization data with return / other information. The firms would also be required to cluster PAN linked and non-PAN demonetized data using identified relationships as well as common address, mobile Number, email address bank branch etc.

Mobile Can Empower Digital India

One of the positive impacts of demonetization has been the exploration of alternative methods of payments such as credit and debit cards, online money transfer and payments, use of debit cards, online money transfer and payments, use of e-wallets, digital transition apps such as BHIM etc. The various means of digital payments have made life a little easier. According to the Reserve Bank of India, a little over 2 per cent of India's have a credit card and 59 per cent have a debit card but even these are not accepted at all merchant establishments. In cities, the acceptance of cards is high but in rural India, its scarce and challenging.

On the banking side, over 47 crore citizens have an account of which 26 crore are Jan Dhan Accounts. A large number of this bank is dormant for want of financial literacy. E.Wallets needs a Smartphone to operate and these are not interpretable with other wallets. Mobile networks have a global standard of security and therefore, mobile top up wallets are highly secure. With more than 100 crore mobile subscribers, this has a potential of delivering nearly Rs 100 billion in digital cash every day into the retail system of economy. The process is simple and hassle free. Through the National Telecom Policy (NTP) 2012 identifies the role of mobile phones in financial inclusion, but till now the focus has been to provide connectivity to enable delivery of financial products.

Elections Demonetized

We hope that now the Indian elections will be demonetized. It is observed that the U.P elections were going for Rs5000-10,000 per vote. What a shame! Will the powers that be, the Election Commission can take note. This is an opportunity for them to cleans the election stables for the first time with the help of this measure by Modi. Corruption is ruling the nation, attributed to Abraham Linedn.

War on Black Money

India is largely cash driven economy though a rapidly growing percentage of the population is becoming tech savvy. A shadow economy reliant on cash transactions and evading taxes, especially on high value transactions such as real estate purchases, gold, and intrinsically illegal

activity has taken deep and highly persistent root. Counterfeiting of Indian rupee notes and their subsequent use in funding of terrorist activities has also been in important concern.

While the pernicious effects of a large black economy and tax avoidance have been well recognized, no tangible policy action has been taken until now. Modi's radical move to invalidate the high demonization notes (Rs.500, Rs.1000). Nevertheless, there has been an impressive level of support at the grass roots level for this reform, as evidenced by the absence of any rioting, looting or acts of mass protest. But the policy makers must manage this transition process efficiently and with empathy to ensure sustained support from the common man.

80 per cent of the currency high demonetizations has now been deposited back into bank accounts. We already seen impressive switch into digital transaction. The action had major dent on counterfeiting.

For Launderers, Kolkata indeed the City of Joy

Kolkata tops the search for most companies registered at the same address. This is the location that heads the list – 9/12, Lal Bazar Street, with 315 companies. It just happens to be the address of the City's Police Head Quarters as well. Registered Companies, an analytics firm specializing in corporate due diligence, crunched through data from the Ministry of Corporate Affairs and found that 1,410 Companies are registered in different blocks of the 9/12 Lal Bazar street area with 84 of them based in Room No.10 in one Block.

The area is a warren of Chartered Accountants Offices with most of the Companies being private limited ones engaged in wholesale trading and real estates. A little over 11,281 companies are registered at 148 addresses, an average of 76 each. Seven of the top 10 most common address are in Kolkata, Apart from the one above these are 52. Weston Street; 5, Gorky Terrace; 266, Dakshindari Road, 91, Shakespeare Sarani and 4A, Polit Street.

To and Fro: Criticism

The Supreme Court observed it as carpet bombing than surgical strike. Amarthyasen called it as despotic action. Senior Vice President of World Bank Kausik Basu called it a major mistake. Prof.Prabhat Patnaik, Jawaharlal University observed it as witless and anti-people. T.N.Ninan, noted economist, Business Slandered called it as a 'bad idea'. Opposition leaders Mamatha, Kejiriwal, Vijayan protested over it. Steve Forbes described the move as sickening and immoral. NewYork Times said that it is obnoxiously planned. The Guardian stated that Modi had brought havoc to India. The Harvard Business Review called it a case study in poor policy and poor execution.

The positive effects has reduced huge fall in sex trafficking – Kailash Satyavarthi, Nobel laureate. It badly hit the Maoist and Naxalites. The surrender rate is the highest. In Ranchi Maousts Rs 2.5 billion notes deposits found by police Manohar Parrikar claimed that stone petting in Kashmir was fallen. There was a setback for Hawala operations.

I. CONCLUSION

The global and Indian Capitalism has made the concentration of wealth among few companies and households. Developing Countries lose $ 100 billon every year to tax dodging. The two extreme differences of wealth were made to think of economic reforms in India in Particular and in general at global level. Corruption is ruling the nations. In democracy by extending financial donations to ruling parties the industrialists can avoid taxes and Crop up of black money either in their own country or abroad. 86 per cent of currency was withdrawn, whereas 80 per cent of Junk notes entered into bank accounts. The equity

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IMPACTS OF DEMONETIZATION ON INDIAN ECONOMY

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Abstract

India has amongst the highest level of currencies in circulation at 12.1% of Gross Domestic Product. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around $ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore ($190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The present paper highlights the probable consequences of this decision on various economic variables and entities.

Keywords: Demonetisation, impact, interest rate.

I. INTRODUCTION

Demonetization is a generations" memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. Its effect will be a telling one because nearly 86% of currency value in circulation was withdrawn without replacing bulk of it. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination.

II. OBJECTIVES

1. To study the experience of impact of demonetization in various countries in earlier period.
2. To analyze the impact of demonetization on Indian economy;
3. To find out the probable consequences of the demonetization.

Research Methodology

Demonetization technically is a liquidity shock; a sudden stop in terms of currency availability. It creates a situation where lack of currencies jams consumption, investment, production, employment etc. In this context, the exercise may produce following short term/long term/, consumption/investment, welfare/growth impacts on Indian economy. The intensity of demonetization effects clearly depends upon the duration of the liquidity shocks. Following are the main impacts.

Impact on bank deposits and interest rate

Deposit in the short term may rise, but in the long term, its effect will come down. The savings with the banks are actually liquid cash people stored. It is difficult to assume that such ready cash once stored in their hands will be put into savings for a long term. They saved this money into banks just to convert the old notes into new notes. These are not voluntary savings aimed to get interest. It will be converted into active liquidity by the savers when full-fledged new

currency supply take place. This means that new savings with banks is only transitory or short-term deposit. It may be encashed by the savers at the appropriate time. It is not necessary that demonetization will produce big savings in the banking system in the medium term. Most of the savings are obtained by biggie public sector banks like the SBI. They may reduce interest rate in the short/medium term. But they can't follow it in the long term.

Impact on black money

Only a small portion of black money is actually stored in the form of cash. Usually, black income is kept in the form of physical assets like gold, land, buildings etc. Hence the amount of black money countered by demonetization depends upon the amount of black money held in the form of cash and it will be smaller than expected. But more than anything else, demonetization has a big propaganda effect. People are now much convinced about the need to fight black income. Such a nationwide awareness and urge will encourage government to come out with even strong measures.

Liquidity crunch

liquidity shock means people are not able to get sufficient volume of popular denomination especially Rs 500. This currency unit is the favourable denomination in daily life. It constituted to nearly 49% of the previous currency supply in terms of value. Higher the time required to resupply Rs 500 notes, higher will be the duration of the liquidity crunch. Current reports indicate that all security printing press can print only 2000 million units of RS 500 notes by the end of this year. Nearly 16000 mnRs 500 notes were in circulation as on end March 2016. Some portion of this were filled by the new Rs 2000 notes. Towards end of March approximately 10000 mn units will be printed and replaced. All these indicate that currency crunch will be in our economy for the next four months.

4. Demonetization is not a big disaster like global banking sector crisis of 2007; but at the same time, it will act as a liquidity shock that disturbs economic activities.

Welfare loss for the currency using population

Most active segments of the population who constitute the „base of the pyramid" uses currency to meet their transactions. The daily wage earners, other labourers, small traders etc. who reside out of the formal economy uses cash frequently. These sections will lose income in the absence of liquid cash. Cash stringency will compel firms to reduce labour cost and thus reduces income to the poor working class.

There will be a trickle up effect of the liquidity chaos to the higher income people with time.

Consumption will be hit

When liquidity shortage strikes, it is consumption that is going to be adversely affected first.

Loss of Growth momentum

India risks its position of being the fastest growing largest economy: reduced consumption, income, investment etc. may reduce India"s GDP growth as the liquidity impact itself may last three - four months.

Impact on counterfeit currency

the real impact will be on counterfeit/fake currency as its circulation will be checked after this exercise.

Demonetization as a cleaning exercise may produce several good things in the economy. At the same time, it creates unavoidable income and welfare losses to the poor sections of the society who gets income based on their daily work and those who doesn"t have the digital transaction culture. Overall economic activies will be dampened in the short term. But the unmeasurable

benefits of having more transparency and reduced volume of black money activities can be pointed as long term benefits.

Positive Effects of Demonetization:

In what could be termed as the mother of all reforms, Prime Minister Modi‟s demonetisation move will have far reaching implications. This is not to dispute that the transformative step has brought some hardship for the citizens, but those are temporary and will blow over soon. For the larger benefit of the nation, we the citizens can bear such hiccups with a smile. After all, this is how we as citizens can contribute in policy making and nation building. While bank employees are working overtime to make Modi‟s ambitious demonetisation drive a success, let‟s discuss its many-fold impacts.

Economy

Demonetisation will have a huge resultant effect on the Indian economy. The clean-up of illegal cash will help turn around the economy. First, it will bring more borrowings to the exchequer, improve inflation outlook and increase India‟s gross domestic product (GDP). Second, it will revive investment opportunities and give a fillip to infrastructure and the manufacturing sector. Third, it will help reduce interest rates and lower income tax rate.

Black money

At one stroke the Prime Minister has choked the supply of black money stacked inside the country. Of the Rs 17 lakh crore of total currency in circulation in the country, black money is estimated at mind-boggling Rs 3 lakh crore. Black money is nothing but a plunder of the nation. Black money operators run a parallel economy which shakes the very foundation of the Indian economy. With Modi's demonetisation move, all domestic black money will either be deposited into the banks with heavy penalty or be simply destroyed.

Note bank politics

In the run up to the crucial assembly elections in Uttar Pradesh, Punjab, Goa and Uttarakhand, Prime Minister Modis demonetisation announcement has come as a shock and awe for the political parties and politicians for whom black money is a lifeline. The pulling out of the old Rs 500 and Rs 1,000 currency notes will help make the election process clean and transparent. But it has brought tough times for the political parties and politicians who believe in the idea of purchasing votes in exchange for notes. That is precisely the reason a rainbow coalition of a galaxy of regional parties and the Congress is building up against Modi, because their political interests are badly hurt.

Real estate cleansing

It is said that real estate is an industry built on black money. The extent of black money floating around in the sector is huge. According to an estimate at least 40 per cent of real estate transactions in Delhi-NCR are in black. Modi‟s demonetisation move will curtail the flow of black money into the real estate sector. This will help in making the much needed correction in the sector. The impact: An unexpected dip in land and property prices.

Hawala transactions

Demonetisation has crippled the hawala rackets. Hawala is a method of transferring money without any actual money movement. Hawala route is used as a means to facilitate money laundering and terror financing. Hawala rackets run again on black money. With black money suddenly being wiped out of the market, thanks to demonetisation, hawala operations have come to a grinding halt. According to an India Today report, one of the

hawala operators in Mumbai has destroyed currency notes worth about Rs 500 crores.

Counterfeit currency

Demonetisation has dealt a death blow to the counterfeit Indian currency syndicate operating both inside and outside the country. Counterfeit currency seriously devalues the real worth of Indian currency. A study conducted by Indian Statistical Institute, Kolkata on behalf of the National Investigation Agency (NIA) suggests that fake Indian currency notes (FICN) amounting to Rs 400 crore are in circulation in the country at any given point of time and around Rs 70 crore fake notes are pumped into Indian economy every year. The estimation is based on recovery and seizure made by various agencies. But the actual figure could be much larger. A One India report, quoting an Intelligence Bureau dossier, says fake Indian currency worth Rs 12 lakh crore has pumped into Indian financial system over the years. Needless to say that most of the fake currencies circulated in India are of Rs 500 and Rs 1000 denominations. It is also pertinent to mention that the fake currency floating inside the Indian financial system is not counted within the Rs 17 lakh crore of total currency in circulation in the country.

This is an open secret that Pakistan has been printing fake Indian currency at its government printing press in Quetta and its security press in Karachi. The enemy nation funnels the counterfeit currency through the frontier at Jammu & Kashmir and via India‟s porous border with Bangladesh and Nepal. With Prime Minister Modi‟s decision to pull out the old Rs 500 and Rs 1,000 notes and replace them with new Rs 500 and Rs 2,000 series has completely stalled the circulation of counterfeit Indian currency. Experts say the new currency notes have come with advanced security features which are almost impossible to replicate. So Pakistan has no option but to shut shops of its fake Indian currency.

Terror financing:

Terror financing is sourced through counterfeit currency and hawala transactions. This is how terror financing works. Fake currency circulation is routed through a multi-layered network of hawala operators which are closely linked to satta (gambling) and smuggling of drugs, opium and arms. Indirectly, they all end up financing terrorism. In addition, the terrorists collect huge donations and then route the money through hawala transactions. With the circulation of counterfeit Indian currency completely stalled and hawala transactions stopped, all windows for terror financing are closed.

Maoism

Maoist sympathisers call Modi‟s demonetisation move an “undeclared financial emergency”. There are reasons to it. Demonetisation has hit the Maoists and their movement hard. Black money is the oxygen for Maoists. According to an estimate, Maoists manage to raise Rs 300 to Rs 400 crore annually through donations, levy and extortions. The illicit money is used to purchase arms and ammunition, food and medicine and daily essentials, apart from distributing it among the ranks and the cadre. Police sources in both Chhattisgarh and Odisha have told the writer that the Maoists have stashed old high denomination notes to the tune of over Rs 10,000 crore at their dumps in the dense jungles of Odisha- Chattisgarh boarder. No wonder, with Modi‟s demonetisation drive, all those illegal money are reduced to paper scrap. Maoists are in a state of coma and Maoist activities see a crippling blow. Ever since the demonetisation announcement was made, no major violence was reported from the Maoist infested states like Chhattisgarh, Odisha, Andhra Pradesh and Telangana.

Kashmir unrest

The four-month-long unrest in Kashmir valley is on a backburner, thanks to demonetisation. No stone pelting on security forces has been reported in Kashmir ever since the demonetisation announcement was made. An intelligence estimate suggests that Pakistan sends Rs 1,000 crore annually to the separatists for fuelling unrest in Kashmir. The money is transferred through hawala route. With hawala transactions completely choked up, the separatists are now clueless. It won‟t be wrong to say that "stone pelter" Modi completely shattered the Kashmir unrest with his stone called demonetisation.

North-East insurgency

Demonetisation has severely affected the multiple militant groups operating in the North-East.

According to intelligence estimate the north-eastern insurgent groups together have a corpus of Rs 400 crore annually. The insurgents source their funding in two ways. They raise funds through levy and extortions like the Maoists do. But unlike Maoists, the leaders of North-East militant outfits do not live in the jungle. Their English speaking high ranking leaders run operations from their dens in Myanmar, Bangladesh and Nepal. From there they also transfer huge illegal money via hawala route to their cadre for running the militancy. With the extortion money stopped completely in the absence of cash inflow and hawala operations coming to a complete halt, all activities of North-East militants have shuttered down.

Short-Term Vs. The Longer-Term Implications:

The Short-term Impacts: There will be a disruption in the current liquidity situation as households are likely to get affected by the note exchange terms laid by the government. Though clarity is unfolding on this, commodity transactions and general cash market transactions are likely to feel an immediate impact. Unorganized sector proceedings, including small trade market activities, will remain volatile in the short-term. Roadside vendors, cab drivers, kirana stores, etc., have already stopped accepting Rs 500 and Rs 1,000 notes. It is important to note that a significant percentage of the Indian workforce is employed in this sector, which is likely to be affected by immediate liquidity issues. Overall, negative impact on disposable income is expected along with likely disruption in the consumption patterns of the general populace. It is estimated that there will be a negative GDP impact in the current quarter as consumption gets a shock in the immediate term. However, quantum and degree of this impact cannot be ascertained at this time.

The Longer-term Implications

This essentially represents a change in regime for the real and financial economy. Domestically, there could be some turmoil as the effect will be disproportionately felt by the lower and upper income classes. Internationally, the government is likely to get thumbs up for the move and more countries could potentially see this as a viable option to curb black money and stem illegal financial activity. Last, though this move by the government may not be a first, having being tried by earlier governments as a tool to fight corruption. Such an action achieves larger significance for a globally connected India as it shows boldness in tackling an issue which has remained a thorn in the growth success story of this generation. The Sectoral Impacts While sectors with linkages to the unorganized economy are likely to be affected, technology and financial services are expected to gain in the medium to long term. On a sectoral basis, the commodities and agricultural sector, including the market for consumer durables and

non-durables is expected to feel the heat. In the short to medium-term, large denomination purchases will likely be made via electronic purchases rather than through brick and mortar outlets. This will impact the retail sector adversely. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large Areas of sub-sectoral impact will be felt in luxury cars, SUVs, gems, jewellery, gems, jewellery, gold and high-end branded products. The real estate sector is likely to see a significant negative impact in the medium- to long-term, particularly in the repurchase market. There are expectations of a revaluation of current real estate transactions across the board representing possible losses to players in the sector. The luxury goods market is also likely to get affected as this move represents an erosion of real wealth to a large number of people. On the positive side, there is likely to a reset of spending patterns as this move represents indirectly a significant push towards a cashless economy. Businesses in the fin-tech sector, including payment banks, mobile wallets, electronic transfer providers, etc., are expected to see gains.

III. CONCLUSION

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

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A STUDY OF EFFECT AND CONSEQUENCES OF DEMONETISATION ON CONSUMPTION PATTERN OF SALARIED CLASS CONSUMERS WITH SPECIAL REFERENCE TO BHOPAL CITY

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Abstract

Demonetization is an economic event of our generation. Demonetization of currency is an actof stripping a currency unit of its status as a legal tender. In november 2016 reserve bank of India has withdrawn rs. 500 and rs. 1000 notes as an official mode of payment. This surprise move of government has considerably affected the social and economic life of indian citizens. The consumption pattern in any economy is determined in relation to its liquidity. Demonotisation has rests in currency crunch for a short period of time with long term implications and altered liquidity position in Indian economy. This study aims to analyse the effect and consequences of demonitisation on consumption pattern of salaried middle class people in Bhopal city.

Keywords: Demonetisation, consumption pattern, salaried class consumer, Bhopal

I. INTRODUCTION

Demonetization is a generations' memorable experience and is going to be one of the economic events of our time. Its impact is felt by every Indian citizen. Demonetization affects the economy through the liquidity side. This will affect economic and social life of citizens of India.

Demonetization is the act of stripping a currency unit of its status as legal tender. The mystery of demonetization has begun. On 8 November 2016, Indian Prime Minister Narendra modi announced in a broadcast to the nation that Rs. 500 and Rs. 1,000 currency notes would no longer be recognized legally as currency. The aim behind the government's action was to combat tax cheating, counterfeiting and corruption. Eliminating large denominations makes it harder to hide large amounts of cash.

India, s biggest strength is its sound consumer base. Fast paced Indian economy is result of it. Consumption is an important activity performed by the household sector. Whatever personal income they obtain, from one source or the other, is spent either on consumption or is saved.

Consumption pattern is a combination of qualities, quantities, acts and tendencies

characterizing a community or human group's use of resources for survival, comfort and enjoyment.

Consumption is an integral part of our life. It is present from the beginning to the end everywhere we go. We buy, eat, use and take advantages of different things. Consumer patterns change for both micro and macro reasons. At the micro level, changes are attributable to individual consumer's changing tastes. At the macro level, such changes occur because of structural shifts in monetary and financial aspect of an economy. These shifts affect our behavior, lifestyle, values and needs which implicate the change of our consumption patterns, which can vary between from person to person and from place to place.

The issues of demonetization surfaced and consumption pattern of consumers reflected the heat of it. India is a cash economy; almost everyone keeps a few Rs. 500and Rs. 1000 notes as a nest egg.post demonetization lines began forming in front of ATM, s and banks of customers to waiting to exchange old notes for new. Gas pumps and hospitals (which were allowed to accept old notes) saw a boom in business. People also wanted smaller currency notes to serve their daily needs. A loaf of bread costs Rs. 25; no shopkeeper would give change for Rs. 500. Suddenly the sale of gold reach a new high, this is just the beginning. Consumption pattern study in present time is important in India as we are market driven economy.

A study on effect and consequence of demonetization on consumption pattern will be interesting. It will be reflective, of the magnitude of changes in consumption patter through control on currency and e-payment modes. As now majorly expenditure will be visible to tax authorities and government, due to payment through debit card, credit card, e-banking, paytm and other available mediums. So the study will show direction of economic changes due to demonetization. This study will be particularly useful for entrepreneurs, research scholars and government as only after judging the effect on economy the required changes can be made to facilitate smooth trade and commercial activities. Banks will analyze keenly these studies as they play prominent role as support services. It is expected that the study will be for the community benefit

II. OBJECTIVE OF THE STUDY

1) To study the consumption pattern of people of Bhopal City.
2) To find out the change in pattern of consumption of people of Bhopal City, after demonetization.
3) To compare pre demonetization and post demonetization consumption pattern.

Methodology

For the purpose of this study, it is considered appropriate to be comprehensive and yet selective in approach. This study shall be both primary and secondary. To collect primary data structured questionnaire has been designed for collecting and analyzing effect and consequences of demonetization on consumption pattern. Considering the limitations of an individual researcher and her resources, non-probability convenience sampling technique has been used for study. Primary study covers 200 respondents. Secondary data has been collected through reputed Journals, Govt. and Non Govt. Agencies for the study. Appropriate statistical tools of analysis have been used for critically examine effect and consequences of demonetization on consumption pattern. Due to the time and resource limitation of researcher, data will be collected from Bhopal City for the purpose of study. It is believed that a study covering the areas would yield valuable information and would truly reflect the effect and

consequences of demonetization on consumption pattern.

Data Tabulation, Analysis and Interpretation

Demonitisation affecting consumption pattern:

Respondent	Percentage of respondent
Positive	40
Negative	55
Can't say	5

It is clear from the table that 40% of the respondents believe that demonetisation will lead to have a positive change in their household consumption pattern.

55% of the respondents say that demonetisation will have a negative effect. They believe that it will result into drop in spending and will pull down the country, s growth.

However 5% of the respondents were unclear about the immediate impact of demonetisation. Their opinion was to 'wait and watch'.

Shopping Preference

Respondent	Percentage of respondent	
	Pre	Post
Daily	50	12.5
Weekly	37.5	62.5
Monthly	12.5	25

50% of the respondents preferred to shop daily for their need and necessities pre demonetisation. Post demonetisations have come down to ¼th (i.e.12.5%) of total 200 respondents. They owe this reduction to cash crunch.

The weekly and monthly purchases of the respondents have increased with the growth rate of 25 %(approx). The respondents suggested it as one of the way to deal with shortage of cash in the market.

Changes in Buying Essential Commodities

Respondent	Percentage of respondent
Yes	12
No	88

There was no change in buying behaviour of essential commodities. Somehow consumers managed to fulfil their basic necessities and tackle with demonetisation. 88% of the respondents suggested that essential commodities consumption remained unaffected from demonetisation.

Changes in Buying Non Essential Commodities

Respondent	Percentage of respondent
Yes	78
No	22

There was a huge change in purchase of non essential items like gold, ac, mobile phones and laptops, TV sets, etc. One of the reasons, being lack of cash and the other being fear of monitoring by governmental agencies. However, this effect was not seen in the car purchase where due to heavy discount, past year savings, other benefits and RTO rates motivated people to go for it.

Immediate Effect OD Demonitisation on Small Vendors

Respondent	Percentage of respondent
Yes	92
No	8

The immediate effect of demonetisation was on small vendors, kirana shop owners where the only medium of payment was cash.

But gradually, even they have learned to survive. They tie up with agencies like paytm, implemented debit/ credit card machines and even some have started to go by accept on line payment in order to run their business.

This is seen in the table that 92% of the respondents support it.

Effect of demonitization on modes of payments i.e. Debit/credit card, cash, on line payment, paytm etc.

Respondent	Percentage of respondent	
	Pre	Post
Never	15	2
Rarely	15	3
Sometimes	55	40
Always	25	55

Payment through debit/credit card has increased after demonetisation. The cash crunch has motivated people to use cards. 5% of the respondents who had never used the card before demonetisation have reduced down to just 2% only.

From 20% respondents who rarely or never used their cards before demonetisation have reduced to just 5%.

The 80% of respondents who always or sometime used their cards for payment have increased to 95%.

Favorable Mode of Accepting Payment of Local Vendors

Respondent	Percentage of respondent	
	Pre	Post
Cash	68	12
Card	30	40
Paytm	02	46
Others	00	02

68% respondent agree before demonetisation there were many stores where only mode of payment was cash, which has reduced down to 12% agreement of respondents after demonetisation.

30% says that card was also the mode of payment besides cash before demonetisation. This figure increased by 10% (reaching to 40%) post demonetisation. The local vendor doesn't want to loose customers just because of lack of hard cash.

The drastic change is seen in term of use of paytm where the acceptance of local vendors has increased from just 02% to 46% agreement.

There were many respondents who agrees that there are some local vendors now have open all the modes of payment i.e. cash, paytm as well as cards.

Level of Convenience

Respondent	Percentage of respondent	
	Pre	Post
Convenient	25%	50%
Very conenient	17%	45%
Difficult	55%	5%
Can't say	3%	0%

There were 42% of respondents who felt convenient or very convenient in terms using card or e-payment mode pre demonetisation.

But after the demonetisation the level of convenience/ very convenience has increased to 95%. This could be because the people have learned to use these means by choice and some even by compulsion, in order to cope with the cash crunch.

Impact on Fuel Comsumption

Respondent	Percentage of respondent
Yes	65%
No	25%
Can't say	10%

65% of the respondents agree that demonetisation has an impact of fuel consumption. Although most of them give the reason that it was one way to use your old Rs. 500/- notes, 25% of the respondents say that there was no impact of demonetisation or fuel consumption. They believe that it is same as the period before demonetisation.

Demonitisation and Savings

Respondent	Percentage of respondent
Yes	30%
No	30%
Can't say	35%

This question besides supporting the some main, theme of study i.e. impact on consumption pattern, also tries to work on the psychology of consumers.

Here surprising factor was that 35% of respondents tried escaped from the question and opted for the response 'can't say'.

The equal percentage of respondent 35% use bold enough to accept that 'yes' it has increased their saving 'to some extent' as the

money is still in these a/c in banks. If it had been cash, the spending tendency is more.

30% of respondent's doesn't felt that demonetisation has any effect on savings and hence they opted for 'no'. It was almost the same amount of spending, for them, before and after demonetisation.

Demonitisation and Increase in Sales of Organised Sector

Respondent	Percentage of respondent
Yes	78%
No	20%
Can't say	2%

A big number of respondents (78%) agree to it that demonetisation has directly or indirectly increased the sale of organised retailed sector. It even had motivated unorganised stores/ vendors to convert into organised sector.

20% of the respondents say that organised or unorganised sector has nothing to do with demonetisation and hence it has not helped any of the sectors, not even organised sector.

Just 2% of the respondents felt that they haven't had enough time of observe the growth in sales or organised or unorganised sector and hence opted 'can't say'.

Findings and Interpretation

Demonetisation clearly had an impact on market approach of customers. As after 8th nov. 2016 customers are unsure of when the much needed liquidity will be restored in the economy.

Demonetisation initially had a strong effect on the customers, who were accustomed to cash transactions as now they were now supposed to make digital payment. Problems were faced by the customers as neither had they had trust on digital payment nor local stores accepted payments by debit or credit card.

After 8th November the old currency notes of Rs. 500 and Rs. 1000 due to denomination were utilized for buying petrol/ diesel as petrol pumps were accepting the old currency. Customers pattern of fuel consumption did change post demonetisation as changing old currency for new were difficult. People did utilize the opportunity available to utilise old currency by getting fuel more then what they usually buy.

Consumption of non durable goods especially fruits and vegetables dropped considerably due to cash crunch. As majority of salaried middle class customers make purchases from local fruits and vegetable vendors who only and only deal in cash.

The customer's pattern of buying goods exhibited change. Post demonetisation customers made up for the cash crisis my buying the goods from organised retail market i.e. Super markets and stores like big bazaar, reliance fresh. On door, Apoorti etc. These big stores and super markets facilitated card payment and were benefited from demonetisation. As a lot of customers from unorganized market shifted to organised market

Customers buying behaviour of automobiles revealed that demonetisation did not had a considerable effect. Salaried middle class customers have a typical way of buying automobiles i.e. Part payment in cash/ cheque and remaining they get financed through banks. This clarity of dealings and usage of white money spared them from effect of demonetisation. During December salaried customers as ever purchased automobiles due to year ending discounts and offers.

One lifestyle change clearly visible in the study is that the customers now find ease in approaching market even with a little of cash in wallet. As now they are gradually adopting digital mediums if making payments like e payment, card payment and online payment.

The study of lifestyle changes in salaried middle class will be very interesting but it is still too early to suggest any thing conclusive.

Demonetisation definitely resulted in increasing ordinary household sectors savings. This in future will be resulting in increased investment in the economy and will pace the consumption of luxury goods.

One positive effect of demonetisation was that it increased consumer's awareness of digital payment.

Post demonetisation many banks have introduced mobile wallet. It is more secured way of making payment in comparison to online and card payment.

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IMPACT OF DEMONETISATION ON ECONOMIC SECTORS- AN OVERVIEW

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Abstract

Demonetisation announced on November 8, 2016 was aimed at addressing corruption, black money, counterfeit currency and terror financing. Although demonetisation holds huge potential benefits in the medium to long-term, given the scale of operation, it was expected to cause transient disruption in economic activity. The analysis in this paper suggests that demonetisation has impacted both sectors, ie. Formal and informal, of the economy in varying degrees; however, in the affected sectors, the adverse impact was transient and felt mainly in November and December 2016. The impact moderated significantly in January 2017 and dissipated by and large by mid-February, reflecting the fast pace of demonetisation. The latest CSO estimates suggest that the impact of demonetisation on GVA growth was modest. An important consequence of demonetisation has been the sharp increase in the use of digital transactions.

Keywords—Demonetisation, formal and informal sectors, remonetisation, digital transactions.

I. INTRODUCTION

Demonetisation is the process of removing currency from general usage or circulation. On November 8, 2016, it was decided to demonetise high value currency notes of denomination of `1000 and `500 (called specified bank notes - SBNs). Such notes, valued at ` 15.4 trillion, constituted 86.9 per cent of the value of total currency in circulation. The decision was in continuation of a series of measures taken by the Government of India during last two years aimed at eliminating corruption, black money, counterfeit currency and terror funding. The decision was

guided by the aim of reaping its enormous potential medium-term benefits in the form of reduced corruption, greater digitisation of the economy, increased flow of financial savings and greater formalisation of the economy. All of these would lead to higher GDP growth and tax revenues that could be used by the Government for inclusive and stronger economic growth within the norms of fiscal prudence, besides contributing to overall improvement in business environment.

India has traditionally been a cash intensive economy. According to an estimate, about 78 per cent of all consumer payments in India are effected in cash. It was, therefore, obvious that currency squeeze during the demonetisation period would have had some adverse impact on economic activity, although such impact was expected to be transient. In order to mitigate the adverse impact on the common man as also on economic activity, a series of measures were undertaken, keeping in view the feedback received from various quarters.

Growth

The growth of gross value added (GVA)is expected to have been impacted primarily by the liquidity shock, *i.e.*, limited access to currency as a medium of exchange for effecting transactions in the economy. This impact is expected to have worked through two channels: (a) decline in demand due to shortage of cash to make payments, mostly on discretionary spending; and (b)

disruption in production activity due to man hours lost as some workers, especially those in the unorganised sector who get their wages paid in cash, experienced temporary loss of work. The construction sector and some of the labour-intensive manufacturing sectors such as textiles, leather, gems and jewellery and the transportation sector engage casual/migrant labourers extensively. The loss of wage income for workers is also expected to have caused a drag on consumption demand.

The Reserve Bank in its Fifth Bi-monthly Monetary Policy Statement on December 7, 2016 placed the GVA growth for 2016-17 at 7.1 per cent, which was lower than 7.6 per cent GVA growth projected in its Fourth Bi-monthly Monetary Policy Statement of October 4, 2016. The 50 basis points (bps) downward revision in GVA growth was on account of 35 bps loss in momentum, which was reflected in GVA growth in Q2 estimated by the Central Statistics Office (CSO) in November 2016 and 15 bps on account of the adverse impact of demonetisation. The CSO in its first advance estimates released on January 6, 2017 placed the GVA growth for 2016-17 at 7.0 per cent.

The overall GVA growth in the Sixth Bi-monthly Monetary Policy Statement on February 8, 2017 was pegged lower at 6.9 per cent. The impact of demonetisation on GVA growth was estimated at about 33 bps for the full year 2016-17. After the peak impact in Q3, GVA growth was estimated to strengthen with the progressive remonetisation in Q4. As per the second advance estimates of the CSO released on February 28, 2017, GVA growth for 2016-17 is pegged at 6.7 per cent, which is about 30 bps lower than what was estimated on January 6, 2017. Importantly, Q3 growth (at 6.6 per cent) was only marginally lower than that recorded in Q2 (6.7 per cent), thereby suggesting that demonetisation had only a modest impact on growth in Q3 of 2016-17.

Impact Formal and Informal Sectors

The underlying factors for GVA growth estimate of 6.9 per cent as presented in the Sixth Bi-monthly Monetary Policy Statement on February 8, 2017 are detailed below.

Formal Sector/ Organised Secoter

Although the organised sector on the whole remained resilient, some manufacturing and services segments were adversely affected.

Organised manufacturing was impacted adversely as evident from (i) the decline in the sales of fast moving consumer goods (FMCG) (as per the Nielsen survey) and automobiles in all the months from November to January; (ii) contraction in the manufacturing purchasing mangers' index (PMI) in December for the first time in 2016; and (iii) deceleration in export growth during November (Table 1). The data released by the Society of Indian Automobile Manufacturers (SIAM) suggested that auto sales contracted by 4.7 per cent in January 2017 but returned to expansion mode (by 0.9 per cent) in February. In the two-wheeler segment, the impact was severe, especially in rural pockets. The PMI for manufacturing in January and February 2017 as well as export growth in December 2016 and January 2017 rebounded.

Table 1: Lead Indicators of Economic Activity

(y-o-y growth in per cent)

Sr No.	Apr-Oct		Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
I.	**Macro indicators**						
1	M3	6.4#	10.4	8.5	6.6	6.4	6.5^
2	Currency in circulation (CIC)	6.9#	17.2	-23.6	-39.9	-37.8	-28.2^
3	Bank credit $	1.8#	8.4	6.2	4.9	4.7	4.5^
4	Indirect tax collections@	24.7	23.4	36.5	20.2	13.9	15.3
5	Service tax collections by the centre @	25.2	29.6	43.9	13.1	12.1	5.3
II	**Sectoral indicators**						
1	**Agriculture 2016-17**						
a.	Foodgrains production	8.1					N.A.
	Apr-Oct	**Oct-16**		**Nov-16**	**Dec-16**	**Jan-17**	**Feb-17**
2	**Industry**						
a.	PMI manufacturing (index)	52	54.4	52.3	49.6	50.4	50.7
b.	IIP	-0.3	-1.9	5.7	-0.1	2.7	N.A.
i.	Mining	-0.2	-0.9	3.7	5.5	5.3	N.A.
Coal		0.7	-1.6	6.4	4.4	4.8	N.A.
Crude oil		-3.3	-3.2	-5.4	-0.8	1.3	N.A.
Natural gas		-4.0	-1.4	-1.7	0.0	11.9	N.A.
ii.	Manufacturing	-1.0	-2.4	5.5	-1.7	2.3	N.A.
iii.	Electricity	4.5	1.1	8.9	6.3	3.9	N.A.
3				**Services**			
i.	PMI services	52.6	54.5	46.7	46.8	48.7	50.3
ii.	Automobile sales	15.0	8.1	-5.5	-18.7	-4.7	0.9
iii.	Commercial vehicles sales	6.9	11.9	-11.6	-5.1	-0.7	7.3
iv.	Passenger vehicles sales	11.0	4.5	1.8	-1.4	14.4	9.0
v.	Three wheelers sales	11.8	4.4	-25.9	-36.2	-28.2	-21.4
vi.	Two wheelers sales	16.0	8.7	-5.9	-22.0	-7.4	0
vii.	Cargo handled at major ports	6.3	13.2	10.2	12.9	3.6	N.A.
viii.	Railway freight traffic	-1.7	-2.6	5.5	-0.1	0.3	N.A.
ix.	Tourist arrivals	10.8	10.4	9.2	13.6	16.4	N.A.
x.	Cement production	4.8	6.2	0.5	-8.7	-13.3	N.A.
xi.	Steel consumption	2.7	0.3	5.0	5.3	3.1	N.A.
xii.	Civil aviation: domestic cargo traffic	7.5	10.6	-0.6	7.5	10.1	N.A.
xiii.	Civil aviation: international cargo traffic	9.2	15.6	15.4	12.6	16.0	N.A.
Xiv	Civil aviation: international passenger traffic	9.1	7.4	7.7	7.7	8.8	N.A.
xv.	Civil aviation: domestic passenger traffic	22.5	23.6	22.0	23.9	25.6	N.A.
xvi.	Bank deposits growth	6.4#	9.3	15.7	14.9	13.5	12.6^
Xvii	Insurance	31.1	22.4	72.1	21.1	32.1	-4.5**

	premium*						
Xviii	Merchandise exports	0.2	9.0	2.4	5.5	4.3	N.A.
Xix	Merchandise imports	-9.8	8.3	9.4	0.1	10.7	N.A.

: Relate to Oct. 27, 2017 over Mar. 31, 2017. ^: Data pertain to February 17, 2017.

$: Pertains to total bank credit to commercial sector. @: Data source: Central Accounts Section (CAS), Nagpur.

N.A.: Not Available. *: Pertains to life and non-life insurance premiums.

**: Pertains to life insurance premiums alone.

Sources: Reserve Bank of India; Ministry of Agriculture, Market Economics, CSO, SIAM, IRDA, CMIE.

The organised corporate sector appeared to have remained largely resilient to the impact of demonetisation going by the quarterly results announced for Q3, which is the key indicator for estimating growth in manufacturing GVA. However, according to the Centre for Monitoring Indian Economy (CMIE), new investment proposals dropped to ` 1.41 trillion in Q3 as against an average of 2.36 trillion in the preceding nine quarters. In terms of number of new investment proposals, Q3 was the lowest in a decade.

Some segments in the services sector also appeared to have been adversely impacted. The services PMI fell sharply from 54.5 in October to 46.7 and 46.8 in November and December, respectively, entering contraction territory for the first time after June 2015. Despite improvement in January to 48.7, it remained in contraction mode. In February, however, the index at 50.3 returned to modest expansion mode. Production of cement, one of the main indicators for the construction sector, decelerated sharply in November, and contracted by 8.7 per cent and 13.3 per cent in December 2016 and January 2017, respectively. Sales of commercial vehicles – an indicator for transportation activity – contracted by 11.6 per cent in November, 5.1 per cent in December 2016, and 0.7 per cent in January 2017, as against an average growth of 6.9 per cent during April-October 2016. In February, it increased by 7.3 per cent. Growth in sales of passenger vehicles also decelerated to 1.8 per cent in November and contracted by 1.4 per cent in December, but rebounded sharply to 14.4 per cent in January 2017 and expanded by 9 per cent in February.

Organised real estate essentially reflected the performance of listed real estate companies. Although the S&P BSE realty index declined significantly after demonetisation till end-December 2016, it rebounded subsequently . While real estate prices reportedly held up, sales and new launches declined. According to Knight Frank India, demonetisation move created a real dent in the residential real estate sector, pulling back the last quarter trend of residential sales substantially across the cities. After demonetisation, expectations of downward correction in house prices seemed to have impacted registrations in some of the cities in November. In December, however, registrations appeared to have bounced back, though they were lower than in October.

Two major components of the organised sector under services, *viz.*; financial services and public administration**,** imparted significant resilience to the overall GVA growth momentum. The average growth of deposits and credit (a key indicator for financial services) remained largely unchanged after demonetisation. Insurance premiums collected by insurance companies, another key indicator, recorded a year-on-year (y-o-y) increase of 72.1 per cent in November, before moderating in December 2016 and January 2017.

Growth in public administration (*i.e.*, revenue expenditure net of transfers) exhibited robust growth in H1, which was expected to continue through H2. In these two segments (*i.e.*, financial services and public administration), the unorganised sector's share is zero and informal employment is negligible.

In transportation, domestic air passenger traffic growth was robust at 22 per cent in November and 23.9 per cent in December and 25.6 per cent in January 2017 (similar to the average growth in April-October). Domestic air cargo traffic contracted by 0.6 per cent in November, but revived to 7.5 per cent in December and 10.1 per cent in January. Growth in international air cargo traffic (at 15.4 per cent) and international passenger traffic (at 7.7 per cent) remained strong in November. The upbeat trend continued in December and January. Service tax collections - a lead indicator for communication and other services -registered a growth of 43.9 per cent in November, but decelerated to 13.1 per cent in December and further to 12.1 per cent in January.

Informal Sector/ Unorganised Sector

The unorganised sector accounts for about 45 per cent of GVA and 82 per cent of total employment (Table 3). Hard data on the unorganised sector are collected only infrequently and then used for fixing the base period benchmark by the CSO (*i.e.*, 2011-12 for the new GVA/GDP series). For subsequent years, estimates are extrapolated from the base year benchmarks using suitable proxy indicators from the organised sector or by applying past trends. Following the standard "labour input (LI)" methodology, the number of workers (from the 68of Employment and Unemployment Survey, NSSO) and the value added per worker (from the 67th round of Enterprises Survey of NSSO) in the industry are used for fixing the base year estimates. For example, for estimating the unorganized manufacturing GVA, labour input (LI) and GVA per effective worker (GVAPEW) are fixed for the base year 2011-12, and subsequent quarterly/annual estimates are generated by applying the IIP growth, until data from the Annual Survey of Industries (ASI) become available. Similarly, for unorganised services, the indicators used for estimating quarterly/annual GVA are sales of motor vehicles (for maintenance and repair of vehicles); sales tax growth (for retail trade); service tax growth (for repair of personal and household goods); corporate performance (for hotels and restaurants); and growth in registered vehicles (for transportation). Therefore, in the absence of any hard data on the unorganised sector, the assessment was based on the indicator approach used by the CSO.

Growth Outlook for 2017-18

As the impact of the liquidity shock was assessed to largely dissipate by mid-February, growth was estimated to bounce back in 2017-18. With rapid remonetisation, pent up demand was likely to boost consumption demand. After demonetisation, some workers were reported to have received wage payments in advance, but in the form of credit to bank deposits. Since the propensity to consume is high for the working class population, their consumption was expected to increase with the improving access to cash. Accordingly, consumption demand was expected to get a boost in 2017-18 as compared with the second half of 2016-17.

Economic activity in the cash-intensive sectors such as retail trade, hotels and restaurants, and transportation, as well as in the unorganised sector, was expected to be rapidly restored. The overall business climate should improve with the medium-term positive effects of demonetisation starting to gain traction. Some of the indicators

available, such as PMI for manufacturing and services in February, sales of passenger cars in January and February, and an upturn in manufacturing production growth in January pointed to signs of a recovery in growth from the November/December lows. The emphasis given in the Union Budget to curb the parallel economy, and the expected buoyancy in collection of direct taxes as per the budget estimates was expected to ultimately get manifested in greater formalisation of the economy. The measures announced in the Union Budget 2017-18 for the infrastructure sector, MSMEs, low cost housing and agriculture were expected to strengthen the recovery. Taking into account these likely drivers of growth, and the baseline assumptions of a normal monsoon and the budgeted fiscal deficit of 3.2 per cent of GDP, GVA growth was projected to strengthen to 7.4 per cent in 2017-18.

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ECONOMIC CONSEQUENCES OF DEMONETIZATION

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Abstract

The Government of India announced the demonetization of all 500 and 1,000 currency notes on 8 November 2016 with the objective to curtail the shadow economy, combat corruption, to check tax evasion and to crack down on the use of illicit and counterfeit cash. However, this move is expected to cleanse the formal economic system and discard black money from the same. The stripping of currency notes of its status as legal tender could have both positive and negative impacts on the economy. Hence, this paper intends to study the impact of demonetization on some of the major macroeconomic variables of Indian economy such as- Inflation, Industrial production, GDP estimates, Agricultural production and Employment growth. The study found that even after observing a fall in the growth rate of Agriculture production, Purchasing Managers' Index, Employment, Inflation and GDP forecasts, these indicators are expected to retain their growth rates in the near future.

Keywords: Demonetisation, Effects, Agriculture, Industry

I. INTRODUCTION

On 8th November 2016 the Honorable Prime Minister of India announced the demonetization of all 500 and 1000 currency notes and the issuance of new 500 and 2000currency notes in exchange for the same. As per the data available with the RBI, Rs. 17, 54,000 crores worth of currency is in circulation in India, of which 45% is accounted for by Rs. 500 notes and 39% by Rs 1000 notes. In other words, Rs. 16, 32,000 crores worth of currency stands demonetized. The motive behind this move was to curtail shadow economy, crack down on the use of illicit and counterfeit currency to fund terrorism and illegal activities and to curb black money. Further, it was accompanied by the idea of reducing inflation and digitalization. The government of India stipulated a period of 50 days to exchange the demonetized notes and to deposit them as credit in their bank accounts. However, the demonetization affected the economy both positively and negatively.

On the very first note, all citizens faced severe cash shortages as it made them to stand in lengthy queues that led to several deaths because of the inconvenience caused due to the rush to exchange cash. Nobel laureate Paul Krugman said that it is difficult to see gains from demonetization, while there may be significant costs to it. Nobel laureate Indian economist Amartya Sen severely criticized the demonetisation move calling it a "despotic action" among other things. Former Senior Vice-President and Chief Economist of the World Bank, Kaushik Basu called it a 'major mistake' and said that the 'damage' is likely to be much greater than any possible benefits. However, Finance Minister Arun Jaitley said that demonetisation would clean the complete economic

system, increase the size of economy and revenue base along with the upcoming Goods and Services tax (GST) as "an attempt to change the spending habit and lifestyle." Arundhati Bhattacharya (Chairperson of State Bank of India) and Chanda Kochhar (MD & CEO of ICICI Bank) praised the move in the sense that it would help curb black money. International Monetary Fund (IMF) issued a statement supporting Modi'sefforts to fight corruption by the demonetization policy.

The objective of this paper is to study the impact of demonetization on some of the major macroeconomic variables of Indian economy such as- Inflation, Industrial production, GDP estimates, Agricultural production and Employment growth. The paper also intends to study the prima facie consequences of these on Indian economy. The paper is based on secondary data and the data is collected from sources like Reserve Bank of India, Ministry of Statistics and Programme Implementation, Ministry of Commerce and Industry etc. and the newspapers reviewed are The Hindu, Business standard, and The Economic times.

Literature Review

This move regarding demonetization is not a new one. There are also prior instances of demonetization in 1946 and 1978 in India. In 1946, the government demonetized bank notes of 1000, 5000, & 10000 rupees with the motive to combat tax evasion. Whereas, in 1978 the reason behind demonetization to eliminate the illegal transfer of money for financing transaction which are harmful to the national economy. However, this move miserably failed because the demonetization recommended by Wanchoo committee (1970) was of public nature. Hence, alerted the black money holders and gave them ample of time to get rid of their hoardings resulting into ineffectiveness of the decision. Moreover, The Experiences from countries like Ghana (1982), Nigeria (1984), Myanmar (1987), soviet union (1991), North Korea (2010) etc. have reported negative consequences due to demonetization.

Tax research team (2016), suggests that "the impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished."

Chanda (2016), in his interactions with individuals from various walks of life and income levels, he found that there is clearly a willingness to suffer through the inconveniences so that corruption can bring under control. However, this support is not unconditional and depends on the speed with which the current liquidity crunch is resolved.

Singh and Singh (2016), states that "if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries show that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy."

Rani (2016) in her study based on primary data analyzed that initially the demonetization effects on market were painful but this also instigate the shopkeepers and consumers to adopt cashless means to buy goods. Moreover, demonetization effect will be positive in coming time for Indian economy.

Kaur (2016) in his study based on secondary data suggests that "this is a historical step by Modi government and should be supported by all. This decision of government will definitely fetch results in the long term. From an equity market perspective this move would be positive for sectors like banking and infrastructure in the medium to long term. This could be negative for sectors like Consumer Durables, Luxury items,

Gems and Jewellery, Real Estate and allied sectors, in the near to medium term. This move can lead to improved tax compliance, better fiscal balance, lower inflation, lower corruption, complete elimination of fake currency and another stepping stone for sustained economic growth in the longer term."

Impact on major Macroeconomic variables

This paper intends to study the impact on some major macroeconomic variables of demonetization. The data that is used for analytical study has been collected from secondary sources.

Table 1: Growth rates and estimates for Sectors of India (in percentage)

Sectors	**Q3:2016-17**	**Q4:2016-17** ***(estimated)***	**Q1:2017-18** ***(estimated)***
Agriculture & Allied activities	4.3	4.0	3.1
Industry	4.6	5.3	6.0
Services	7.2	7.7	8.3

Source: Reserve Bank of India

Agriculture Production

The above table shows that the growth rate for agriculture & allied activities has reduced to 4% in Q4 (2016-17) from 4.3% in Q3 (2016-17). According to forecasts conducted by RBI it is expected to decline to 3.1% in Q1 (2017-18). Since transactions in agriculture & allied activities takes place mostly through cash. Due to disruptions in the supply chain farmers have insufficient cash to purchase seeds, fertilizers and pesticides needed for the plantation of Rabi crops usually sown around mid-November. Therefore, due to demonetization the growth rate of agriculture sector has reduced in short run. These are only the short term impacts on agriculture but in long run the sector may experience positive impacts. As per the governments' policy the farmers are now provided with direct benefit transfers which has reduced the role of agents in agriculture sector. Thus will reduce leakages and delays by crediting subsidies directly into their bank accounts. Moreover, in the Union budget 2017 the Government has proposed to double the income of farmers till 2022. Hence, it can be stated that the sufferings are only for short term and the agriculture sector may retain benefits in the long run.

Industrial production

On the other hand industrial and services sector has experienced an increased growth rate from 4.6% in Q3 (2016-17) to 5.3% in Q4 (2016-17) and from 7.2% in Q3 (2016-17) to 7.7% in Q4 (2016-17) respectively. The index of Industrial Production (IIP) rose to a 13-month high of 5.7 percent in November compared with a contraction of 1.8 percent in the month of October according to the Business Standard. The growth in eight core sectors such as cement, steel and refinery products, which constitute 38% of the Index of Industrial Production (IIP), was only 4.9 percent in November as compared with 6.6 percent in October. However the growth rate increased to 5.6% in December 2016. This implies that only after a few days of demonetization the IIP of these eight core sectors regained the growth rate.

The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector and it is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment and these indicators were adversely affected post- demonetization. Hence, manufacturing sector activity fell to 49.6% down from 52.3% in November 2016. Demonetization made it difficult for the consumers to buy goods

and services on the same hand producers were also unable to purchase raw materials for further production due to cash shortages.

Inflation

As per the data of Ministry of Statistics and Programme Implementation in November 2016 CPI inflation was 3.63% which is less than 5.61% in December 2015 and after demonetization in December 2016 it further reduced to 3.41%. On account of demonetization less cash in hands of public has not only reduced the consumption and demand for conspicuous items but also for necessities. Hence, inflation is expected to fall in the short term period due to reduction in consumption but in the long run if government spending increases it will push up the employment & income and demand will be revived. Therefore in long run inflation rate may remain neutral.

Employment Growth

According to the National Commission for Enterprises in the unorganized sector (NCEUS), The unorganized sector comprises approximately 86% of the total persons employed in India. Within the unorganized sector cash is the only way to conduct business among large proportion of labour intensive sectors. The growth rate of employment for Q3 (2016-17) was expected to be 9.1% and it was assessed as 3.8%. The data shows a great difference in the expectation and actual assessment of the growth rate of employment. For Q4 (2016-17) the expectation level has been kept low to 5.2%. On the basis of prediction of money market equilibrium models interaction of money demand and money supply will put pressure on the interest rate and due to reduction in money supply. Further, aggregate demand in the economy will be adversely affected in the short run thus reducing the price level for few months. Therefore, it will lead to building up of inventories which can eventually impact production activities. Adjustments in small and medium enterprises would be exposed to a higher order of demand risk affecting the growth rate of employment. The improvement will not be observed in log run until or unless public spending increases.

GDP estimates

Since consumption is a major component of GDP, the cash crunch due to demonetization has negatively affected the consumption level and hence the GDP growth rate. In this context, the International credit rating agencies have also cut down their forecast for GDP of India post demonetization. The Reserve Bank of India (RBI) has cut its GDP growth forecast for this financial year from 7.6% to 7.1%, citing the government's demonetization exercise.

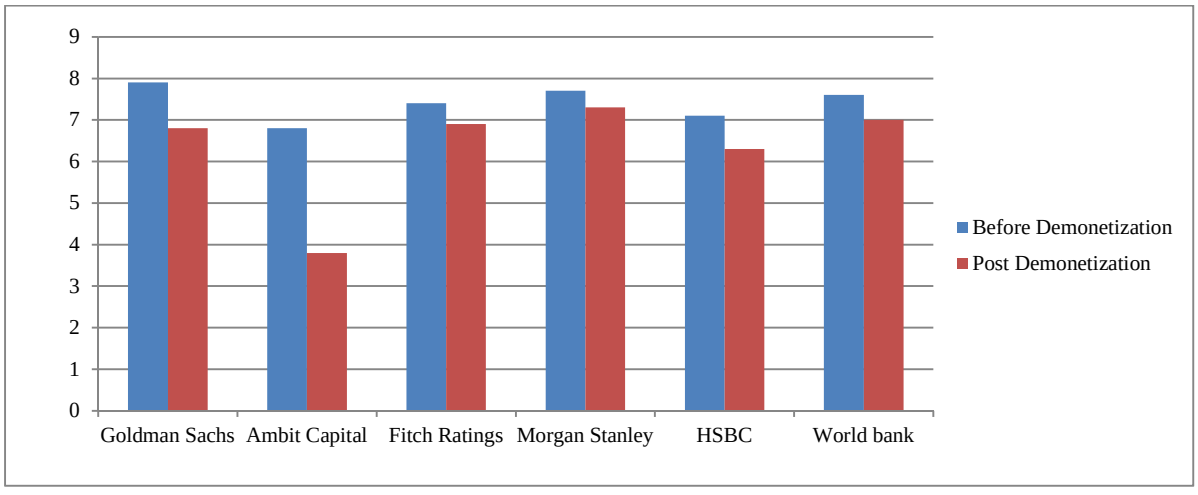


Fig: Credit rating agencies and their ratings

Fitch Ratings lowered its GDP growth forecast for India to 6.9% from 7.4% for this financial year. The rating agency, which reaffirmed its negative outlook on the Indian banking sector, said: "The move (demonetization) has the potential to raise government revenue and encourage bank lending, but Fitch Ratings believes the positive effects are unlikely to be strong and sufficiently enduring to support credit profiles." Moreover, The World Bank's Global Economic Prospects January 2017 report has also lowered the GDP growth estimates from 7.6% to 7% post demonetization. "In the short term, 'demonetization' could continue to disrupt business and household economic activities, weighing on growth," and "a benefit in the medium term may be liquidity expansion in the banking system helping to lower lending rates and lift economic activity." It further added that the Indian economy is subsequently set to recover its growth momentum, with growth rising to 7.6 per cent in FY18 and further strengthening to 7.8 per cent in FY20. Ultimately for long run it can be asserted that with a widening of tax net GDP is likely to get a boost.

II. Conclusion

We cannot deny from this fact that demonetization has caused sufferings and hardships for public but for a policy measure to be effective the emphasis must be on maximizing its benefits while minimizing its costs. So we can conclude that even after observing a fall in the growth rate of Agriculture production, Purchasing Managers' Index, Employment, Inflation and GDP forecasts, these indicators are expected to retain their growth rates in the near future according to the reports.

Dr. B.R. Ambedkar in his thesis "the problem of Indian rupee" suggested that the notes should be demonetized after every 10 years to curb corruption. But is it feasible and accurate for an economy like India to have policies like demonetization and digitalization prior to the achievement of basic amenities even in the remotest areas? There are still many places with no banks and ATMs so; at the initial level the policies must be formulated to rectify the grass root problems. Moreover, until or unless the revenue generated through demonetization is not adequately allocated and if the increased liquidity in the banks is not properly utilized, the lucrative objectives which were undertaken by the government like to deal with black money, tax evasion and eradicate counterfeit currency would be worthless and on the other hand the hardships of public caused by demonetization would be in vain.

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DIGITAL PAYMENT SYSTEM: BEFORE, DURING AND AFTER DEMONETISATION

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Abstract

Digital India campaign was launched on Second July of 2015 with the aim to promote Faceless, Paperless and Cashless economy. However, real impetus to digital payment system came with announcement of demonetization by Prime Minister on 8th November 2016. It really paved the way for digital payment system. During the period of demonetization, to mitigate shortage of cash, government aggressively promoted and encouraged various digital payment modes. Along with existing mode of digital payment NACH, CTS, NETC new modes of digital payments like IMPS, AEPS, BBPS, UPI, BHIM were also introduced. This paper attempts to check extent to which demonetisation influenced usage of major digital payments modes, which were available before demonetisation. Our analysis suggests that not only total amount of digital payment transactions significantly increased post demonetisation, but all individual modes of digital payment system has grown significantly after demonetisation.

Keyworlds: Demonetisation, Digital Payment System, Cashless, NPCI

I. INTRODUCTION

Digital India movement is to prepare the country for digital transformation i.e. empowers society and economy with advantages of digitalization. In this program Central and State both government has well defined roles. It is also expected that government services will be available to all citizens electronically. Emphasis was also on digital literacy and availability of digital sources and services in Indian languages. The programme will be implemented in phases from 2014 till 2018, which would require around Rs. 113,000 core. For implementation the government is planning to strengthen National Informatics Center (NIC) by restructuring and positions of chief information officers (CIO) would be also created.

Digital India campaign has the vision of Infrastructure as a utility to every citizen, Governance and Services on Demand and Digital empowerment of citizens.

As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available.

As a part of Digital India movement, government of India also emphasised on digital payment system. To give boost and better settlement of digital payment system government initiated number of new modes of digital payment under National Payments Corporation of India (NPCI). It is an umbrella organization for all retail payments system in India.

NPCI was set up with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA) in December 2008 and the Certificate of Commencement of

Business was issued in April 2009. It was aimed to operate for the benefit of all the member banks and their customers. NPCI has ten promoter banks namely, State Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Union Bank of India, Bank of India, ICICI Bank, HDFC Bank, Citibank and HSBC.

Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) at its meeting held on September 24, 2009 had given an in-principle approval to issue authorization to NPCI for operating various retail payment systems in the country and granted Certificate of Authorization for operation of National Financial Switch (NFS) ATM Network with effect from October 15, 2009 and it taken over NFS operations on December 14, 2009. Membership regulations and rules had been framed for enrolling all banks in the country as members. This was done so that when the nation-wide payment systems are launched, all would get included on a standardized platform.

NPCI took various initiatives to improve digital payment systems. In this regard it launched various product and services. Such products are as follow.



Banking Cards: Banking cards offer consumers more security, convenience, and control than any other payment method. The wide variety of cards available – including credit, debit and prepaid – offers enormous flexibility, as well. These cards provide 2 factor authentication for secure payments e.g secure PIN and OTP. RuPay, Visa, MasterCard are some of the example of card payment systems. Payment cards give people the power to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They save both customers and merchants' time and money, and thus enable them for ease of transaction.



USSD: The innovative payment service *99# works on Unstructured Supplementary Service Data (USSD) channel. This service allows mobile banking transactions using basic feature mobile phone, there is no need to have mobile internet data facility for using USSD based mobile banking. It is envisioned to provide financial deepening and inclusion of under banked society in the mainstream banking services.



AEPS: Aadhaar Enabled Payment System (AEPS) is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.



UPI: Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience. Each Bank provides its own UPI App for Android, Windows and iOS mobile platform(s).



Mobile Wallets: A mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in mobile device to mobile wallet application or you can transfer money online to mobile wallet. Instead of using your physical plastic card to make purchases, you can pay with your Smartphone, tablet, or smart watch. An individual's account is required to be

linked to the digital wallet to load money in it. Most banks have their e-wallets and some private companies. e.g. Paytm, Freecharge, Mobikwik, Oxigen, mRuppee, Airtel Money, Jio Money, SBI Buddy, itz Cash, Citrus Pay, Vodafone M-Pesa, Axis Bank Lime, ICICI Pockets, SpeedPay etc.



Banks Pre-paid Cards: Spending money are loaded onto the prepaid card in advance with a bank account debit card if you have "opted in" to your bank's overdraft program. This means that your bank may charge you a fee for covering the cost of a purchase or ATM withdrawal that exceeds what you have in your account.



Point of Sale: A point of sale (PoS) is the place where sales are made. On a macro level, a PoS may be a mall, a market or a city. On a micro level, retailers consider a PoS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase.



Internet Banking: Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. It includes National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), Electronic Clearing System (ECS) and Immediate Payment Service (IMPS) .



Mobile Banking: Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct different types of financial transactions remotely using a mobile device such as a mobile phone or tablet. It uses software, usually called an app, provided by the banks or financial institution for the purpose. Each Bank provides its own mobile banking App for Android, Windows and iOS mobile platform(s).



Micro ATMs: Micro ATM meant to be a device that is used by a million Business Correspondents (BC) to deliver basic banking services. The platform enable Business Correspondents (who could be a local kirana shop owner and will act as 'micro ATM') to conduct instant transactions.

Literature Review

Mishra (2017) in her study found that Government is decided to set digital targets for banks and payment firms. The government has taken a holistic approach to digital banking, looking at ways to incentivize train merchants and customers who use digital platforms, food and civil supply with the five lakh ration shops. Government is also planning to educate people well about digital payments. The process of demonetization was not properly planned. Planning for making India truly digital has begun only post demonetization.

Bhakta (2017) noted that digital payments grew 57% year-on-year in the last fiscal with mobile wallets more than doubling and card payments rising 44%, helped by a strong government push particularly after the demonetisation. He had also reported Aadhaar-enabled payment systems and the government-backed, Unified Payments Interface (UPI), have crossed transaction of 8.8 billion. In his article he has also covered details found in interview with AP Hota, MD, NPCI. He reported that hope in increasing in UPI as use of RuPay card is increasing will help to achieve target of 25 billion

transactions.1 lakh BharatQR codes that have been distributed across merchant outlets this year and they have plan to do another additional 93,000 the coming year. RuPay cards had 195 million transactions at PoS terminals and around 87.5 million transactions for online transactions.

Bhakta and Variyar (2017) reported that The Ratan Watal committee recommend proper measures for encouraging digital payment in India, may have envisaged a rosy picture for digital transactions and recommended sweeping changes to regulation around payments. But industry executives and experts felt that the report was extremely futuristic and almost verges on wishful thinking as several recommendations are likely to face implementation issues.

Agarwal and Variyar (2017) reported in their article that in Budget our finance minister Arun Jaitley encouraged digital payments and announced a mission targeting at least 2,500 crore cashless transactions in 2017-18 through payment modules such as the government's Unified Payments Interface (UPI) and Aadhaar Pay. The biometrics-based payments system will be launched shortly, for which banks will be encouraged to roll out 2 million Aadhaar-linked payments terminals by September. He also put a proposal to mandate all government receipts through digital means beyond a limit is also under consideration.

Variyar (2017) reported issues of digital payment did not consider in Budget 2017. Such issues were: costs of incentivising digital payments should be borne by government and RBI and not customers or financial intermediaries. Other issue was interoperability and open access to payment systems by non-bank payment service providers emphasised by Ratan Watal Committee. She also reported an issue related to role of NPCI.

Goriparthi and Tiwari (2017) have found demonetisation as positive step ahead to dream of Digital India. They also argued policy direction by the government highlights the tremendous growth possibilities for the digital payments sector that is only just started to establish itself. They also emphasised that demonetization has also in a way dismantled some of the traditional barriers preventing Indians from adopting digital payment solutions such as the habit of using cash, complexity and unfamiliarity of digital payment systems, lack of compelling value proposition, and anxiety over fraud and network security.

Ravi (2017) in his study found great scope of digital payment in rural India as it is faster and cheaper. He also argued that NPCI had developed new payment application, which are designed to work on all phones with or without internet and even without phones is helping rural India. He also emphasised on advantages of new digital payment system like: reduction in transaction cost, development of IT act in support of digital payment system, scope for development of ICT in India and ease in day settlement for merchants and small retailers.

Kumari and Khanna (2017) mentioned that cashless economy initiative will be of significant benefits to developing economy; hence the cashless system will be helpful in the fight against corruption and money laundering. One most significant contribution of the cashless economy is that it is expected to reduce the risk associated with carrying cash like loss of cash, theft and armed robbery, which will drastically reduce. They have also put an argument about positive relationship between cashless and economic growth.

Nayak (2017) reported State Bank of India's research department found that Demonetisation has help the nation leapfrogged

three years ahead in digitisation and this trend is also expected to lower inflation. They had mainly reported total debit and credit card transactions through PoS (point of sale), between April'16 and April'17 it rose 88% and transaction through various prepaid instruments – mobile wallet, PPI cards, and paper vouchers and mobile banking rose 122% in the same period.

Joshi (2017) concluded that current government took enhanced initiatives to develop digital payment system in India. He has studied remarkable growth in digital payments in last three years. He has also observed that people have proactively adopted new modes of digital payments and also hoisted the usage of new digital payment modes over old digital payment modes. He emphasised that demonetisation amplified digital payment transactions especially in newfangled modes of digital payments like NACH, IMPS, AEPS, BBPS, UPI, BHIM(UPI) and NETC.

Objectives

1. To study the effect of demonetisation on digital payment
2. To study the difference between growth in different mode of digital payment before, during and after demonetisation.

Research Methodology

To accomplish above objectives, we have followed descriptive research design. For the study required data of retail digital payment data of NPCI rupees in billion are collected from the website of Reserve Bank of India.

Time period for the data is from April 2016 to August 2017. In this period data from April 2016 to October 2016 i.e. 7 months' time period before demonetisation, November and December 2016 i.e. 2 months' time period of demonetisation and January 2017 to August 2017 i.e. 8 months' time period after demonetisation.

Analysis of Variance (ANOVA) is used to check the difference in total and different modes of digital payment before, during and after demonetisation. After ANOVA for different modes of digital payment Post hoc test is applied after applying levene's test for variance.

Data Analysis and Findings

Following table shows average amount of value in billion in total and different modes of digital payment and their standard deviation before, during and after demonetisation.

Table-1 Average and standard deviation of total amount and in various modes of digital payments

		N	Mean	Std. Deviation
Total Financial Transactions	Before Demonetisation	7	7695.3386	273.62773
	During Demonetisation	2	7701.8550	1048.98584
	After Demonetisation	8	9082.2600	753.36988
	Total	17	8348.7741	923.73002
NFS Inter Bank ATM Cash Withdrawal	Before Demonetisation	7	974.527	57.2160
	During Demonetisation	2	528.387	62.4892
	After Demonetisation	8	1025.918	74.9389
	Total	17	946.224	171.1085
NACH- National Automated Clearing House	Before Demonetisation	7	573.999	68.6141
	During Demonetisation	2	615.316	12.8988
	After Demonetisation	8	726.219	119.5138
	Total	17	650.492	116.6480
CTS Cheque Clearing (Processed Volume)	Before Demonetisation	7	5875.563	196.1353
	During Demonetisation	2	6115.563	984.7825
	After Demonetisation	8	6673.560	641.5921
	Total	17	6279.326	638.3703

IMPS	Before Demonetisation	7	260.182	46.2596
	During Demonetisation	2	378.406	75.8031
	After Demonetisation	8	567.325	56.9947
	Total	17	418.629	157.5563
RuPay Card usage at (POS)	Before Demonetisation	7	7.842	1.9734
	During Demonetisation	2	50.053	28.2776
	After Demonetisation	8	39.847	7.6691
	Total	17	27.869	19.6442
RuPay Card usage at (eCom)	Before Demonetisation	7	2.136	.6196
	During Demonetisation	2	7.958	4.2314
	After Demonetisation	8	10.316	1.0945
	Total	17	6.670	4.1996
AEPS (Inter Bank) Transactions over Micro ATM (e.g. Cash withdrawal/ Cash Deposit)	Before Demonetisation	7	.965	.7201
	During Demonetisation	2	1.673	.5558
	After Demonetisation	8	9.536	5.0702
	Total	17	5.082	5.4998

Source: Author's calculation

Above table shows in all modes of digital payment and in total also amount is increased after demonetisation. Standard deviation during demonetisation period is highest or lowest in different modes of digital payment. To check whether in different phases i.e. before, during and after demonetisation amount of digital payments in total and in different modes of digital payments are significantly different or not we have to apply ANOVA and group them in homogeneous group post hoc tests are applied.

There are various post hoc test available on the basis of homogeneity of variance. Following table shows result of levene's test

H0: Variances are homogeneous

H1: Variances are not homogeneous

Table2 1 Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Total Financial Transactions	2.445	2	14	.123
NFS Inter Bank ATM Cash Withdrawal	.157	2	14	.856
NACH- National Automated Clearing House	1.876	2	14	.190
CTS Cheque Clearing (Processed Volume)	3.002	2	14	.082
IMPS	.335	2	14	.721
RuPay Card usage at (POS)	15.072	2	14	**.000****
RuPay Card usage at (eCom)	15.518	2	14	**.000****
AEPS (Inter Bank) Transactions over Micro ATM (e.g. Cash withdrawal/ Cash Deposit)	15.766	2	14	**.000****

Source: Author's calculations.

*** The variance difference is significant at the 0.01 level*

From the above table we can see that in case of RuPyay Card usages (both POS and eCom) and AEPS variances are significantly different. Hence in these cases for post hoc study Games-Howel test is applied, where as in other cases where variances are homogeneous Tukey HSD and Ryan-Einot-Gabriel-Welsch Range test were applied. To check whether in digital payments before, during and after demonetisation are significantly different or not we need to check following hypothesis.

H0: There is no significant difference in digital payments before, during and after demonetisation.

H1: There is significant difference in digital payments before, during and after demonetisation.

Following table of ANOVA shows result of statistical test and significance difference in various digital payments in various phases of demonetisation.

Table1 ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Total Financial Transactions	Between Groups	8129867.098	2	4064933.549	10.305	.002**
	Within Groups	5522567.314	14	394469.094		
	Total	13652434.412	16			
NFS Inter Bank ATM Cash Withdrawal	Between Groups	405592.249	2	202796.124	45.168	.000**
	Within Groups	62857.785	14	4489.842		
	Total	468450.033	16			
NACH- National Automated Clearing House	Between Groups	89309.282	2	44654.641	4.869	.025*
	Within Groups	128398.652	14	9171.332		
	Total	217707.934	16			
CTS Cheque Clearing (Processed Volume)	Between Groups	2438172.656	2	1219086.328	4.181	.038*
	Within Groups	4082094.349	14	291578.168		
	Total	6520267.005	16			
IMPS	Between Groups	355859.340	2	177929.670	60.279	.000**
	Within Groups	41324.611	14	2951.758		
	Total	397183.951	16			
RuPay Card usage at (POS)	Between Groups	4939.652	2	2469.826	28.005	.000**
	Within Groups	1234.690	14	88.192		
	Total	6174.342	16			
RuPay Card usage at (eCom)	Between Groups	253.593	2	126.797	62.082	.000*
	Within Groups	28.594	14	2.042		
	Total	282.187	16			
AEPS (Inter Bank) Transactions over Micro ATM (e.g. Cash withdrawal/ Cash Deposit)	Between Groups	300.594	2	150.297	11.475	.001*
	Within Groups	183.370	14	13.098		
	Total	483.964	16			

Source: Author's calculations.

** The mean difference is significant at the 0.05 level.*

*** The mean difference is significant at the 0.01 level*

Above test result shows that in all cases P-values are significant at 5% level of significance and in most of cases even at 1% level of significance.

At the same times levene's test suggest about significance of variance to select the test for post hoc study.

Multiple Comparisons for homogeneous variance

Dependent Variable		(I) Demonetisation	(J) Demonetisation	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Total Financial Transactions	Tukey HSD	Before Demonetisation	During Demonetisation	-6.51643	503.57450	1.000	-1324.5121	1311.4793
			After Demonetisation	-1386.92143*	325.05594	.002**	-2237.6840	-536.1589
		During Demonetisation	Before Demonetisation	6.51643	503.57450	1.000	-1311.4793	1324.5121
			After Demonetisation	-1380.40500*	496.53115	.037*	-2679.9663	-80.8437
		After Demonetisation	Before Demonetisation	1386.92143*	325.05594	.002**	536.1589	2237.6840
			During Demonetisation	1380.40500*	496.53115	.037*	80.8437	2679.9663
NFS Inter Bank ATM Cash Withdrawal	Tukey HSD	Before Demonetisation	During Demonetisation	446.1399*	53.7245	.000**	305.528	586.752
			After Demonetisation	-51.3913	34.6790	.329	-142.156	39.374
		During Demonetisation	Before Demonetisation	-446.1399*	53.7245	.000**	-586.752	-305.528
			After Demonetisation	-497.5312*	52.9731	.000**	-636.177	-358.886
		After Demonetisation	Before Demonetisation	51.3913	34.6790	.329	-39.374	142.156
			During Demonetisation	497.5312*	52.9731	.000**	-358.886	636.177
NACH- National Automated Clearing House	Tukey HSD	Before Demonetisation	During Demonetisation	-41.3176	76.7845	.854	-242.284	159.649
			After Demonetisation	-152.2198*	49.5642	.021*	-281.943	-22.496
		During Demonetisation	Before Demonetisation	41.3176	76.7845	.854	-159.649	242.284
			After Demonetisation	-110.9022	75.7105	.337	-309.058	87.253
		After Demonetisation	Before Demonetisation	152.2198*	49.5642	.021*	22.496	281.943
			During Demonetisation	110.9022	75.7105	.337	-87.253	309.058
CTS Cheque Clearing (Processed Volume)	Tukey HSD	Before Demonetisation	During Demonetisation	-239.9993	432.9470	.846	-1373.143	893.145
			After Demonetisation	-797.9970*	279.4661	.032*	-1529.438	-66.556
		During Demonetisation	Before Demonetisation	239.9993	432.9470	.846	-893.145	1373.143
			After Demonetisation	-557.9978	426.8915	.414	-1675.293	559.297
		After Demonetisation	Before Demonetisation	797.9970*	279.4661	.032*	66.556	1529.438
			During Demonetisation	557.9978	426.8915	.414	-559.297	1675.293
IMPS	Tukey HSD	Before Demonetisation	During Demonetisation	-118.2243*	43.5610	.042*	-232.236	-4.213
			After Demonetisation	-307.1436*	28.1185	.000	-380.738	-233.550
		During Demonetisation	Before Demonetisation	118.2243*	43.5610	.042*	4.213	232.236
			After Demonetisation	-188.9193*	42.9517	.002**	-301.336	-76.503
		After Demonetisation	Before Demonetisation	307.1436*	28.1185	.000**	233.550	380.738
			During Demonetisation	188.9193*	42.9517	.002**	76.503	301.336

** The mean difference is significant at the 0.05 level.*

*** The mean difference is significant at the 0.01 level*

Homogeneous Subsets

Table4 Total Financial Transactions

	Demonetisation	**N**	**Subset for alpha = 0.05**	
			1	**2**
Tukey HSD[a,b]	Before Demonetisation	7	7695.3386	
	During Demonetisation	2	7701.8550	
	After Demonetisation	8		9082.2600
	Sig.		1.000	1.000
Ryan-Einot-Gabriel-Welsch Range	Before Demonetisation	7	7695.3386	
	During Demonetisation	2	7701.8550	
	After Demonetisation	8		9082.2600
	Sig.		.992	1.000

Source: Author's calculations.

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 3.907.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table NFS Inter Bank ATM Cash Withdrawal

	Demonetisation	N	Subset for alpha = 0.05	
			1	2
Tukey HSD[a,b]	During Demonetisation	2	528.387	
	Before Demonetisation	7		974.527
	After Demonetisation	8		1025.918
	Sig.		1.000	.546
Ryan-Einot-Gabriel-Welsch Range	During Demonetisation	2	528.387	
	Before Demonetisation	7		974.527
	After Demonetisation	8		1025.918
	Sig.		1.000	.173

Source: Author's calculations.

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 3.907.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 5 NACH- National Automated Clearing House

	Demonetisation	**N**	**Subset for alpha = 0.05**	
			1	**2**
Tukey HSD[a,b]	Before Demonetisation	7	573.999	
	During Demonetisation	2	615.316	
	After Demonetisation	8	726.219	
	Sig.		.102	
Ryan-Einot-Gabriel-Welsch Range	Before Demonetisation	7	573.999	
	During Demonetisation	2	615.316	615.316
	After Demonetisation	8		726.219
	Sig.		.673	.266

Source: Author's calculations.

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 3.907.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 6 CTS Cheque Clearing (Processed Volume)

	Demonetisation	N	Subset for alpha = 0.05	
			1	2
Tukey HSD[a,b]	Before Demonetisation	7	5875.563	
	During Demonetisation	2	6115.563	
	After Demonetisation	8	6673.560	
	Sig.		.133	
Ryan-Einot-Gabriel-Welsch Range	Before Demonetisation	7	5875.563	
	During Demonetisation	2	6115.563	6115.563
	After Demonetisation	8		6673.560
	Sig.		.664	.319

Source: Author's calculations.

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 3.907.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 7 IMPS

	Demonetisation	N	Subset for alpha = 0.05		
			1	2	3
Tukey HSD[a,b]	Before Demonetisation	7	260.182		
	During Demonetisation	2		378.406	
	After Demonetisation	8			567.325
	Sig.		1.000	1.000	1.000
Ryan-Einot-Gabriel-Welsch Range	Before Demonetisation	7	260.182		
	During Demonetisation	2		378.406	
	After Demonetisation	8			567.325
	Sig.		1.000	1.000	1.000

Source: Author's calculations.

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 3.907.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

From the homogenous subset where variances are homogeneous we can observe that in case of total transaction we can create two groups i.e. one group for before and during demonetisation and another group for after demonetisation. In case of NFS inter bank ATM cash withdrawal two groups i.e. one during demonetisation where withdrawals were very less and another group of before and after demonetisation. In case of NACH and CTS cheque clearing, in all phases about growth is same before, during and after demonetisation. Where as in case of IMPS in all three phases average amount is significantly different so it creates three different groups for before, during and after demonetisation.

Table 8 Multiple Comparisons for different variance - Games-Howel

Dependent Variable	(I) Demonetisation	(J) Demonetisation	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
RuPay Card usage at (POS)	Before Demonetisation	During Demonetisation	-42.2109	20.0092	.412	-421.236	336.814
		After Demonetisation	-32.0053*	2.8121	.000**	-40.031	-23.979
	During Demonetisation	Before Demonetisation	42.2109	20.0092	.412	-336.814	421.236
		After Demonetisation	10.2057	20.1783	.883	-341.863	362.275
	After Demonetisation	Before Demonetisation	32.0053*	2.8121	.000**	23.979	40.031
		During Demonetisation	-10.2057	20.1783	.883	-362.275	341.863
RuPay Card usage at (eCom)	Before Demonetisation	During Demonetisation	-5.8223	3.0012	.439	-61.359	49.715
		After Demonetisation	-8.1805*	.4523	.000**	-9.397	-6.964
	During Demonetisation	Before Demonetisation	5.8223	3.0012	.439	-49.715	61.359
		After Demonetisation	-2.3582	3.0170	.772	-55.412	50.696
	After Demonetisation	Before Demonetisation	8.1805*	.4523	.000**	6.964	9.397
		During Demonetisation	2.3582	3.0170	.772	-50.696	55.412
AEPS (Inter Bank) Transactions over Micro ATM (e.g. Cash withdrawal/ Cash Deposit)	Before Demonetisation	During Demonetisation	-.7076	.4780	.448	-3.373	1.958
		After Demonetisation	-8.5709*	1.8131	.005**	-13.854	-3.288
	During Demonetisation	Before Demonetisation	.7076	.4780	.448	-1.958	3.373
		After Demonetisation	-7.8633*	1.8352	.008**	-13.171	-2.556
	After Demonetisation	Before Demonetisation	8.5709*	1.8131	.005**	3.288	13.854
		During Demonetisation	7.8633*	1.8352	.008**	2.556	13.171

Source: Author's calculations.

** The mean difference is significant at the 0.05 level. ** The mean difference is significant at the 0.01 level*

In case of where variances are different, in case of RuPay Card usage at (POS) and RuPay Card usage at (eCom) after demonetisation amount is significantly different than before and during demonetisation.

In case of AEPS there is no significant difference between before and during demonetisation but after demonetisation amount is significantly different than before and during demonetisation amount.

II. CONCLUSION

Digital India campaigning was aimed to promote digital payment system and cashless economy, but real effect on digital payment was realised after demonetisation action. Demonetisation made it compulsory to use digital payment as an alternate system to cash and after demonetisation also digital payment had continuously increased. We have found that under NPCI not only total digital payment transactions but also in all individual mode of digital payment i.e. NFS Inter Bank ATM Cash Withdrawal, NACH- National Automated Clearing House, CTS Cheque Clearing (Processed Volume), IMPS, RuPay Card usage at (POS), RuPay Card usage at (eCom) andAEPS (Inter Bank) Transactions over Micro ATM (e.g. Cash withdrawal/ Cash Deposit) there is significant increase in volume in terms of value in rupees after demonetisation. Thus, we can conclude that demonetisation has given positive boost to digital payment system and cashless in India.

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A SURVEY OF THE FACTORS INFLUENCING SAVING BEHAVIOUR AMONG THE PUBLIC

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Abstract

In a primitive agricultural economy savings may take the shape of holding back the most effective of the corn harvest as seed grain for ensuing planting season. If the total crop were consumed the economy would convert to searching and gathering ensuing season. Saving differs from savings. The previous refers to the act of skyrocketing one's assets, whereas the latter refers to at least one a part of one's assets, typically deposits in savings accounts, or to any or all of one's assets. Saving refers to an activity occurring over time, a flow variable, whereas savings refers to one thing that exists at anybody time, a stock variable. This distinction is commonly misunderstood, and even skilled economists and investment professionals can typically talk to "saving" as "savings".In any arrangement to establish the factors behind a better or lower rate of savings, the primary chance to be thought-about can without doubt be the charge per unit, that is that the remuneration for saving.

Keywords: Savings, rate of interest, financial gains, financial reforms.

I. INTRODUCTION

Saving is financial gain not spent, or delayed consumption. Ways of saving embrace golf stroke cash aside in, as an example, a time deposit account, a plan, an investment fund, or as cash. Saving conjointly involves reducing expenditures, like revenant prices. In terms of private finance, saving typically specifies low-risk preservation of cash, as during a time deposit account, versus investment, whereby risk could be a ton higher; in economic science a lot of loosely, it refers to any financial gain not used for immediate consumption. Saving differs from savings. The previous refers to the act of skyrocketing one's assets, whereas the latter refers to at least one a part of one's assets, typically deposits in savings accounts, or to any or all of one's assets. Saving refers to an activity occurring over time, a flow variable, whereas savings refers to one thing that exists at anybody time, a stock variable. This distinction is commonly misunderstood, and even skilled economists and investment professionals can typically talk to "saving" as "savings".

In different contexts there will be refined variations in what counts as saving. as an example, the a part of an individual's financial gain that's spent on real estate loan repayments isn't spent on gift consumption and is so saving by the higher than definition, although individuals don't invariably consider repaying a loan as saving.

Saving is closely associated with physical investment, therein the previous provides a supply of funds for the latter. By not victimisation financial gain to shop for goods and services, it's doable for resources to instead be invested with by

getting used to provide fastened capital, like factories and machinery. Saving will so be important to extend the quantity of fastened capital obtainable that contributes to economic process.

However, augmented saving doesn't invariably correspond to augmented investment. If savings don't seem to be deposited into a monetary negotiate like a bank, there's no probability for those savings to be recycled as investment by business. this suggests that saving might increase while not increasing investment, probably inflicting a short-fall of demand (a pile-up of inventories, a cut-back of production, employment, and income, and therefore a recession) instead of to economic process. within the short term, if saving falls below investment, it will cause a growth of mixture demand and an economic boom. within the long run if saving falls below investment it eventually reduces investment and detracts from future growth. Future growth is formed doable by preceding gift consumption to extend investment. but savings not deposited into a monetary negotiate quantity to AN (interest-free) loan to the govt. or financial institution, United Nations agency will recycle this loan.

In a primitive agricultural economy savings may take the shape of holding back the most effective of the corn harvest as seed grain for ensuing planting season. If the total crop were consumed the economy would convert to searching and gathering ensuing season.

There are 3 main theories explaining the development of savings by households. In line with the primary theory, savings results from the selection between consumption within the gift and consumption within the future. people compare their rate of your time preference and therefore the rate, and swish their consumption over time so as to maximise the profit. beneath this theory, the rate is that the main determinant of the variability in savings rates.

The second approach relies on the perception of an in depth correlation between current financial gain and consumption, wherever the distinction between them denotes savings. beneath this approach, the most issue poignant savings is that the amendment within the level of financial gain.

The third approach represents a mix of the primary 2 theories, and regards the smoothing of consumption over time as account from its comparison to the financial gain that the individual would understand as his/her permanent financial gain.

The factors that influence the saving behaviour of individual are the level of the real interest rate, the level of per capita GDP, the proportion of labor remuneration in national income, the distribution of income, financial reforms, uncertainty, the effects of taxation and demographic factors.

Literature Review

Sahoo, Natraj,& Kamaiah (2001) concluded that saving serve as the engine of economic growth which they established through examination of casual relation between savings and economic growth. This shows how important is saving for the economic growth of the country as it is associated with the economic growth of an individual. This enhances the social status of the individual.

Muhleisen (1997) suggested an important topic on the different scenarios that are prevailing in the rural areas that influence the saving ability of the individuals. This depicts the difference between the urban and rural lifestyle and the varied circumstances that are vital for saving.

Panikar(1961) analyzed the different patterns that are involved in the savings in rural

India. This research shows various circumstances that constrain an individual from saving. He also suggested the ways to overcome those implications by implementing certain techniques in those areas.

Choudhary (2005) worked on showing a clear picture of determination on the saving potential of urban and rural households in India. The urban households save more than the rural households in India due to the change in lifestyle which in turn increases the social well being of the individual.

Sinha (2008) made a study on determining the savings in urban India and various factors that helps to improve the rate of saving in India. He clearly brings out a clear cut picture of the difference in the ways of an individual saving and of household saving. The responsibility to save more comes into play at certain point of time due to the changes in the current society. So Sinha has come up with solutions to tackle those problems.

Krishnaswamy and Sharma (1987) has contributed towards better understanding of saving behaviour of an individual. This study is highly useful as it depicts the various ways of how an individual saves on different circumstances. This study shows various changes in the environmental conditions and the accumulating responsibilities due to it.

Analysis

The level of the real interest rate

In any arrangement to establish the factors behind a better or lower rate of savings, the primary chance to be thought-about can without doubt be the charge per unit, that is that the remuneration for saving.

Surprisingly enough, neither the particular findings nor the idea relating to the direction within which this issue acts are clear-cut. whereas a better charge per unit can create it a lot of worthy to avoid wasting, it's additionally possible to scale back saving, for instance, in cases wherever individuals' allocations to pension schemes decline because the results of an increase within the charge per unit (in the case of outlined advantages pension schemes). Moreover, an increase within the charge per unit will increase the worth of households' assets, and may thus result in a reduced tendency to avoid wasting.

Empirical findings obtained in follow don't purpose to a major correlation between the charge per unit and savings.

The level of per capita value

One of the foremost obvious phenomena rising from a comparison between completely different countries' savings rates is that the correlation between savings and also the level of per capita value. terribly low financial gain-earners utilize all their income so as to buy the foremost basic commodities. Higher income-earners are ready to purchase luxury merchandise. At the terribly highest financial gain levels, households don't have to be compelled to use all their financial gain for consumption and a part of their financial gain is about aside for the aim of savings.

An international comparison shows that the magnitude relation between the extent of per capita financial gain and also the rate of savings isn't linear - in economies with a high level of per capita financial gain, the savings rate doesn't still rise, however levels off or maybe falls slightly.

The proportion of labor remuneration in value

Another major explanation for the decline in savings, could be a amendment within the distribution of value between remuneration for labor and non-labor remuneration. throughout the past fifteen years, the proportion of labor remuneration to total financial gain has up whereas the proportion of financial gain from property has fallen. The clear correlational statistics between savings and also the proportion of labor

remuneration derives from the very fact that the marginal tendency to consume from wage financial gain is bigger than the marginal tendency to consume from non-wage financial gain. In different words, if in a very given year somebody's financial gain will increase as a result of an increase in his wages, non-public consumption can increase (and non-public savings rate can decrease) over within the case of a uniform rise in earnings explanation from a growth in financial gain from property.

Households seem to understand a amendment in their wages as a permanent amendment, whereas a amendment in financial gain from property is considered a temporary amendment, that isn't essentially progressing to be permanent.

The distribution of financial gain

An difference within the distribution of financial gain, as measured by the Gini constant, rose throughout the 1990's, due, among different things, to the wave of mass immigration. The arrival of such an oversized range of immigrants, most of whom came with few assets, had the impact of accelerating the extent of difference measured.

Once the pace of immigration slows and immigrants can become economically established, financial gain equality in Israel can increase. The correlation between the extent of difference and also the rate of personal savings could be a acknowledge development, and results from variations within the marginal propensity to avoid wasting between higher-income and lower-income households. The lower a household's financial gain, the upper are going to be the proportion of this financial gain utilised for consumption and also the smaller are going to be the proportion allotted to savings, and the other way around.

Financial reforms

Financial reforms typically have a quickly adverse have an effect on on savings rates. the foremost notable issue touching savings throughout the initial stage of this liberalisation method was found to be the lifting of restrictions on the taking of credit. The a lot of bigger ease with that loans is obtained, as a results of this reform live, reduces the individual's incentive to avoid wasting. later reform measures increase the vary of savings opportunities receptive people, and also the rate of savings is expected to grow as a result.

Although the monetary liberalisation to that the economy has been and is being subjected definitely has a bearing on savings. it's terribly arduous to quantify this impact and isolate it from different political economy developments that have occurred within the same amount.

Uncertainty

A state of affairs of uncertainty - whether or not political, economical or personal, can typically have the impact of encouraging all economic units to extend their savings (on the opposite hand, uncertainty regarding a amendment within the monetary climate would possibly shift savings from monetary to material, like diamonds, realty, etc.). Households are going to be afraid that their future financial gain decreases associated therefore they'll show an accumulated tendency to avoid wasting.

For the individual, increasing his/her savings could be a type of insurance against the prospect of state, the death of associate income-earner, the necessity for accumulated medical expenses, or against the other variety of surprising cataclysm.

All different conditions being equal (and beneath affordable assumptions relating to insurance corporations risk premium), any development resulting in a discount in uncertainty

(the introduction of insurance or state profit, for instance) can cut back the individual's propensity to avoid wasting. within the u. s., for example, it had been found that a awfully massive proportion of personal savings is attributed to households' need to insure themselves against surprising medical expenses.

The reduction of inflationary uncertainty has been cited in concert of the explanations for the decline in industrialised countries' savings rates throughout the past twenty years.

The effects of taxation

Taxes (and social insurance payments) scale back their payers' income, and thereby have the result of reducing non-public savings whereas increasing income and savings. Once the assorted channels of savings area unit either subjected to taxation or area unit backed, another result is clear from the $64000 rate of interest once tax.

In Israel, exemption from capital gains tax is granted on securities marketed on the exchange, provident fund interest, saving schemes, foreign currency restitution deposits and insurance payoff. Tax edges are provided once creating a deposit in pension instruments.

Taxes like custom, purchase tax associated VAT area unit an obstacle to consumption, thereby reducing its attractiveness and creating it additional worthy to avoid wasting.

Demographic factors

One of the factors found to own a transparent and vital result on savings is that the age composition of the population. This result are often explained by the life cycle model, whereby savings area unit used for retirement and area unit accumulated at totally different rates throughout the individual's period. Consequently, we are able to expect the savings rate to say no in proportion to the dimensions of the aged population WHO have retired from the market.

Given that savings among the terribly young age teams area unit negligible, the model are often swollen. A rustic wherever the dependence magnitude relation (defined because the proportion of the population aged below fifteen and higher than sixty five divided by the operating age population) is high, can have a savings rate less than that of a rustic wherever the magnitude relation is low, all different conditions being equal. (Savings rates are highest at the 30-55 age level). An equivalent applies once examining things in a very given country over time.

Factors	Level of Saving Rate in Urban	Level of Saving Rate in Rural
The level of the real interest rate	High	Low
The level of per capita GDP	High	Low
The proportion of labor remuneration in national income	High	Low
The distribution of income	High	Low
Financial reforms	Low	Low
Uncertainty	Intermediate	Low
The effects of taxation	Low	Intermediate
Demographic factors	High	Low

II. Conclusion

According to the analysis on the above topic, certain conclusions are made. This table clearly depicts that the level of saving in urban areas is greater than the level of saving in rural areas.

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IMPACT OF DEMONETISATION ON DIFFERENT SECTORS OF INDIAN ECONOMY: AN EXPLORATORY STUDY

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Abstract

The 'demon' in Demonetisation is in the beginning. Any Government withdraws the legal tender rights of any denomination of currency, it is called demonetisation. Demonetisation announced on 8th November 2016 was aimed at addressing black money, corruption, counterfeit currency and terror financing. The initial effects of demonetisation on common people was terrible.Although demonetisation holds huge potential benefits in the medium to long term,given the scale of operation,it was expected to cause transient disruption in economic activity.This present study tries to analyse the impact of demonetisation on Indian economy.The latest Central Statistical Organisation(CSO) estimates suggest that the impact of demonetisation on Gross value added(GVA) growth was modest. Food inflation declined significantly.Demonetisation has impacted some segments of the export sector such as readymade garments, gems and jewellery. There has been a significant improvement in the use of digital modes of payments post demonetisation. This paper articulates the impact of demonetisation on various sectors of the Indian economy.

Key Words: Demonetisation, Digitalisation, Cash Crunch, Cashless Transaction, CSO,GVA

I. INTRODUCTION

Demonetisation referred to the act of stripping a currency unit of its status as legal tender. Indian Government has taken a bold decision on note ban on 8th Nov, 2016. RBI has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Such notes valued at Rs 15.4 trillion, constituted 86 percent of the value of total currency in circulation. The process of demonetization involves either introducing new notes of the same currency or completely replacing the old currency with new currency. The reasons of taking the decision of banning note are as follows-

- To tackle black money in the economy.
- To lower the cash circulation in the country which is directly related to corruption in our country.
- To eliminate fake currency.
- To destroy terrorist financing activities.
- The move is estimated toscoop out more than Rs 5 lakh crore black money from the economy.
- To resist tax evasion .
- To reduce corruption.

However, in the days following demonetisation, banks and ATMs across the country faced severe cash shortages. Also following the announcement of banning note, SENSEX and NIFTY 50 stock indices crashed for next two days. ATMs across the country faced

severe cash shortages. Also following the announcement of banning note, SENSEX and NIFTY 50 stock indices crashed for next two days.

Note ban decision taken by government is for welfare of the nation, but is it really beneficial for our nation? Would note ban decision actually eradicate the black money, if does then at what extent black money will come out?.What should be the impact of this decision on Indian economy? Would Indian economy be prosperous or would be poor. This paper articulates the impact of demonetisation on common people and also various sectors such as agricultural sector, auto mobile sector, manufacturing sector, inflation, stock market, non banking financial intermediaries etc.

II. OBJECTIVES

1. To understand the concept of demonetisation.
2. To know about actual present outcomes of the note banned decision.
3. To know the potential of the note ban decision.
4. To analyze the impact of demonetisation on Indian economy.
5. To work out the probable consequences of the demonetisation.

III. SCOPE

This study will be helpful for the citizens of India. Indian citizens would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. Any businessman can also take the wise decision so that he will be able to generate more revenue. Finally everybody would be able to know the impact of note banned decision on Indian economy as well as Indian markets.

Research Methodology

The present work is a blend of descriptive and exploratory research work. The data is purely secondary in nature and has been collected through various journals, articles and news papers and useful websites.

Impact of Demonetisation in India on Common People

- Initially there was a huge hue and cry about the idea, people had to wait in long queues just to withdraw the necessary money they needed.
- There was a limit to the per capita withdrawal and that was a huge issue for many people because of their personal requirements which included health, marriage etc.
- Those families who had wedding and other special occasions are depressed due to shortage of money, thousands of wedding have been cancelled which impacted the vendors who supply for those weddings.
- Many daily wage workers were unable to find work.
- Demonetization has a direct impact on sectors dealing with cash vendors, auto rickshaw owners, taxi drivers, daily wage earners and small traders.
- As the time passed the things slowed down a bit. The queues in the banks shortened, ATMs were filled with money, new currency circulated and all these normalized the situation.
- The demonetisation of Indian currency has created numerous hardships to common person but in long way it has lot of benefits-
- Unaccounted unproductive cash will become productive as it enters the legal system.
- Counterfeit money will cease to exist with immediate effect.
- Penalties imposed by the Income Tax department on the illegal conversion of black money into white money, the revenue to the government will be increased.
- Black money held by the political parties is flushed out.

- With huge cash at the disposal of the banks, the borrowing of money will get cheaper.
- Government can avail finances at lower rates and speed up the infrastructural spending creating huge job opportunities.

Impact of Demonetisation on Various Sectors

Agriculture Sector

- Agriculture in India accounts for 50 percent of the workforce. Farmers were severely affected. Agriculture is impacted through the input-output channels as well as price and output feedback effects,
- Farmers were not able to purchase inputs like seeds from the last year harvest and also failed to purchase new quality seeds from market.
- The problem of demonetisation is largely associated with the rural areas of the country having lesser number of banks and ATMs compared to the urban areas and semi urban areas. The problem was not the inaccessibility of the banks and ATMs, but the limit on cash which can be withdrawn. A farmer can take a day out from his busy schedule and manage to go to bank and get the cash back, however the limit on the amount withdrawal forces him to do it again and again and the banks in rural areas can make it look 50kms.
- Though there are so many negative effects of demonetisation on agricultural sector, there are some positive effects also, which are as follows-
- The interest rates of banks started falling which could reduce the capital cost and farmers can now go for farm mechanization.
- Government can build cold storage chain thereby minimize the wastage which are 80000 crore annually.
- The intermediaries and commission agents will be minimized and farmers can directly deal with consumers and they can credit instant payments to their bank account.
- The national portal made for farmers of the country will be more effective as the farmers will have wider market instead of local and district mandies. They will get more prices for their production with payment directly in their bank accounts.

Electricity Industry

Electricity generation was expected to have been impacted the least, with the share of the unorganized sector being very low and the share of informal employment close to zero. Weak demand for electricity was already a challenge before demonetization, with power generation in excess relative to demand. In November and December 2016, however, electricity generation increased by 8.9 per cent and 6.3 per cent respectively, which was higher than the average growth of 4.5 per cent recorded during April-October. In January 2017,however,it decelerated to 3.9 per cent.

Coal Industry

Coal production also increased by 6.4 percent in Nov 2016,4.4 per cent in Dec and 4.8 per cent in Jan 2017.

Automobiles Industry

Automobile sector is impacted majorly by demonetisation. The major decline is seen in the demand of two wheelers than luxury cars/ four wheelers since cash is the primary mode of transaction in the purchase of two wheeler vehicles.

Manufacturing Industry

It was impacted adversely as evident from-

- The decline in the sales of fast moving consumer good in all the months from Nov,2016 to Jan,2017.
- Contraction in the manufacturing purchasing mangers' index (PMI) in Dec for the first time in 2016

- Deceleration in export growth during Nov,2016.
- Manufacturer also cut production due to rising inventories.

Real Estate Industry

Demonetisation move created a real dent in the residential real estate sector. After demonetisation, expectations of downward correction in house prices seemed to have impacted registrations in some of the cities in November,2016. In December,2016, however, registrations appeared to have bounced back, though they were lower than in October,2016.

Transportation Industry

Domestic air passenger traffic growth was robust at 22 per cent in November,2016 and 23.9 per cent in Dec,2016 and 25.6 per cent in January 2017.Domestic air cargo traffic contracted by 0.6 per cent in Nov,2016 but revised to 7.5 per cent in Dec,2016 and 10.1 per cent in January,2017,Growth in international air cargo cargo traffic (at 15.4 per cent) and international passenger traffic (at 7.7 per cent) remained strong in November,2016.

Impact of Demonetisation on Financial Sector

This section sets out the impact of demonetization on banks, liquidity conditions and transmission of monetary policy, non-banking financial intermediaries and Jan Dhan accounts.

Commercial Banks

Demonetisation has had a significant impact on the balance sheet of scheduled commercial banks (SCBs),both in terms of size and composition. Decline in currency in circulation on account of demonetization led to a surge in bank deposits. The demonetized notes were accepted at bank counters till Dec 30,2016.Between OCT 28, 2016 and Jan 6, 2017 (i.e. days immediately prior to and after demonetization for which fortnightly banking system data are available), total currency in circulation declined by about INR 8,800 billion. This, in turn, was largely reflected in sharp increase of about INR 6720 billion in aggregate deposits of the banking system even after outflows in NRI deposits during the period.

Non-Banking Financial Intermediaries

Demonetisation has impacted various financial intermediaries differently-

i. **Mutual Funds**

Reduction in` deposit interest rates by banks after demonetization enhanced the relative attractiveness of debt oriented mutual funds. As a result, there were net inflows in income/debt schemes during Nov 2016 to Jan 2017 in contrast to net outflows during Nov 2015 to Jan 2016.This was reflected in a sharp increase in the overall resources mobilized by mutual funds during Nov 2016 to Jan 2017 as compared to outflow in the same period of the last year.

Net Inflows/Outflows in Mutual Funds

(Rs in billion)

Category	Nov 2015-Jan 2016	Nov 2016-Nov 2017	April to January		
			2015-16	2016-17	y-o-y growth percentage
Income/Debt-Schemes	-535.5	520.4	880.2	2673.1	203.7
Equity Schemes	129.4	240.6	728.7	556.9	-23.6
Balanced schemes	63.8	108.0	187.2	261.0	39.4
Exchange Traded Fund	31.2	138.0	50.1	188.8	276.6
Fund to Funds Investing Overseas	-0.9	-0.2	-3.6	-3.1	-
Total	-311.9	1007.6	1842.7	3676.6	99.5

Source: SEBI

ii.

Life insurance companies

Premiums collected by life insurance companies more than doubled in Nov 2016.Premiums collected by Life Insurance Corporation of India (LIC) increased by more than 140 per cent (y-o-y) in Nov,2016 as compared with less than 50 per cent by private sector life insurance companies.

Life Insurance Premiums

(Rs in billion)

Category	Oct-15	Oct-16	Nov-15	Nov-16	Dec-15	Dec-16	Jan-16	Jan-17
Private Insurance Companies	28	35	24	35	37	48	36	44
y-o-y growth percentage		28.3		48.9		28.4		23.8
LIC	80	76	52	125	73	83	67	87
y-o-y growth percentage		-4.8		141.9		12.8		29.8
Grand Total	107	111	76	161	110	130	13	131
y-o-y growth percentage		3.7		112.7		18.1		27.8

Source: IRDAI

Non-Banking Financial Companies (NBFCS)

Loan disbursals by all categories of NBFCs declined significantly in Nov 2016 with the monthly average disbursals during April-Oct 2016,especially for micro finance companies whose business is more cash intensive. In contrast with loan growth, collections (i.e, repayments of loans due) of loan companies during both Nov and Dec 2016 increased over the monthly average collections during April-Oct 2016.

The growth of credit extended by banks to NBFCs also appeared to have been impacted due to demonetization. Bank credit growth to NBFCs decelerated from 5.1 per cent on y-o-y basis in Oct 2016 to 1.3 per cent in Nov 2016,which further declined by 0.6 per cent in Jan 2017.

i.

Jan Dhan Accounts

Post-demonetisation, 23.3 million new accounts were opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY),bulk of which (80 per cent) were public sector banks. Out of the new Jan Dhan accounts opened,53.6 per cent were in urban areas and 46.4 per cent in rural areas. Deposits under PMJDY accounts increased significantly post demonetization. The total balance in PMJDY deposit accounts peaked at Rs 746 billion as on Dec 7,2016 from Rs 456 billion as on Nov,2016.As there were reports regarding the use of these accounts to convert black money into white, the Government issued a warning against the misuse of such accounts.

iii.

Monetary policy transmission to lending rates

Surplus liquidity conditions have helped in facilitating the transmission of monetary policy to market interst rates. Post demonetization, several banks lowered their domestic term deposit rates and lending rates.

Impact of Demonetisation on Inflation

The impact of demonetization on inflation in the near-term stemmed mainly from moderation in food inflation, especially perishables, as inflation excluding food and fuel remained broadly unaffected.

Food Inflation

Food inflation declined from 3.7 per cent in Oct 2016 to 2.6 per cent in Nov, 2016 to 2.0 per cent in Dec,2016 and further to 1.3 per cent in Jan,2017.This was mainly on account of vegetables and pulses. Vegetable prices declined by 6.2 per cent on a month-on-month basis in Nov 2016 and further by 11.7 per cent in Dec, 2016. The vegetable price decline continued in Jan 2017 albeit at a lower rate of 4.7 per cent. Pulses prices declined by 7.4 per cent between Oct 2016 and January 2017.The sharp decline in prices of pulses and vegetables was due to a number of factors.

Inflation Excluding Food and Fuel

Prices of housing, health, transport and communication, pan, tobacco and intoxicants and education- together accounting for 31 per cent of the CPI basket-also remained unaffected. Although the real estate sector is in stress, no correction was seen in rentals. Barring new rental agreements, existing contracts have pre-set annual rental increase clauses of a fixed percentage. Thus, on the whole, inflation excluding food and fuel during Nov 2016 – Jan 2017 was not impacted due to demonetization.

CPI Inflation in Selected Groups

(y-o-y in per cent)

Category	Nov-15	Dec-15	Jan-16	Oct-16	Nov-16	Dec-16	Jan-17
Fuel & light	5.3	5.4	5.3	2.9	2.8	3.8	3.4
Clothing & footwear	5.8	5.7	5.7	5.2	5.0	5.0	4.7
Housing	5.0	5.1	5.2	5.1	5.0	5.0	5.0
Miscellaneous*	3.8	4.0	3.9	4.7	4.8	4.7	5.1
CPI excluding Food-Fuel	4.7	4.9	4.7	4.9	4.9	4.9	5.1

**Includes household goods and services, health, transport and communication, recreation and amusement, education and personal care and effects.*

Impact of Demonetisation on Financial Market

After demonetization Indian financial market has been followed just like secular falling trend.Nifty 50 fell approx 6.3 per cent and S & P BSE Sensex fell 5.9 per cent from Nov 8,2016 to Nov 22,2016.



There are many other factors besides demonetization that have affected the markets such as Donald Trump's election as President of the US and the subsequent rise in US bond yields and the strengthening of the dollar. That has led to funds flowing out from emerging markets and India too has been affected.

Impact of Demonetisation on External Sector

Demonetisation impacted India's external sector only moderately, but which was already facing a challenging external environment due to slow down in global trade because of rising support for protectionism in the US. Gold imports, which rose sharply in Nov 2016,moderated thereafter.

Balance of Payments

Merchandise Exports

India's export growth, after having accelerated in Sept-Oct 2016, slowed in Nov 2016 (2.4 per cent in US$ terms on a y-o-y basis) as shipment, especially from some labour-intensive sectors, were adversely affected by demonetisation. Export growth recovered in Dec 2016 and Jan 1017 to 5.5 per cent and 4.3 per cent respectively.

Merchandise Imports

After a spurt in Nov 2016, gold imports moderated in Dec 2016 and Jan 2017.As regards non-gold imports, demand for edible oil was expected to slow down as domestic consumption and off take have weakened following demonetisation.

Capital Flow

Foreign Direct Investment (FDI) flows remained buoyant in Nov and Dec 2016. Portfolio flows (debt & equity) declined sharply from Nov

2016 t mid-Jan 2017,reflecting largely global factors. However they turned positive since the last week of Jan 2017.

Demand for Gold

After demonetization, domestic demand for gold or gold items increased suddenly, with buyers reportedly willing to pay huge premiums to dispose of old currency notes with jewelers.

Suggestive Measures

In order to ease the burden of demonetisation, the Government has introduced numerous measures to ease the burden of demonetisation on common people. Those are as follows-

- Set up of digital literacy booths outside banks specifically in rural regions
- More printing of smaller currency notes
- Subsidy scheme for smart phones
- Cash management in banks and ATMs
- Increasing penetration of banks in rural areas
- Facility of mobile ATMs
- Expanded cash limits for cash driven sectors
- Incentives for Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT)
- Increase the limit for service tax exemption
- Increase in daily cash withdrawal limits from ATMs.

IV. CONCLUSION

Demonetisation is a one step of many steps in fighting corruption, black marketing and financing insurgency. However preparation for demonetization was lop-sided and its impacts were terrible on Indian public. The people, who were targeted, did not come on streets but common people are out from their work places as well as homes. The overall impact of demonetization on the real economy has been transient. The analysis in this paper suggests that demonetization impacted various sectors of the economy however ,the adverse impact in general, was short-lived as it was felt mainly in November and December 2016.The impact moderated significantly in January 2017 and dissipated by mid February 2017,reflecting an accelerated pace of demonetisation.

Demonetisation will have major impact on parallel economy but sudden announcement and failure to prepare in advance has created temporary chaos and discomfort among the general public. Demonetisation is expected to have a positive impact over the medium to long term. In particular, there is expected to be greater formalization of the economy with increased use of digital payments. The reduced use of cash will also lead to greater intermediation by the formal financial sector of the economy, which should, inter alia, help to improve monetary transmission.

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ELIMINATING ILLICIT FINANCIAL FLOWS WILL BE A SUSTAINABLE GOAL FOR INDIA

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Abstract

Reduction of Illicit Financial Flows needs a strong global collaboration and a single-minded action by all the nations under one umbrella. These unlawful movements are an impediment to the development of India. Global guesstimates indicate that Illicit Financial Flows are increasing and they pose a deep problem. Remedies for every nation will differ according to the policies framed by the nation. It requires a unified approach from private sector, governments, international institutions and the people of India to decrease illicit financial flows. The Illicit Financial Flows are flowing from emerging countries and it is crucial to stop inflows from advanced countries This study provides an understanding into the challenges related with Illicit Financial Flows of India. In the light of this study, the emphasis on the substance of illicit financial outflows from India, and the steps that must be taken to completely reduce these outflows and ensure that these commercial capitals remain within India.

Keywords: Over invoicing, under invoicing, policy gap, outflow

I. INTRODUCTION

First at outset let us understand in brief what is illicit financial flow? Illicit Financial flow is money flowing from one country to another country with the support of in-genuine trade transactions or donations. According to the analysis of Global Financial Integrity the developing countries receive external aid and foreign direct investment and have failed to grow with these supports their estimate is a stellar amount of $1 trillion every year.

Reasons underlying indulgence in such illegal activities are:

- High Taxes in such countries.
- Persistently falling the country's currency value.
- Political and Social instability in the country.
- High-level corruption and corrupt corporate practices.
- To fund anti-social activities such as smuggling human trafficking, terrorism and financial frauds.
- To avail undeserving incentive from international trade policies of the country.

Illicit fund flow is possible largely through banking channel only. Transfer through currency or other commodities like gold is inconvenient, hence may be forming a very minor part of means of transmission of illicit money. In-genuine trade transactions web is created in such a way that illicit money is getting transferred from the original country to target (normally a tax haven or nation with different forms of safety net available) country. In-genuine transactions will involve use of Under/Over Invoicing of Import/Export of Services/goods.

Impact of capital flight

Capital flight through illicit money outflow causes a drain on money remaining in circulation within the economy to boost economic growth of the country, instead it provides a low-cost fund to other countries for their development. Flight of capital lessens Government spending (due to lower collection of tax) and Private Spending. Very sad part is that a developing country getting an aid from global organisations likes WHO or World Bank will spend partially and another part will get diverted into illicit financial flow! A vicious cycle starts. Due to lower economic growth, currency value will remain under stress. Since currency value remains under stress there will be a tendency of transferring money overseas resulting into flight of capital and again lower economic growth. A story of whether hen first or egg starts. Once the vicious cycle is broken there will be consequential corrective effect on all the elements of the cycle. (figure 1)

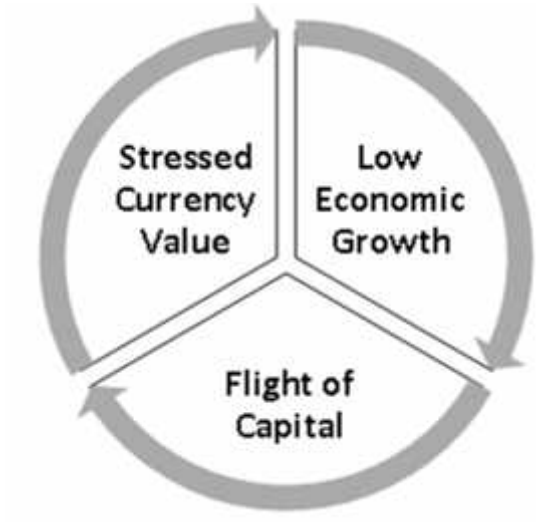


Figure 1. Impact of Capital Flight

A sequence of economic reforms since 1991 coupled with full current account convertibility and substantial capital account convertibility India is better placed as to illicit financial flow in a typical way. Indian economy got a shot in the arm with service sector boom and strong confidence of Foreign Financial Institutions (FIIs) strong local demand theory. FIIs' Confidence was boosted further by a chain of regulatory actions bringing transparency and competitiveness in the money market.

Due to above sea changes, though there may not be a marked reduction in generation of out bound illicit financial flow in absolute term but certainly there is an apparent reduction percentage as to GDP. Further due to good amount of political and social stability, there is continuous economic growth resulting into a stable currency value. Due positive impact of stability, out bound illicit financial flow is coming back to India through hot money route. Hot money is nothing but FIIs inflow of fund into the capital market. It is said to be hot money as it is expected to remain in the market in the short run, because as soon as return on such money reaches the targeted return the capital is withdrawn. Hot money outflow had been experienced in 2008 by India because of international slow down.

The Development Goals for India to develop are education health, employment and environment in September, which is dampened by illicit financial flows. India needs to tackle illicit flows in order to promote development and vigorous societies with cooperation and partnership from all the countries in the world.

II. Scope and Objectives

Though India is somewhat fortunate enough to get back it's illicit fund flow, it does not mean it can be allowed to sustain in the country, as still it remains bad and unregulated money.

Objectives of the Study

Following are the objectives of my study

1. To identify Trade mis invoicing as the major issue of IFF
2. To evaluate Measures taken by Indian Government to eliminate Illicit Financial Flow.

3. To evaluate Measures taken by India and other nations to eliminate Illicit Financial Flow.

Empirical Literature

According to Baker (2005)The original sources of these illicit financial flows can be both illegal (e.g. drug trafficking) and legal (e.g. some legitimately generated funds can be transferred in an illicit way to another country for the purpose of reducing tax obligations in the country of origin). It is estimated that over 60 percent of total illicit flows arise from legal commercial activities, and most of the remainder from criminal activities. Specifically, (Baker 2005) estimates that illegal markets account for US$168 billion–US$231 billion of these outflows.

This group includes illegal activities such as money laundering, drug and human trafficking, smuggling, illegal trade with weapons, counterfeiting, corruption, bribery, customs fraud, or terrorist financing. The Financial Action Task Force was established in 1989 to observe and develop procedures to reduce money laundering. In 2001,the long drawn out directives by FATF was incorporated to combat terrorist financing. On illegal trade with weapons, see, for example, the following opinion article (Ostfeld 2013)

Estimates of the magnitude of the various sources of illicit financial flows are from the research by Global Financial Integrity, (Kar & Freitas 2012). (Fuest & Riedel 2012) focus low income countries and rigorously investigate the role of global profit shifting from poor countries and (Janský & Prats 2013) build on their research by providing additional evidence of profit shifting out of poor countries.

Illicit financial flows are not new they have grown with Liberalization Globalization and Privatization. With the growing Global linkages of Financial markets their economic and political significance has grown markedly (GFI, 2013).

The current scale of Illicit financial flows originating in developing countries cannot be measured precisely. Every year huge sums of Illegal money is transferred out of developing countries. If the financial outflows are curbed it could be used for much-needed public services, from security and justice to basic social services such as health and education. (OECD, 2013, 15)

Scientific studies are yet to be done on the economic costs of IFFs. The World Bank, Global Financial Integrity and their publications have started giving estimates and case studies where studies are made empirical by NGOs motivated by their support work.

The measure and composition of IFFs out of emerging countries are a matter of controversy. Development experts have largely approved that developing countries are experiencing net capital outflows. They are losing more money in loan repayments, interest payments, IFFs, and in particular through the development of currency reserves than they are receiving in the form of new loans, development aid, direct investment, etc. (AFDB and GFI 2013; UNDESA, 2014, 65ff.).

Dev Kar, told The Hindu (2010): “India is losing capital at an average rate of $19.3 billion per annum ... India can ill afford to ignore such a loss of capital.”

Research Methodology

The study utilized mixed method approaches since the study collected quantitative and qualitative data. Quantitative data was collected through the reports of World Bank, Global Financial Integrity and research papers by scholars and qualitative information from observation schedule. The researcher adopted descriptive investigation of the design for the research. The study used stratified random and purposive sampling technique was used to select only Indian indicators from 2004 to 2013. This

study used secondary data. The researcher used excel program to analyze interrelated information.

Data analysis and Interpretation

The issues related to shadow economy and Illicit capital flows have been interpreted with the support of charts.

India ranked 4th at global level in standings of illicit financial flows during 2004-2013. India ranked topmost in the South Asian Illicit Financial Flows Index, illegal outflows from India has accounted for $510.29 billion in between 2004 and 2013.If India would have managed to reduce the IFFs we could have paid our external debts and could have used the capital for alleviation of Poverty, education health and employment which helps the youth and earn the demographic dividend of India.

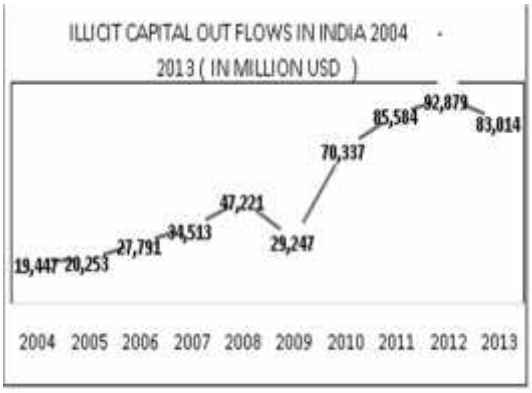


Figure 2. Illicit Capital outflows from India- Source GFI 2015

The figure above shows how the Illicit money outflows from India It has been on an increasing trend and fluctuating according to trade. Trade Mis-invoicing is the dominant Channel for Illicit financial flows Mis invoicing of trade is the chief component for India in illicit financial flows accounting for 83.4 percent of all illicit flow, to curtail illicit financial flows we must address trade mis invoicing.

Trade mis invoicing is a mode for transferring money illicitly across nations which involves intentionally misreporting the worth of a commercial transaction on an invoice submitted to reduce the levy of customs.



Figure 3. Trade Misinvoicing in India-Source GFI 2015

Trade mis invoicing is adept by false reporting the value of an export or import on a customs invoice. It is made feasible by the trading partners who write their own invoice, or organize to have the papers prepared in a third country (typically a tax haven), a method known as re-invoicing. Fraudulent adjustment of the price, on an invoice allows criminals, corrupt régime bureaucrats, and commercial tax evaders to transfer large amounts of money across globally rapidly, effortlessly, and nearly always unnoticed.

Over invoicing

Over invoicing to earn Export Incentives

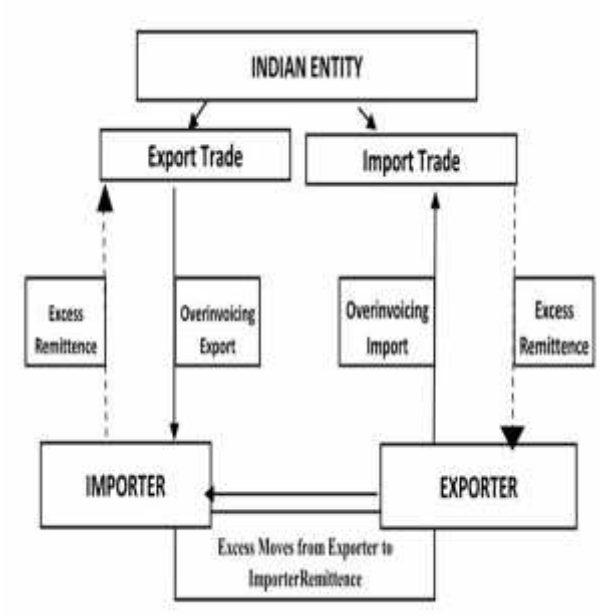


Figure 4. Over invoicing for Export Incentives

Over invoicing of commodity or service is done on which high amount of incentives can be earned. To neutralize excess remittance received, over-invoicing of the commodity or service is resorted where on there is minimum custom duty.

Over invoicing of Imports to remit illicit money outside the country.

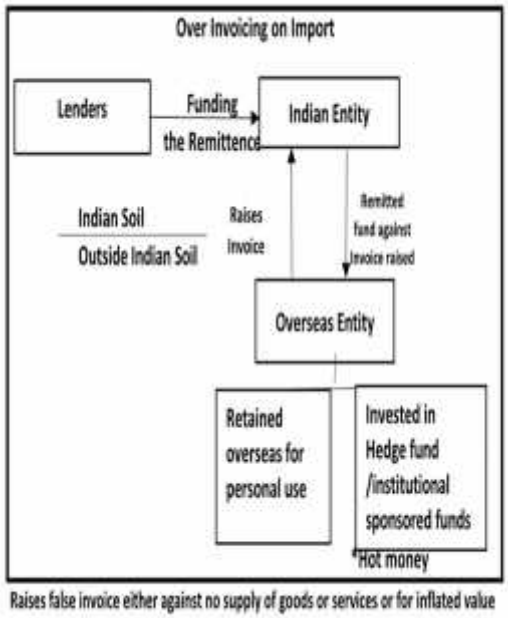


Figure 5. Over invoicing to remit money overseas

In the above case, foreign entity raises invoice for an amount higher than the genuine value of import of goods/services. Remittance of the inflated amount is done partially from own sources and partially from bank funding. The excess sum of settlement is either retained overseas or invested in overseas funds. Alleged case of King Fisher Air Lines

Over invoicing on Export with anonymous companies

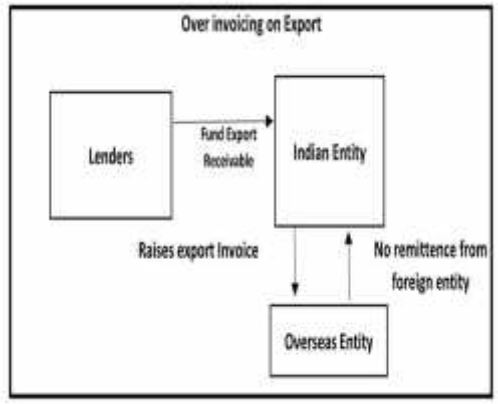


Figure 6. Over invoicing overseas with anonymous companies

In the above figure the Indian Entity raises export invoice overseas on a shell company which is an associate concern of the Indian entity. Indian entity raises fund from Banks, FIIs, NBFC. The overseas company defaults in payment after first few successful transactions. Case of Winsom Diamonds Ltd. Fraud running into over INR 8000 crore.

Over invoicing by Govts / Corporates /Local Authorities

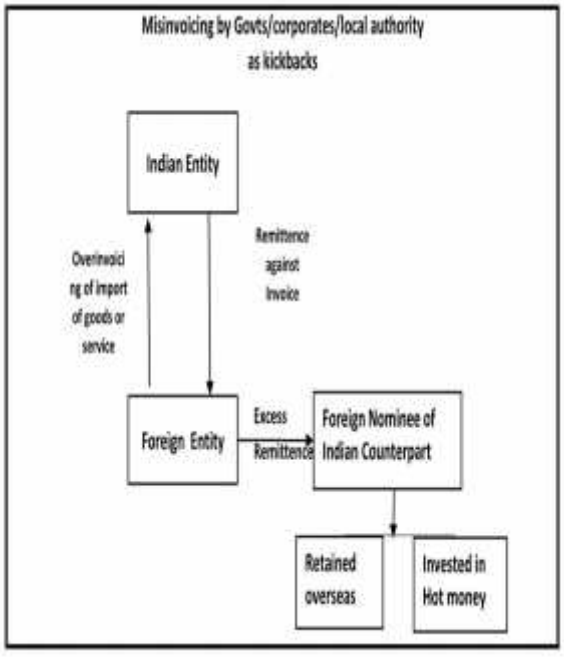


Figure 7. Over Invoicing by Authorities

A Corporate/A Govt Dept. / a Local Authority approves tender of supply of goods/services generally for a higher amount than what is worth-contract awarded payment will be made from relevant entity to overseas vendor. Overseas vendor will remit pre-decided sum to another person appointed by the beneficiary in the country of supplier or other tax haven country. Largely used by dictators/army chief being president of a country, approving government authorities at various levels of government posts.

Under invoicing



Figure 8. Under invoicing Fund Flow

Under invoicing of fund flow is neutral it is done to evade direct tax by one and indirect tax by another

Export Transactions

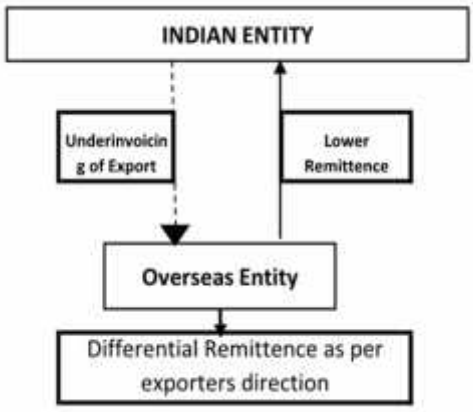


Figure 9. Under invoicing export transactions

Under invoicing is resorted to park a part of the earnings outside the country of residence, to avoid taxation and to settle for under invoiced value of import.

Import Transactions

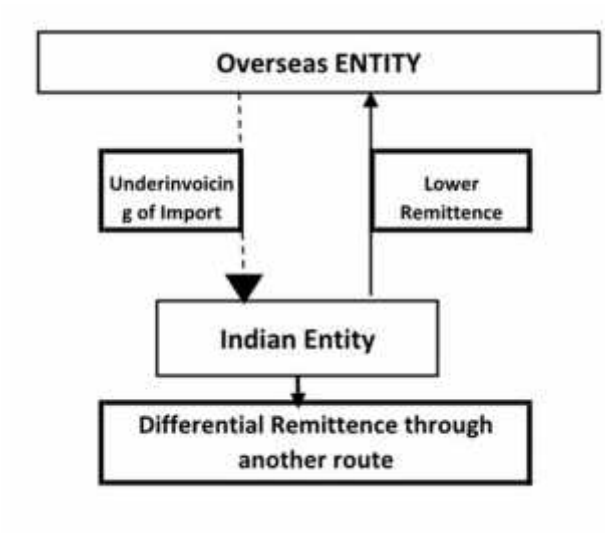


Figure 10. Under Invoicing Import transactions

Under invoicing of import transactions is resorted to avoid tax, (custom duty), to facilitate another reverse transaction of illicit cash flow.

Inferences

The policies that are crucial to control IFFs is to be addressed by India. The tools which are exercised for the movement of Illicit money needs to be kept under check due to these flows the countries forfeit large amounts of money. In fact, illicit financial flows drain resources and tax revenues as well as foreign reserves. a new modus operandi has to be worked to stop the illegal route proceeds of IFF. The evidence presented and discussed proposes that illicit financial flows are a problematic phenomenon. There is a necessity to eliminate the ways and means to stop the channels like

- Detect and discourage cross-border tax evasion;
- Eradicate anonymous shell companies;
- Fortify anti-money laundering regulations and practices;

- Work to limit trade misinvoicing
- Eliminate Tax Havens
- Improve working transparently of flow of capital of multinational corporations

Outcome

If the export difference for that country is positive, the nation is said to be under-invoicing exports in that year (an illicit outflow); if the export difference for that country is negative, the country is said to be over-invoicing exports that year (an illicit inflow). The costs of the scale of the problem of illicit financial flows are more significant for developing countries whose governments are struggling to raise adequate public revenue for sustainable goals. While it is difficult to report some of these underlying factors, it is not impossible. A lot of efforts are needed on these issues at the regional, national and global levels.

Evaluation of Measures taken by Indian Government

- One major measure taken by Indian Government with intention of direct strike on illicit fund was that of demonetization of high value currency notes. Of this measure has its own imitation to address black money hoarded in form of cash holding. Based on various unconfirmed news report Government could eliminate around 54000 crores against expected 3 to 4 lakh crores. More over this measure takes care of only illicit money in India.
- Time to Time Ministry of Finance has come out with disclosure schemes with carrot of compounding of interest and penalty. Waiver of tax is not permitted due to a Supreme Court judgement after amnesty scheme 1997. Latest example was Income Declaration Scheme (IDS) 2016. Where in about 35K Crores of black money had been disclosed.
- Digitalization of entire foreign trade, including payment of incentives, issue of licenses and both inward and outward remittances. Through this the Government can detect to great exchange misinvoicing indulged in international trade.
- Foreign Exchange Management Act. In past one year licenses of nearly 1000 NGOs to receive donation in foreign currency has been canceled or under review for alleged misuse of such funds for anti-country activities.
- India taking a lead in G20 and OECD forum for creating an alliance for detecting and eliminating illicit financial flow.
- Implementing Undisclosed Foreign Income and Assets (imposition of Tax) Bill 2015. According to which the Indian resident found to be having either undisclosed foreign income or foreign assets is required to pay tax @ 30% and penalty up to 300% of the tax sough to be evaded, i.e. further 90% of the undisclosed value of income or asset resulting into a total incidence of 120% of the value of undisclosed income or asset. Further the person is also liable for an imprisonment of six months to seven years and monetary penalty up to Rs. 10 lakh is leviable on false submission of information through return.
- Reincarnation of Benami Transaction (Prohibition) Amendment Act under new name of “Prohibition of Benami Property Transactions Act 2016, under which to park illicit money any property if held in name of some other person results into confiscation of the property and further punishable with rigorous imprisonment of five years and a monetary fine up to 10% of the fair value of the property.

Evaluation of Global Measures

- Further globally all nations have agreed to introduce Harmonized Commodity Description and Coding System [also known as Harmonized System of tariff Nomenclature (HSN)], to check misinvoicing through commodity description mismatch.
- OECD has recommended a convention for exporters to seize bribery of Foreign Public Officials in 2009. The convention has been accepted by 35 OECD Countries and 6 Non OECD Countries (Argentina, Brazil, Bulgaria, Colombia, Russia and South Africa)
- OECD has taken a lead to deal with new challenge of taxation of income of certain multinational countries, particularly in digital area of business have presence in multiple countries. There is wide range of discussion and brain storming going on levying and collecting tax (both direct & indirect) on transactions done from digital platform and on the profit earned by the companies having Place of Effective Management (PoEM) in one country and place of residence for taxation in another country (mostly tax havens) which leads to a large income going untaxed in hands of such company. Now a days Google, Apple and other companies are falling in this category. For this purpose OECD is on advanced stage of action plan. This action plan is under the theme of Base Erosion and Profit Shifting (BEPS) initiated in 2013.
- FATCA game-changer' in global information exchange and helped pave the way for other countries' commitments to a multilateral information exchange system.

The results of this study are indicative but demonstrate a clear need for further research in this area given the scale of the development challenges which currently face India and the need to 'think outside the box' and find innovative development solutions. According to Global Financial

Integrity (2015) 55% of Illicit capital flows from developed countries and 45% from offshore Financial centres. There is a need that the advanced countries need to take accountability to limit the flow of Illicit money because it helps huge amounts of Illicit currency flow between countries. It is a vicious cycle that the currency that moves from one country has to end up in another country.

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LONG TERM GAINS @ SHORT TERM PAINS THE MULTI-DIMENSIONAL STRIKE ON CORRUPT, BLACK & PARALLEL ECONOMY

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Abstract

As per the moral ethics, the State should punish those who earn wealth by unfair means, or by not working themselves or by theft (evasion) of due taxes, keep the wealth hoarded (unutilised). It is duty of the State to promote earning of the wealth by legal and moral methods, to protect the wealth so earned, to promote the increase of the wealth and to facilitate it's investment for common welfare and development purposes. The demonetisation is an act by the Government to put an official stop on the status of its currency as a legal tender. Its known history in India goes back to the 14th century, during the regime of Mohd. Bin Tuglaq. Many countries of the world have been resorting to it, for varied purposes. The latest demonetisation of Nov. 2016, in India, became one of the most debated decisions of this century.

Keywords: Demonetisation GST, JAM, PAB linking, Black money Parallel

I. INTRODUCTION

The period of 50 days i.e. 11th Nov. to 31st Dec., 2016, was a period of perplexity for the government, excitement and worried activities of the common man and of deep anxiety for riches holding hoards of money, in cash. Unbound criticism by politicians in opposition, and expert economists in India and the world added to the confusion, worst confounded. Everyone was freely commenting on immediate public pains, and adverse impact on different economic indicators. However, the government remained un-phased of these criticisms and went ahead with the bunch of strategic moves for success of their long term objectives, it had in root of this big upheaval. The Govt. has been preparing for it, right from May 2013, when an amendment to the Benaami transactions (Prohibition) Act 1988, was proposed, to make its provisions more stringent. The enormity of siphoned off funds from India, as revealed by information received on Swiss bank accounts of Indians, the Panama Paper leaks, Benaami Property transactions, necessitated a big action to stop unlawful economic transactions, through shell companies in India, and offshore companies formed by Indians in tax heavens, abroad. Multiplying prices in the Realty sector and inflationary trends in the consumer markets, due to increasing cash market also needed to be put at a halt. As such, the demonetisation was to hit at the very root of large cash hoardings of tax evaders and corrupt bureaucrats. The DBTS, PAHAL, Linking of Aadhar with PAN and Bank accounts, and the JAM, were part of this long drawn strategy. The last but the most important was implementation of GST, as to curve the cash transactions in the market, the very place

facilitating multiple tax evasions and increasing size of the parallel economy as a burden on the formal economy. Most of the criticism have been against short term fluctuations in micro and macroeconomic indicators, and may still continue for some more time to come. But the vision of popular leadership will prevail in cleansing the Indian economy, of wide spread and deep rooted corruption, increasing shadow of black money and the proportion of parallel economy, in the National economy. Now, with almost one year of the demonetisation has passed, the dust is settling down and it is becoming clear, day by day, that the economy is going to enjoy long term gains @ short term pains. To understand this, we have to understand demonetisation, in its totality with pre-and-post demonetisation strategic regulations and actions, on the basis of startling revelations from the analysis of huge data, now in hands of Tax, financial, monetary and anti-corruption authorities.

II. OBJECTIVES

This study purports to draw attention of researchers and analysts to the fact that true impact of Demonetisation cannot be rightly assessed, either on the basis of very short period micro and macroeconomic indicators or taking them singularly or separately. To reach at the most appropriate conclusions, an all-inclusive in depth analysis of all pre-and-post Demonetisation /GST concerning policy decisions, executive actions and resultant data and information, is required to be taken in consideration, as a package, with keeping a longer term, in view. This study is only an indicative one.

Methodology

This analytical study is totally based on secondary data, collected from articles, published in various journals, newspapers, research papers, Govt. reports, and internet websites.

The background

The act to cease a currency unit or put an official stop on its status as a legal tender is known as demonetisation. Demonetisation is the process that involves a change of national currency, where old currency is replaced with new currency. The circulation of a specific currency unit is stopped, followed by the withdrawal of old banknotes or coins. (1) Noteworthy disadvantages of currency demonetization are that it causes inconvenience to the public, at large for initial few days and the situation sometimes can turn chaotic. Huge printing of new currency and to put it in circulation and cost of old currency destruction has to be borne by the nation. Cost of disruption of business activities, decrease in sales, particularly cash based sales has to be borne by the marketing system and by small-scale business operators who deal in cash. Advantages of de-monetization include, Black Money tracking, Fake currency in circulation is rendered useless, Corrupt officers and money launderers come under threat as Income tax defaulters, illegal activities, like smuggling and trafficking etc. are checked. Banning high-value currency will impact people who will have no option, but, to declare income and pay tax on the same. Withdrawal of old currency brings unaccounted money back into the banking system, resulting in a considerable increase in bank deposits. With this the idle money becomes productive. It also encourages digital payment mode. The public support is a must for the overall success of this policy. Most of the advantages of demonetization are experienced in the long term. With a perfect implementation, demonetisation policy can provide a great boost to any country's economy (2).

The advent of currency, in India, is as old as, the Indus valley civilisation. Normally, all kingdoms had their own gold, silver and copper

currency, coins and seals that were used as medium of exchange for goods and services, with changing in form, weight and value, with the change of dynasties. It was noted that, in 14th century, Mohd. Bin Tuglaq, withdrew all gold and coin currency replacing it by 'Tankas', made of copper and brass. In 1735, Nadir Shah, devalued the currency, by changing it. (3) The Mughals, after invading a territory, would affect the demonetisation of the local currency with the aim to cripple the economy of the land. In their place, coins from Akbar's mints would be issued. This was known as 'sikkabandi'. After his death, his son Jahangir issued gold and silver coins that had Hindu zodiacal signs like Mesh (Aries), Kark (Cancer), Tula (Libra), Makar (Capricorn) and so on. ShahJahan who became the emperor after Jahangir's death, in 1630, in one of the cruellest forms of demonetisation, ordered a ban on the use of these coins (4).

In modern India, the Government, soon after the war and following the action in several foreign countries, including France, Belgium and the U.K., had decided to demonetise high denomination notes of Rs. 500 and above, on 12 January 1946. It purported to fight against black market money and tax evasions which had then assumed enormous proportions. In the end, out of total old notes of the value of Rs.143.97 cr., notes of Rs.134.9 cr. were exchanged, up to the end of 1947. So, it was termed as more of "conversion". (5) The second demonetisation was announced on Jan.16, 1978. The then Finance Minister Mr. H.M. Patel, in his budget speech on 28 Feb 1978 remarked that the demonetisation of high denomination bank notes was a step primarily aimed at controlling illegal transactions, as a part of a series of measures which Government has taken and is determined to take against anti-social elements. Noted economists, Professor C.N. Vakil and Dr P.R. Brahmananda, had than expressed their views that the measure would not have any enduring effect on money supply, prices of necessities and problems like low savings, acute poverty, unemployment and industrial relations, as the high denomination currency notes formed only a small proportion of the total money supply (6).

History tells us whilst others used demonetization as a tool to give instant result to face the inflation, fake currency menace etc., PM Modi had a multidimensional approach and used it after slew of initiatives. Jandhan bank accounts, direct bank payments for NREGA and subsidies via DBTS, push on UPI, IMPS, digital wallets, NPCL, tax collection at source on cash transactions >2 lakh were some of these measures, already implemented, beforehand. Similarities are all the above three demonetisations were aimed at curbing black money. The big difference obviously is the size this time. This one was huge with 85% of currency withdrawn out of the system which impacted more intensely, the richer section of the society, sitting on piles of black money in cash, gold and property.

The Action & Reaction

On November 08, 2016, Prime Minister Narendra Modi announced that all Rs 500 and Rs 1,000 notes had been put out of circulation. The public was suddenly taken aback by this announcement. It was a sweeping move likely to disrupt daily life for months to come. But the devil of demonetisation has been in its details, which the government has changed repeatedly since November 8, as it attempted to close loopholes and respond to unanticipated needs The Central government and RBI came out with a series of 74 notifications and announcements during its execution period of 50 days that included several rollbacks, also. (7). The common man could not understand much but became busy to manage the

routine life in coming hard days. People with hoarded extra income in cash were the most worried people. They started running pole to post to manage their black money dumped in multiple accounts. However with changing notifications, it became clear that whatever tricks they apply to save their illegal money, they will not be able to defend it from eagle's eyes of tax authorities, sooner or later. (8)

The announcement was immediately caught in the fire of criticism, from politicians in opposition, economists in India and abroad. An Economist in Dr. Man Mohan Singh, as also as former PM , had categorically prevailed upon that the action would decrease the consumer demand in the retail market, lower the prices of goods due to cash crunch and thereby, adversely affect the IIP and warned of grievous injury to the honest men and hazardous impact on macro economy of the Nation.(9) .As of now, he has again stressed that his apprehensions were correct, as the GVA in March 2017 had lowered down to 38%, as against 107% in March 2016. (10) The former Finance Minister Mr. P. Chidambram, also had spoken of worst effect on common man.(11) . He even went to the extent of calling the Demonetisation, as the biggest scam of the year.(12) . Noble economist of world repute, Prof. Amratya Sen, called it a despotic move. (13) Noted US based economist T N Srinivasan of the Yale University, also had cast his doubts, that the move might not be able to fight the corruption, the main economic evil at target of PM Modi.(14) The extent of disapproval of the idea was so deep that the then RBI Governor, Mr. Rajan is said to have opined against the demonetisation and the interest cut , earlier in Feb. 2016 too,. And even now, he holds that the demonetisation had a disruptive impact on the economy.'(15).

With the return of Rs. 15.28 lakh cr., almost 99% value of the old demonetised currency, once again the issue has come under heated discussion between supporters and critics of the action. Out of the difference of Rs. 16000 cr., the RBI had incurred a cost of Rs.7,965 cr. in printing alone .(16) ,in addition to the cost of destroying old withdrawn currency and logistics. Former Chief Economist of the GOI, Prof. Kaushik Basu is of the opinion that the economy had paid a hefty price for demonetisation.(17).

It will not be wise to say that economists of their status, with in-depth knowledge of the economy and top level experience in execution of micro and macroeconomic policies at the National and International levels, were wrong. The wide ranging fluctuation in the values of IIP; WCPI, CPI and stocks took place, during the period of Nov.2016 to March 2017, and to some extent till date also, as a result of demonetisation. These fluctuations, as compared to the data over the same months, qrs. of the past year and month to month, are still the subject of interesting debate between supporters and opponents of the Demon.

Why it happened so. Let us little think of the time the Demonetisation was enforced. In brief, the period between October to March is a festive season in all parts of the country. People make maximum purchases of consumable durables and festive purchases in these auspicious months. Accordingly, manufactures plan their production and supplies months ahead in the weak market season, during rains. The Demon. in the month of Nov. was like a sudden shock for consumers who were left with no cash with them and to manufacturers, wholesalers and retailers who had piled stock for sales, in view of their past market experiences. Obliviously, prices came down, margins shrunk due to unprecedented offers for stock clearing, although the govt. cheered for fall

in CPI/WCPI. On the other hand, the manufacturing sector saw discontinuance of repeat demand and increasing debts on them, and so brought their further production almost to the nil or minimum, with an adverse impact on employment by laying off bulk contract labour, mostly being paid in cash, on daily/weekly/monthly basis, in different industries.

As regards the 99% return of old defunct currency coming back into banks, one has to note the psychic (interesting to refer ,the latest Noble Economist Rafel on the role of psychology in economic behaviour) of Indian people. On announcement of demonetisation, people having large sums of unaccounted cash, first tried to purchase gold and jewellery even at very high prices, to deposit extra cash in accounts of relatives, employees, workers and even paid 6-12 months or more of the advance cash salary to their workers etc. As different tuff notifications started coming in, they thought it better to deposit extra money in their accounts, instead of throwing or burning it. The mathematics was simple. If the money is thrown or burnt, benefits of tax saver fraudulent practices will become zero. Instead, they deposited in accounts and paid advance Income tax, thus saving 60-65% of their black money as white. Worst to worst, they might have thought that if they could not satisfy their tax authorities of their heavy deposits through next return, they will pay the penal tax also and thus, will be able to save at least 30-35% of their black money, as white. So, as is the proverbial saying ‘Something is Better than Nothing’- Hkkxrs Hkwr dh yaxksVh gh dkQh., - made the whole cash back into the bank.

The Prime Minister Mr. Modi, took a dig on all these world renowned economists, in an election rally, by throwing a popular slogan ‘Hard work v/s Harvard’. (18) Though, it was much popularised by his party workers in the wake of the then coming elections in 6 states, the comment could not be taken well, by the intellectual community, world over. Though it had a point because there existed a very important difference in the approach, between the two. One the group of experts well versed in economics theory and experienced in policy execution at the National and International levels; and the second, a shrewd but visionary politician, who gained and further strengthened his political power on his slogans, to clean the economy from corruption, black money and parallel economy. He was planning for this from months before, with the preparation for Union Budget 2016-17. (19) Had Mr. Rajan given his nod, this could have come in the beginning of the FY 2016-17.

The Strategy

Before we proceed further, it becomes necessary to consider a bit of the background that necessitated this action. The corruption had become rampant in the society. People, instead of paying taxes honestly, used to think, how to save taxes by hiding the income. While using this illegal cash income in the market, they will further save taxes. So this part of the income formed the black money. Since the economy was going ahead with cash & cash transactions, the government was not receiving due taxes, for spending on its necessary obligations to run the system, infra development and social welfare schemes. So Government printed more and more currency to keep the economy run. Though a major part of it again use to go in the parallel economy, causing inflation to pinch the common man and float a balloon type hollow image of economic growth. There piled huge cash bubble and India’s fictitious and imaginary growth came to the point of hitting herself to the U.S. like 2008 crisis. (20). An estimated 98% of the volume of transactions and

68% of the value of all transactions take place in cash in India, the highest among all countries of the world. Notes and currency in circulation formed 12.2% of the GDP. This has created a shadow / parallel economy in India, to the extent of 26% of her GDP. (21) The phenomenal growth of money supply, from Rs. 1.5 lakh cr.in high denomination currency in 2004, rose to 15.5 lakh cr. by 2016. (22).

This demonetisation was notably different from earlier of these in 1946 and 1978, which had very restricted objectives or more were the result of dependency and invariable link of the Indian economy with British and European economies. This time the size was too huge to be believed. All currency notes of the denomination of Rs. 500/- and Rs. 1,000/-, with the total value of Rs. 15.44 lakh cr., were withdrawn from circulation. This was almost 88% of the total currency, in circulation. (23). Instead going ahead with any single purpose it had various inter-related objectives, with multi-dimensional strategy for course correction of the Indian economy.(24)

The first disclosure of Indian holders of secret Swiss banks accounts, in Feb. 2015,(25) revealed names of app. 1195 Indians , including people from all walks of life. The scanning of whole list added up to app. $3000+ cr. (app. Rs. 2lakh cr.) The CBI Director of India, had testified before the Supreme Court, in Feb. 2012, that an estimated amount of $500 bn of Indian people is deposited in Tax Heavens. (26). It is than routed into their Indian firms, through FDI, assuring huge tax evasion, from the Govt. of India. Almost more than a year before, Panama Paper leaks in April 2016, gave startling data of offshore Cos. formed by app. 2000 Indians, in tax heavens. (27) CBI, ED and SITs were formed by the Govt. by 2015 to probe in these matters deeply. Preliminary investigations and analysis confirmed that this all was a part of the black money and the parallel economy interactive forces.

The strategy started playing its role from May, 2013, when the amendment to the older Benami Transactions (Prohibition) Act 1988 was introduced in the House. It was passed in the Lok Sabha and Rajya Sabha on July 27 and August 2 respectively and came in effect from November 1, 2016. This was a big below against siphoning off the black money in non-existent companies for big people. An all-out effort were made to get the GST Bill, pending for past 4-5 years in the Parliament, passed which was another coherent part of the strategy. Simply exposing the direct taxes theft and the black money hoarded by tax evaders, through demonetisation could have not succeeded since market plays the most important role in lubricating and expanding the scope of parallel economy, day and night. The introduction of GST, the One country-One tax, in indirect tax structure will not only bring transparency in the consumer markets, but will also account for all transactions of goods and services, in the system. It has the flexibility of operational reform and changes in the tax structure, as may be needed, from time to time.

The PAHAL scheme, to link the Direct Benefit Transfer Scheme (DBTS) with LPG accounts and that with Bank accounts for transfer of LPG subsidy also proved to be a milestone, in checking fake and double-triple subsidised LPG connections being enjoyed by people. DBTS as applied to all transfers of government payments to MNREGA workers, Old age pensioners, loan to farmers and all type of subsidies under social welfare schemes for the poor, became very effective in exposing and checking the funds leakage to middlemen and corrupt bureaucracy. In fact, failing all fears of the government that public at large may oppose the step, the public silently supported the action. They suffered sudden tight

cash crunch. Small people were on the receiving ends. Daily wage earners, poor farmers and villagers, small traders, were feeling the bite but they did not over cried. After 50 days when the deposit period was over, mood of general public had started relaxing. Now this was time for the Government to satisfy common people of India, by strictly dealing against corrupts, hoarders of black money and all players of the unorganised sector of the economy. Now, it was the time that the Govt. has to pass in the test, designed by itself.(28).

The Long Term Gains

In sharp reaction to all criticisms, the Prime Minister vouched for many general and specific benefits of this demonetisation, such as, widening the tax net, increased digitalisation, crack down on black money, stamping out of terror funding for Kashmir unrest, check circulation of fake currency, increased income tax and flow of personal savings, held as cash, to bank accounts, thereby increasing investment potentials in the economy. (29) The Finance Minister also did not legged behind in saying that the return of 99% cash has served the purpose for tapping cash lying or circulating out of the system, into the system. With the return of this money, the anonymity associated with the cash has gone. Now we know who the owners of this money, white or black, are. So now, this will increase the tax compliance, with Aadhar, PAN and Account linking (30) Now that almost a year has passed and the dust settled, experts too have started speaking that long term gains of the Demonetisation over short term pains will prove its critics wrong. (31) UN Experts have out rightly rejected any adverse impact of demonetisation on growth prospects of the Indian economy; (32) , OPEC has hailed it,(33) and even the World Bank has opined that Note ban will have positive impact in long run. (34)

What demonetisation exposed is very interesting and an eye opener to the enormity of wide ranging corruption and large scale involvement. It would be interesting to know that no sooner the demonetisation was declared and a limit of Rs.2 lakh in a single account was announced to remain out of scrutiny, 80.14 lakh dormant account became active in 12 PSU banks and got the deposit of Rs. 31,300 cr., in various states, with the poll bound Punjab and U.P., at the top. (35) App. 13.33 lakh bank accounts, belonging to 9.72 lakh account holders, saw the total deposit of Rs. 2.89 lakh cr. were found connected with 1400 big property deals, each of the value of Rs. 1 cr. and more. (36) The number of Returns filed as on August 5, 2017 registered an increase of 24.7% compared to a growth rate of 9.9% in the previous year. Advance tax collections of Personal Income Tax (i.e. other than Corporate Tax) as on August 5, 2017 showed a growth of about 41.79% over the corresponding period in previous financial year. Personal Income Tax under Self-Assessment grew at 34.25% over the corresponding period in F.Y. 2016-2017. .(37)

An important result of the huge tax evasion being done by corporate sector, through shell / letterbox or practically what we can say non-existent companies also stand exposed, now. These companies helped big people to divert their funds, in order to save high bracketed direct taxes payments, and still keep the money in transaction as legal /white money. The scrutiny of huge data of deposits in bank accounts, during the demonetisation period, has put almost 3 lakh cos. under IT scanner. After preliminary verification, 2.09 lakh cos. have been made defunct and their accounts are now frozen. (38) Just peeping into the enormous data, has also led the IT sleuths to look back into ITRs till 2010-11 of a good no. of account holders, having made big property

transactions, during this period. The government has urged to use the post demonetisation data to widen the tax base.(39)

The impact of dual measures, Demonetisation and implementation of GST along with other executive plans, will widen the tax base leading to improvement in the tax-to-GDP ratio, and together with higher growth over next 2-3 years allow the government to maintain fiscal prudence while setting aside funds for public investments. (40) In a joint meeting of CBDT, CBEC, and indirect tax officials of, all State called 'Rajasva Gyan Sangam'- the confluence of three level officials, the Triveni, have been directed to share all the information revealed during and after demonetisation, and attack the corruption and black money, with full strength.(41) Further the Central Vigilance Commission (CVC) has also sought information regarding deposits of the scrapped currency in the accounts of central officers. The CVC will prove the amount deposited is commensurate to their legal resources or not. On finding any discrepancy, matter will be referred to anti-corruption authorities, for necessary actions. (42) The demonetisation had the heaviest impact on the Realty sector, the biggest facilitator of the black money transactions and multiplying the volume of cash economy. The prices of properties have immediately crashed down by 30-40%, believed to be the cash part in property transactions. This has brought down the prices of property lower. The RERA with stringent buyer pro provisions have brought fictitious data of illusionary growth in the sector, down to the earth realities.

Some other benefits, having indirect impacts on the long-term health of the economy, are also noteworthy. As on August 16, 2017, the number of Pradhan Mantri JanDhan Yojana (PMJDY) accounts stands at 29.52 cr. with rural accounts comprising 60% of it. A huge sum of app. Rs. 60,000 cr. stood in deposited in these accounts. Zero balance accounts under PMJDY declined from 76.81 % in September 2014 to 21.41% in August 2017. This brought the savings lying idle in cash for long, into productive channels of the formal economy, through banks. In addition to earning interest for depositors, these are also available for investment in the economy and thus increasing employment potentials.

With linking of 117 cr. Aadhar card nos., with 90 cr. bank accounts and 100 cr. Mobile phones in the hands of Indian consumers, along the introduction of BHIM and UPI payment portals, the number of digital transactions have increased enormously in a very short period. It has put the country, 3 yrs. ahead of the targets of digitalisation. In May 2017, the value of total card transactions was Rs 73,649 cr. Out of the total no. of 12.77 lakh POS installed in a year till May, 2017; 11.80 lakh new Point of Sales (POS) machines were installed since Nov. 2016 alone. (43) The cash in economy has settled at 12% below the pre-demonetisation. After full return of 99% of the old demonetised currency, total cash, including currency of all denominations, in the system was 15.6 lakh cr., as on sep.01, 2017, as against 17.9 lakh cr. on Nov. 11, 2016. As such this has reduced dependence of the economy on cash. (44)

Besides all these data based benefits, the deeper and the longer impact of demonetisation +GST +other initiatives is, that now the psychic of people as customers, as sellers or as officials is changing to come clean in their transactions and dealings. The retailer has to charge GST, whether providing a bill or not, in order to avail the benefit of GST credit in his account, received from his suppliers. It is now online and one can neither make under or over billing nor can show a reduced

or increased stocks. Un-organised sector will automatically come to the fold of formal economy, since any raw material can be procured from suppliers, against bill only. However, there is one sector and that is the Service sector, mostly in the consultancy, and the largest one in Legal and Medical consultancy, which appears to be still, at large. Earlier the Government tried to impose a code of conduct on legal practitioners, but owing to their large no., strong professional organisation and the concern of litigants, the government had to stop. The same is the case with Medical practitioners. In order to put an end to the un-reported cash transactions in this sector, the Government, sooner or later has to put some system in place, too.

III. Conclusions

In a poor economy where bulk of the 'last mile transactions' are done in cash, a measure like this was bound to cause fear and panic, and also scarcity of legal currency as people hoard it for safety-net purposes. D.Subbarao, former RBI Governor, had described demonetisation as 'creative disruption that attempted to destroy black money, which is a destructive creation'.(45) In the last eight months, the costs of demonetisation has been paid. Many lost their jobs. Patients could not receive treatment. People had to stand in long lines, for getting new cash. It was seen that the fourth quarter of the last fiscal's GDP had suffered a substantial blow. Benefits depend on objectives. There had been a lot of pain. All these could not be quantified. But, rest assured, these were for the short term, while benefits will be felt in the long term. The objectives must have been choking black money generation, digitisation drive and dismantle counterfeiting of money. Benefits would also accrue from the rise of the share of Income Tax in the GDP. (46). This time, while commenting on the outcome of all these actions, Mr. Rajan was little cautious and uncommitted in saying that benefits have to be large to justify denomination cost and admitted that the intent was good, but still at this point one cannot say that it has been an economic success. Only time will tell. (47). As has rightly been said, that before demonetisation, Indians learnt to live with a high cash economy and not paying taxes. The system had to be shacked. No country, which aims to be the fastest growing economy in the world, can do so with this type of norms in the life of its citizens.

At the end, I would like to conclude with a Sanskrit verse from part of the 'Mahabharata', known as

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Theme II -

Future of Multilateral Trade Agreements

Future of Multilateral Trade Agreements

Keynote Address

Sachin Chaturvedi

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Research and Information System for Developing Countries (RIS), New Delhi.

Dear President, Indian Economic Association,

Chairperson Prof. PushpaTrivedi, Department of Humanities and Social Sciences, IIT, Bombay;

Co-Chair: Prof. A Rangreddy, Professor Emeritus, SV University, Tirupati

Other Keynote speakers, Delegates, Ladies Gentlemen,

At the outset, I would like to thank Professor P. K. Chaubey for thinking of me for this extremely stimulating theme for the 100th IEA Conference.

I was keenly looking forward for my participation at this important event at the beautiful city of Jodhpur. In my brief outline of the "Future of Multilateral Trade Agreements", I am trying to capture the genesis and evolution of multilateralism in the global architecture of trade and what seems to be a possibility in short- to medium-term and direction for longer time frame.

Evolution of Trade Multilateralism

1. Since the depression of 1930s, global economy had been moving in the direction where trading economies realised the growing interdependence and the importance of trade liberalisation for better management. When reconstruction started after the World War-II, several institutions came up.

2. There were efforts to have one for the global trade management as well. It was in this context, the countries also thought of a global institution to manage international trade architecture. With the Havana Charter of 1948, proposal for an International Trade Organisation (ITO) came up, which suggested, an institution at par with the other two Bretton Woods institutions, viz. the World Bank and the International Monetary Fund. The ITO proposal also had a component of investment. One could not go very far at that point and as a result, only some general principles were identified, which were to be enforced through a consultative mechanism.

3. Subsequently, the General Agreement on Tariffs and Trade (GATT) was signed by 23 counties in Geneva on October 30, 1947. This eventually came into effect from 1 January 1948. It was an outcome of United Nations Conference on Trade and Employment, which could not launch the International Trade Organisation (ITO), which was envisaged in the beginning.

4. Over all these years, GATT worked in terms of advancing a rule-based trade facilitating entity that had a narrow mandate on trade governance. In 1995, the World Trade Organisation came into existence absorbing the initial features of GATT, with some modifications at the end of the Uruguay Round.

5. The establishment of WTO was actually a marked departure towards a new multilateralism where scope for enforcement was much higher. The WTO established Dispute Settlement Mechanism (DSM), which paved way for strict enforcement norms.

6. As global trade has dwindled this year with growth of 3.6 per cent, there is growing expectation that trade would again would be leading global economic growth. In the period 1998-2008 trade grew almost at the double pace than global GDP. It was in 2009-2013 that trade and global GDP grew at the same place. This immediately expanded the scope for contribution of trade in the growth of GDP across the participating countries. In fact, from 1996 to 2009 one finds that contribution of trade in global economy was just doubled of GDP growth. This helped internationalisation process and provided scope for several developing countries to become part of global production and trade networks. With recession and protectionism in the global economy, it has become all the more evident when growth of global GDP and that of the global trade in the period 2009 to 2016 was at 1:1 basis.

7. The current upswing in the global trade encourages us to reimagining trade, providing traction to the global economic growth process.

8. Another major gain, with the launch of the WTO, has been to have a rule-based system, which has helped in getting a much wider acceptance. Countries have consistently shown greater willingness to be the part of WTO. Since 1995 more than 36 countries have joined WTO. The membership is standing at 164, covering 98 per cent of the global trade.

Transparency

9. With rule based system, transparency is a major advantage with current multilateral system. Countries are expected to come up with notifications and reporting systems for wider dissemination. It is also essential even if countries are changing their fee structures, SPS-TBT standards or even joining other regional trading arrangements. This has helped in bringing in predictability and assurance for rule based systems.

Dispute Settlement Mechanism

10. One of the key advantages of the new multilateral arrangement, with WTO, was to have a Dispute Settlement Mechanism (DSM), based on principles of equitable, fast, effective and mutually acceptable framework for settling disputes. The DSM has power of trade sanctions, hence brings in necessary wherewithal's for trade governance. In some quarters DSM is viewed as excessive legalisation of WTO, which hampers full participation of developing countries and least developed countries, which do not have enough capacities to support legal infrastructure. Since 1995, 524 disputes came up for settlement, out of which 350 rulings were delivered while 90 per cent of the remaining cases were settled at various stages of hearing. The best part of the DSM is that by stipulation normally the case must be settled within 15 months of its initiation. As of now, in almost all the cases this system worked well based on rich jurisprudence, high quality outcomes and greater

compliance. At G-20 and even in the WTO Ministerial at Buenos Aires vacancies at the DSM came up for detailed discussions.

S&DT

11. Special and Differential Treatment (S&DT) is one important achievement of the WTO mechanism. It was very much part of the Havana Charter and also had a predominant position in the Doha Development Agenda. The developed countries have always proposed to water it down, every time an opportunity came up. The Leutwiler Report (1985) was an effort in the same direction. The Arthur Dunkel Report also emphasised on the same. In fact, during the Uruguay Round negotiations, there were repeated efforts for minimising S&DT provisions. At the recently held WTO Ministerial, the United States has suggested to delete the S&DT provisions from the WTO Agreement. This is happening at a time when at the mega-regionals, the developed countries themselves are keen to take advantage of S&DT. At the Trans-Pacific Partnership Agreement (TPP), tariff elimination schedule varies for countries on bilateral basis. The United States sought 30 years extension, vis. a vis. Japan for removal of tariff rate quotas (TRQs) and agricultural safeguard measures while Japan seeked an extension 21 years for removal of TRQs.

Consensus: Accept All Reject All

12. At the time of transition from GATT to WTO, the developed countries suggested the idea of arriving at a consensus by accepting all the provisions or rejecting all of them. This could help achieve launching of WTO in 1995. However, when the Doha Development Agenda did not move forward in 2001, similar commitment by the developed countries was not discernible. In fact, at the Bali WTO Ministerial, the idea of trade facilitation agreement came in as an early harvest and that emerged as singular achievement for WTO since its launch.

Tariff Reductions

13. One of the key achievements of WTO is the reduction in the tariffs. According to a study by Baldwin (2016), the tariffs declined all across the regions with an average of 30 per cent. In the Latin American region (32 per cent), Sub-Saharan Africa (19 per cent), South Asia (41 per cent) Europe and Central Asia (49 per cent) and European Union (63 per cent). This has become a part of macro-economic stabilisation process for trade liberalisation and economic growth.

Proliferations in NTBs

14. However, with decline of tariffs, there is huge proliferation in the non-tariff barriers. Though WTO identified three agencies,viz. Codex Alimentarius Commission, the International Office of Apizootics and the Secretariat of the International Plant Protection Convention for managing the standard setting for meaningful working of Sanitary and Phyto-sanitary measures (SPS) and Technical Barriers to Trade (TBT), the NTB proliferation proposed a major challenge for the system. The developing countries have faced these restrictions in highly non-transparent manner, largely to block exports of agriculture and associated products. With regional trading arrangements, the non-tariff measures

(NTMs) have gone beyond SPS and TBT and have included anti-dumping measures (ADP), countervailing duties (CV), import licensing and so on. The RTAs have quietly accepted several of these provisions and efforts are on to export them to the multilateral system.

Unfair Rules

15. Distortions and inefficiencies in world trade due to policy regimes in countries (in areas like subsidies and IPR) remained contentious, with developed countries seriously hurting interests of developing countries in areas of significant concern to them like agriculture exports, food security, livelihood and public health. Such divergences brought down confidence among members and the developing countries demanded a course correction. To address these issues a new round of negotiations was launched in 2001 that came to be known as the Doha Development Round, which remains inconclusive till date. Out of all rounds held under the GATT-WTO framework, the Doha Round has earned the notoriety of being the longest round so far with no end in sight. The course correction in terms of mainstreaming development in resource poor countries as the key objective of trade by provision of non-reciprocity and special and differential treatment and steering clear of non-trade issues have not succeeded. Developed countries undermine special and differential treatment all across, dishonour commitments on pulling back subsidies and others (that were initially agreed in Doha) and push non-trade issues. Failure of negotiations at several points since 2001 has serious danger of ruining efforts of generations of trade negotiators and the political and social capital therein. Holding back Doha Round and stubborn positions of developed countries would derail development, SDGs, global public goods and make trade negotiations unpredictable and directionless paving way for protectionism at all levels.

16. The developing countries faces dual challenges in the form of adverse posturing of the developed countries as well as biased technical specifications that went into determining the level of distortions. At the WTO, Brazil, India, South Africa and to some extent China started working together as part of the broad G20 alliance to hammer out issues in agriculture. While the uncertainty continued through the Hong Kong Ministerial in 2005, in 2006 India and Brazil were exclusively selected to be part of G4 along with the US and the EU to renegotiate and salvage the Doha Round, before the talks failed in 2007. India has collaborated more closely with G33 group of developing countries in agriculture which included China. In July 2017, India and China jointly submitted a proposal to the WTO calling for the elimination, by developed countries, of the most trade-distorting form of farm subsidies, known in WTO parlance as Aggregate Measurement of Support (AMS) or 'Amber Box' support as a prerequisite for consideration of other reforms in domestic support negotiations.

17. As per the official submission of India and China – the US, the EU and Canada, have been consistently providing trade-distorting subsidies to their farmers at levels much higher than the ceiling applicable to developing countries. Developed countries have more than 90% of global AMS entitlements amounting to nearly US$ 160 bn. Most of the developing countries, including India and China, do not have AMS entitlements. Further it states that, for many items subsidies range between

50-100 % of the value of production of the product concerned, while developing countries are forced to contain it within 10% of the value of production. In other words, while developed Members have access to huge amount of AMS beyond their *de minimis* (these are the minimal amounts of domestic support that are allowed even though they distort trade — up to 5% of the value of production for developed countries, 10% for developing.) in contrast most developing Members have access only to *de minimis* resulting in a major asymmetry in the rules on agricultural trade. The critical challenge is to revise the formula for calculating the AMS and therefore *de minimis*levels which are based on older base years at 1986-88 prices. Naturally, currencies in developing countries have undergone significant devaluation after that and calculating distortions based on biased specifications is faulty and unholy.

Rise of RTAs and Mega-Regionals

18. The world has witnessed mushrooming growth of Regional Trade Agreements (RTAs) over the past two decades. Moreover, RTAs are no longer confined to North-North preferential trade arrangements rather developing countries across different regions of the world are now part of those arrangements. In fact, all WTO members are now part of at least one RTA. As of 20 June 2017, 279 RTAs are in force. Besides the typical RTAs that are mostly among the geographically contiguous countries, a number of trans-regional RTAs involving member countries drawn from different regions with asymmetric level of development are being negotiated now. In terms of their global share of output and coverage of trade issues, these new-generation RTAs including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (earlier TPP), Free Trade Area of the Asia-Pacific (FTAAP), Regional Comprehensive Economic Partnership (RCEP), Transatlantic Trade and Investment Partnership (TTIP), etc are viewed as mega-RTAs which will have far-reaching implications for the multilateral trading system with respect to the concerns of rise of trade blocs, trade diversion distorting free trade, inclusion of new trade issues and disciplines that are currently beyond the ambit of WTO Doha Round of Trade Negotiations. While negotiations of the above mentioned mega-RTAs are at different stages of progress, the emergence of certain new formulations or country groupings cannot be ruled out given the economic dynamics exhibited by 54 dynamic economies in the recent years.

Mega-regionals

19. Mega-RTAs have received mixed signals from the trading nations. While the perceived trade gains resulting from tariff cuts and harmonization of NTMs and regulations seem to have outweighed the 'beggar-thy-neighbour' practice view of the skeptics, the debate over the claims of mega-RTAs is not settled. The most contentious issue in the context of mega-RTAs is the domination of a few advanced economies like the United States, EU, China, Japan and others representing the so-called geopolitical power race. Further, the inclusion of WTO-plus and WTO-extra issues like labour standards, environmental standards, Intellectual property rights and Singapore issues is apparently easier in mega-RTA negotiations than the multilateral route through the WTO. Since the compliance to higher standards with respect to various NTMs and regulations is difficult and costly from the perspective of developing countries, the continued pressure by the advanced economies

for their inclusion will have adverse implications for the development process of the developing countries and trade-distorting in nature.

The 11th WTO Ministerial

20. The recent outcome of the Eleventh WTO Ministerial at Buenos Aires, Argentina is another big blow to the idea of multilateralism and collective global governance of trade and associated processes. The fact that United States of America opposed any reference to Doha Development Agenda or multilateralism *per se* is itself indicative of the negative track we have moved in.

21. The United States also was opposed to the idea of continued approach to Special and Differential Treatment (S&DT) and was inclined to bring in GDP rather than per capita income as the reference point. While commitment for Sustainable Development Goals (SDGs) is a collective commitment but to choose SDG14 instead of Goal 2 for Food Security is a rather disappoint priority. Many countries are committed to blocking Illegal, Unreported, and Unregulated (IUU) subsidies for fisheries sector. However, countries are also keen to have a permanent solution rather the ongoing peace clause for collection of Aggregate Measurement of Support (AMS) under the agreement on Agriculture on WTO.

Indian Plans

22. India would have to be extremely careful while pressing for issues that are of great significance for the developing world. As we know, India led the WTO negotiations as leader of G20 at the WTO and worked closely with South Africa and Brazil. However, now the dynamics have changed countries are in different groupings. The division of 'North' and 'South' has evolved and from that perspective homogeneity in the groupings is no more there. Countries are at different stages of economic development, their priorities, inclinations and aspirations have also gone through a major change. At the Buenos Aires WTO Ministerial, three working groups have come up on MSME, Investment and on ecommerce with almost 70 countries each. India is not there in any of them.

23. As you may recall, at the Nairobi WTO Ministerial in 2015, India also decided not to join Information Technology Agreement II (ITA II). India did not join TISA either. The short point is that with plurilaterals coming in, Indian strategy should be to have enough flexibility for arriving at a larger consensus and evolve new groupings based on various interests. India has various defensive interests to protect but with rise in economic power, it also has greater offensive interests. Somehow we are not leveraging this strength and always remain negative and in the process lose out on new opportunities.

24. The DG of WTO has described proliferation of plurilateral agreements as 'hard grind of multilateralism'. In this situation, it would not be easy to find smooth sail for our idea of multilateralism which is nothing but being inclusive in its approach and content.

Way Forward

25. With adoption of Sustainable Development Goals (SDGs), all the countries are collectively committed foranInclusive Multilateralism. Failure to address Doha Development Agenda is the most exclusivist approach US Administration can think of. There is an urgent need to create opportunities for minimising trade distortions and correct the rules of the game. The fact that Agreement on Agriculture (AoA) still does not provide a permanent solution to food security related challenges, option for launching Special Safeguard Measures (SSM) are indications of limited policy space developing countries have.

26. The 2030 Development Agenda takes into consideration the Rio+20 promises to strive for a world that is just, equitable and inclusive. If we blamed developed countries for exclusions now developing countries with the idea of Belt and Road Initiative (BRI) are also likely to affect livelihood security of several importing countries. The bilateral FTAs that are coming up are going to be a cause of concern, when countries import endlessly and create huge balance of payment deficits. The loss of Hambantota port by Sri Lanka to China with its growing indebtedness is another cause of worry that would affect any multilateral system that developing countries are part of.

27. It is in this respect, emerging economies like China, India, Brazil would have to evolve a mechanism where their own policies are 'inclusive' and 'just'. As Mahatma Gandhi said, "Be the change that you wish to see in the world."

28. The emergence of new technologies are also going to have their own impact on how modern multilateralism moves forward. The Trade Facilitation Agreement provided a major fillip for inclusion of IT in the trade agreements. The rise of artificial intelligence and inclusion of labour displacing technologies would have their own impact.

29. Time has come when multilateralism must move in the direction which is bringing in more countries and excluding less of them. The future of multilateralism very much depends upon how conscientious we are in making the world, as Martin Luthur King said, 'more equal, more just, more peaceful and more dignified'.

IMPACT OF FOREIGN DIRECT INVESTMENT IN INDIAN STOCK MARKET: A TOPOLOGICAL ANALYSIS

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Abstract

Stock Market is playing a crucial role in Indian economic growth. The analysis investigates the relationship between Foreign Direct Investment (FDI) and Indian Stock Market. It is focused on Indian Index to determine actual growth and impact on economy. Regression analysis is employed to examine the performance of Real estate, Telecommunication, Information and Technology, Insurance, Business, Services Vis a Vis Sensex. We have used Stock and Index return of different time periods. Result of our analysis shows that correlation and regression analysis for comparing between January' 2016 to August' 2017, for understanding the impact of FDI in Indian Stock Market in India.

Data collected from National Stock Exchange for the period from 2016 to 2017 (financial years). In addition, purpose of the study is compared with the impact of FDI in Indian Index with the help of Correlation and Regression analyses.

International economy plays an important role in economic development with raising overall productivity in the economy of any country where foreign direct investment has a major role to Integrate international economy which helps in the growth of Gross Domestic Product, Human Resources, Economic Stability, Government Policies, Exchange Rates, and also filling the gap between Savings and Investment and BOP (Balance of Payments).

The flows of FDI help in profit making of an industry like insurance, real estates and business and services and serve as a catalyst for the growth of economy. FDI also included portfolio investment, acquisition of stocks of an enterprise, investment of new issues of national loans bonds and debenture.

Since Liberalization, Privatization and Globalization (LPG), it has shown the tremendous increase of inflow in FDI in India during the 2000 to 2011. In March 2017 inflow of FDI in India touched around 2.45 billion USD. Data for April 2016-March 2017 indicates that the services sector attracted the highest FDI equity inflow of US$ 8.69 billion, followed by telecommunications – US$ 5.56 billion, and computer software and hardware – US$ 3.65 billion. Most recently, the total FDI

equity inflows for the month of March 2017 touched US$ 2.45 billion.

Keyword: Correlation analysis, Regression analysis, FDI, Economic factors, Stock market.

I. INTRODUCTION

Foreign Direct Investment (FDI) is one of the indicators of economic development and it is mainly boosting income and employment of a country. These policies were continued in the year1980 creeping liberalization of India. The fast tracked liberalization of the Indian economy was introduced in 1991.

FDI plays an important and significant role in the development of saving and investment of the country. India is a democratic country with a population of 1.2 billion and Indian economy has shown impressive growth after liberalization and FDI investment was started from colonial era at the time of East India Company and various Japanese and U.K companies entered after the Second World War.

After independence in 1947, Indian Investment market was divided into three phases in 1950-67 nondiscrimination treatment to FDI with no restrictions and dividend remittance to profit ownership control with Indians, in 1968-80 FDI restriction in technology, 40% were allowed to foreign companies only in priority area and FDI control by FERA and sanctioned project in 1980-90 high foreign equity in export were allowed. It was a time of fast channel for FDI clearance. In 1991, India adopted to open door policies. Liberalization policies relating to technology collaboration, foreign trade and foreign exchange encouraged investment in infrastructure, IT, Communication, Auto etc. FERA and FEMA and transparent procedures FDI through M&A FDI in service and financial sector, helped in further investment.

Indian economy has boomed in IT Sector, and other major areas such as Auto, Pharmaceuticals, Chemicals, Automation and Retail etc, which has encouraged Indian economic growth as well as skilled manpower.

Factors Influence in FDI:

Market Size (Gross Domestic Product)

Gross Domestic product shows the potential size of economy's GDP and FDI. There is a positive correlation, when FDI investment rises GDP automatically shifts positively upward.

Availability of Human Resource

Availability of human resource and its proper utilization and other factors impact FDI. India has available cheap human resource, which is an attraction for FDI in manufacturing sector, and it has a positive correlation among each other meaning if there is 1% change in wages it positively changes in FDI.

Economic stability

Negative elasticity co-efficient between FDI and deficit in balance of positive economy reveals that one percent increases in the deficit level in the balance of payment courses a reduction in percent of FDI inflow to the country. So deficit balance of payment is one of the pull factors of FDI inflow in India.

Government Policies

Government policies and political scenarios are a major factor that determines the flow of FDI in countries.

Exchange Rates

Exchange rates show positive impact of Indian economy. This could be recognized to the admiration of Indian rupees in international market which encourages the foreign investor firms to obtain the specific assets required at cheap rates and gain high profit.

Inflation

An economy is considered to be stable if the inflation rate is low. On the contrary to this if there is high inflation rates, it implies incapability

of the determinants government to balance its budget and failure of the central bank to conduct appropriate monetary policy. Any changes in inflation rates of home country and foreign country are probably after the market favorable investment decision and results of the MNE.

II. OBJECTIVE

The objectives of these studies are major impact of FDI in India over the period of one year, i.e. January 2016 to August 2017.

1. Impact of FDI in Indian Sensex over the period of 19 months.
2. Impact of FDI in Real estate, Telecommunication, IT, Automobile, Service industry, Oil and Gas, Retail etc.
3. Correlation between Indian Sensex and respected Industries.
4. Data was taken from 1st January 2016 to August 2017 over 441 observations.

Table 1. Investment FDI in India 2016-17

Month	11.2.2 FIIs	1.2.3 Offshore Funds and Others	1.2.4 Portfolio Investment by India	1 Foreign Investment Inflows
2017:07(JUL)	3,282	0	-19	6,710
2017:06(JUN)	4,587	0	-19	6,195
2017:05(MAY)	4,681	0	55	8,363
2017:04(APR)	2,653	0	-566	4,949
2017:03(MAR)	9,046	0	111	9,046
2017:02(FEB)	1,719	0	111	1,719
2017:01(JAN)	365	0	111	4,325
2016:12(DEC)	-4,371 0	0	9	-2,391
2016:11(NOV) -	-6,902	0	9	-3,333
2016:10(OCT)	-40	0	9	4118
2016:09(SEP)	2884	0	219	8,918
2016:08(AUG)	1558	0	219	7374
2016:07(JUL)	2,267	0	219	6,758
2016:06(JUN)	279	0	-288	1,269
2016:05(MAY)	-1,622	0	-288	31
2016:04(APR)	3141	0	250	4685
2016:03(MAR)	1358	0	250	2638
2016:02(FEB)	-1251	0	125	1346
2016:01(JAN)	894	0	250	3274

Source from RBI 2016-17 Publication/ www.rbi.org

Results and Discussion

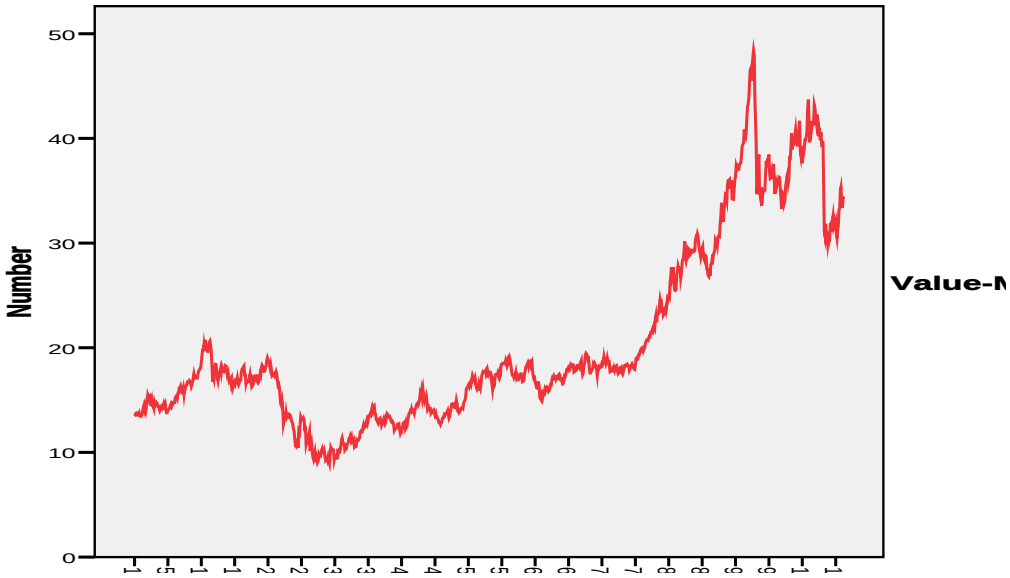
Chart 1. This perfect regression curve which is shows relation between Indian Sensex and others Industry such as Auto, Infra, Telecommunication, Oil& Gas, Energy and Service sectors.



Source from Annexure 1 (Correlation between above mention industries)

Chart 4.

This is perfect regression curve which is shows the movements from 1January 2016 to 31st August 2017 Sensex and Auto, Telecommunication, IT, Energy, Real-estate, Oil & Gas, Retail and Service industries which is influence directly in FDI.



Source Annexure 1

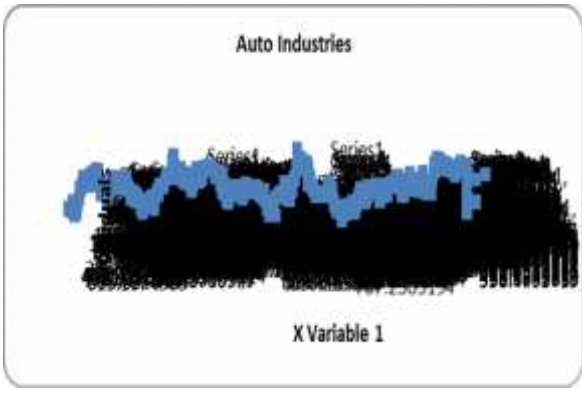
Table 2. Correlation between Indian Sensex and different Sector (Auto, Infra, Telecommunication, Oil& Gas, IT and Service).

Industry	Correlation Function	Remarks
Auto Industries	0.9576	-Ve, /+ve, very high correlation between Indian Sensex and auto industries
Infra Sector	0.9236	-Ve/ +ve, very high correlation between Indian Sensex and Infrusture sector
Telecommunication Sector	0.4715	-Ve/+ve Correlation between Indian Sensex and Telecommunication sector
Oil and Gas Sector	0.8827	-Ve/+ve, Correlation between Oil and Gas sector and Indian Sensex.
Energy Sector	0.9152	-Ve/+ve, Very high correlation between Energy sector and Indian Sensex.
IT Sector	-0.4444	-Ve/+ve There is negative correlation between IT sector and Indian Sensex.
Service Sector	0.9252	-Ve/+ve Highly correlation between Service sector and Indian Sensex.

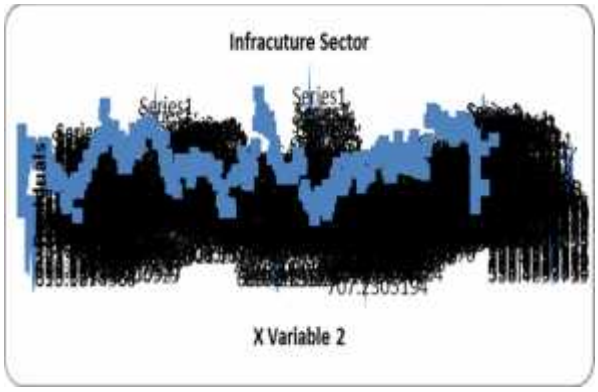
Source of from Annexure 1.

From above table we can see the present scenario of FDI investment in Indian market, where Auto industries, Infra sector, Telecommunication, Oil& Gas, Energy and Service industries are highly correlated and IT sector shows negative correlation, which shows impact in Indian Sensex

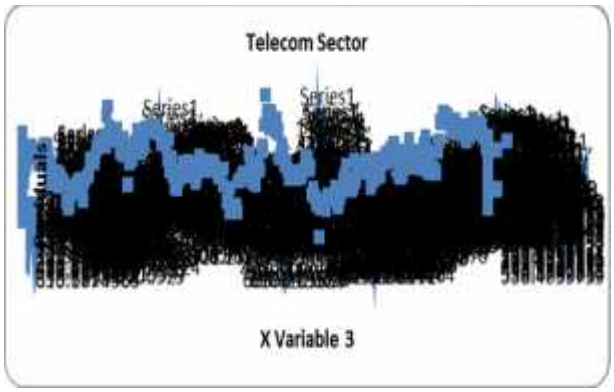
This is the position of different regression curve in period of 1st January 2016 to 31st August 2017.



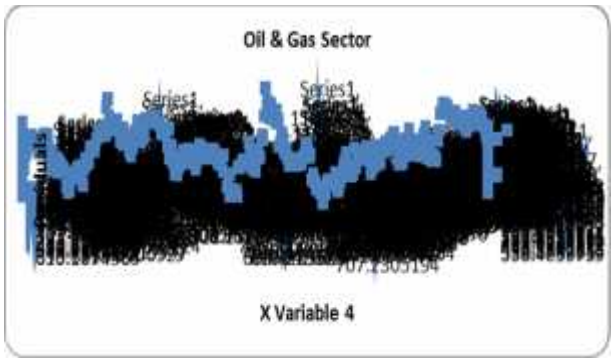
Above chart shows a positive correlation of Auto industries and Indian Sensex the correlation is 0.9576, which are lies between -1 and +1.



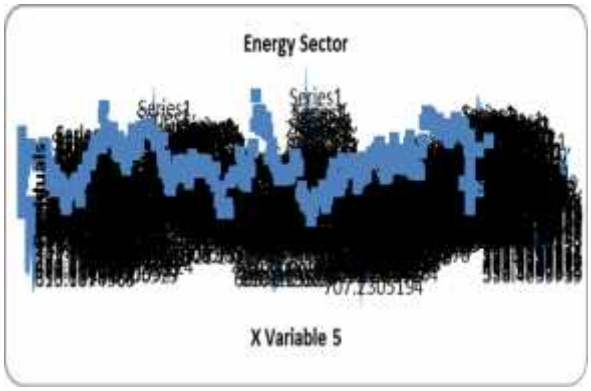
Above chart shows a highly positive correlation between Infracuture sector and Indian Sensex the correlation is 0.9236, which are lies between -1 and +1.



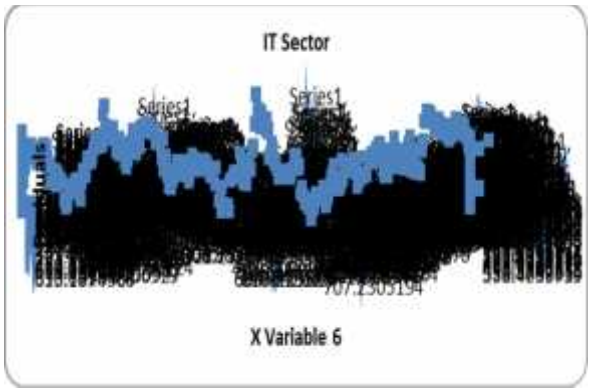
Above chart shows a positive correlation between Telecom sector and Indian Sensex the correlation is 0.4715, which are lies between -1 to +1.



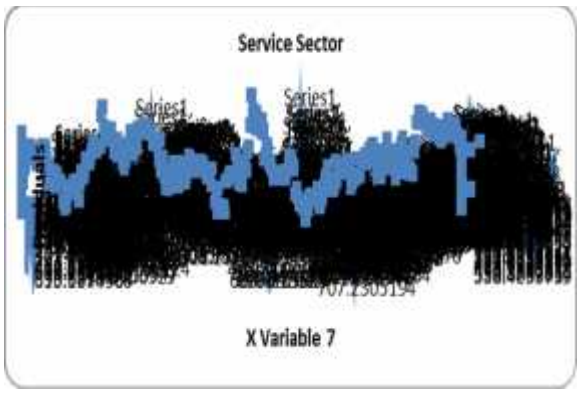
Above chart shows a positive correlation between Oil & Gas sector and Indian Sensex the correlation is 0.8827, which is highly correlated.



Above chart shows a positive correlation between Energy Sector and Indian Sensex, which is 0.9152, is very highly correlated



Above chart shows a negative correlation between IT sector and Indian Sensex, which is -0.4444 denoted very high negative correlations.



Above chart shows a positive correlation between Service Industries and Indian Sensex, which is 0.9252, which means very high correlation.

Statistical Analysis

In this analysis 412 data have been taken from 1st January 2016 to 31st August 2017, In this analysis we get degree of freedom 7 and P- Value

is less than 0.5 and variable we get R-square 0.9843 which is less than +1 and greater than -1 which is highly correlated and denoted that above industries have an important role in economic growth in India and above regression curve is highly positive which denotes a positive correlation and upward movements of the prediction.

Table. 3

Regression Statistics	
Multiple R	0.992166112
R Square	0.984393593
Adjusted R Square	0.984123185
Standard Error	296.4885878
Observations	412

ANOVA					
	Df	**SS**	**MS**	**F**	**Significance F**
Regression	7	2240078238	320011176.9	3640.400657	0
Residual	404	35513815	87905.48268		
Total	411	2275592053			

III. CONCLUSION

The purpose of this study is to analyze the contribution of FDI in Indian Sensex. It has been established in the above calculation that 7 sectors like Auto industries, Telecommunication, IT sector, Oil and Gas sector, Retail and Service sector have an important role for boosting the economical scenario of India. Through foreign direct investment the country not only generated revenues but also has proper utilization of human resources in different sectors and also contributed in GDP.

In this study we have taken 441data set from 01.01.2016 to 31.08.2017 and have analyzed all the data with the help of Correlation and Multiple regressions for better understanding and prediction of 7 different sectors of Indian Sensex.

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Annexure1

	Close	Close
Auto	1	
Sensex	0.957606326	1

	Close	Close
INFRA	1	
Sensex	0.923634002	1

	Close	Close
Telecom	1	
Sensex	0.471582478	1

	Close	Close
Oil&Gas	1	
Sensex	0.882779832	1

	Close	Close
Energy	1	
Sensex	0.915286811	1

	Close	Close
IT	1	
Sensex	-0.444469714	1

	Close	Close
Service	1	
Sensex	0.925292727	1

HIGHER EDUCATION IN INDIA, BRAZIL, AND SOUTH AFRICA–TRENDS AND CHALLENGES

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Abstract

India, Brazil and South Africa are the three examples of the most successful cases of consolidated democracy in the developing world. They are also characterized by deep and durable social inequalities that have limited the effective political incorporation of subordinate groups. This paper gives a brief overview of IBSA and condition of higher education in India, Brazil and South Africa. Higher education system is essential for national, social and economic development of the country. There is a need of value based higher education system which empowers youth for self-sustainability by inculcating employment skills and hence reducing poverty. This paper includes the comparative study of components of value based higher education system of three countries –India, Brazil and South Africa. The paper proposes educational reforms and explains the critical aspects of managing, and delivering superior value of the higher education system in India, Brazil and South Africa. This study gives a complete view of the need of value based higher education system in India, Brazil and South Africa.

Keywords: IBSA, Higher Education, Policies, Challenges, Structure and Suggestions

What is IBSA?

IBSA is a unique Forum which brings together India, Brazil and South Africa, three large democracies and major economies from three different continents, facing similar challenges. All Three countries are developing, pluralistic, multi-cultural, multi-ethnic, multi-lingual and multi-religious nations. The idea of establishing IBSA was discussed in a meeting between the then Prime Minister of India and the then Presidents of Brazil and South Africa in Evian on 2 June 2003 on the margins of the G-8 Summit. The grouping was formalized and named the IBSA Dialogue Forum when the Foreign Ministers of the three countries met in Brasilia on 6 June 2003 and issued the Brasilia Declaration. The IBSA Dialogue Forum (India, Brazil, and South Africa) is an international tripartite grouping for promoting international cooperation among these countries. It represents three important poles for galvanizing South-South cooperation and greater understanding between the three important continents of the developing world namely, Africa, Asia and South America. The forum provides the three countries with a platform to engage in discussions for cooperation in the field of agriculture, trade, culture, and defence among others. The IBSA Dialogue Forum plays an increasingly important role in the foreign policies of India, Brazil and South Africa. It has become instrumental for promoting ever closer coordination on global issues between three large multicultural and multiracial democracies of Asia, South

America and Africa, and contributed to enhancing trilateral India-Brazil-South Africa cooperation in sectorial areas. Established in June 2003, IBSA is a coordinating mechanism amongst three emerging countries, three multi ethnic and multicultural democracies, which are determined to:

- contribute to the construction of a new international architecture
- bring their voice together on global issues
- deepen their ties in various areas

What is Higher Education?

There is no simple definition of higher education. The international definition of tertiary (post school) education divides it into two parts.

Type a (higher education)

Type b (further education).

A higher education qualification at degree level takes a minimum of three years to complete, more typically four. It will have a theoretical underpinning, it will be at a level which would qualify someone to work in a professional field and it will usually be taught in an environment which also includes advanced research activity. Shortly, higher education mainly and generally means university level education. It offers a number of qualifications ranging from higher national diplomas and foundation degrees to honors degrees and as further step, postgraduate programmers such as masters degrees and doctorates. These are recognized throughout the world as representing specialist expertise supported by a wide range of skills that employers find very useful. Further education is generally includes those post graduate studies in where you can gain your master and doctorate degrees. These degrees mark the highest one can earn, though they are divided into two levels. A master's degree, for instance, is awarded for a particular course of study beyond the baccalaureate degree. They come in various categories, such as a Master of Arts, Master of Science, and master of theology. The amount of time it takes one to earn a master's degree depends upon the program one is enrolled in, but one should usually expect to study at least for 2 years. The second type of graduate degree, and one considered higher than a master's degree, is a doctoral degree. These are awarded for a particular course of study beyond the master's degree. Doctoral degrees can be professional degrees, such as the doctor of ministry, or academic degrees, such as the doctor of philosophy. Those who earn doctorates often assume the title 'doctor.' the amount of time one must study before earning such a degree varies greatly by field, institution

Here are the definitions of most frequently used terms related to higher education

Bachelor's degree: it is usually an undergraduate academic degree awarded for a course or major that generally lasts three or four years.

Master’s degree: it is an academic degree usually awarded for completion of a postgraduate or graduate course of one to three years in duration. In the up it is sometimes awarded for an undergraduate course whose final year consists of higher-level courses and a major research project. In the recent standardized European system of higher education diplomas, it corresponds to a two-year graduate program to be entered after three years of undergraduate studies and in preparation for either high-qualification employment or for doctoral studies.

Doctorate degree

It is an academic degree of the highest level. Traditionally, the award of a doctorate implies recognition of the candidate as an equal by the university faculty under which he or she has studied. There are essentially three types of doctorates: research, first-professional (use only), and honorary. Research doctorates are nearly

always awarded in recognition of academic research that is of a publishable standard (even if not actually published) and represents at least a modest contribution to human knowledge. It is usually assessed by submission and defense of a doctoral thesis or dissertation, though in some cases a coherent body of published literature can be accepted instead. Honorary doctorates are awarded for a substantial contribution to a field but this need not be academic in character.

The higher education system of India

India's higher education system is the third largest in the world, next to the United States and China. The main governing body at the tertiary level is the University Grants Commission, which enforces its standards, advises the government, and helps coordinate between the Centre and the state. Accreditation for higher learning is overseen by 12 autonomous institutions established by the University Grants Commission.

Indian higher education system has expanded at a fast pace by adding nearly 20,000 colleges and more than 8 million students in a decade from 2000-01 to 2010-11. As of 2011, India has 42 central universities, 275 state universities, 130 deemed universities, 90 private universities, 5 institutions established and functioning under the State Act, and 33 Institutes of National Importance. Other institutions include 33,000 colleges as Government Degree Colleges and Private Degree Colleges, including 1800 exclusive women's colleges, functioning under these universities and institutions as reported by the UGC in 2012. The emphasis in the tertiary level of education lies on science and technology. Indian educational institutions by 2004 consisted of a large number of technology institutes. Distance learning and open education is also a feature of the Indian higher education system, and is looked after by the Distance Education Council. Indira Gandhi National Open University is the largest university in the world by number of students, having approximately 3.5 million students across the globe. Some institutions of India, such as the Indian Institutes of Technology (IITs), National Institute of Technology (NITs), Indian Institutes of Information Technology (IIITs), Indian Institutes of Management (IIMs), International Institute of Information Technology (IIIT-H), University of Mumbai and Jawaharlal Nehru University have been globally acclaimed for their standard of education. The IITs enroll about 8000 students annually and the alumni have contributed to both the growth of the private sector and the public sectors of India. However, India still lacks internationally prestigious universities such as Harvard, Cambridge, and Oxford.

The Higher Education System of Brazil

The Brazilian higher education system is composed of free public and paid private colleges and universities. Technical courses is a trend available but not widely accepted by both the market (companies) and public opinions (the consumers of higher education). More than 95% of higher education students study in private institutions this is because in previous years public administrations did not invest well in education as a whole, they opened the possibility of a market to private institutions to cope with the high demand. As such, the Brazilian higher education system became self-sponsored (or family-sponsored) because loans were rare up to the beginning of the 21st century. A bachelor's diploma is not only a means of improving career and economical life but also a possibility to enhance in social status, as undergrad education was considered an elite's advantage up to the 1980s. On the other hand, educational laws and rules are tough for educational organizations. A student does not pay in advance, he can stop paying his installments in a

current year and the school cannot stop giving him the education for that year. After that, he has the legal right to ask for his report and transfer the credits to other institution, and so on. That creates a vicious circle, treating the student as customer and creating all the possible means to maintain him in your client portfolio. In that scenario, passing the student is a rather plausible (although unethical and, I should dare, illegal) strategy. That is the answer for the first question. The higher education system has become "market-oriented", treating education as a commodity and dealing diplomas instead of education. What needs to be done to change this? Well, to answer the second question, I really have my doubts. A opinion of mine is nationalizing the certificate system, bringing educational attainment under the responsibility of public officials. Government could be the issuer of diplomas and the tester of minimum skills. Higher education institutions would become centers of training and development.

It's Impact

Institutions that do not provide proper education will have failing students. Students will avoid and even sue these institutions. This idea is a embryo, of course, as many courses has more serious problems (such as Med School, Law School, Psychiatrists etc. that demand a internship training). This second answer is more a loose idea than an integrated solution to the entire problem. My real opinion is that elementary and secondary education should be re-structured to provide better prepared students. In Brazil, more than 80% of the entire education budget goes for the public universities (which, on the other side just provide less than 4% of the Brazilian students). As a result, most public universities rank higher than all the private institutions in evaluating tests. As an example, the bottom 20% of law courses at public universities scored in average the same as the top 20% from private institutions, using Evade (a Brazilian test to finishing students from all universities). Evade is a way to measure the quality of students finishing undergrad studies and, although it can be criticized as imperfect, is a measure instead.

My conclusion of this subject is rather unhopeful. If basic education is not taken seriously and even proper technical education valued as worthwhile, more unprepared undergrads will flood the market (which is good for the companies by one side as wages decrease with higher supply of workers). The educational market should value the teacher as a knowledge disseminator instead of a lecturer of annoying classes and some control should be put in the public administration hands to enforce that social responsibility. Utopia it may be but the prognostics are not much better!

The educational system in Brazil is divided into mandatory and non-mandatory levels. We will outline the main aspects of each level here:

Educação Infantile, or Pre-school:

This level is aimed at 1 between 2 to 5 years old which is comprised of both day care and pre-school. For children aged between 2 and 4, day care, known as crèche in Portuguese, may be offered by the government but as it is not mandatory, there is no guarantee that there are available places for all children. The pré-escola, which is the pre-school will be mandatory from 2016 and therefore guaranteed by the government for children between 4 and 6

Encino Fundamental I e II or Fundamental Education I and II

This stage is mandatory for children and adolescents between 6 to 14 years old. Both correspond to two stages: the first one goes from 1st to 5th grade and the second, from 6th to 9th grade

Encino Media or Secondary School

Aimed at adolescents between 15 to 17, being considered mandatory by the government from 2016

Encino Tenneco or Technical school

A technician degree that can be obtained together with ensino médio. It requires that the student has completed ensino fundamental and is usually provided by public institutions

Encino Superior or Higher education

This stage is no longer mandatory and is aimed at adults aged 18 and above

The Higher Education system of South Africa

Education in South Africa is governed by two national departments, namely the department of Basic Education (DBE), which is responsible for primary and secondary schools, and the department of Higher Education and Training (DHET), which is responsible for tertiary education and vocational training. Prior to 2009, these two departments were represented in a single Department of Education. The DBE department deals with public schools, private schools (also referred to by the department as independent schools), early childhood development (ECD) centers, and special needs schools. The public schools and private schools are collectively known as ordinary schools, and comprise roughly 97% of schools in South Africa. The DHET department deals with further education and training (FET) colleges, adult basic education and training (ABET) centers, and higher education (HE) institutions. The nine provinces in South Africa also have their own education departments that are responsible for implementing the policies of the national department, as well as dealing with local issues. Education is compulsory through grade 9, at which point students can pursue employment or technical training at Further Education and Training (FET) institutions. Students continuing on through grades 10-12 sit matriculation exams at the end of grade 12. These exams are nationally set and moderated and are used to establish entry requirements to university. South Africa has 23 public institutions of higher education. Eleven of these are traditional universities, and six are universities of technology that offer vocational training. The remaining six institutions resulted from a restructuring that joined existing universities and polytechnics into regional "comprehensive" universities that offer opportunities for both academic and vocational education. In addition, there are a growing number of private institutions of higher education Higher education was segregated under Apartheid. However, since 1994 students have been free to enroll in any institution, and institutions that were predominantly "white" have worked hard to increase the diversity of both the students and staff. Since that time, the African student population increased from 49% of the total student population to 65% in 2009. Between 2004 and 2009, the cultured (a South African term denoting those who do not classify themselves as white or black) student population also increased by about 12%, while the numbers of Indian and White students decreased slightly. The lasting impact of Apartheid policies is still evident in the participation rate (total headcount enrollments as a percentage of the total population between the ages of 20 and 24)--56.9% for Whites, 44.9% Indian, 14.8% Cultured, and 13.3% African. The difference is even greater at the postgraduate level where a larger proportion of White and Indian students go on to take advanced degrees. The inability of academia to compete with the demand for graduates in the private sector is seen as one of the primary reasons why fewer African students continue in graduate school or academic careers. Women outnumber men 57% to 43% (2009 numbers) at the undergraduate level, and even

more at the honors level (63% to 37%) but the percentage decreases significantly at the Masters and Doctoral levels, where women make up 47% and 43% of the population. There is also a significant difference in technical and human capacity between South African universities, to a large degree as a result of the segregation policies under Apartheid. Historically disadvantaged institutions--those catering primarily to African populations under Apartheid--remain at a competitive disadvantage because of the huge disparity in investment that had occurred between "advantaged" (White) and disadvantaged universities up until 1994. In 2010, the basic education system comprised 12 644 208 learners, 30 586 schools, and 439 394 teachers. In 2009, the higher education and training system comprised 837 779 students in HE institutions, 420 475 students in state-controlled FET institutions and 297 900 in state-controlled ABET centers. In 2013, the South African government will spend 21% of the national budget on education. Some ten percent of the education budget is for higher education. According to the national census of 2011, among the South African population, 35.2% of black/African, 32.6% of colures, 61.6% of Indians/Asians and 76% of white citizens have completed an education of high school or higher. 41.7% of the total population has completed an education of high school or higher, whereas 8.6% of the population aged 20 years and older has not completed any schooling.

Table 1: Government expenditure on Education in some countries:

Country	Gdp (%) (2012)	Govt. Expenditure on education as % of gdp (%)
India	1831.78 use billion	3
Brazil	2.249 use trillion	6.3
South Africa	382.3 usd billion	6.4

Ministry of education India, Brazil, South Africa

Challenges of higher education in India

Too much time spent on assessing the problems, rather than finding tangible solutions

Let's look at the service and solution providers as an example. Attend any educational conference frequented by them and it's like listening to a broken record player. You have hour long speeches, expert panel discussions and solutions from experts in the industry. And these solutions are more or less the same – "Attitude needs to change", "We need to get back to the basics", "Funding needs to increase", "Structural and design changes", "Awareness needs to increase" and my personal favorite, "we need more data and analysis". All good points no doubt, but these conferences are mostly for networking purposes where individuals want to establish themselves as thought leaders in order to impress the right people and move up in their careers. In the end the sponsors get their 2 second vote of thanks, visiting cards are exchanged and everybody leaves with some souvenirs to carry home. (Recently met an educator who proudly stated "I don't care about paying the entry fee, It is worth the money with the kind of people you meet", while waving the Oscar-award styled memento from the conference at my face.

Miss match in supply and demand

India's GER is lingering around 19 percent at the moment, 6 % below the world average and at least 50 % lesser than countries such as Australia and the United States of America. GER stands for gross enrolment rate, or the percentage of students enrolling into higher education institutes each year post high school. The government apparently has a vision to increase this to 30 percent by the year 2020. To give that

information some context, India has the largest population of teens with close to 100 million in number between 17 to 19. But each year only 19 % students enroll into higher education institutes which translate to 20 million according to a joint survey by aspiring minds and Nasscom in 2013. That leaves a whopping 81 % or 80 million in number who do not have the opportunity to study even if they wanted to. And to think only 3.5 million graduates join the workforce each year among the 20 million, I wonder how many people drop out eventually. There is a massive gap that is created due to the difference in the number of schools and higher education institutes that really needs to be bridged. There is either a lack of seats to accommodate the rest or seats are available in colleges nobody has heard of.

Mushrooming of low quality, money making Institutes.

As a result of that huge gap, people who have no reason to be in the field of education want to capitalize on the shortage of supply. It's no secret that the education industry has long lost its noble cause and is more of a business. Politicians, realtors, businessmen/women - basically anybody who wants to mint some serious cash, start to open colleges. In India it is a very common trend that we notice colleges at every nook and corner, housed in what probably looks like a 3 storied apartment complex. It's hard to even imagine quality infrastructure and facilities inside these colleges. And a glimpse of the teaching staff shows you how poor they are in quality This farce exists not only in a large cities, but in smaller areas as well. And if we interact with the management of the latter type colleges, we can see they have zero intentions of churning out quality graduates.

India's obsession with the service industry

The buzzword globalization has been around for quite some time now, and it caused one of the most important changes in our country's Economy. India in saw a gradual shift from being a manufacturing hub to a service provider. This was fuelled mainly by the boom in I.T and B.P.O industries, and has had a large role to play in the way our education system has been modeled the past decade or more. Along with the I.T and B.P.O industries, education institutes started seeing themselves as service providers, rather than being a place where the youngsters were molded into innovators and architects of the future. The service they provided was that of certifying graduates as "employable by the service industry". For 3 to 4 years, students stuff their minds with information which they would probably never use, because each of these I.T and B.P.O companies have their own training programs which have no relation to a student's field of study. Colleges proudly put up banners and hoardings of the 50 different companies that hired their students. These accomplishments act as some killer marketing material, because why wouldn't you want to study in a college that assures you a job after graduating? It also gives the false notion that the only jobs present belong to the I.T , B.P.O and other service industries, thus forcing youngsters to enroll only in courses that cater to them. And finally, the most terrible effect it has had is that it provides no incentives for these colleges to improve.

Ineffective Foreign Education Providers Bill

In September of 2013, the government of India passed an executive order to allow the top 400 universities in the world to set up campuses in India and allow them to function independently, without the requirement of Local Partners. This sounded promising and one can see the possibilities when universities such as Duke University and Georgia Tech, both among the top fifty U.S Universities, started to show interest. So why aren't more universities lining up considering their cash

reserves and how easy it is to set up a college? (All they need to do is call one of our ministers and ask for guidance). As always fine print seems to spoil the goods. Firstly, they aren't allowed to take surplus profits out of the country, with the compulsion of a 5 $ million buy in and maintenance of escrow accounts. Secondly, they have to deal with getting permissions from the University Grant's Commission. Everybody already knows how that can be a problem – right people, right amount of money and you may still get the short end of the stick. The foreign education providers Bill can be more effective if stops trying to control and regulate universities and instead be similar to their Singapore and Dubai counterparts - granting quick permissions, infrastructure and subsidies. These countries are quickly emerging as top quality higher education hubs for students from around the world. One can see the parallels between FDI and the foreign education provider's bill. A major concern of opening gates to foreign investors was that it would ruin traditional and local industries, while also forcing the shutdown of many small scale industries. If that means death to all the low-quality-cash-generation types of colleges, it can only be good news. Another trade in, more importantly, is students here get access to qualified and world class educators.

Lack of relevant opportunities and project based learning

Most of us in the cities have had the privilege of studying in some of the better institutions. But the way they function is a far cry from their more superior counterparts across the globe, nor are they that much better than their inferior counterparts locally. There is a reason not a single Indian University ranks in the world top 200. Even at top institutes, students are force fed a few kilos of textbooks, spend a relatively short time on hands-on project based learning and are absorbed into fields irrelevant to their subjects. To put things into perspective, engineering graduates have to study about 40 subjects - that's close to 250,000 pages worth of information, spend an average of 6000 hours attending classes out of which only 500 hours are spent interacting in "Labs" across 4 years, have to write 120 internal assessment papers and 50 main exams, undertake a couple of "projects" which was probably stolen from their seniors and let's not even get into the amount of time and resources spent on travelling and studying. And then after all that effort, most of them get jobs in the I.T service industry which has absolutely nothing to do with what they learnt. Only 15 % are lucky enough to get into relevant industries. Oh and did I forget to mention that 85 % of graduates are considered unemployable due to lack of relevant Industry experience? Where on earth are these students supposed to get "Relevant Industry Experience" if they are busy eating outdated textbooks instead of some industry relevant training and project based learning?

Challenges of higher education in Brazil

The public sector

In the public sector, the university is the most common type of higher education institution. In the last few years, however, there has been a growth of non-university public institutions. Many vocational public secondary schools were upgraded to higher education and allowed to offer vocational programmers at this level. Meanwhile, public universities tend to be large, multi-campus comprehensive institutions. They may be owned by the federal government, state governments and even municipal authorities. In general, the public sector offers good working conditions for faculty since 81% of its academics have full-time permanent contracts. Higher education in Brazil is not only diverse, it is also marked by strong – though informal – hierarchies. Within the public

sector, there is an institutional commitment to graduate education, in particular doctoral education. Graduate education is highly concentrated: only a small number of institutions meet the requirements to offer graduate programmers, especially at the doctoral level. Since the 1970s, graduate education in Brazil has been organized around disciplinary programmers and subject to strong regulation and strict evaluation based on peer review. Among the public universities, only a relatively small number – 21, according to the most recent data available – have a strong commitment to graduate education. Some of them are owned by the federal government, but others are owned by the different states. These public universities have enrolments of at least 30% at the graduate level – master's and doctoral programmers – and also a large proportion of faculty with doctoral degrees. Having graduate education as the main institutionalized site for research, these institutions serve as fully developed research universities. On the other hand, all other public universities and institutions – a total of 263 public institutions – are strongly committed to undergraduate education. Within these institutions, graduate education is a smaller enterprise and tends to be limited to the masters level. Even so, institutions play a relevant role as regional sources of skills and knowledge. As such, I propose to call them public regional institutions, regardless of ownership – that is, the federal government or some state or local government.

The Private Sector

Private institutions represent more than 88% of all institutions and attract 73.7% of all enrolments at the undergraduate level. In the private sector, the most common institutional type is the isolated professional school that offers programmers in a small number of professional areas. Most of the private sector is confined to a kind of mass market where the lower price charged for education is the most relevant differential. I label these institutions private mass-oriented institutions. They are open-door institutions catering for older students from poorer families that had no access to good quality education prior to entering higher education. In the last 10 years, this sub-sector has experienced a strong consolidation movement with the growth of huge private universities, some of them with more than 500,000 students. As a result, while most private institutions are still small isolated professional schools, there is a small number of large private for-profit universities among them. In 2011, the 88 largest private universities had more than 27.5% of all undergraduate enrolments in the country. In the last two decades, the private sector has also experienced a process of stratification with the growth of prestigious, elite private institutions catering to students from richer and better-educated families. Some of these institutions are Catholic and other denominational universities, but there are also a number of lay institutions with a strong reputation for providing good quality training that meets the demands of the labour market.

Policy Dynamics in Higher Education

The dynamics of Brazilian higher education policies are marked by contradictory forces. At the beginning of the 19th century, higher education was conceived as part of a project to transform this early Portuguese colony into a more modern nation state. This transformation was expected to produce a group of professional elites trained to possess the best technical and legal knowledge available. At that time, training was supposed to be conducted in institutions that were controlled by the state and freed from traditional religious thinking. In order to reinforce the utilitarian side of the knowledge cultivated inside higher education, none of the institutions founded

in the early 19th century adopted the university model. Instead, higher education offered updated professional training, thus directing students to specialized professional schools such as the Polytechnic School of Engineering of São Paulo, the Medical School of Salvador and the Law School of Rio de Janeiro. In the 1930s, when the first universities were founded, their elite character was reinforced. The establishment of these first universities was supported by a group of new elites with a modernizing project that also aimed to establish the basis for the country's industrialization and government reform. The first universities in Brazil were built upon meritocratic access to higher education, a high level of professional training, the development of science and humanities, and training teachers for the secondary level. Access to higher education was regulated through competitive entrance exams. The curriculum was developed under the strict supervision of a new powerful education ministry.

Challenges of Higher Education in South Africa

- A large percentage of school aged children who still do not attend school beyond the primary level (currently 87 percent attend at the secondary level and only 20 percent at the tertiary level).
- The Human Sciences Research Council (HSRC) in South Africa reported that 12 million children live in poverty.
- Four million of these children are starving and 40% have growth problems.
- Statistics reveal that 81% experience income and material depravation and many live in informal settlements.
- Access to education for all South Africans are available to children 7–15 years and fees are waived according the financial status of parents. However studies and outreach is needed to look at those who have never attended or have been unable to attend school because of lack of financial support.
- Reverting to the educational system, the apparent meaning of the three tiers of education has to be looked at again, beginning at the tertiary level. The pressures of industrialization required more universities and greater technical training. However, the same processes have also led to inherent tension within all systems of tertiary education. As we shall explore later, these tensions are greatly exacerbated by the increased access to knowledge and its development brought about by the revolution in information and communication technology.
- The competitive forces within the global 9 economy also exacerbate the tensions within any one national system. Let us examine two key aspects of this process and the tensions that it is creating. The first relates to the origin of knowledge in the present situation and the second to the advance of technology. 29. The age of globalization has not made knowledge more valuable or precious. This intrinsic worth is not new as it is the lifeblood of humanity. What have, however, altered are the dispersal of knowledge sources and the accessibility of that knowledge. This in turn has allowed for massive collaborative efforts, again across frontiers and nations, which without question are causing an explosion of knowledge and of knowledge-based activities. Speed of access and manipulation of information has major qualitative impacts and institutional and organizational matters arise of how we should be structured to be part of this exciting maelstrom.
- A profound epistemological question is at issue. Are knowledge and its origination shaped and led by the centers with the greatest

capacity to manipulate existing knowledge in order to create new? Are we merely continuing the path of the medieval university but now on a global scale? There is no doubt that powerful centripetal forces exist in the origination of knowledge and that powerful centers of learning and scholarship will develop. There will be hubs around which collaborative spokes will form. But do these then shape the social and economic derivatives of that knowledge in an inevitable manner? Does globalization begin to cut all of humanity from the same cloth? There can be little doubt that these imperatives are exceedingly powerful and will dominate and permeate many aspects of our society.

- Our contention and the starting point for the discussion that we wish to have is that the epistemological question we have posed has to be answered differently, both as a matter of epistemology and as an act of will. The fact that we can even assert an act of will lays the basis for the answer to the epistemological question. The origination of knowledge is dialectical, its location contracts as it distils experience and it expands as it gives rise to the material that has to be distilled. Knowledge continually gets applied in practice, and in the process 10 creates new knowledge. The woven carpet only assumes its totality and intricacy because new knots are added step by step. There is a world system of knowledge linked in thousands of direct and more ephemeral ways. Computers allow us to tap into this tapestry faster and more extensively than ever before; the speed with which new parts of the tapestry are woven is almost beyond every day and operational comprehension. The centripetal forces aggregate, refine and codify. The centrifugal forces continually generate new inputs into the system. What is important in this is that knowledge is originated in many sites and ways and it has to be like this. The centripetal forces are shaped by human events and circumstance; they are shaped by nation state choices. The centrifugal forces are humanity and its existence.
- Where do we locate ourselves in this process? If we see ourselves as less resourced, intellectually and financially, than the large university systems of the developed world, then we will seek to be successful appendages of that system. This will profoundly shape our institutional response and have the effect of perpetuating the existing dispensation. If we see South Africa as an exceptionally dynamic site of knowledge origination then we have to define very different institutional responses. Our place in the world system will be very much more pro-active. But to have the confidence that we are indeed an exceptionally dynamic site of knowledge origination we have to understand and agree on this proposition. We shall return to the matter below.

Suggestions for Improving Standards of Higher Education

Suggestions for India

Introduce innovation in curriculum

The syllabus of Indian Higher Education System is outdated and not at all innovative. We need a curriculum which is progressive in nature and not despotic. Students should be allowed to pursue multiple courses in the first year and should be given an option to choose a specialization after that. More focus should be there on innovation and projects rather than exams. However, this does not mean that exams should not be there at all. It's just that exams should be complimented with incentives for innovation.

Need for some young professors

The other problem with our Higher Educationist that we have all the professors above the age of 60s and 70s in the academic curriculum board. With due respect to them, there is also a need for some young professors now. This is because the younger ones would be more aware of the technological changes and the new age needs of the students. But as it's apparent, hardly any youngster goes in the line of teaching. The reason, certainly, is low pay. Once the pay of the lecturers is increased, the quality faculty will start coming in, the people who actually want to teach and who are worth the caliber of teaching.

Rise of industry interaction

Industry interaction with students is one of the vital pillars in the growth of education. Companies should be sought out for such interactions, if they don't agree to it, then the universities should use their advantage. When companies come for placements, there should be a basic qualification criteria for their eligibility for the placements. For instance, they should have contributed an investment of 2 to 4 lakh in order to become eligible for the placement. As human capital is far more important than these petty sums of money, the IT companies would certainly agree for it.

Realise the power of alumni

One of the major drawbacks of Indian Higher Education is that we do not realise the power of alumni. Other than the few top institutes, the concept of alumni networking is non-existent. Alumni networking is really helpful as they understand the various problems of the students being the part of the same institute once. Also, alumni are themselves eager of sharing their academic excellence and experience with the students; it's just that the system needs to be more transparent.

Suggestions for Brazil

Cut bureaucracy and revise visa policies

Bureaucracy is one of the factors hindering the process of internationalization. A foreigner who comes to live in Brazil faces many obstacles, mainly due to the bureaucracy involved in everything from getting a visa through the federal police office to opening a bank account, renting an apartment and registering at school among other rules and regulations that make it difficult for any foreign national to consider living in Brazil.

Revise national limits on teaching in English

One rarely finds a course offered in English or Spanish in a Brazilian university and the selection of faculty is normally held in Portuguese.

Universities need more flexible academic calendars

Besides the language barrier, Brazil's location in the southern hemisphere poses difficulties. The country operates a different academic calendar to that of the northern hemisphere. Classes usually run from February to June and from August to December. This creates problems in developing student exchange programmers, and creative solutions must be found to minimize its effects.

Universities must diversify and be less rigid about curricula

The system of credit recognition is extremely slow and rigid. Usually departments rely only on what it is written in the syllabus of a particular course (including number of hours spent in class, specific content and bibliography). There is almost no flexibility to consider different approaches or content variation, and students (Brazilian and foreigners) risk losing hours of study not recognized for their plan of studies, or even holding a diploma that will not be accepted in Brazil. University faculty and staff must discuss

this issue and establish clear rules and policies regarding the accreditation of prior learning and study completed abroad.

International experience of faculty members

With the rapid growth of undergraduate and graduate education in Brazil, one important drawback is that most of faculty in Brazilian universities does not have international experience. Universities, together with the funding agencies, should develop programmers to stimulate the international experience of academics and undergraduate and graduate students.

Language support

As previously mentioned, the language issue can be an important constraint to internationalizing Brazilian universities. Institutions should take an intensive language support approach, both for the foreigners who come to our campuses and for students and faculty who will eventually pursue education and research on an international stage.

For South Africa

- Funding strategy should be developed that harnesses public funds as well as private sector and donor funding to increase the level of resourcing available for foundational collaborative projects designed to strengthen higher education systems and infrastructure.
- Second, focus on four clear priorities for action for education ministers within the framework of a three-year plan to revitalize higher education.
- Plan a regional higher education donor conference at which four to five proposals are showcased and submitted for donor consideration.
- Set up country teams to develop proposals for implementing a strategy to expand and revitalize high education in the region.
- Basically what is required is institutionalized and sustainable funding for a regional coordination body to bring together key higher education players at the highest level – ministries, vice-chancellors, donors and private sector leaders – to foster south-south agenda formation and multi-country collaboration across the Anglophone, Lusophone and Francophone higher education systems in Southern Africa.

I. CONCLUSION

Education for all cannot be achieved without improving quality and hence value. In many parts of the world, an enormous gap persists between the numbers of students graduating from school and those among them who master a minimum set of cognitive skills. Any policy aimed at pushing net enrolments towards 100% must also assure decent learning conditions and opportunities. Lessons can be learned from countries that have successfully addressed this dual challenge. Better education contributes to higher lifetime earnings and more robust national economic growth and help individuals on other matters that are important to their welfare. International achievement tests reveal that socioeconomic status has a strong influence on levels of education outcomes. Two principles characterize most attempts to define quality in education: the first identifies learners‟ cognitive development as the major explicit objective of all education systems. Accordingly, the success with which systems achieve this is one indicator of their quality. The second emphasizes education’s role in promoting values and attitudes of responsible citizenship and in nurturing creative and emotional development. The dual challenge of improving quality and expanding access in an equitable way requires a level of sustained investment that is currently beyond the reach of countries. The

achievement of these objectives is more difficult to assess and compare across countries. Moreover these three countries have the potential to develop higher education system but the main problem is deep-rooted corruption which is prevailing in the political system of these three nations (India, Brazil and South Africa). All the policies related to improving the standard of higher education looks very good on paper but the ground reality is that these policies are not implemented in the real sense. All the policies are presented in a superficial perspective, one really needs to dig deep to understand the complexities. As far as government is concerned, it alone can't make much improvement as there are very few things in the hands of the government. For making the policies to be implemented in the real sense heavy involvement from the private sector and more youngsters is needed in the field of education to alleviate the problem of higher education. The suggestions which are mentioned above are some of the suggestions which will be quite helpful in handling the complex scenario of Higher Education System in India, Brazil and South Africa in a better way. It's high time to think for the solutions to improve the standards of Higher Education System in India, Brazil and South Africa. If they are not addressed and implemented now, the level of higher education will deteriorate to a level that it would become very difficult for us to recover in future.

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TRENDS AND PATTERNS OF FOREIGN DIRECT INVESTMENT (FDI) INFLOWS IN INDIA FROM 2000-2016

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Abstract

Foreign capital is seen as a way of filling in gaps between domestic savings and investment to achieve a higher rate of growth and development. FDI in India has played an important role in the development of Indian economy. The present study has focused on the trends of FDI flows in India during 2000-2016. This paper also analyses the year wise, country wise, state wise and sector wise inflows of FDI. According to a recent UNCTAD Survey, India has emerged out as the second most famous and popular destination in the world for FDI, after China. Majority of the FDI in India is made in the sectors of services, construction development, computer hardware and software and telecommunication by Mauritius, Singapore, Japan, UK, USA etc. States like Maharashtra, New Delhi, Tamil Nadu, Karnataka and Gujarat have been the largest recipients of FDI in India.

Keywords: Foreign Direct Investment, Inflows, India

I. INTRODUCTION

FDI inflows are generally associated with multinational enterprises (MNEs) that have operations and production facilities across the world. FDI benefits both the host and the home countries. The 'home' countries want to take advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement their domestic savings and foreign exchange. The concept of dual-gap analysis, which was advocated by Hollis Burnley Chenery and Others, shows that foreign investment plays a complementary role in overall capital formation and filling the gap between domestic saving and investment in developing and underdeveloped countries. FDI also provides the foreign exchange to bridge the balance of payment deficit to achieve a higher rate of growth and development.

FDI are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependent on the policies of the host government) triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and improves the efficiency of resource use. FDI is deemed to be a growth catalyst since it is usually accompanied by entrepreneurial, managerial and technical skills which are indispensable for economic growth (Humphrey 1960).

Definition of Foreign Direct Investment

FDI is an investment made in a foreign country whereby the residents of home country

acquire ownership of assets for controlling the production, distribution and other activities of a firm in a host country. This can be done either by establishing a new production facility or by acquiring a minimum share of an already existing company. The Organization of Economic Cooperation and Development (OECD) define control as owning 10% or more of the business. According to the International Monetary Fund (IMF) definition contained in the Balance of Payments Manual, Fifth Edition (BPM-5), FDI has three components, viz., equity capital, reinvested earnings and other direct capital. A large number of countries report FDI inflows in accordance with the IMF definition. The Reserve Bank of India (RBI) reports FDI inflows on the basis of investments received from non-residents on equity and preference share capital. As FDI data released by RBI do not capture reinvested earnings and other capital, these inflows to India are not comparable with FDI data released by many other countries of the world.

Liberalization of Indian Economy and FDI

After independence, many restrictions were imposed on the FDI inflows in India and it was allowed only in core or high priority industries. The Monopolies and Restrictive Trade Practices (MRTP) Act and Foreign Exchange Regulation Act (FERA) were also imposed in 1973, which required several permits and clearances to be taken by foreign companies to operate in India. This hampered the FDI flows considerably.

However, in mid-1990 the huge fiscal deficit, constantly rising prices, political uncertainty and sudden outbreak of Gulf war in 1991 deteriorated the credit worthiness of India at the international level. The foreign exchange reserves were so meagre that it became difficult to pay the import bill even for one week. In such a scenario, many economic reforms were initiated in India under the Structural Adjustment Programme (SAP) with the help from World Bank and IMF, which recognized the significance of FDI in the industrial development of India. Two routes for FDI were introduced viz.

Automatic Approval Channel

Through this route FDI up to 51% equity Participation was permitted in 35 priority sectors by RBI and

Formal Government of India Channel via FIPB/SIA

Under this route Foreign Investment Promotion Board (FIPB) provides a single window clearance to all the project proposals considered by it. With the adoption of economic liberalization, there was a consistent increase in the FDI inflows in India. By 1996-97, the government also established Foreign Investment Implementation Authority (FIIA) to provide a single point interface between the government machinery and the foreign investors. In 2002-03 and 2003-04, the Government introduced the second generation reforms and broadens the base of FDI by allowing 100% FDI stake in ventures. This FDI policy allowed freedom of location for investment, choice of technology and repatriation of capital & dividends. The Government of India had also initiated Make in India drive in September 2014 and liberalized the FDI policy for 25 sectors. As a result by April 2015, FDI inflows increased by 48% and India became the topmost destination for FDI. As per the World Investment Report 2016 by UNCTAD, India continues to be among the top ten countries in the world and fourth in developing Asian countries in terms of FDI inflows.

The main aim of such policy changes is to make India a friendly destination for FDI.

Review of Literature

Kumar (2011) stated that in 1980s, Indian government encouraged FDI, especially in areas of

high technology by adopting liberal policies and creating FDI friendly environment in the country. A host of incentives, exemptions and relaxations concerning foreign ownership were adopted again during 1990s. As a result, India attracted huge inflows of FDI in 1990s and 2000s. The study shows that the FDI in services and infrastructure sector have increased tremendously since liberalization, while the share of manufacturing sector has decreased rapidly.

Devajit (2012) investigated the impact of FDI on Indian economic growth and found that FDI acts as a catalyst for Indian economic growth by enhancing domestic investment, facilitating the technology transfers and increasing human capital formation. It identifies that the pace of FDI inflow in India was initially slow due to stringent rules & regulations but there is a steep rise in FDI inflows from 2005 onwards due to policy changes. The study suggests that policymakers should guarantee more freedom to the states so that they can attract FDI inflows at their own level and export oriented sectors should be opened up.

Akhtar (2013) assessed the various aspects regarding the performance of FDI in India viz. country-wise, year-wise, state-wise and sector-wise during pre and post liberalization period (1981-2009). During pre-liberalization period FDI had grown at CAGR of 19.05% while in the post liberalization period, it has grown at the rate of 24.28%. The researcher specified that progressive liberalization of FDI policy has reinforced the confidence of foreign investors. Many sectors have been opened up for FDI like defense industry, integrated township, tea plantation etc. All this has contributed in making India an attractive destination for FDI inflows during the post reforms period, yet the amount of FDI inflows is quite less in comparison to other developing nations. The chief factors responsible for low FDI inflows are the poor infrastructure, investment climate, exchange rate fluctuations and poor business facilitation in India.

Vyas (2015) focused on the changing trends in FDI inflows in India during 2000-15. The findings reveal that India is attracting huge foreign investment by opening up its economy, relaxing norms for foreign investors and raising sector wise FDI limit. The study has also examined country-specific and sector-specific approvals of FDI into India. It has concluded that services sector, telecommunication sector, areas of computer software and hardware, construction activities and automobile sector are the major areas that have attracted high FDI inflows in the post-liberalization period. Mauritius, Singapore, USA and UK are the major sources of foreign capital in India.

Sirisha and Malyadri (2015) stated in their study that in early 1990s, India faced acute shortage of FOREX and BOP deficit that forced the policy makers of the country to go in for a liberal economic policy. As a result, the FDI capital inflows have consistently shown an uptrend in India since 1990's. The authors analyzed the sector-wise and country-wise FDI inflows during the period between 2009-2014 by using Compounded Annual Growth Rate (CAGR) and percentages. According to this study, the telecom sector has received highest FDI inflows as per CAGR, while manufacturing sector received highest FDI as per the share. The maximum FDI inflows as per CAGR are from Luxenberg and as per the share it is from Mauritius.

II. OBJECTIVES

The following objectives have been outlined in this study:

1. To examine the flow of FDI in India for the period 2000-2016.

2. To assess the various aspects pertaining to performance of the FDI in India viz-a-viz year-wise, country-wise, state-wise and sector-wise.

Research Methodology

The time period of the study is from 2000 to 2016. The data about trends and pattern of FDI in India has been collected from various secondary sources like published Handbook of Statistics on Indian Economy by RBI, various issues of Economic Surveys, GOI, Centre for Monitoring Indian Economy (CMIE) and Foreign Investment Promotion Board (FIPB). For the analysis and interpretation of the collected data, suitable statistical and mathematical techniques have been applied such as graphs, tables, Annual Growth Rate (AGR) and percentages.

Trends and Patterns of FDI Inflows in India

The changing trends and patterns of FDI inflows in India for the period 2000-2016 are given as under:

Table 1: India's share in World FDI

Year	World FDI (millions of dollars)	India's FDI (millions of dollars)	% share of India in world FDI
2000	1,270,764	2,315	0.18
2001	817,574	3,403	0.41
2002	678,751	3,449	0.50
2003	559,576	4,269	0.76
2004	742,143	5,771	0.77
2005	945,795	6,676	0.70
2006	1,305,852	16,881	1.29
2007	1,978,838	25,127	1.26
2008	1,697,353	41,554	2.44
2009	1,186,432	35,634	3.00
2010	1,328,102	27,417	2.06
2011	1,591,146	36,190	2.27
2012	1,592,598	24,196	1.52
2013	1,443,230	28,199	1.95
2014	1,323,863	34,417	2.59
2015	1,774,001	44,064	2.48
2016	1,746,423	44,486	2.54

Source: World Investment Report (Various Issues) Published by UNCTAD

The above table & chart shows that the share of India in the world FDI has been increasing continuously since 2001. Its share has increased from 0.18% in 2000 to 2.54% in 2016. India's share in world FDI was very high in 2009 due to various economic reforms undertaken by the Indian government, better infrastructure, and more vibrant financial sector. This share then started decreasing and reached at a low level of 1.52% by 2012. However, it slowly picked up and again become 2.54% in 2016. India is at eighth rank in the 2017 A.T. Kearney FDI Confidence Index (1.68). The large market size, sound economic policy providing a 'transparent' and an 'easy' business environment, abundant natural resources and availability of highly skilled human resources etc. enable India to attract huge FDI inflows.



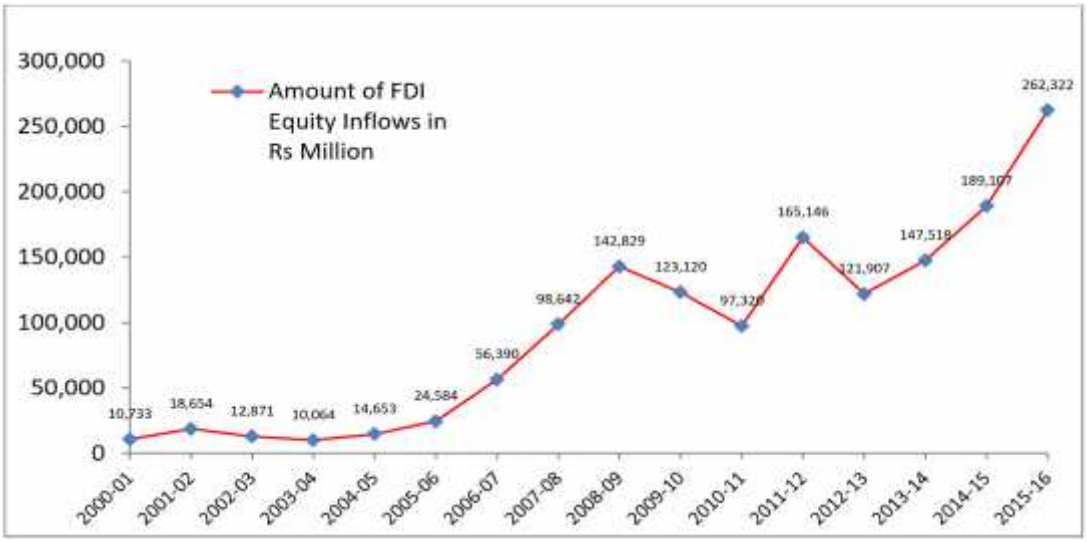
Amount of FDI inflows

India experienced a phenomenal rise in FDI inflows in the post-liberalization era. The value of FDI inflows started showing a remarkable upward trend since 2000.

Table 2:Trends of FDI inflows in India

Financial Year (AprMar)	Amount of FDI Equity Inflows		%age growth over the previous year
	Rs. (in Million)	US $ (in Million)	
2000-01	10,733	2,463	
2001-02	18,654	4,065	(+) 65 %
2002-03	12,871	2,705	(-) 33 %
2003-04	10,064	2,188	(-) 19 %
2004-05	14,653	3,219	(+) 47 %
2005-06	24,584	5,540	(+) 72 %
2006-07	56,390	12,492	(+) 125 %
2007-08	98,642	24,575	(+) 97 %
2008-09	142,829	31,396	(+) 28 %
2009-10	123,120	25,834	(-) 18 %
2010-11	97,320	21,383	(-) 17 %
2011-12	165,146	35,121	(+) 64 %
2012-13	121,907	22,423	(-) 36 %
2013-14	147,518	24,299	(+) 8 %
2014-15	189,107	30,931	(+) 27 %
2015-16	262,322	40,001	(+) 29 %
Cumulative Total (from Apr'00 to Mar'16)	1,495,860	288,635	

Note: The amount of FDI inflows includes for Govt. route (FIPB/SIA), RBI's automatic route acquisition of shares and amount remitted through RBI's-NRI Schemes (2000-2002).



The above table & chart shows that FDI growth rate in India is not a smooth one. There

Are ups and down in the percentage growth of FDI during 2000 to 2016. In the two years 2002-03 and 2003-04 the growth rate was found to be negative. The reduction in FDI inflows in the Indian economy was due to the effect of East Asian Crisis. However, the growth rate became positive from 2004 to 2009 and it was very high. It again became negative in 2009-11due to global economic crisis. Except for 2012-13, which shows a fall in FDI inflows, FDI has been increasing since

2011 and rose to US $ 40 billion in 2016. This remarkable increase in FDI inflows is due to high economic growth and sustained development process of the country which restore the confidence of the foreign investors in Indian economy.

Routes of FDI inflows

The various routes of FDI in India are - The Automatic Approval Route, Government Approval Route (FIPB), and Acquisition of Existing Shares

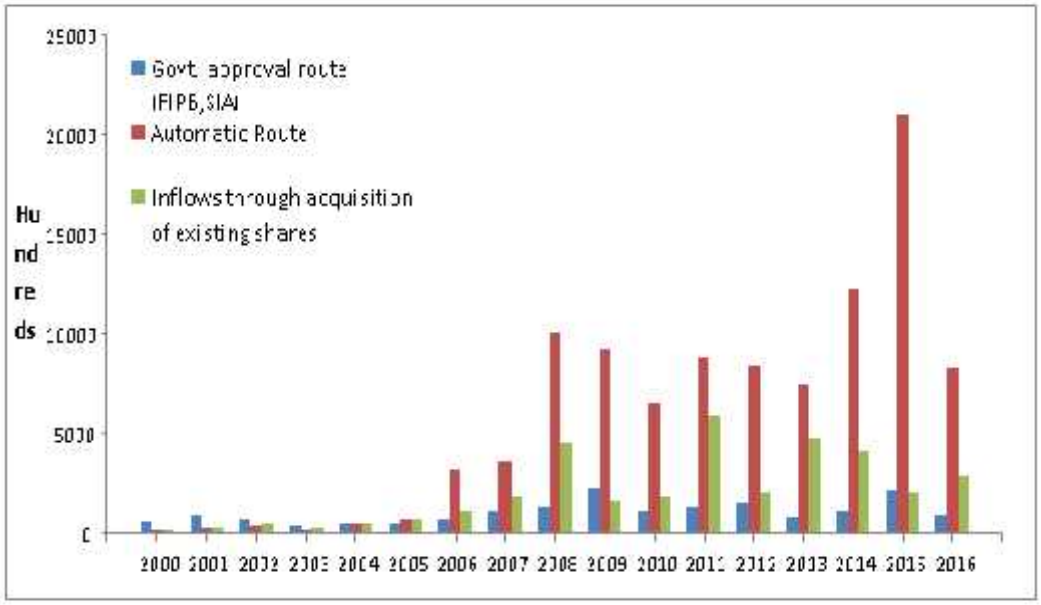
Route and NRI's Route. Automatic Approval Route represents smaller sized investment projects. The Government Approval Route represents larger sized projects which need bulk of FDI inflows.

Table 3: Statement on year wise / route wise FDI equity inflows from 2000 TO 2016

Amount in Rupees million

Year(Jan Dec.)	I Govt. approval route (FIPB,SIA)	II Automatic Route	III Inflows through acquisition of existing shares	IV RBI 's various NRI Schemes^	Total (II to IV)
2000	63,368 (60.7%)	16,975 (16.3%)	20,581 (19.7%)	3,487 (3.3%)	104,411
2001	96,386 (60%)	32,411 (20.2%)	29,622 (18.4%)	2,292 (1.4%)	160,711
2002	69,580 (43.1%)	39,030 (24.2%)	52,623 (32.6%)	111 (0.06%)	161344
2003	42,956 (44.9%)	23,399 (24.5%)	29,284 (30.6%)	-	95639
2004	48,517 (32.8%)	54,221 (36.7%)	45,076 (30.5%)	-	147814
2005	49,728 (25.8%)	68,687 (35.6%)	74,292 (38.6%)	-	192707
2006	69,683 (13.8%)	321,758 (63.9%)	112,132 (22.3%)	-	503573
2007	107,873 (16.5%)	361,002 (55.1%)	186,075 (28.4%)	-	654950
2008	135,588 (8.5%)	1,004,681 (63%)	455,026 (28.5%)	-	1,595,295
2009	229,717 (17.5%)	919,849 (70.2%)	160,233 (12.2%)		1,309,799
2010	115,966 (12.1%)	655,519 (68.3%)	188,664 (19.6%)		960,149
2011	134,782 (8.4%)	878,222 (55%)	586,345 (36.7%)		1,599,349
2012	159,557 (13.1%)	845,289 (69.5%)	211,069 (17.4%)		1,215,914
2013	78,657 (6.1%)	744,183 (57.5%)	471,985 (36.5%)		1,294,825
2014	109,979 (6.3%)	1,226,012 (70%)	417,143 (23.7 %)		1,753,134
2015	218,325 (8.6%)	2,099,811 (83.1%)	207,478 (8.2%)		2,525,614
2016 (up to June 16)	94,703 (7.8%)	831,393 (68.2%)	293,766 (24.1%)		1,219,862
Grand Total (as on 30.06.2016)	1,825,370	10,122,499	3,541,333	5,890	15,495,092

Source: RBI, (FED) Central Office, Mumbai



The share of government approval route is falling in comparison to RBI's automatic Note: '^' since 2003, inflows included under the heading RBI's Automatic Route.

Route and Acquisition of existing shares route. On May 24, 2017 Foreign Investment Promotion Board is abolished in order to boost ease of doing business, reduce red tapes and make FDI easier. Now there is need for prior government approval only in 11 sectors which will be dealt by the departments concerned. Automatic approval route through RBI shows an upward trend of FDI inflows since 2000 except for the year 2007. In the last three years, 91-95% of foreign direct investment (FDI) came into India through the automatic route and acquisition route. Acquisition of existing shares route and external commercial borrowing route (ADR/GDR) gained importance in 2002 and 2005 and show an upward trend. However, FDI inflows through NRI's route show a sharp declining trend.

Forms of FDI

A multinational enterprise may make an investment either through Greenfield investment or Brownfield investment. In Greenfield investment, a parent company constructs new production facilities, establishes new distribution hubs, sets Up offices and hires staff in a foreign country, whereas in Brown field investment parent company purchases existing business setup. Greenfield investment carries more risk. However, for the host country, Greenfield investment is more beneficial, as it generates additional employment opportunities as well as new business opportunities. About 40 percent of the FDI inflows in India have taken the route of M&A rather than Greenfield ventures. However, global investment landscape has changed considerably in 2016 and India became world's topmost Greenfield investment destination by attracting $ 62.3 billion FDI inflows. As per FDI Report 2017, India has retained its position for the second consecutive year and has remained much ahead of China and US.

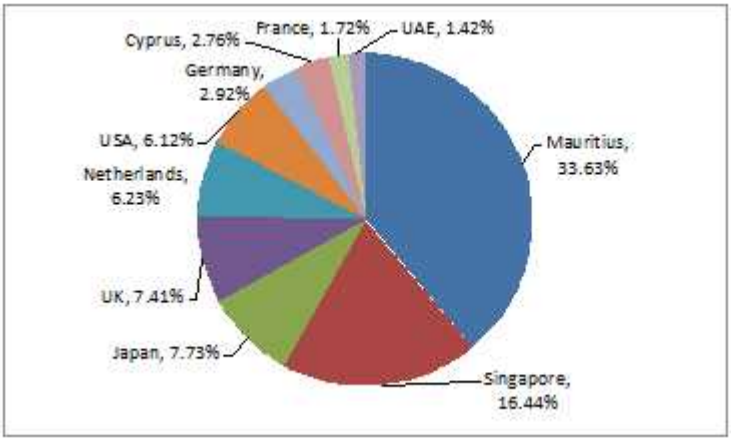
Sources of FDI

The sources of FDI have increased tremendously in India in the post-reform period. There are around150 countries investing in India in 2016 as compared to 15 countries in 1991. This shows that India is successful in restoring the confidence of foreign investors through its economic reform process.

Table 4: Statement of country wise FDI equity inflows from April 2000 to March 2017

Ranks	Country	Amount of Foreign Direct Investment Inflows		%age of Total Inflows
		(In Rs crore)	(In US$ million)	(in terms of US $)
1.	Mauritius	585,950.38	111,638	33.63%
2.	Singapore	315,042.49	54,590	16.44%
3.	Japan	142,259.65	25,675	7.73%
4.	UK	125,544.59	24,591	7.41%
5.	Netherlands	117,166.54	20,682	6.23%
6.	USA	110,531.54	20,323	6.12%
7.	Germany	52,044.62	9,698	2.92%
8.	Cyprus	46,730.58	9,156	2.76%
9.	France	30,637.22	5,725	1.72%
10.	UAE	26,186.87	4,705	1.42%
Total FDI inflows from all countries *		1,787,555	332,112	

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2017



Mauritius is the largest investor in India constituting 33.36% of the total FDI in India during 2000-2017. This dominance of Mauritius is because of the Double Taxation Avoidance Agreement i.e. DTAA between the two countries, which favors routing of investment through this country. This type of taxation treaty has been made with Singapore also, which is the second largest investing country in India contributing 16.44% of the aggregate FDI inflows. The other major contributors of FDI in India are Japan, UK, Netherlands, USA and Germany.

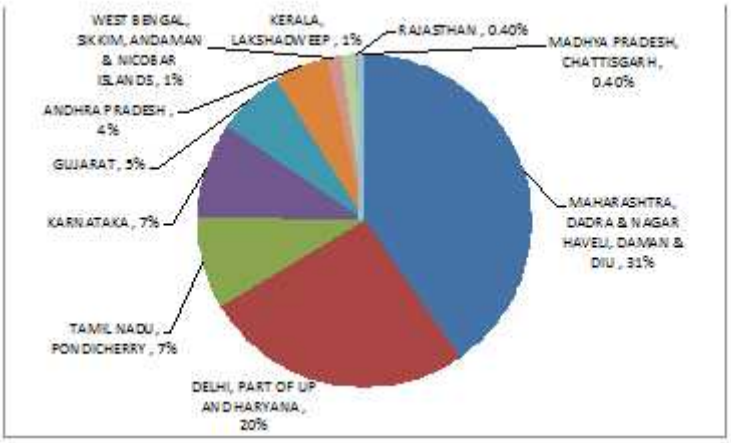
State-wise distribution of FDI

Table 6: Statement on RBI's regional offices (with state covered) received FDI equity inflows from April, 2000 to March, 2017

S. No.	RBI'S Regional office	State covered	Amount of FDI inflows		%age to total inflows (in terms of us$)
			(in rs crore)	(in us$ million)	
1	Mumbai	Maharashtra, Dadra & Nagar haveli, Daman & diu	547,733	102,283	31%
2	New delhi	Delhi, Part of up And haryana	371,794	68,037	20%
3	Chennai	Tamil nadu, pondicherry	133,378	23,760	7%
4	Bangalore	Karnataka	123,212	22,374	7%

5	Ahmedabad	Gujarat	91,074	16,652	5%
6	Hyderabad	Andhra pradesh	74,322	13,766	4%
7	Kolkata	West bengal, Sikkim, Andaman & Nicobar Islands	21,179	3,985	1%
8	Kochi	Kerala, Lakshadweep	9,789	1,755	1%
9	Jaipur	Rajasthan	8,237	1,480	0%
10	Bhopal	Madhya Pradesh, Chattisgarh	7,129	1,372	0%
Grand total			**1,787,555**	**332,112**	

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2017



The state-wise trends in FDI show that the regional offices of RBI at Maharashtra New Delhi, Tamil Nadu, Karnataka and Gujarat have been the largest recipients of FDI in terms of cumulative FDI inflows with percentage share of 31%, 20%, 7%, 7% and 5% respectively from April 2000 to March 2017. These states are known for their better resources, infrastructure facilities, investors friendly policies like single window clearance and investment promotion schemes like SEZs. Their combined share stood at 70% of total FDI inflow during the same period.

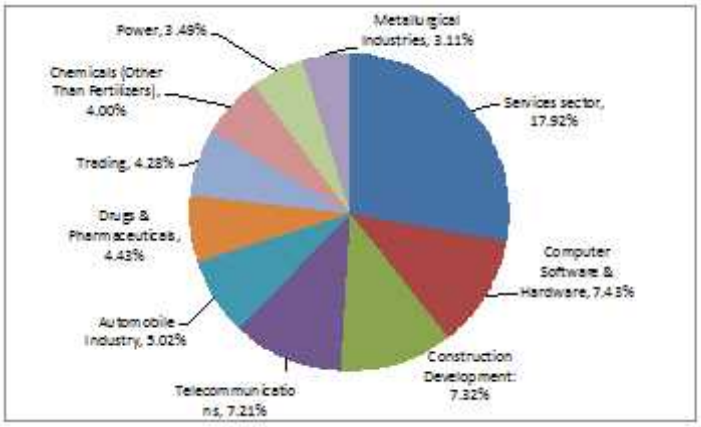
Sectoral composition of FDI

According to the data provided by SIA-DIPP, FDI inflows are coming in 62 sectors of India and the top ten sectors account for almost 65% of the total FDI inflows. Many new sectors have been opened up to FDI such as mining, banking, insurance, telecommunications, airlines and construction. The foreign investment is mainly focused on consumer durables goods and automotive industries rather than in long term investment projects such as maintaining roads, power generation, and modernizing the basic infrastructure.

Table 7: Statement on sector-wise FDI equity inflows from April 2000 to March 2017

S. No.	Sector	Amount of FDI Inflows		%age of Total Inflows (in terms of US $)
		(in Rs crore)	(in US$ million)	
1.	Services sector	316,567.77	59,476.49	17.92%
2.	Computer Software & Hardware	136,789.08	24,669.49	7.43%
3.	Construction Development: Townships, housing, built-up infrastructure and construction-development projects	114,638.90	24,293.08	7.32 %
4.	Telecommunications	130,163.87	23,946.04	7.21%
5.	Automobile Industry	92,218.42	16,673.91	5.02%
6.	Drugs & Pharmaceuticals	75,820.05	14,706.89	4.43%
7.	Trading	84,557.43	14,210.86	4.28%
8.	Chemicals (Other Than Fertilizers)	68,951.96	13,293.09	4.00 %
9.	Power	60,086.74	11,589.13	3.49%
10.	Metallurgical Industries	53,074.07	10,330.53	3.11%

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2017



Liberalization of FDI is responsible for the changes in the sectorial distribution of FDI in India. During 2000 to 2017, services sector came up as an important recipient of FDI and has attracted the highest amount of FDI with 17.92%, followed by computer software with 7.43%, construction development with 7.32%, telecommunications 7.21% and automobile industry by 5.02% of aggregate FDI inflows. The major reasons for these changes in the structure of FDI could be credited to adoption of liberalization policies and the changes in sectoral limits of FDI from time to time by the Indian government.

III. CONCLUSION

India has become one of the fastest growing economies across the world and the most preferable destination of global FDI. India's share in world FDI rose to 2.54% in 2016 as compared to 0.18% in 2000. The major sources of FDI in India are Mauritius, Singapore, Japan and UK investing in services, computer software & hardware, construction and development and telecommunications sectors. The share of FDI through Government Approval route is falling in comparison to RBI's Automatic route and Acquisition of existing shares route. India has experienced an infusion of FDI inflows in the form

of Brownfield investment, which does not imply new capital infusion into a country. So, the focus should be given on the Greenfield FDI inflows and the positive externalities accruing from them in terms of technological development.

Over the years FDI flow is increasing. However India needs more FDI as it can bring about several benefits in terms of employment generation, wider choices for consumers, productivity growth, technology up gradation and adding to the overall growth and development of the country. Attracting FDI has become an integral part of the economic development strategies for India. It is likely to work wonders only if the remaining regulations are relaxed and more industries are opened up to FDI.

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DIMENSIONS AND PATTERNS OF NAFTA-EUROPEON UNION TRADE

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Abstract

In this paper, author studied the agreement, trends, prospects and determinants of EU-NAFTA trade during 1990-2016 showing co integration and vector error corrections of world export share and import shares of EU and NAFTA with their determinants like export and import concentration index, export and import diversification index and trade balance indicator. The paper concludes that world export share and import shares of both EU and NAFTA during 1990-2016 have been declining significantly with stationary process in which all of them have significant structural breaks downward. World export and import shares of EU from 1990-2016 are significantly negatively related with export and import diversification index but not significantly related with concentration and trade balance index. They are co integrated with one co integrating equation each having stable VECM and one significant error correction. World export and import shares of NAFTA are negatively related with concentration index, diversification index and trade balance index expect positive relation among trade balance index and import share of NAFTA. In both cases, they have four co integrating vectors with stable and no stationary VECM. Euro Area's import share is negatively related with import concentration index of EA to NAFTA with significant co integration and error correction process in stable and no stationary VECM. Lastly, trade correlation index of EA-NAFTA trade in 2012 in comparison to 2005 suggests that EA-NAFTA trade has been improved or better off.

Keywords – Trade co-operation, EU-NAFTA trade agreement, EU-NAFTA trade, EU-NAFTA trade indicators

I. INTRODUCTION

NAFTA-EURO AREA economic integration is an important indicator for prospect of multilateral trade and international monetary order in which international trade and international liquidity problems depend upon. Even political international economy is controlled by their hegemonic leaderships and trade and financial relations. All the international institutions have been nurtured by them. The developing regional blocs are indirectly depend on their regulations, controls and policies.

II. OBJECTIVE

Author wishes to study the performance of regional trading blocs and their trade patterns especially between EU(Euro Area)-NAFTA with a view to assessing other emerging big trading bloc like TPP or TAFTA in order to observe international trading order and international monetary system. Thus author tested EU-NAFTA trade under various dimensions and determinants during 1990-2016.

Methodology and data

To find out trends author used semi-log regression model, to calculate structural breaks author used Bai-Perron model(1997),to find deterministic relation author applied Johansen co integration test and vector error correction models(1988,1996).As far as trade indicator, assume Export diversification index $=DX_j=\Sigma Ih_{ij}-h_iI/2$ where h_{ij} is the share of commodity in the

total export of country j and hi is the share of commodity in the world export. Hirschman (H) concentration index=$H_j=\sqrt{\Sigma(x_i/x_t)^2}$ where x_i is the country's j export i and x_t is the country j total export .The lower the index less is the concentration of country's export. Trade complementary index =K=100-ΣIxij-MjkI/2 where xij=value of country's I export of product j ,Mij=value of country's k's import of product j.It provides information on how will export profile of one country matches the import profile of another country. The data on concentration index, diversification index, trade complementary index, trade balance index, world export share, world import share for both NAFTA ,and EU(Euro Area) were collected from UNCTAD(UNO) from 1990 to 2016.

Patterns and dimensions

World export share of NAFTA has been declining at the rate of 1.47% per year during 1990-2016 which is significant at 5% level.

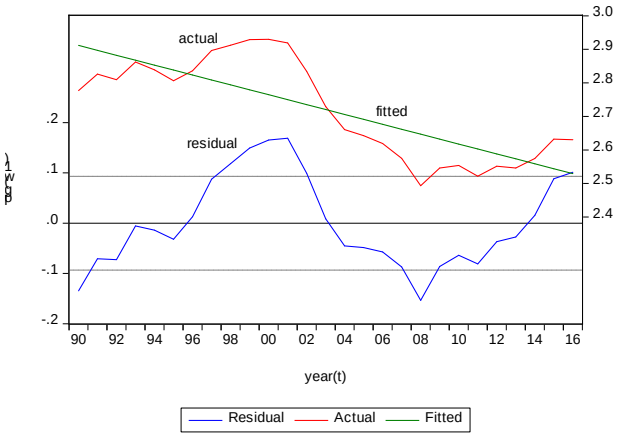
$Log(w_1)=2.926511-0.014712t$

(79.36)* (-6.39)*

R^2=0.62,F=40.85* ,DW=0.25 ,w_1=world export share of NAFTA,*=significant at 5% level.

In Fig-1 , the declining rate of NAFTA's world share of export is depicted clearly.

Fig-1: NAFTA's world share of export



Source-Author

Likewise, ARIMA(1,1,1,) of world export share of NAFTA is stationary, convergent and stable which is estimated below.

$Log(w_{1t})=2.706490+0.899804log(w_{1t-1})+\varepsilon_t+0.4176$

$\varepsilon_{t-1}+0.001674\sigma^2$

(25.03)* (11.52)* (2.10)* (2.55)*

R^2=0.92,F=89.28* , DW=1.88,AR root=0.90 ,

MA root=-0.42 , *=significant at 5% level.

It has significant upward structural break in 2004 which is seen Table-1.

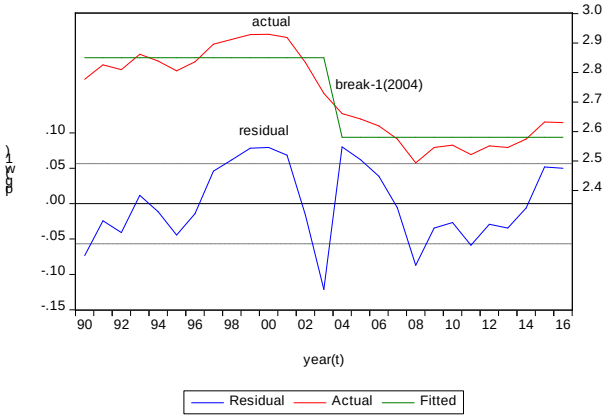
Table-1: Structural break

Variable	Coefficient	SE	T statistic	Prob
		1990-2003..14obs		
C	2.850536	0.021181	134.5774	0.00
		2004-2016…13obs		
C	2.58056	0.019527	132.1519	0.00

Source-Author

The structural break in 2004 is seen in the Fig-2.

Fig-2: Structural break



Source-Author

World import share of NAFTA has been declining at the rate of 0.71% per year from 1990 to 2016 which is significant at 5% level.

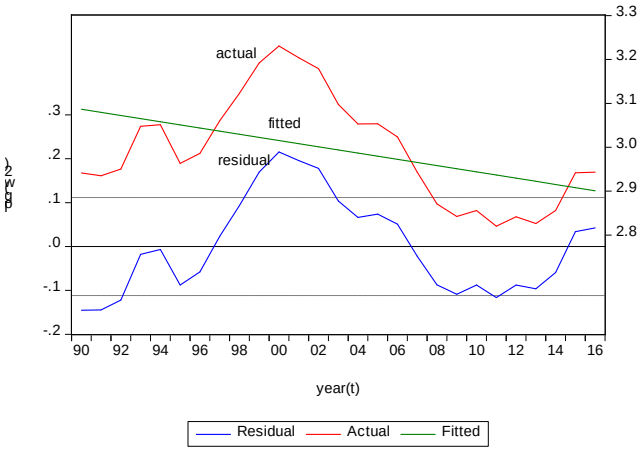
$Log\ (w_2)=3.093916-0.007144t$

(70.11)* (-2.59)*

R^2=0.21, F=6.72* , DW=0.22 , w_2=world import share of NAFTA,*=significant at 5% level.

In Fig-3, the declining trend line of world import share of NAFTA is plotted neatly.

Fig- 3 :World import share of NAFTA



Source-Author

Moreover, its ARIMA (1,1,1) is also stable, stationary and convergent which is shown in the estimated equation.

$Log(w_{2t})=2.976968+0.819093log(w_{2t-1})+\varepsilon_t+0.6465\varepsilon_{t-1}+0.00169\sigma^2$

(39.75)* (7.14)* (3.85)* (2.49)*

$R^2=0.88$, F=58.25* , DW=1.85 , AR root=0.82,MA root=-0.65,*=significant

World Import share of NAFTA has three structural breaks in 1998, 2003 and 2007 where last two are downward.

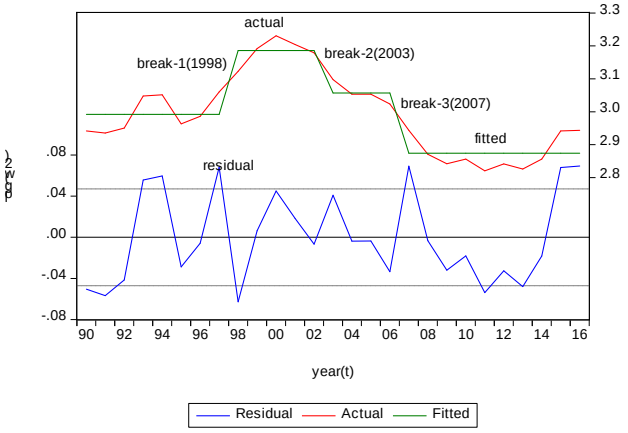
Table: 2: Structural breaks-NAFTA

Variable	coefficient	Standard error	T statistic	Prob
		1990-1997….8obs		
C	2.992002	0.01933	154.7598	0.00
		1998-2002…5obs		
C	3.185802	0.01556	204.7281	0.00
		2003-2006…4 obs		
C	3.056956	0.014268	214.2478	0.00
		2007-2016…10obs		
C	2.874227	0.019812	145.0775	0.00

Source-Author, $R^2=0.87$,F=51.65 , DW=1.57 , *=sig*

The upward and downward structural breaks are plotted in Fig- 4 clearly.

Fig- 4: Structural break



Source-Author

World Export share of Euro Area has been decreasing at the rate of 1.36% per year during 1990-2016 which is significant at 5% level.

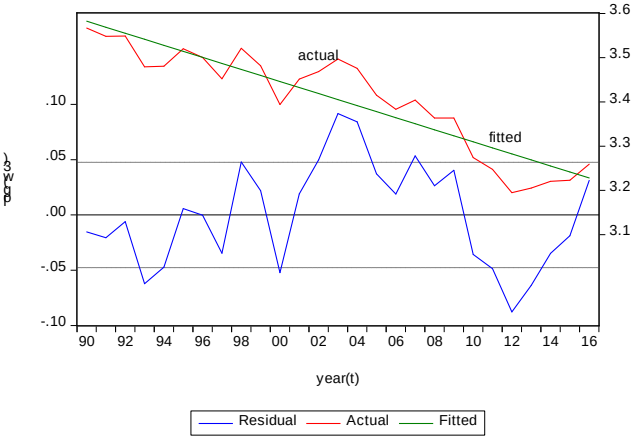
$Log(w_3)=3.596158-0.013633t$

(190.76)* (-11.58)*

$R^2=0.84$,F=134.24* ,DW=0.78,*=sig. , w_3=world export share Euro Area

The fitted downward trend line is plotted in Fig-5 .

Fig-5: Trend line of W3



Source-Author

Even,ARIMA(1,1,1) process of world export share of EA is stable,non-stationary and convergent which is estimated by the equation given below.

$Log(w_{3t})=3.409868+0.945125log(w_{3t-1})+\varepsilon_t+0.00829\varepsilon_{t-1}+0.001821\sigma^2$

(32.44)* (9.00)* (0.035) (3.03)*

R^2=0.86,F=48.64*,AR root=0.95,MA root=-0.01,DW=1.97

It has two structural breaks in 2005 and 2016 in which both are downwards.

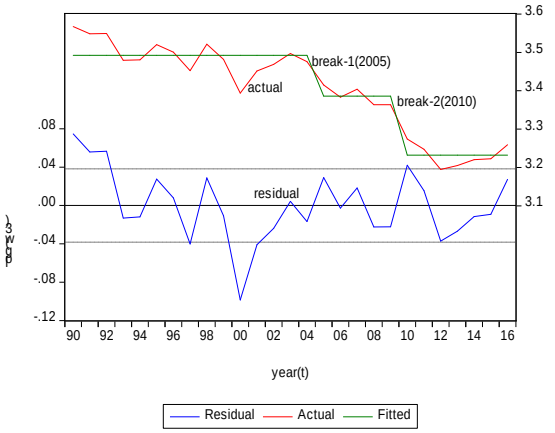
Table-3:Structural beak of W_3

Variable	coefficient	Standard error	T statistic	Prob
		1990-2004…15obs		
C	3.492544	0.014755	236.7079	0.00
		2005-2009…5obs		
C	3.386020	0.010088	335.6472	0.00
		2010-2016…7obs		
C	3.232078	0.011379	284.0290	0.00

Source-Author,R^2=0.902,F=111.53* , DW=1.22 ,

It is seen in the Fig.6, where structural breaks in 2005 and 2010 are clearly plotted.

Fig—6: Structural break of W_3



Source- Author

World import share of Euro Area has been decreasing at the rate of 1.45% per year during 1990-2016 which is significant at 5% level.

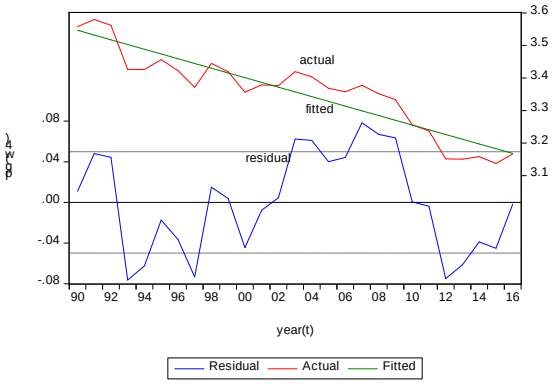
$Log(w_4)$=3.561115-0.014551t

(180.48)* (-11.81)*

R^2=0.848,F=139.58*,DW=0.778,w4=world import share of Euro Area,*=sig

The downward trend line of world import share of euro area has been plotted in Fig-7 .

Fig-7:Trend line of W_4



Source-Author

ARIMA (1,1,1) process of world import share of EA is convergent, stable but no stationary which is shown from the estimated equation given below.

$Log(w_{4t})=3.360256+0.947878log(w_{4t-1})+\varepsilon_t+0.090386\varepsilon_{t-1}+0.00205\sigma^2$

(27.79)* (10.82)* (0.26) (3.67)*

R^2=0.86,F=48.76* , DW=1.94,AR root=0.95,MA root=-0.09

It has three structural breaks in 1994,2000, 2010.All are downwards which is seen in Table-4

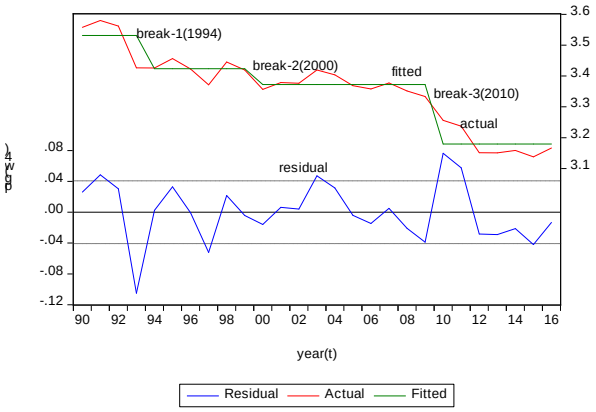
Table—4: Structural break of w_4

Variable	coefficient	Standard error	T statistic	Prob
		1990-1993….4obs		
C	3.531521	0.029060	121.5236	0.00
		1994-1999…6obs		
C	3.423561	0.007616	449.5289	0.00
		2000-2009…10obs		
C	3.372439	0.00998	337.9102	0.00
		2010-2016….7obs		
C	3.179729	0.021651	146.8612	0.00

Source-Author,R^2=0.906,F=74.51 , DW=1.81*

Three downward structural breaks in 1994,2000,2010 have been plotted clearly in Fig.8

Fig.8:Structural break of w_4.



Source-Author

Determinants of EU-NAFTA trade

One per cent increase in concentration index of EA, diversification index of EA and trade balance indicator of EA led to 0.065% decrease, 0.39% decrease and 0.0027% decrease in world export share of Euro Area during 1990-2010 where the second relation is significant and others are insignificant.

$Log(w_3)=2.648039-0.065524log(y_1)-0.390526log(y_2)-0.002755log(z_2)$

(5.73)* (-0.34) (-3.57)* (-0.21)

$R^2=0.508$, F=5.86*, DW=1.16,

*=significant,w_3=world export share of EA,y_1=concentration index of EA, diversification index of EA,z_2=trade balance index of EA.

World export share of EA during 1992-2010 has one co integrating equation with concentration index, diversification index and trade balance index of EA as were found by trace statistic and max Eigen statistic of Johansen co integration test.

Table.-5: Co integration test of world export share of EA

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 CV	Prob
None*	0.915256	69.82382	47.85613	0.0001
At most 1	0.560378	22.92951	29.79707	0.2495
At most2	0.232517	7.314558	15.49471	0.5413
At most 3	0.113379	2.286406	3.841466	0.1305
		MaxEigen Statistic		
None*	0.915256	69.8238	27.5843	0.0001
At most 1	0.5603	22.9295	21.1316	0.2481
At most2	0.2325	5.02815	14.2646	0.7383
At most 3	0.1133	2.2864	3.841466	0.1305

Source-Computed by author,=rejection of null hypothesis,**=Mackinnon-Haug-Michelins p value*

The estimated VEC model is given below,

$\Delta w_{3t}=-0.8503-0.16388\Delta w_{3t-1}-121.1584\Delta y_{1t-1}+134.28\Delta y_{2t-1}-16.5063\Delta z_{2t-1}-0.6258EC1$

(-2.6)* (-0.64) (-1.23) (2.78)* (-0.33) (-3.12)*

$R^2=0.62$,F=4.25,SC=3.48,AIC=3.18

$\Delta y_{1t}=0.00165+0.00163\Delta w_{3t-1}+0.10246\Delta y_{1t-1}-0.0977\Delta y_{2t-1}-0.25149\Delta z_{2t-1}-0.00198EC2$

(2.89)* (3.66)* (0.59) (-1.15) (-2.89)* (-5.61)*

$R^2=0.75$, F=7.88, SC=-9.19, AIC=-9.49

$\Delta y_{2t}=0.00175-0.000234\Delta w_{3t-1}-0.3605\Delta y_{1t-1}+0.2637\Delta y_{2t-1}-0.299\Delta z_{2t-1}-0.00296EC3$

(0.28) (-0.011) (-0.46) (0.69) (-0.76) (-1.86)

$R^2=0.28$,F=1.05,SC=-6.18,AIC=-6.48

$\Delta z_{2t}=0.00089-0.000234\Delta w_{3t-1}-0.6872\Delta y_{1t-1}+0.1198\Delta y_{2t-1}+0.2282\Delta z_{2t-1}-7.45E-05Ec4$

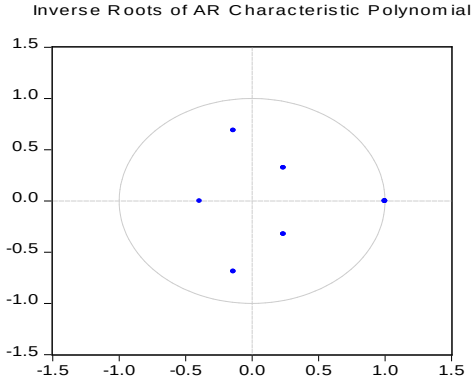
(0.27) (-0.09) (-0.71) (0.25) (0.47) (-0.03)

$R^2=0.056$, F=0.157, SC=-5.75,

AIC=-6.05,*=significant at 5%level.

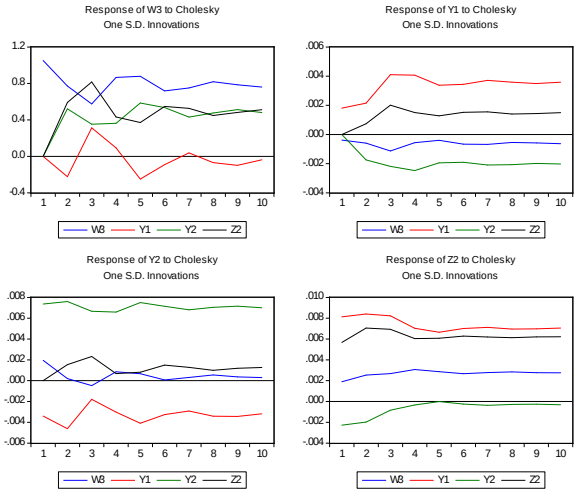
The estimated VECM is not a good fit. The error correction in Δw_{3t} is fast and significant with 62.58% per year, the error correction in equation Δy_{1t} is slow and significant with 0.19% per year, the other error corrections are insignificant. It is stable because it has three unit root, four imaginary roots (-0.1396 ± 6878i, 2361 ± 0.3231i),and one root less than zero(-0.3942),all of which lie inside the unit circle.

Fig-9: Unit circle.



But impulse response functions are diverging so that it is nonstationary which is plotted in Fig-10.

Fig. 10:Impulse response function



Source-Computed by author

One per cent increase in concentration index of EA, diversification index of EA and trade balance indicator of EA led to 0.2166% decrease ,0.3186% decrease and 0.0175% decrease in world import share of Euro Area during 1990-2010 where the second relation is significant and others are insignificant.

$$Log(w_4)=2.241024-0.216814log(y_1)-0.318668log(y_2)-0.017588log(z_2)$$

(5.58)* (-1.30) (-3.35)* (-1.61)

R^2=0.67,F=11.74* , DW=1.52 , *=sig

World import share of EA has one co integrating equation with concentration index, diversification index and trade balance index of EA during 1992-2010 as observed by trace and max Eigen statistic in Johansen co integration test.

Table- 6: Co integration test of world import share of EA.

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 CV	Prob
None*	0.9043	65.3911	47.8561	0.00
At most 1	0.5625	20.7885	29.7970	0.3710
At most2	0.1764	5.0792	15.4947	0.800
At most 3	0.0706	1.3916	3.8414	0.2381
		MaxEigen Statistic		
None*	90.4397	44.6035	27.5843	0.00
At most 1	0.5625	15.7083	21.1316	0.2423
At most2	0.1764	3.6875	14.2646	0.8908
At most 3	0.0706	1.3916	3.8414	0.2381

Source-Computed by Author The VECM is estimated below.

$$\Delta w_{4t}=-0.7726+0.0279\Delta w_{4t-1}-12.3721\Delta y_{1t-1}+89.335\Delta y_{2t-1}-64.5366\Delta z_{2t-1}-0.7953EC1$$

(-2.34)* (0.11) (-0.11) (1.78) (-1.33) (-3.46)*

R^2=0.608,F=4.03,SC=3.51,AIC=3.21

$$\Delta y_{1t}=0.00172+0.0015\Delta w_{3t-1}+0.327\Delta y_{1t-1}-0.1762\Delta y_{2t-1}-0.159\Delta z_{2t-1}-0.0019EC2$$

(2.36)* (2.70)* (1.36) (-1.59) (-1.48) (-3.75)*

R^2=0.6 , F=3.91 , SC=-8.71 , AIC=-9.01

$\Delta y_{2t}=0.0024+0.00078\Delta w_{3t-1}+0.335\Delta y_{1t-1}+0.0047\Delta y_{2t-1}-0.618\Delta z_{2t-1}-0.00464EC3$

(1.05) (0.44) (0.44) (0.15) (-1.84) (-2.91)*

R^2=0.44 , F=2.07 , SC=-6.43 , AIC=-6.73

$\Delta z_{2t}=0.00014-0.00138\Delta w_{3t-1}-0.859\Delta y_{1t-1}+0.236\Delta y_{2t-1}+0.3411\Delta z_{2t-1}+0.000918EC4$

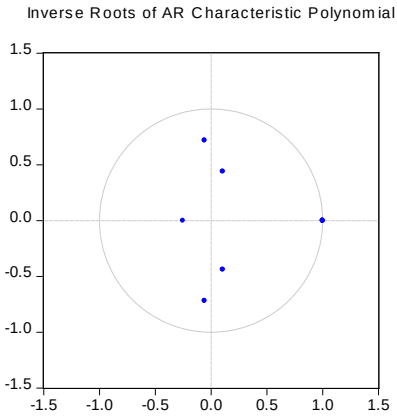
(0.04) (-0.56) (-0.82) (0.49) (0.73) (0.41)

R^2=0.081 , F=0.23 , SC=-5.77 , AIC=-6.07,*=significant at 5% level.

The VECM is not a good fit yet the error correction in the equations Δw_{4t},Δy_{1t},$\Delta y_{2t}$are significant with speeds of 79.53%,0.19%,0.46% per cent per year respectively and others are significant.

This VECM is stable because all the roots(1.0,1.0,1.0,-0.0578±0.7186i,0.1048±0.4399i,-0.2522) lie inside the unit circle shown below.

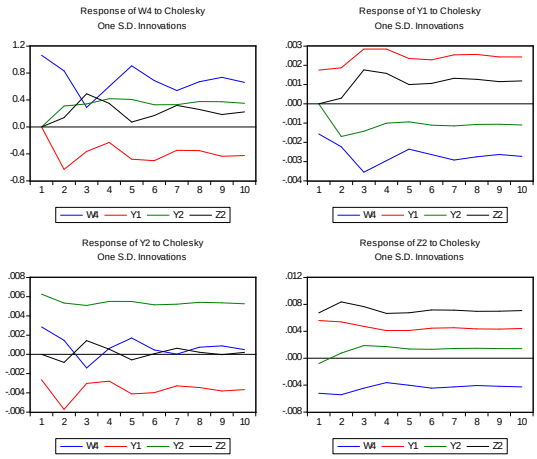
Fig-11:Stable VECM



Source-Author

The VECM model is nonstationary since impulse response functions are diverging.

Fig-12:Impulse response functions



Source-Plotted by author

One per cent increase in concentration index of NAFTA, diversification of NAFTA, and trade balance index of NAFTA led to 1.39% decrease ,1.038% decrease and 0.069% decrease in world export share of NAFTA during 1990-2009 which are all significant at 5% level.

$Log(w_1)=-2.684410-1.397851log(x_1)-1.03828log(x_2)-0.069610log(z_1)$

(-2.66)* (-6.29)* (-2.19)* (-2.52)*

R^2=0.8036, F=21.83* , DW=1.207 , *=significant at 5% level,w1=world export share of NAFTA ,X_1=concentration index of NAFTA,X_2=diversification index of NAFTA,Z_1=Trade balance index of NAFTA.

World export share of NAFTA has been co integrating with concentration index, diversification index and trade balance index of NAFTA having four co integrating equations from 1992-2009 which are significant at 5% level.

Table-7: Co integration test of world export share of NAFTA

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 CV	Prob
None*	0.7992	72.6184	47.8561	0.0001
At most 1*	0.6965	43.7175	29.7970	0.0007
At most2*	0.5954	22.2510	15.4947	0.0041
At most 3*	0.2819	5.9614	3.8414	0.0146
		MaxEigen Statistic		
None*	0.7992	28.90	27.5843	0.0337
At most 1*	0.6965	21.4645	21.1316	0.0449
At most2*	0.5954	16.2895	14.2646	0.0236
At most 3*	0.2819	5.9614	3.8414	0.0146

Source-Calculated by author

The estimated VECM is given below,

Δw_{1t}=-0.2529+0.3882Δw_{1t-1}-75.742Δx_{1t-1}-30.0033Δx_{2t-1}-22.652Δz_{1t-1}-0.2036EC1

(-1.22) (1.58) (-1.09) (-0.70) (-1.41) (-0.93)

R^2=0.35,F-1.345,AIC=2.48,SC=2.78

Δx_{1t}=4.60E-05-0.00115Δw_{1t-1}+0.289Δx_{1t-1}+0.1987Δx_{2t-1}-0.0537Δz_{1t-1}-0.00188EC2

(0.075) (-1.59) (1.415) (1.58) (-1.13) (-2.93)*

R^2=0.58,F=3.42 , AIC=-9.16 , SC=-8.86

Δx_{2t}=-0.00057-0.000194Δw_{1t-1}-0.324Δx_{1t-1}-0.1621Δx_{2t-1}-0.0925Δz_{1t-1}+0.0016EC3

(-0.54) (-0.15) (-0.92) (-0.73) (-1.13) (1.45)

R^2=0.57 , F=3.23 , AIC=-8.07 , SC=-7.78

Δz_{1t}=-0.011-0.0066Δw_{1t-1}-0.4896Δx_{1t-1}-0.444Δx_{2t-1}-1.0096Δz_{1t-1}-0.0066EC4

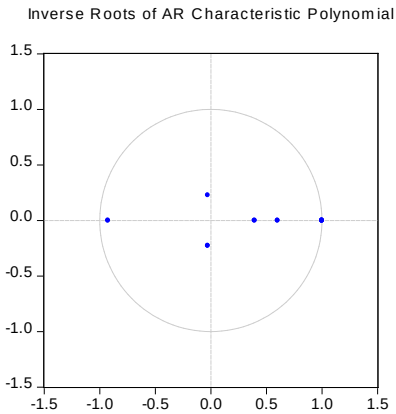
(-1.53) (-0.77) (-0.20) (-0.30) (-1.81) (-0.67)

R^2=0.78, F=0.97, AIC=-4.24, SC=-3.93,*=significant at 5% level.

The error correction in $\Delta x_{1t}$is significant with speed of 0.188 per cent per year but other error corrections are insignificant. The estimation is not a good fit.

VECM is stable because the roots (1.0, 1.0, 1.0,-0.9246, 0.6022, 0.3939,-0.0265±0.2266i,) lie inside the unit circle shown below.

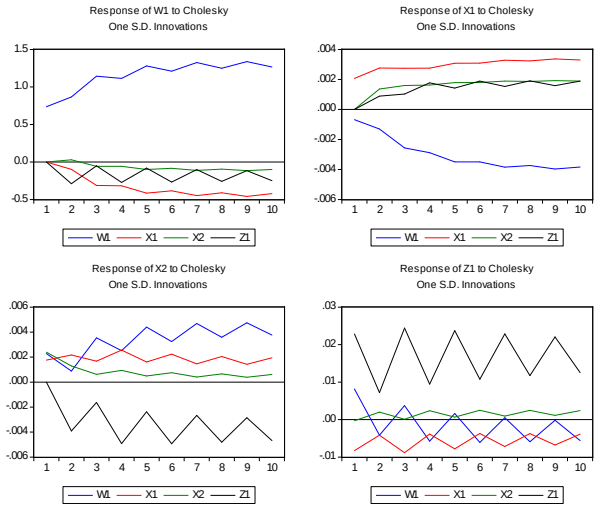
Fig-13: Stability of VECM



Source-Author

VECM is nostationary because all the impulse response functions are diverging.

Fig-14:Impulse response functions are diverging.



Source-Plotted by author

One per cent increase in concentration index of NAFTA, diversification index of NAFTA, and trade balance index of NAFTA led to 1.284%

decrease, 1.25% decrease and 0.095% increase in world import share of NAFTA during 1990-2009 in which all are significant at 5% level.

$$Log(w_2)=-2.049783-1.284984log(x_1)-1.250324log(x_2)+0.095069log(z_1)$$

(-2.147)* (-6.109)* (-2.79)* (3.63)*

R^2=0.73, F=14.46*, DW=1.27, *=significant at 5% level

World import share of NAFTA is co integrating with four integrating equations as tested by Johansen integration test. with concentration index, diversification index and trade balance index of NAFTA from 1992 to 2009

Table-8: Integration test of world import share of NAFTA

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 CV	Prob
None*	0.8910	81.3420	47.8561	0.00
At most 1*	0.6917	41.5807	29.7970	0.001
At most2*	0.6198	21.5306	15.4947	0.005
At most 3*	0.2045	4.1193	3.8414	0.042
		MaxEigen Statistic		
None*	0.8910	39.7612	27.5843	0.00
At most 1*	0.6917	20.050	21.1316	0.070
At most2*	0.6198	17.4113	14.2646	0.015
At most 3*	0.2045	4.1193	3.8414	0.042

Source-Calculated by author

The VECM is estimated as follows,

$$\Delta w_{2t}=-0.09522+0.363\Delta w_{2t-1}-37.014\Delta x_{1t-1}+70.014\Delta x_{2t-1}-21.401\Delta z_{1t-1}-0.594EC1$$

(-0.43) (1.99) (-0.48) (1.25) (-1.44) (-3.42)*

R^2=0.69,F=5.45,AIC=2.65,sc=2.94

$$\Delta X_{1T}=0.00033-0.00045\Delta W_{2t-1}+0.575\Delta x_{1t-1}+0.188\Delta x_{2t-1}-0.00282\Delta z_{1t-1}-0.00075EC2$$

(0.44) (-0.73) (2.19) (0.98) (-0.055) (-1.26)

R^2=0.35 ,F=5.45,AIC=-8.70 , SC=-8.41

$$\Delta x_{2t}=-0.00086-0.000408\Delta w_{2t-1}-0.484\Delta x_{1t-1}-0.072\Delta x_{2t-1}-0.177\Delta z_{1t-1}+0.000EC3$$

(-0.77) (-0.44) (-1.25) (-0.25) (-2.38)* (0.36)

R^2=0.51,F=2.51,AIC=-7.93,SC=-7.64

$$\Delta z_{1t}=-0.011-0.0096\Delta w_{2t-1}+0.726\Delta x_{1t-1}+0.314\Delta x_{2t-1}-1.1002\Delta z_{1t-1}-0.0050EC4$$

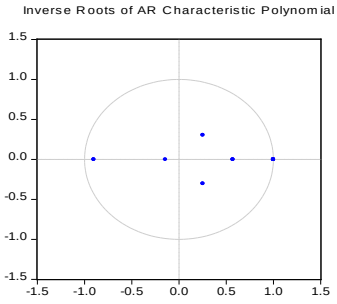
(-1.69) (-1.79) (0.31) (0.18) (-2.51)* (-0.38)

R^2=0.39,F=1.56,AIC=-4.38,SC=-4.09,*=significant at 5% level.

In the estimated equations, only one error correction in the equation Δw_{2t} is significant with speed of 59.4% per year and others are insignificant and the estimation is not good fit.

The VECM is stable because the roots (1.0,1.0,1.0,1.0,-0.9010,0.5715,0.2529±0.3032i,-0.1433) lie inside the unit circle which is seen in Fig.15

Fig.15: Stability of VECM



Source-Author

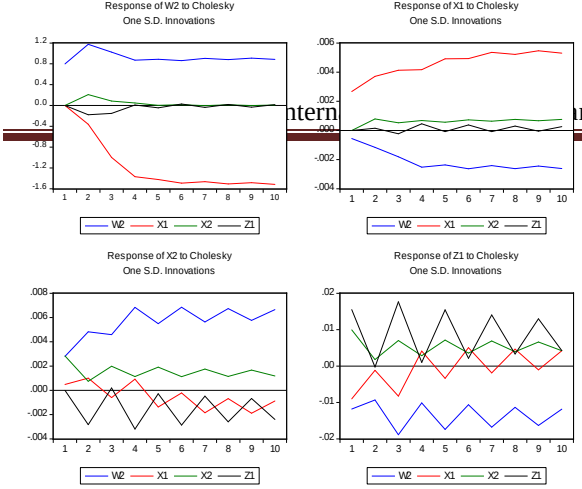


Fig.16: Impulse response functions

Source-Author

But it is no stationary because impulse response functions are diverging away from zero which is shown in Fig.16

European Union (Euro Area) trade with NAFTA

EU export to NAFTA has been increasing at the rate of 4.25% per year during 2006-2016 which is significant at 5% level.

$$\text{Log}(x_1)=12.45899+0.042540t$$

$$(173.41)^* \quad (4.015)^*$$

$R^2=0.64, F=16.12^*, DW=1.075$, X_1=EU export to NAFTA , *=significant at 5% level.

This trend line is plotted in Fig.17 which is upward.

Fig-17:Trend line of EU export to NAFTA



Source-Plotted by author

EU import to NAFTA has been increasing at the rate of 4.0% per year during 2006-2016 which is significant.

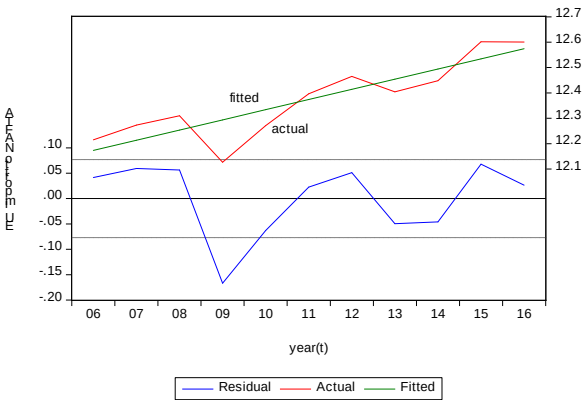
$$\text{Log}(x_2)=12.13363+0.040039t$$

$$(244.03)^* \quad (5.46)^*$$

$R^2=0.76, F=29.82^*$, $DW=1.76$, x_2=EU import to NAFTA *=significant at 5% level.

The trend line is plotted in Fig. 18

Fig-18:Trend line of EU import to NAFTA



But, EU-NAFTA export as per cent of world share is decreasing at the rate of 0.79% per cent per year during 2006-2016 which is not significant at 5% level. On the other hand,EU-NAFTA import as per cent of world share is increasing at the rate of 1.43% per year during 2006-2016 which is significant at 5% level.

Euro Area's world export share is influenced by the export concentration index of EA's trade with NAFTA. One per cent increase in export concentration index of EA trade with NAFTA led to 0.2436 per cent decrease in world export share of Euro Area from 1990 to 2009 which is significant at 5% level.

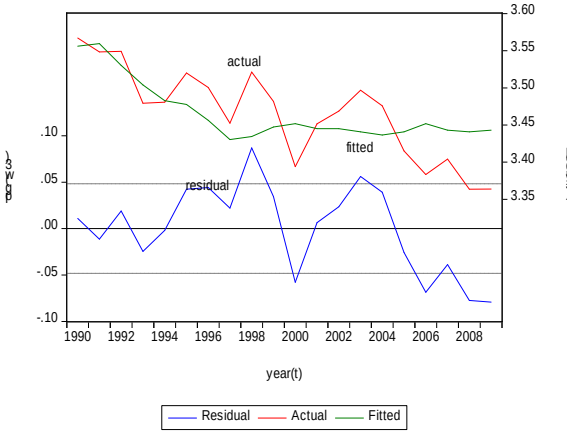
$$\text{Log } (W_3)=2.911806-0.24363\log(y_3)$$

$$(19.0)^* \quad (-3.63)^*$$

R^2=0.42, F=13.18*, DW=0.856, w_3= world export share of Euro Area, y_3=export concentration index of EA trade with NAFTA. ,*=significant at 5% level.

The estimated equation is plotted in Fig-19 ,where the fitted line is downward nonlinear.

Fig- 19 : Fitted curve



Source-Author

Both world export share of EA and export concentration index of EA trade with NAFTA during 1990-2016 have bidirectional causality which was found by Granger Causality test.This is arranged in Table- 9 .

Table- 9: Causality test

Null Hypothesis	Obs	F-Statistic	Prob
Y_3 does not Granger cause w_3	19	0.84953	0.3704
W_3 does not Granger cause y_3		0.07807	0.7835

Source-Author

Johansen integration test suggests that Trace statistic has one integrating equation 5% level but max Eigen statistic has no integrating equation during 1992-2009 which is shown in Table-10.

Table-10: Integration test

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 cv	prob
None*	0.495592	16.0909	15.4947	0.040
At most 1	0.189069	3.7722	3.8414	0.052
		Max Eigen Statistic		
None	0.495592	12.3186	14.2646	0.099
At most 1	0.189069	3.7722	3.8414	0.052

Source-Author

The VECM is estimated below

$\Delta w_{3t}=-0.5358-0.2261\Delta w_{3t-1}+537682\Delta y_{3t-1}+0.00258EC$

(-1.34) (-0.88) (0.76) (0.52)

R^2=0.09,F=0.47 ,SC=4.0 AIC= 3.8

$\Delta y_{3t}=0.00186-0.427E-07\Delta w_{3t-1}+0.2212\Delta y_{3t-1}-4.55E-05EC$

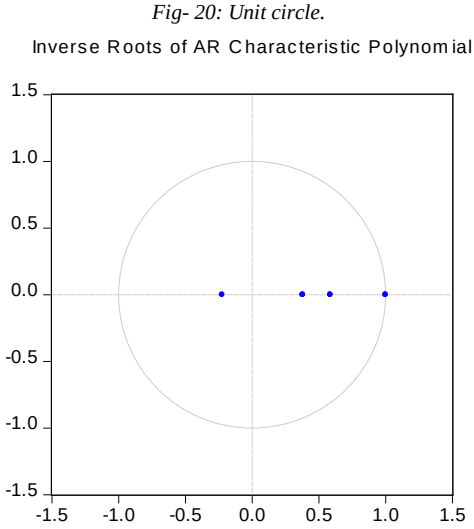
(1.82) (-0.0006) (1.22) (-3.68)*

R^2=0.56,F=6.05 , SC=-7.92 AIC=-8.12,*=significant at 5% level.

The error correction of Δy_{3t} is significant but speed is slow ie 0.004% per year and the others t values of the coefficients are insignificant and estimation is a poor fit.

This VECM is stable since its roots are less than equal to unity (1.0, 0.5868, 0.3796,-0.2244) which lie inside the unit circle which is plotted in Fig-20.

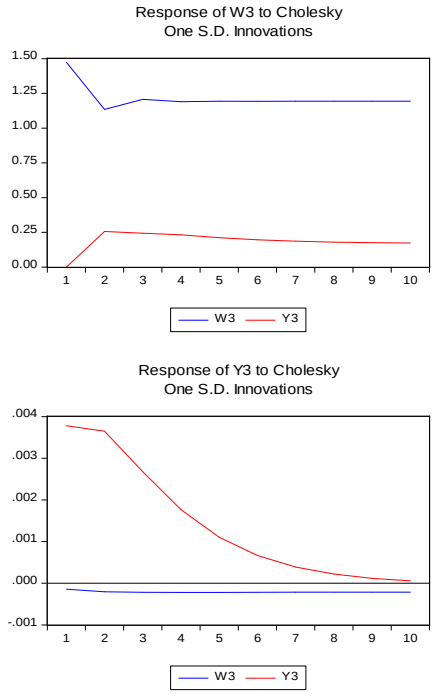
Fig- 20: Unit circle.



Source- Author.

The VECM is no stationary because its impulse response functions are diverging.

Fig-21:IRF



Source-Author.

Euro Area's world import share is somehow affected by import concentration index of EA's trade with NAFTA .One percent increase in import concentration index of EA's trade with NAFTA per year led to 0.58053 per cent decrease in world import share of EA per year from 1990 to 2009 which is significant at 5% level.

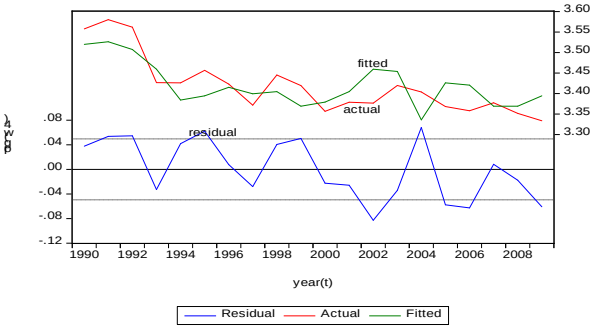
Log (w_4)=2.128502-0.580538log(y_4)

(7.68)* (-4.66)*

R^2=0.547, F=21.75*, DW=1.53, y_4=import concentration index of EA trade to NAFTA, w_4= world import share of EA, *= significant at 5% level.

The double log regression is plotted in the Fig-22, which is downward.

Fig- 22: Inverse relation between w_4 and y_4



Source- Plotted by author

Both import concentration index of EA trade with NAFTA and world import share of EA have bi-directional causality which is shown in Table-11.

Table- 11: Causality

Null Hypothesis	Observation	F-statistic	prob
Y_4 does not Granger cause w_4	19	2.29962	0.1489
W_4 does not Granger cause y_4		2.58430	0.1275

Source-Calculated by author

There are two integrating equations between world import share of EA and import concentration index of EA trade to NAFTA as observed from Trace statistic and Max Eigen statistic by Johansen cointegration test which are arranged in Table-12 .

Table-12 : Johansen cointegration index

Hypothesized no of CEs	Eigen value	Trace statistic	0.05 cv	prob
None*	0.597152	25.18294	15.49471	0.0013
At most 1*	0.387286	8.817414	3.841466	0.0030
		Max Eigen statistic		
None*	0.597152	16.36553	14.2646	0.0229
At most 1*	0.387286	8.817414	3.841466	0.0030

*Source-Author, *=denotes rejection of the hypothesis at the 0.05 level, **Mackinnon –Haug-Michelis (1999) p-value.*

The VECM is estimated below

Δw_{4t}=-0.4856+0.0339Δw_{4t-1}+41.7592Δy_{4t-1}-0.4404EC

(-1.39) (0.13) (0.78) (-1.66)

R^2=0.19,F=1.128 ,SC=3.92 AIC= 3.72

Δy_{4t}=0.00125+0.00142Δw_{4t-1}+0.35807Δy_{4t-1}-0.00412EC

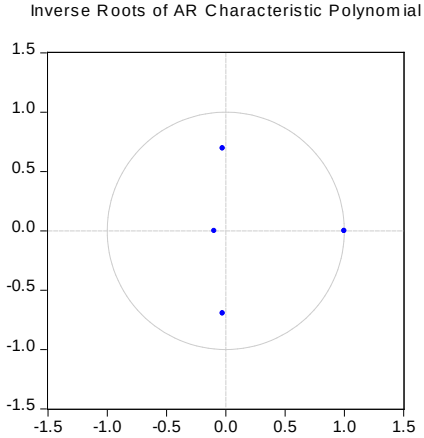
(0.65) (0.98) (1.208) (-2.81)*

R^2=0.39,F=3.01 , SC=-6.46 AIC=-6.65,*=significant at 5% level.

The error correction of Δy_{4t} is significant but speed is slow ie 0.41% per year and the others t values of the coefficients are insignificant and estimation is a poor fit.

But the model is stable since the roots (1.0,-0.025414±0.695623i,-0.097925) are inside the unit circle which is shown below.

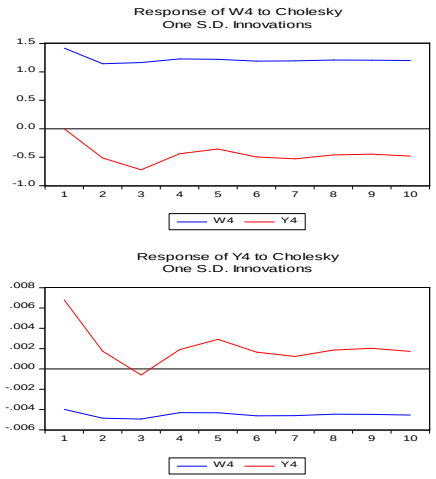
Fig-23 :Stability of VECM



Source-plotted by author

This VECM is no stationary because impulse response functions are diverging.

Fig-24: Impulse response functions



Source-Author

Trade Correlation index among the countries of Euro Area and NAFTA in comparing from 2005 to 2015 states that trade among Austria- USA ,Finland- USA,France- USA,Greece-Canada,Greece- USA,Italy- Mexico,Luxemberg-Canada,Luxemberg- USA,Portugal- Mexico, Spain- Canada, Spain- USA have been improved but other correlations have been worsened. As a whole the trade cooperation between Euro Area and NAFTA has been better off in 2012 than 2005.It is seen in Table-13.

Table-13.Trade Correlation Index

	Canada	Mexico	USA	Canada	Mexico	USA
	2005			2012		
Austria	0.031	-0.174	0.063	0.002	-0.185	0.139
Belgium	-0.084	-0.157	0.108	-0.100	-0.070	0.093
Finland	0.129	-0.155	0.045	0.101	-0.184	0.214
France	0.080	-0.006	0.342	0.064	-0.038	0.379
Germany	-0.077	-0.194	0.284	-0.142	-0.045	0.247

Greece	0.051	-0.020	0.020	0.088	-0.11	0.073
Ireland	-0.122	-0.107	0.218	-0.071	-0.048	0.164
Italy	-0.267	0.035	-0.036	-0.34	0.096	-0.080
Luxemberg	-0.046	-0.193	0.011	0.033	-0.104	0.034
Netherland	-0.005	-0.091	0.225	-0.088	-0.061	0.195
Portugal	0.007	0.169	-0.211	-0.104	0.244	-0.168
Spain	-0.043	0.117	-0.012	0.017	0.112	0.064

Source-UNCTAD-2017

When EA is the exporter to NAFTA, then trade complementary indices from 1995 to 2013 varied from 0.07 to 0.08 but when NAFTA is the exporter to EA ,then trade complementary indices of USA ,Canada and Mexico to EA were 0.07,0.06-0.07 and 0.06 respectively. These indicated that both of them are competitive with same degree.

Hence, the NAFTA-EU (EA) trade cooperation is hopeful for good prospects which were estimated with some selective trade indicators as verified where the exceptions are the declining trends of world shares of export and imports of both blocs .Trade cooperation will be materialized if the TAFTA or TTIP are to be ratified with a view to achieve political cooperation so that trade integration is successful in the offing.

III. CONCLUSION

The paper concludes that world export share and import shares of both EU and NAFTA during 1990-2016 have been declining significantly with stationary process in which all of them have significant structural breaks downward. World export and import shares of EU from 1990-2016 are significantly negatively related with export and import diversification index but not significantly related with concentration and trade balance index. They are integrated with one integrating equation each having stable VECM and one significant error correction. World export and import shares of NAFTA are negatively related with concentration index, diversification index and trade balance index expect positive relation among trade balance index and import share of NAFTA. In both cases, they have four integrating vectors with stable and no stationary VECM. Both the export and import of EA to NAFTA during 1990-2014 have been significantly declining at the rates of 4.25% and 4.0% per year respectively. Euro Area's export share is negatively related with export concentration index of EA to NAFTA and they are integrated with significant error correction process in stable and no stationary VECM. Similarly, Euro Area's import share is negatively related with import concentration index of EA to NAFTA with significant integration and error correction process in stable and no stationary VECM. Lastly, trade correlation index of EA-NAFTA trade in 2012 in comparison to 2005 suggests that EA-NAFTA trade has been improved or better off.

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"DOHA ROUND – ACRITICAL ANALYSIS"

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Abstract

The Doha ministerial conference proved to be the most devastating of all. The objective set to take stock of progress in talks, avail any necessary political guidance and take decisions as necessary. The ministers failed to agreement on future agenda, and this made the future of many relevant and important issues in the negotiations to be uncertain and faint. This ministerial conference, therefore, a great let on the global trading community specifically the developing countries. The political and flexibility will that divide the negotiations could not be bridged. They were also not able to agree on whether the launch negotiations on the four Singapore issues including trade and foreign investment, trade and competitions, transparency in Government procurement and the trade facilitation. This lack of ability to compromise in the global trade forums is most likely to affect poorest country most.

Keywords: Doha round, foreign investment, export subsidies

I. INTRODUCTION

The period between the two great wars witnessed marked extreme dislocation of international trade, various kinds of discrimination and restrictions and total disruption of the world's currency system. The post-world war II period also witnessed breakdown of most of the European economics. Subsequently, as a result massive damage control exercises, under the leadership of Keynes, the IMF, the IBRD and ITO came into being although the ITO never became functional. In its place, a General Agreement on Tarriff and Trade (GATT) was formalized which came into force from January 1, 1948.

Negotiations under the GATT took the forms of Round and beginning with the first round in Geneva in 1947, it has still now completed eight rounds

Short History of the Doha Round:-

The fourth session of the Ministerial conference of the WTO was held in Doha (Qatar) in November 2001, in which Ministers from the 142 member countries participated, provided the mandate for negotiations on a range of subjects and other work, including issues the concerning the implementation of the present agreements

It was started when a Development Agenda was set in order to enhance the level liberalization, in terms of phasing the tariff out and to improve the developing countries access to the markets of agriculture, Industries, Services, Digital technologies, Finance, Telecommunications and environmental goods and services.

The main objective of this negotiation was to reduce trade barriers globally to enable nations to raise trade all over the world by efficient exchange of products among nations and to initiate a more certain and stable foundations for current dynamic market to prevent the repetition of terrorist attacks. The meeting was held just a couple of months after the terrorist attack in the united states in September. There were strong messages of prosperity and stability to economic development and a stronger political cohesion which were communicated in the meeting. However, these high expectations were never

realized due to several political and economic factors globally. This paper, therefore, seeks to analyze these factors that contributed to the failure of Doha Round of Trade negotiations

Reasons for failure of Doha Round

There are many reasons for the failure of Doha Round. First of all, it is necessary to consider that the very objective of a single package, signed by each and every WTO member, is quite difficult to achieve. In fact there are plenty of different interest that ask for satisfaction, both at an international and national level

Secondly, the presence of the poorer countries as an organized force in the negotiations. These countries were right to say that their circumstances should give them special treatment. But the political reality is that by offering nothing in return they are a drag on the system. From the very first negotiation, the preference dependent countries (mainly small states in Africa, the Caribbean and the Pacific) and larger developing countries particularly India and Brazil have shown that they are willing to negotiate hard but they have been a thorn in the side of the round

Thirdly, the affected area is the agricultural sector with respect to the content of the negotiations; agriculture is probably the thorniest sector to cope with.

Fourthly, we can say that the export subsidies; e.g., the Governmental measures to encourage export of goods and discourage the sale of goods on the domestic market. In this field, there were many doubts about topics such as the interdiction of the power of monopoly and possibilities of Governmental direct interventions in the market. Further, there has been wide-spread allegation, particularly among the developing countries regarding the expressed negative attitude of the United States of America towards the developing countries. For example, they are not ready to make any more political and economic concessions to developing and fast growing countries like China and India. However the emerging giants did not have much to put on the negotiation table. China claimed that it has an extensive package of tariff reduction and domestic economic that had been made mandatory for Chinese WTO accession in 2001 and agreed that it had already done its part as concerning tariff reduction. They have adopted a more go it alone policies that make it almost impossible to achieve any important and meaningful trade deals.

The Doha ministerial conference proved to be the most devastating of all. The objective set to take stock of progress in talks, avail any necessary political guidance and take decisions as necessary. The ministers failed to agreement on future agenda, and this made the future of many relevant and important issues in the negotiations to be uncertain and faint. This ministerial conference, therefore, a great let on the global trading community specifically the developing countries. The political and flexibility will that divide the negotiations could not be bridged. They were also not able to agree on whether the launch negotiations on the four Singapore issues including trade and foreign investment, trade and competitions, transparency in Government procurement and the trade facilitation. This lack of ability to compromise in the global trade forums is most likely to affect poorest country most.

II. CONCLUSION

In conclusion, it is possible the failure of the Doha Round negotiations is due to many problems related to the very content of the negotiations, but also to various structural and procedural causes such as the tension between the political and jurisdictional posts of the World Trade origination or configuration of the multilateral talks.

Lastly, the emergencies of other factors like climate change and other environmental challenges have further sunk the possibility of ever reaching the objectives of these talks. Both developing and develop countries cannot just agree on the way forward. And the truth of the matter is that the result of this impose on trade agreement will continue to affect poor and developing countries most as well as developed countries.

REINTEGRATION OF SAARC INTO THE GLOBAL ECONOMY

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Abstract

Trade integration agreements and other international cooperation agreements have proliferated en masse in recent years around the world. Rather than being spurred by exogenous forces alone, the two phenomena are likely to an extent both path-dependent and endogenous to one another. Indeed, the literature of economics has long viewed trade integration as evolving in sequential steps from a free trade agreement to a custom union and further to a common market. International trade, which has explored a wider range of cooperation domains, such as stability, the investment and human welfare, has provided grounds for expecting that international cooperation can generate Pareto-improving outcomes that encourage states to expand their cooperation. However, the theoretical understanding of the relationships between agreements forged in different domains of cooperation remains nascent. Along with its geography, the world economy's actor constellations and governance structures are in the midst of a process of change: global regimes like the WTO; international organizations like the IMF-IBRD. At the same time, the reach of national governments ends at their external borders, which have largely ceased to constitute crucial boundaries to the transfer of money, goods, technology, and knowledge. With this backdrop, this paper discusses the key issues of performance of SAARC and its relevance as a regional trade bloc.

Key words: ***Integration, global economy, competition, regional cooperation***

I. INTRODUCTION

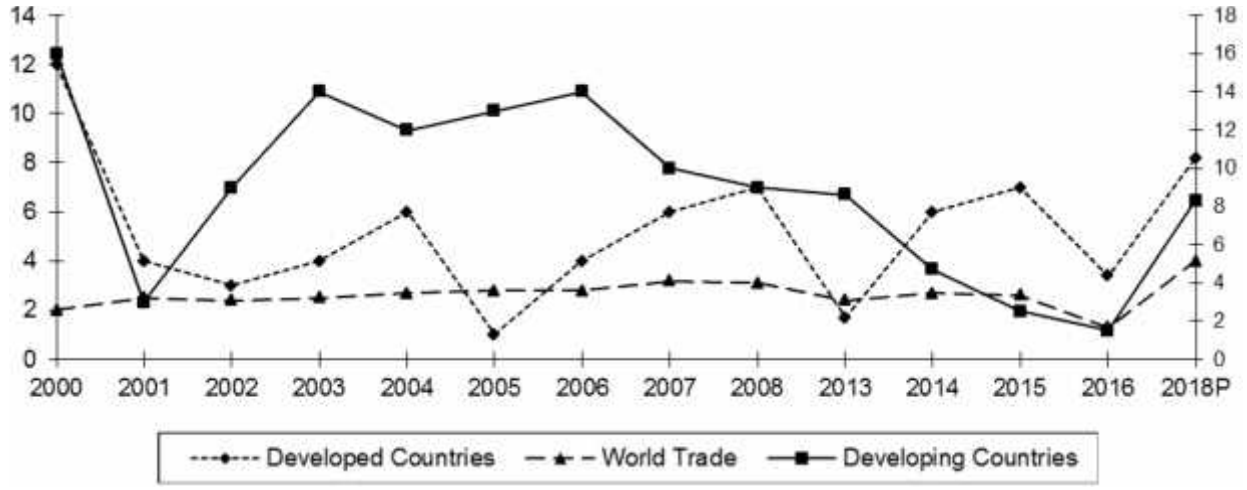
With the globalization of economic activity bringing about the expansion of markets and deepening of economic interdependency beyond state-borders, a new challenge arises: how to effectively integrate the interdependent economies into a harmonious unity through the creation of new super-state institutions? This is the theme of *globalization* and *integration* that has repeatedly arisen throughout the history of civilization.

Regional trade agreements continue to proliferate as progress on the Doha Round has slowed. Free trade blocs formed by agreements such as the NAFTA and customs unions such as the EU have allowed countries to lower trade barriers among neighbors and political allies, while retaining flexibility over which sectors to liberalize and which issues to negotiate. Recently, there has been a surge of RTAs: about 262 RTAs are in force as of 2006 with over half of those coming into existence after 1995. The WTO estimates that over 580 will be in effect by 2018. RTAs, such as the ones being negotiated between the EU and Latin America, and between the US and the ASEAN, reflect a trend of trade liberalization outside of traditional regional boundaries. The collapse of the Cancun Ministerial Conference has underscored the difficulties inherent in those multilateral agreements and that many countries have focused on RTAs as the primary means of opening up international trade.

World Trade in Retrospect

This continual reduction of transport costs has been promoting the rapid growth of international trade and investment, leading to the new phase of globalization involving most countries in the world. Between 1985 and 2006, for example, world trade increased at an average annual growth rate of 7.7 percent. The figure 1 shows how trade drastically changed from 2000 to 2007 and with projections for the year provisionally till 2018.

Figure 1 World Trade Outlook, 2017



Source: World Economic Outlook, 2016.

The Rationale of Regional Trade Integration

International trade has been a major driver of global growth, prosperity and income. Open economies have been able to harness the power of trade to boost competitiveness and productivity, helping improve living standards and sustain economic growth. In the last two decades, the trading system gave rise to the proliferation of bilateral and Regional Trade Agreements (RTAs).

The South Asian Economy:

South Asia is a region with over 1.9 billion people (October, 2017) the largest concentration of humanity in a single geographical region, which amounts to around 24.75 percent of global population with the density of 292 per Km^2 (756 people per mi^2) constituted 35.1 percent of the population is urban. Its human resources are second to none, endowed with rich cultural and civilizational influences. Philosophy, art, language and religion as well as sciences and mathematics flourished here and were in turn shared with the world.

South Asia has sustained an average growth rate of 5.5 percent per annum over the past two decades, despite many external and domestic shocks such as East Asian crisis, slowdown of the world economy, Afghan and Iraq wars, oil price hikes, failure of monsoons, ethnic conflicts and threats of terrorism, among others, making it one of the most dynamic regions in the world. With more than a decade of reforms behind them, the region's economies are more intensively integrated with the global economy, growth of income and exports display promising outlook and inflation rates are in check.

However, South Asia still faces enormous challenges. Of the region's 1.9 billion people, 500 million live on less than US$ 1 a day—about half the world's poor. Human deprivation is severe, particularly for disadvantaged populations and children. The rate of illiteracy at 44 percent is the

highest in the world, and the region accounts for one-third of all maternal deaths. In terms of sheer numbers, about half the world's poor, the most sick, illiterate, under-nourished and socially backward are to be found here. It is also among the least gender sensitive, with enormous social inequities and all manner of other backwardness. All these drawbacks made responsible that the South Asia remains one of the most deprived regions of the world.

Formation of the SAARC

To overcome from the mentioned socio-economic problems particularly of trade and development, the concept of regional cooperation in South Asia was first mooted in November 1980. After consultations, the Foreign Secretaries of the seven countries i.e., Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, met for the first time in Colombo in April 1981. This was followed, a few months later, by the meeting of the Committee of the Whole, which identified five broad areas for regional cooperation. The Foreign Ministers, at their first meeting in New Delhi in August 1983, adopted the Declaration on South Asian Regional Cooperation (SARC), and formally launched the Integrated Programmed of Action (IPA).

At the First Summit held in Dhaka during December 7-8, 1985, the Charter of the South Asian Association for Regional Cooperation (SAARC) was signed by the Heads of the State or Government as an association of States to promote the well-being of the populations of South Asia and improve their standard of living; to speed up economic growth, social progress and cultural development; to reinforce links between the countries of this area; and, lastly, to promote mutual collaboration and assistance in the economic, social, cultural technical and scientific fields.

The Economy of SAARC Countries

Some key economic indicators of SAARC countries are provided in Tables 1(a) and 1(b). World Bank classifies Maldives and Sri Lanka as lower middle-income countries (LMC) and other five South Asian countries as low-income countries (LIC). This indicates that South Asia is one of the poorest regions of the world and greater percentage of its population lives in poverty. More than one fifth of world population (22 percent) is housed in South Asia but its total GDP is only 2 percent of the total world output. India is the largest country followed by Pakistan in terms both of surface area and population. Therefore, India and Pakistan play a crucial role for a successful regional cooperation in the SAARC region.

Table 1(a) Key Economic Indicators of the SAARC Countries, 2015.

Economic Indicators	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Per capita GNI (US $)	370	649	460	2,040	250	420	830
Life expectancy	61	61	63	NA*	59	63	73
External Debt (US $ million)	14,609	NA	99,062	NA	2,822	32,091	9,065
GNP Precipitate (US $)	360	590	480	2090	230	410	840
PPP per capita (US $)	1720	NA	2570	NA	1350	1940	3390
% population > $2 per day	77.8	NA	86.2	NA	82.4	84.7	45.4

* Not Available.

Sources:

- *Bangladesh Economic Survey 2002, MoF, GoB, and Preliminary Report of Household Income and Expenditure Survey, 2000, BBS, GoB.*
- *World Development Report, 2016.*
- *Official Reports of concerned countries.*

Table 1(b) SAARC in Figures, 2016

Country	Population (Million)	GDP (PPP) In $ bn	GDP Growth Rate 2014	Literacy Rate (2014)	Population BPL	Exports (2014) In $ bn.	FDI (2013)
India	1236.7	7996.6	7.30%	74.4% (Age7)	21.90%	464.0	$31.0 bn.
Afghanistan	29.8	63.5	3.20%	28.1% (Age15)	15.80%	0.4	N/A
Bangladesh	154.7	572.6	6.20%	57.7% (Age15)	31.50%	31.2	$0.66 bn.
Bhutan	0.7	6.3	6.40%	52.8% (Age15)	23.70%	0.7	$63.0 ml
Maldives	0.3	5.2	4.50%	99.0% (Age15)	16.0%	0.28	N/A
Nepal	27.5	70.7	5.50%	66.0% (Age15)	25.20%	1.0	$10.0 ml.
Pakistan	179.2	928.0	4.20%	55.0% (Age15)	22.60%	25.1	$0.79 bn.
Srilanka	21.7	233.7	7.00%	98.1% (Age15)	8.90%	11.8	$ 0.9 bn.

Source: World Trade Report, 2016

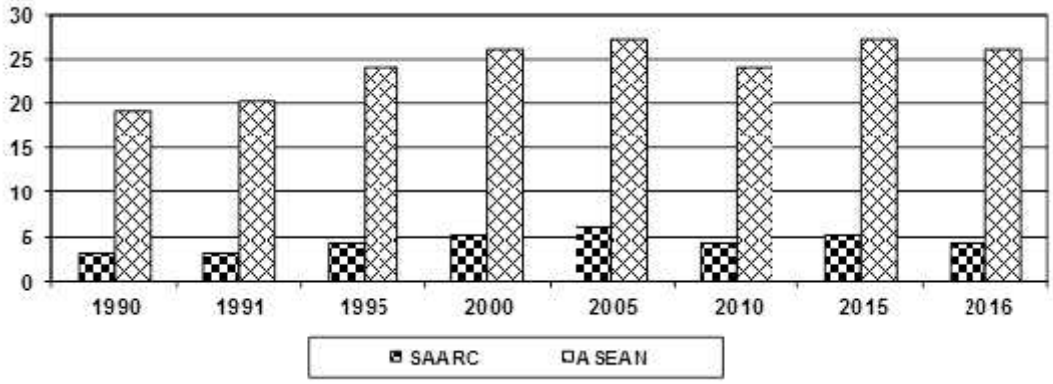
Establishment of the SAFTA

SAARC member countries have approved SAARC Preferential Trading Arrangement (SAPTA) in 1993 which came into force on December 1995. In total, four rounds of trade negotiations had taken place under the aegis of the SAPTA. SAPTA graduated into South Asian Free Trade Area (SAFTA) which came into effect on January 1, 2006 with the objective of creating a FTA to include the seven South Asian countries. It is expected that SAFTA would not only expand intraregional trade, by legalizing the substantial unofficial trade in the region and thereby boost revenue collection in the subcontinent, but also generate substantial new trade. SAFTA would be a vehicle through which all participants can gain by exploring their competitive advantages. Integration of economies in South Asia would lead to the emergence of a big market for investors. Industries can be located anywhere in the region, according to suitability. Increased trading activity will have a cascading effect on other segments of the economy, *viz.*, the hotel industry, the aviation sector.

Intra-Regional Trade of SAARC

SAARC is trying to promote intra-regional trade and trade with ROW. The figure 2 shows intra-regional trade of SAARC region from 1985 to 2006. Among others, the share of Nepal in the SAARC region is very high compared to other member countries.

Figure 2 Intra-regional Trades of SAARC and the ASEAN



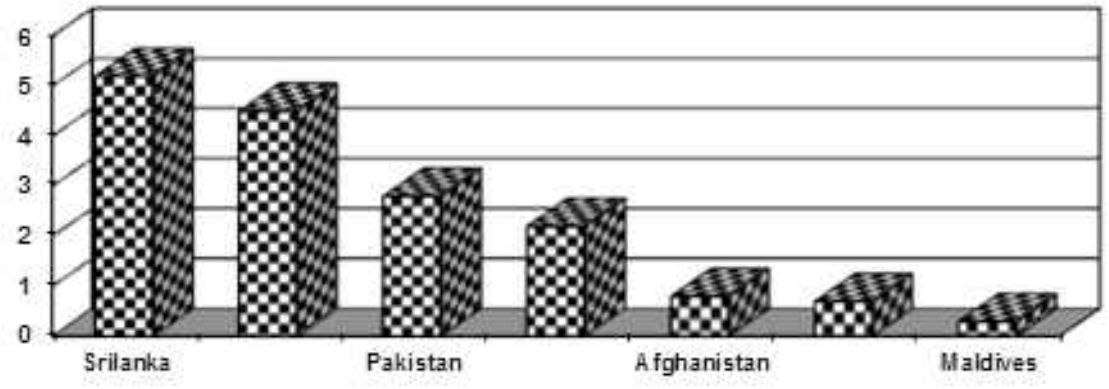
Source: Asia Regional Integration Centre (ARIC), Integration Indictors Database.

ASEAN: Association of Southeast Asian Nations

India is the biggest country in the region and its exports to other SAARC countries (except Pakistan) has continuously increased. While the share of India's exports to the region in its total exports has increased from 3.9 percent in 1985 to 5.5 percent in 2006, its import share from the region has declined from 1.4 percent to 0.9 percent during the same period. This shows that India's role in attracting imports from the other SAARC

countries is limited. The following figure 3 shows India's trade with SAARC.

Figure 3 India's Trade with SAARC Countries (FY2013-14, in $ billion)



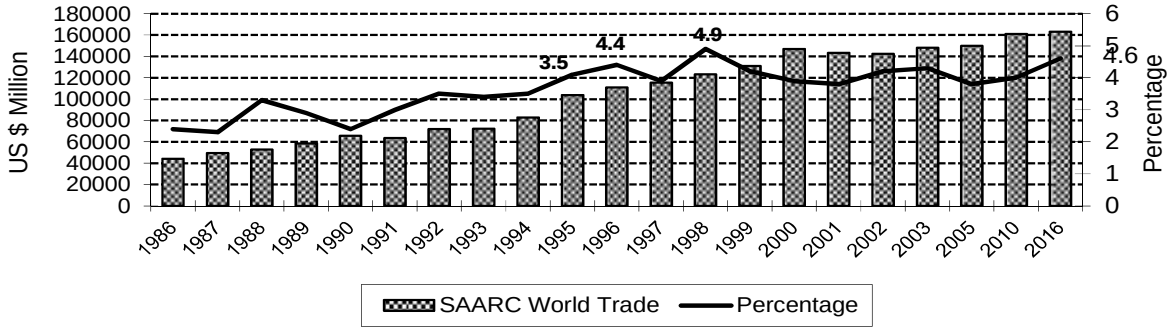
Source: Compilation of SAARC Reports

Trade between SAARC and Rest of the World

SAARC countries have traditionally pursued stringent economic management policies including import substitution and exchange controls. High tariff structures and import control arrangements were common and insulated domestic industries from stiff foreign competition. These trade control measures largely served to restrict international trade in the region. Failure of highly managed economic policies to achieve much anticipated economic fortunes and the emergence of economic miracles in the neighboring South East Asian countries pursuing export oriented open market strategies, forced SAARC countries to rethink over their strategies and finally to adopt more market friendly policies towards their economic management.

Most SAARC countries, for example, India, Pakistan, Sri Lanka, Bangladesh and Nepal, have implemented far reaching economic and trade policy reforms, moving their economies away from protectionism toward greater trade openness and global economic integration. Sri Lanka pioneered economic reforms in the region in late 1970's but other four countries delayed their reforms until late 1980's. Trade liberalization process in India was later reversed in 1997 but resumed again in 2002 with some tariff cuts. Trade policy reforms of Bangladesh have been slowed from mid-1990s. Pakistan embarked upon a comprehensive liberalization of its trade policies including those on agriculture since 1996. However, India and Bangladesh still maintain high barriers against trade primarily through STEs, TRQs and QRs. In line with trade policy reforms, SAARC countries have revised their exchange rate policies. India, Pakistan and Sri Lanka have now moved to a *floating exchange rate* regime. Bangladesh had a moderately flexible exchange rate system since 1991, floating its currency since May 2003 and Nepal currency has pegged to Indian rupee.

Figure 4 SAARC World Trade



Source: Direction of Trade Statistics, Yearbooks from 1997 to 2016 (IMF)

Despite various initiatives to liberalize the trade between member countries under the SAARC framework, intra-regional trade has remained very low compared to other similar regional trade blocs. As the figure 4 shows, the trade increased only to 4.1 percent by 1995 with almost 96 percent still accounting for extra regional trade. This indicates that there is a substantial growth potential in intra-regional trade provided right measures and instruments to boost the trade in the region are applied. During the period 1995-2016, SAARC intra-regional trade has registered an average of 8.9 percent growth against 6.2 percent average growth of total SAARC trade with rest of the world. It is indeed important that regional trade share is increased without substantial trade diversion with ROW.

Table 2 SAARC Trading Partners, 2016

Partner	Percentage
USA	11.4
China	8.3
UAE	5.9
Singapore	4.1
Japan	3.1
Hong Kong	2.9
Korea	2.8
Australia	2.4
Saudi Arabia	2.3
Indonesia	1.8
Malaysia	1.6
Thailand	1.3
Russia	1.2
South Africa	1.2
Kuwait	1.1
Canada	1.1
Iran	1.0
Israel	0.8

Source: WTO Annual Reports, 2002 to 2016

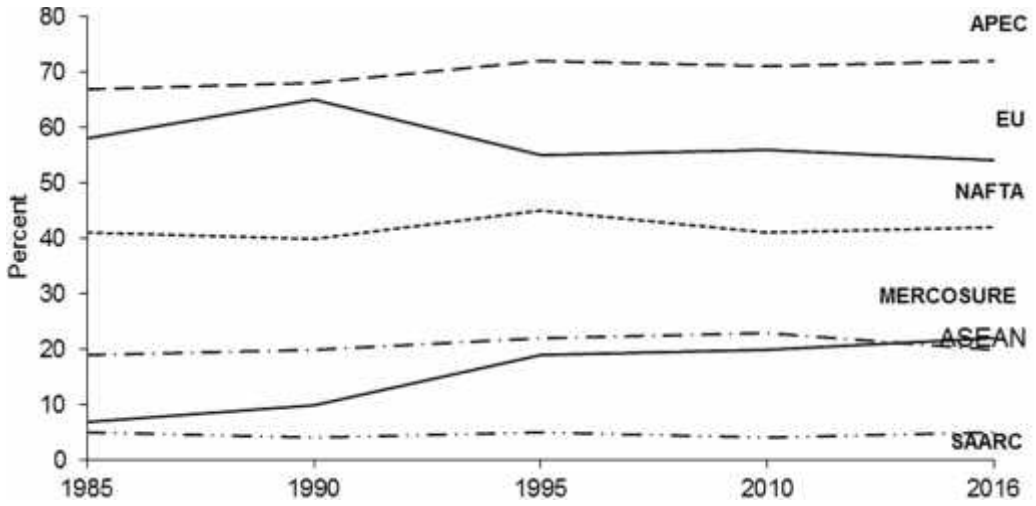
The table 2 shows the trade of SAARC with rest of the world (major countries). The EU is the largest trading partner of all the SAARC countries except one (Nepal) in which it is the second largest and a large export market for SAARC member states. On average in the last few years, the EU has accounted for 20-25 percent of SAARC exports and imports. Merchandise trade exports from the EU increased from Euro 17 billion in 2001 to Euro 19.5 billion in 2006, which accounted for 2.2 percent of total EU exports. At the same time, imports from SAARC members into the EU increased from Euro 21.5 billion in 2001 to Euro 28.2 billion in 2006, representing 2.5 percent of total EU imports. It's China, with 8.3 percent has emerged as major trading partner with SAARC countries. The SAARC should take much of initiative to strengthen its trade with China, as it very convenient to moderate the transport cost.

Intra-regional Trade: A Comparative Analysis

Among the regional economic groupings SAARC is relatively one of the younger one. Whereas, regional economic groupings of its kind

have gone through dramatic transformations in this period, bringing their members so closer in the chosen areas, such as trade and economic cooperation a heavy intra-bloc trade. Compared to 4 percent of intra-SAARC trade, the intra-bloc trade figures of other regions are as follows: NAFTA's 37 percent, EU's 63 percent and the ASEAN's 18 percent.

Figure 5 Shares of Intra-regional Trade in Total Regional Trade



Source: World Bank Reports.

The figure 5 provides a comparison analysis of intra-regional trade in SAARC region with some other regional initiatives around the world. It reveals that SAARC has the lowest intra-regional trade share in the world. While the share of intra-regional trade in South Asia's total trade has declined from 3 percent to 4 percent between 1970 and 1990, it has shown moderate rise from 4 percent in 1990 to 5 percent in 2016. Still, the share of intra-regional trade in SAARC region is well below that of other Preferential Trade Agreements (PTAs).

Obstacles for Trade

Even after two decades of its existence, the SAARC has very little to show by way of cooperation on the trade and economic front. The regional body has impacted only marginally on the flow of intra-regional trade, which is generally taken as an effective indicator of regional economic cooperation. While the average share of intra-regional flows in ASEAN, established in 1967, was 22 percent for exports and 15 percent for imports, the corresponding shares in SAARC were 4 percent and 3.5 percent, respectively. Though the SAARC represent almost 22 percent of the world population, it provides only 1.97 percent of world GNP (US$ 612 billion in 2006).

SAARC countries imports and exports are a much smaller share of GDP than in Latin America or East Asia, but tariffs are among the highest in the world. Protectionism continues to limit market access. With unmanageable magnitude of its problems, SAARC today is credited with most of the contemporary world's ills ranging from inter-state and civil conflicts to unresolved disputes, human tragedies, violence, extremism and terrorism.

Constraining Factors

Despite efforts to strengthen regional economic cooperation, intra-regional trade and trade with ROW of SAARC continues to be small. Several factors are believed to be responsible for weak trade ties in the region, as explained below.

- There is a great fear in smaller countries about India's domination in trade. India is the largest country in the region, with the largest production capacity in industrial and traded goods, and therefore has a natural advantage over others. Unfavorable trade balances with India create enormous psychological burdens in the smaller states, much more so than from the negative trade balances many of them have with the world's industrially developed countries.
- Lack of trust among SAARC elites.
- Weak financial positions reflected through the trade imbalances of smaller states *vis-a-vis* the larger states.
- The smaller countries in the region feel uncomfortable about their trade Relationship with India because under the present tariff structure India runs a large trade surplus with its neighbors.
- Bureaucratic hustles (hard and fast rules) followed by the SAARC.
- Lack of any collective new vision for a rejuvenated SAARC even in the Face of the overwhelming pressure of globalization.
- Lack of cross-border transit points and integrated transport networks across the region are also major hindrances in the intra-regional trade.

Thus, the differences in economic perceptions have been recognized as strong impediments to intra-regional trade in SAARC. On the one hand, India and Pakistan, the two largest economies of the region, have not been able to realize the full potential of their bilateral trade owing to various political compulsions. On the other hand, the smaller SAARC countries have also been rather skeptical towards regional integration initiatives.

Given these limitations in the official approaches to cooperation, the countries of SAARC cannot be oblivious of lost opportunities for their own prosperity and well-being. Indeed, they are well aware of the imperatives for closer cooperation among them. The need to build a strong SAARC identity based on their common values rooted in the economic sphere can hardly be overemphasized.

Prospects of SAARC

The SAARC region is not a small entity. It has vast economic potential in terms of resources, talent, skills, manpower and a market of more than a billion people. There is no reason any more for SAARC to lag behind. How can it pool the energies and resources to secure a better life through trade in the region? The answers are:

- Parallel to intra-regional cooperation, SAARC also needs to pursue a process of mutually beneficial cooperation with other major regional organizations, *viz.*, ASEAN, EU etc., Annual consultations with ASEAN, ECO, South Pacific Forum and ESCAP at the level of executive heads which were institutionalized in 1994, should be continued with special focus on such areas of common interest as trade, investment, transport, communication, human resource development and energy.
- The SAARC should also encourage "strong linkages with other regional enterprises, enabling it to leverage the economic complementarities" among Asia's different regions. SAARC should be of supportive to such linkages, especially with the economies of South East Asia, and with Japan, China, and South Korea, to create a community of Asian Dynamism.

- Establish a SAARC Central Bank to help promote regional trade and joint-venture collaboration at regional level.
- Efforts for elimination of restrictive barriers to trade, opening markets in the region on the basis of fairness and equity, should be accelerated facilitating operationalizing of SAARC.
- In the face of speedy trade liberalization, there is a need for the monitoring of policy changes (such as the elimination of tariffs, or price controls) at the regional level for greater coordination and a more effective response to the challenges of globalization.
- There is a crucial need for economic policy coordination to curb rivalry in regional and international markets, stemming from SAARC nations' similar production and trade profiles. The development of integrated production networks and joint-export activities is necessary for this.
- To reduce the complexity of the tariff structures, duties and exemptions provided to domestic producers need to be removed. There should be mutual revision of anti-dumping policies on a regional basis. At the same time, small countries including Bhutan, the Maldives and Nepal need to build their capacity to deal with anti-dumping investigations on their exports and to improve their technical expertise on using safeguard measures.
- Establishing a SAARC identify in terms of brand names, quality, standards, investment regimes, and other areas where a common approach would be to the benefit of all.

In Male (capital of the Maldives), during May 1997, the SAARC leaders set up a Group of Eminent Persons (GEP) to review the functioning of SAARC institutions and provide a Perspective Plan up to the year 2020. The Group has suggested a time bound plan which includes Negotiation of a Treaty for South Asian Free Trade Area by 1999 with implementation commencing immediately thereafter and stretching to 2008 for SAARC members and to 2010 for the SAARC small states. It also envisages a SAARC Customs Union by 2015 and a SAARC Economic Union by 2020.

The GEP has recommended the target of reaching a replacement level of population, which translates into a birth rate of 21 per thousand, before the year 2020; attainment of universal primary education up to the age of 15 before the year 2010; elimination of gender disparities in access to education within the target date of 2010; reduction of infant mortality below 50 per thousand live births by the year 2005; empowerment of women socially, economically and politically and holding of regular biennial Ministerial meetings on Women's Development.

II. CONCLUSION

In the recently concluded SAARC Finance Ministers' conference in Islamabad recently, highlighted the key issues pertaining to regional economic integration and reiterated the commitment to establish a South Asian Economic Union (SAEU). Though the performance of the SAARC is not a path breaking, it has made a substantial progress in providing at least the road maps in the areas of economic, social, cultural, technical and scientific development of the region. SAARC as a regional organization has provided the much needed institutional framework for cooperation in a region which on the one hand is bound by a common cultural heritage and on the other marked by diverse socio-economic features. But more aggressive steps are needed in the coming years at the implementation level for all the SAARC Action Plans. Member countries have been able to lay down a firm foundation to

strengthen cooperation within the region for the betterment of their peoples.

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CHANGING TRENDS OF MULTILATERALISM: WITH SPECIAL REFERENCE TO BRICS

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Abstract

Today's world is undergoing robust changes in present global order. 'New Powers, New Alliances' are emerging rapidly in the world economy. Previously poor and less developed economies, also named collectively the South, are growing, reshaping & transforming themselves into emerging powers. Today they lead their regions or try to help co-operate other small & poor countries in their developmental process. They are now more alert towards safeguarding their national interests. Their voices remained unheard for a long period, more specifically until Globalization era started in 1991. They felt neglected in existing large multilateral institutions like IMF, IBARD, etc. and started to demand more say in these institutions. These nations have started joining hands in order to form new multilateral forums or groups as alternatives to existing institutions. Multilateral trade agreements signify the importance of globalization and economic interdependence in the rapidly- changing world. From the WTO to NAFTA to BRICS, global superpowers are realizing and acting on the importance of free trade, and they are benefitting because of it. Emerging nations of Global South are also benefitting through the creations of 'New Alliances'. As they become more united, They are treated equally and they become stronger voices at the international forums. Significant changes have happened since the Bretton woods multilateral trade agreements came into existence.

Keywords: Multilateralism, BRICS, trade agreements, global trade

I. INTRODUCTION

"We see the next 15-20 years as one of those great historical turning points where multiple factors are likely to play. Existing multilateral institutions which are large and cumbersome and were designed for a different geopolitical order will have difficulty adapting quickly to undertake new missions, accommodate changing memberships and augment resources. By 2025, nation- states will no longer be the only – and often not the most important – actors on the world stage and the international system will have morphed to accommodate the new reality."

"Global Trends 2025: A Transformed World"

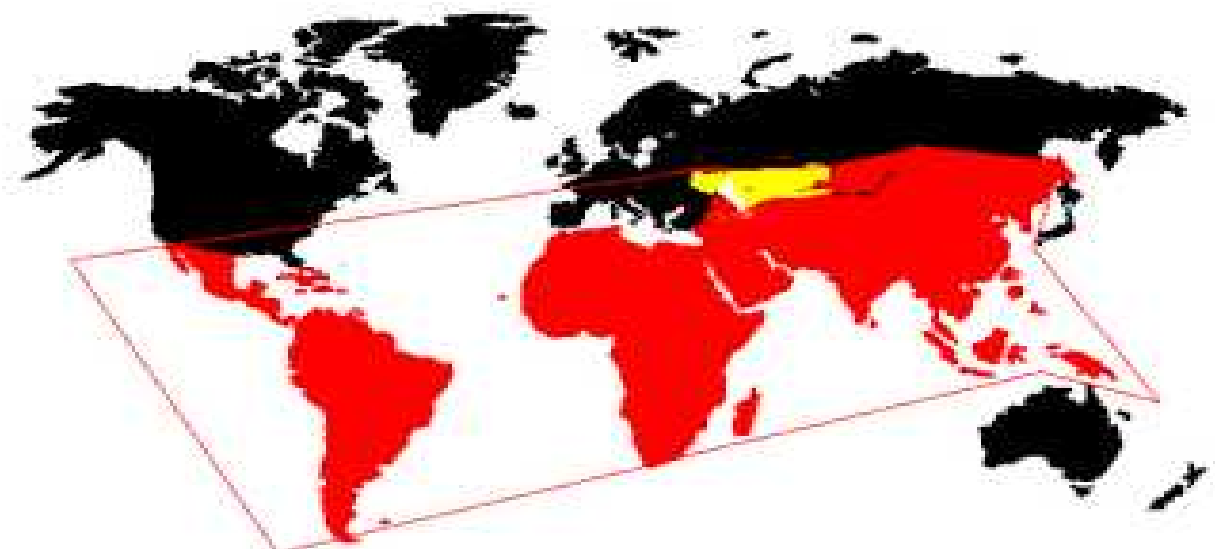
---A Study conducted by U.S. National Intelligence Council (2009)

Today's world is undergoing robust changes in present global order. 'New Powers, New Alliances' are emerging rapidly in the world economy. Previously poor and less developed economies, also named collectively the South, are growing, reshaping & transforming themselves into emerging powers. Today they lead their regions or try to help co-operate other small & poor countries in their developmental process. They are now more alert towards safeguarding their national interests. Their voices remained unheard for a long period, more specifically until Globalization era started in 1991. They felt neglected in existing large multilateral institutions like IMF, IBARD,

etc. and started to demand more say in these institutions. These nations have started joining hands in order to form new multilateral forums or groups as alternatives to existing institutions.

At present, the world is divided into two 'Supra-Regions' – one is comprised of the States of western world and other is the world of 'Global South'. In changed circumstances, the Global South cannot be neglected at any cost. The membership in the above said regions is not based on ideology or on geographical connection (UNDP, 2004). In present world, the concentration of global politics has geographically, shifted from west to the global south.

Global Mapping of Two Supra Regions—the North & the South



Source: http://gscis.blogspot.sg/2012/09/the-first-global-south-international.html 7/12/2014

According to UNDP report 2004, the global south includes 71 countries from different regions---48 from Africa, 6 from North Africa, 8 from Central Asia, 14 from West Asia, 12 from Pacific Islands and 23 countries from rest Asia; 19 countries from Latin America and 15 from Caribbean Islands.

Multilateralism: An Overview

Multilateralism is not a new concept. It has evolved over time and continues to evolve. "Initially, the Multilateral Development System (MDS) was organized by a small group of likeminded countries with a common vision and principles, and was designed to share the financial burden of development cooperation and to implement programs of support in an effective way. But over the last two decades there have been strong forces reshaping the system. These include shifts in economic size and the emergence of the growth economies, the increased differentiation among developing countries and the recognition that substantial investment in global public goods is needed to reap the benefits of globalization and reduce the costs**" (**Bruce Jenks and Homi Kharas, April 2016).

Multilateral Development System has 70 years old evolution history. These seventy years can be divided in two phases----

- The first one lasting from around 1950 to around 1990, and
- The second one is the current phase which has been developing over the last 20 years or so.

During the phase lasting from 1950 to 1990

The world was facing two realities--- first was Decolonization and second was the Cold War. Decolonization means the liberation of number of nations which were poor & undeveloped, collectively named as the South emphasized for the provision of more supportive international environment (e.g., volume of aid and technical cooperation, along with open trade and investment regimes) from the North. Again the Cold War which divided the world in to three camps, created a clear cut political rationale for development assistance for the Third World. Multilateral institutions facilitated both the resource transfers from the North and the policy dialogue with the South.

Phase second is spread from 1995 to the current time, specifically up to 2015, i.e. more than two decades of transformation.

There are some key changes or factors that have affected the MDS over the last two decades.

Shifts in economic size and the emergence of 'growth economies'—

The size of the global economy has tripled over the last 20 years from around $25 trillion to over $ 75 trillion in nominal prices. The share of G-7 countries in global economy is declining. It has declined since 2000 from 65% to 46% in 2015, whereas G-20 countries accounts for 85% of global GDP, 75% of world trade and about two- thirds of the world population and approximately half of the world land area. China on its own has been generating 25% of global growth. The growth economies are increasingly making their voices heard, not least the BRICS (Brazil, Russia, India, China and South Africa). The new growth economies want a greater stake in the institutional framework that dominates global policy making. This is reflected in pressure on representation in the IMF, the World Bank and the UN, and the creation of new institutions such as the Asian Infrastructural Investment Bank (AIIB) and the New Development Bank of the BRICS.

Accommodating new non-state actors:

A second force reshaping multilateralism is the growth of non- state actors, principally large corporations and international NGOs that have become adept at influential political opinions. The acceleration of globalization has led to a tripling of global GDP which in turn has led to a transformation in the relationship of states to markets, the private sector and civil society. Many of today's most pressing challenges require commitment and action by the non- state; in turn this requires new forms of governance, both nationally and globally. The proliferation of new stakeholder partnerships as an increasingly important component of the multilateral development landscape is a reflection of the realities on the ground (Bruce Jenks and Homi Kharas, April 2016).

The emergence of global public goods and extensive cross- country spillovers:

Globalization has created an atmosphere of growing awareness towards cross country spillovers and global public goods. Climate change including biodiversity, terrorism, migration, pandemics, financial stability, peacekeeping the global commons (healthy oceans, forest preservations, desertification reversal) and spillovers are some of the problems related as global public goods and cross country spillovers. They call for collective responses & solutions. New multilateralism is trying to encompass all these types of concerns and find the solutions jointly. It offers a mechanism for determining a fair burden-sharing for the financing of these public goods.

Agenda 2030 and Challenges to MDS

The 2030 Agenda for Sustainable Development provides important signals for MDS in a number of ways.

- Due to its universal vision, every nation would be included in the achievements of goals, targets and results, while keeping their sovereignty and national interests intact. All this demands the supportive not the leading role of MDS.
- Agenda 2030 is ambitious agenda and so needs the solutions at large scale, thus there is role of MDS.
- It calls for contributions from a range of actors, beyond governments.
- According to 2030 Agenda, Issues of development, peace, environment and humanitarian must be dealt in an integrated manner, so a great challenge for MDS.
- It recognizes the importance of investing in global public goods.
- Agenda 2030 requires the mobilization of substantially greater resources from all sources, domestic and external, public and private.

From above overview on the journey of Multilateral Development System since 1950s, it is clear that the emergence of new economic powers, the growth of non- state players, the predominance of global public goods and Agenda 2030, all require a collective action and response in order to get the solutions for reshaping the MDS.

There is acute need for a new stakeholder paradigm of international governance. "The revolution that is required is our conception of the international system—in our understanding of the additional modes of cooperation and sources of capability available in a more interconnected and interdependent world. We can start by embedding our intergovernmental institutions and processes in wider processes and networks that permit…… continuous… interaction among all stakeholders and sources of expertise in global society in the search for better solutions." (Report of the Global Redesign Initiative. Geneva: The World Economic Forum, 2010)

Steps towards new multilateral system have been started with the emergence of large number of new alliances or blocs in Global South. To name a few are BRICS, IBSA, BASIC, SCO, G20, G77, Next 11, OECD, MIST, EAGLES, CIVETS, etc. Recent financial crisis, global war on terrorism, issue of climate change and preservation of biodiversity are the factors which have facilitated the emergence of these groups, though negligence of these developing economies in big multilateral institutions like IMF, World Bank, etc. is another factor for their tie ups. These blocs are mainly economic, yet dealing with their political, social and environmental issues also. They are now regarded as global growth engines.

Question arises here - what is the core reason of the emergence of these multilateral agreements among nations? Answer goes to Classical Economics –Theory of Comparative Advantage of International Trade by David Ricardo.

According to which- the main driver between the creation of trade agreements is the economic model for comparative advantage, which states: the ability of an individual or group to carry out a particular economic activity (such as making a specific product) more efficiently than another activity. Some countries can produce a greater amount of goods for cheaper than other countries and thus, benefit from trade agreements through decreased tariffs on exports, which allow them to export greater quantities as well as eliminate trade deficits. Multilateral Trade Agreement- BRICS also aims to accomplish greater prosperity by

encouraging commercial, political, and cultural cooperation between the participating nations.

BRICS is also such a bloc of five growing nations—Brazil, Russia, India, China and South Africa from the continents of Asia, Africa and South America. They are incrementally increasing their global engagements. As of 2015, BRICS economies together account for 3.6 billion people, or about 48 percent of the world population; 22.5 percent of the gross global output, 17.2 percent of global trade and an estimated US$4 trillion combined foreign reserves ("World Economic Outlook" IMF April 2013). Initially, it was BRIC, group of four—Brazil, Russia, India and China—when this acronym was coined in 2001 by the then chairman of Gold Sachs Management, Jim o'Neill, in his publication "Building Better Global Economic BRICs". When South Arica joined it in 2010, then it became BRICS. It is a free trade agreement like European Union and NAFTA, though these two aim to completely eliminate import and export tariffs, in order to promote the free flow of goods across the border countries. BRICS aims to increase cooperation between member nations in order to achieve greater development, provide extensive financial assistance and support various infrastructure and border defense projects.

BRICS in Globe



BRICS came into existence when the world economy was facing critical financial economic crisis of 2007 – 2009 and when many observers started to feel that the global wealth and economic power is shifting from advanced Western countries to fast growing Non- Western emerging economies located mainly in Asia, roughly "from West to East".

BRICS: Group with Diversities

No doubt, BRICS nations keep broad worldviews supporting a greater representation of the developing world in the international community; they have fundamental differences, geopolitical rivalries, and competition that deeply undermine their cooperation and partnership. (Grozny, Michael 2010) These nations are highly diverse in terms of polity, economy, geography & cultural because of which they have opposing values and interests. China and Russia are communist and authoritarian countries, while India, Brazil and South Africa are democratic countries. Economically as well, they are quite different. China and India are commodities importers; China specializes in manufacturing and India in services. Russia and Brazil are commodity exporters; Russia specializes in natural resources and Brazil in

agriculture. They benefit from high prices of their products. China encourages its export industries; make India suffer from the influx of cheap Chinese goods and resulting in China's currency undervaluation. (Roberts, Cynthia, 2010). These differences limit the element of cooperation among them. People doubt their success as an alliance.

BRICS: Group of Commonalities

BRICS countries share many common characteristics. First of all, they are emerging economic powerhouses. All of them have one shared idea that as they the rising powers, so they must have prominent role in global affairs. They share a broadly similar world view and belief that their voice and the interests of the developing world are underrepresented in the international order. (Grozny Michael 2010) They all have common aspiration for greater representation in international institutions. Again, they all are the supporters of traditional conceptions of state sovereignty and non- intervention.

Regarding their common aspiration for greater representation and leadership positions in international economic and financial institutions such as the IMF or the World Bank, the BRICS nations argue that they seek increased voice and rule making power in order to promote the democratization of international institutions. (Roberts Cynthia, 2010) They think that their greater representation in international institutions would help them to be the leaders of the developing world.

BRICS nations also support the need to end the monopoly of the dollar as the world's major reserve currency and repeatedly called for a diversification of the global reserves away from dollar towards a global currency such as the IMF Special Drawing Rights (SDR), while beginning to experiment with using their local currencies for regional trade. (Roberts Cynthia, 2010)

One important similarity among BRICS countries is their common support for traditional conceptions of state sovereignty and non-intervention. In order to maintain political control and stability inside their own state, the BRICS share the common interests of defending their sovereignty in their domestic affairs and in their spheres of influence, and of resisting Western liberal policies of interventions under the guise of human rights and "color revolutions" promoting democracy. (Roberts Cynthia, 2010)

Contribution of BRICS towards Multilateral Trade Agreements:

Member countries of BRICS have been engaged in several summits since June 2009, where they discuss future plans for increasing the collective prosperity of the group. So far 9 summits have been conducted in member nations. July 2015 Summit has proved that there is bright future for BRICS, a multilateral trade agreement. During July 2015 Summit, particularly three outcomes were superb. They were as follows---

- China agreed to commit $41 billion to a BRICS Currency reserve pool to provide liquidity to other member nations in case of emergency. Brazil, India and Russia will each contribute $18 billion while South Africa will chip in $5 billion. China's vast foreign currency reserves will thus help to provide a currency pool for the BRICS nations as the dollar is expected to gain in value.
- China emphasized that China and India should better manage security in border regions and also discuss the matter of collaboration between the two nations on the One Belt One Road initiative, which will connect China with many other nations across Europe, Asia and Africa.
- The New Development Bank was officially launched with $50 billion startup capital. The

Bank is to finance large infrastructure and development projects like One Belt One Road initiative.

Thus, it becomes very clear that, the main objectives of the NDB can be summarized as follows-

- Promote infrastructure and sustainable development projects with a significant development impact in member countries.
- Establish an extensive network of global partnerships with other multilateral development institutions and national development banks.
- Build a balanced project portfolio giving a proper respect to their geographic location, financing requirements and other factors.

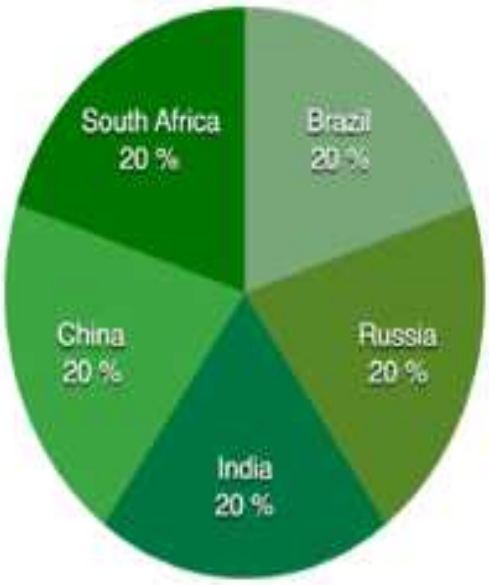
One important characteristic of BRICS – NDB is the equal distribution of shares among the shareholders of the NDB. This system is exactly opposite to that of other existing Multilateral Trade Agreements like IMF, World Bank, etc. The current distribution of shares between NDB member countries is presented in the following table.

Table 1: Countries by Shareholding at the New Development Bank

Country	Number of Shares	Shareholding (% of Total)	Voting Rights (% of Total)	Authorized Capital (bln USD)
Brazil	100,000	20	20	10
Russia	100,000	20	20	10
India	100,000	20	20	10
China	100,000	20	20	10
South Africa	100,000	20	20	10
Unallocated Shares	500,000	-	-	50
Grand Total	1,000,000	100	100	100

(Source: Wikipedia)

Share Distribution among BRICS Nations



(Source: Wikipedia)

Activities of BRICS- NDB:

The NDB aims to finance renewable energy projects on priority basis. The Bank wants to cooperate with other institutions in accelerating 'green' financing expression and promoting environment protection including those also which are related to infrastructural development, such as energy, railways and highways in the future. In 2016, the NDB Board of Directors approved and signed loans for 7 projects in all members of the bank for the total amount of over USD 1.5 bln as per the following table…

Table 2: Projects Supported by the NDB in 2016

Country	Loan Amount	Borrower	End user	Target Sector
Brazil	USD 300 mln	BNDES	Sub-Projects	Renewable energy (wind, Solar, etc.)
Russia	USD 100 mln	EDB/IIB	-Nord Hydro-Bely Porog -Other subprojects	-Renewable energy (hydro- power) -Green energy
India	USD 250 mln	Canara Bank	Subprojects	Renewable energy (wind, Solar, etc.)
India	USD 350mln	Govt. of India	Govt. of Madhya Pradesh	Upgrading major District Roads
China	RMB525mln (USD81mln)	PRC Govt.	Shanghai Lingang Hongbo New Energy Development Co.Ltd	Renewable energy (solar roof-top PV)
China	USD298 mln	PRC Govt.	Fujian Investment and Development Group	Renewable energy (wind, solar, etc.)
South Africa	USD180mln	ESKOM	ESKOM	Renewable Energy (wind, Solar, etc.)

(Source: NDB Handout materials, Press Release of the NDB 22 November 2016)

Table 3: Projects Supported by the NDB in 2017

Country	Loan Amount	Borrower	End user	Target Sector
India	USD470mln	Govt. of India	Govt. of Madhya Pradesh	Water supply and sanitation -rural dev.
China	USD300mln	PRC Govt.	Sub- project PIUs	Water supply and sanitation & flood control, environment
China	USD200mln	PRC Govt.	Govt. of Jiangxi Province	Energy conservation
Russia	USD460mln	Govt. of Russia	Beneficiaries: Supreme Court, Moscow City Court and District Courts, Federal Bailiffs Service	Social Infrastructure

(Source: NDB Handout materials, NDB website)

BRICS' view on the relations with other Multilateral Trade Institutions is quite liberal. It regards other international financial institutions, including IMF, World Bank, ADB, Asian Infrastructure Investment Bank, as partners, not rivals. Thus, BRICS is trying its best to create a just international order based on the principle of equality and respect. BRICS, the group of five, is thinking & working well. "The most striking sign of the BRICs' significance to the world economy, though, is probably their share of foreign-exchange reserves. All four are among the ten largest accumulators of reserves, accounting for 40% of the world's total. China is easily the largest, with a staggering $2.4 trillion, enough to buy two-thirds of all the NASDAQ- quoted companies."

So, in the light of above discussion, multilateral trade agreements signify the importance of globalization and economic interdependence in our rapidly- changing world. From the WTO to NAFTA to BRICS, global superpowers are realizing and acting on the importance of free trade, and they are benefitting because of it. Emerging nations of Global South are also benefitting through the creations of 'New Alliances'. As they become more united, they are treated equally and they become stronger voices at the international forums. Significant changes have happened since the Bretton woods multilateral trade agreements came into existence.

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AN EMPIRICAL INVESTIGATION OF CAUSAL LINK BETWEEN ECONOMIC GROWTH AND INTERNATIONAL TRADE IN INDIA

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Abstract

In the present study, we used econometric techniques such as Unit root, co-integration and Granger causality for investigating the relationship of economic growth represented by GDP with export, import and total trade volume for the period 1975-2014. The analysis shows that since 1991, export and import expanded exponentially whereas GDP growth rate went through many ups and down during the period of study. In fact, it went down to 4.7% in the year 2013. The result on co-integration test reveals that economic growth and export are weakly integrated. On the other hand, import, total trade volume and economic growth are integrated. The Granger Causality result reveals that there is no causality running from export to economic growth in India. However, unidirectional causality exists that flows from economic growth to export. Further, one way import led economic growth causality is found. The impact of total trade volume (export plus import) in promoting economic growth is also observed as unidirectional causality. With this backdrop we conclude that Import Led Growth (ILG), and Total Trade Led Growth (TTLG) hypotheses are true in Indian case.

Key words: Economic growth, Export, Import, co-integration, Causality, India.

I. INTRODUCTION

Whether country should pursue outward or inward oriented trade policy separately or jointly is debatable topic among the economist and policy analysts. The need of both policies is depend upon the state of development and development phase of the country. By and large, inward substitution policy is preferred by developing countries in the early phase of their development. Neo-classical economist strongly advocated import substitution policy for accelerating economic growth of the developing countries. However, a section of economist and few empirical studies favour export promotion strategy as a way for economic growth.

India's trade strategy favors import substitution and pegged exchange rate is the way of development and preserving precious foreign currencies earned by way of export of agro based products till 1985. Some pragmatic decisions were taken by then Late Prime Minister Rajiv Gandhi by lifting control on technology transfer and foreign direct investment (FDI). He allows foreign auto giant to start production of two and four wheelers in joint venture manner in India.

Due to balance of payment crises in 1991, New Economic Programmed (NEP) was introduced by then prime minister Late P.V. Narasimha Rae by allowing FDI in almost all sectors except few strategic sectors. Gradually trade barriers have been eliminated by cutting down custom and import duty

rates. Restrictions on use foreign exchange have been eased by removing Foreign Exchange Regulation Act (FERA). Private sector participation has been promoted by disinvestment programs. Export promotion strategy is adopted by allowing FDI in export making industries. Banking and financial sector reforms were undertaken by lifting regulations and controls for complying increasing need of industry and service sector.

Greenway and Namm (1988) concluded that among the group of 41 less developed countries (LDCs), countries pursued outward oriented policy had much higher real GDP and real GDP per capita growth rate over the inward trade policy pursuing countries. Singer (1988) objected to this finding by showing that city based countries were included the list of outward category. In fact, low per capita income group countries find it difficult to grow. Jung and Marshall (1985) employed the ganger causality test on times series data of 37 countries; they find that export promotion strategy favors' economic growth of these countries.

There are mixed evidences on outward and inward trade strategies in the literature of international trade. Most LDCs tried both strategies with degree of difference at different times Tovar (1992). Further, Bhagavati (1978) and Rediel (1988) reported new argument in the empirical studies against import substitution (IS) and put question on export promotion (EP) policy. Export led hypothesis outweigh the import led growth hypothesis.

Hence, we decided to check the possible link between export, import and total trade with economic growth in Indian case using Ganger Causality for the period 1975 to 2013. Present paper has six sections. Section 1 deals with introduction and section 2 reviews the related literature. Section 3 takes stock of trends in GDP, export and import for the study period. Section 4 is on data and methodology, which comprises the unit root testing, co-co-co-integration and checking of Granger causality. Section 5 concludes the paper with policy implications.

Literature Review

Till this date, number of studies has been conducted using cross section and time series data for establishing a causal link between trade and economic growth across the globe. All these studies have used sample data of many countries and put them into group such as less developed countries, developed countries and European countries. Evidences of are mixed but favoring export promotion trade strategy (EP). World Bank (1987) conducted study on 41 developing countries to find out international trade pattern for the period 1963-1973 and 1973-1985 and has concluded that countries followed outward orientation trade policies performed well over the inward trade policies. Ram (1990) concluded that import has positive effect on economic growth. Studies conducted by Alam (1991), Salvatore and Hatcher (1991), Clark (1995, 1997) supported the finding of World Bank. The findings of World Bank were objected by Singer (1987) on the grounds of inclusion of higher income group countries in the study. Further, he says that higher growth rates are not necessarily the result of outward or inward trade strategies.

Greenway and Saps ford (1994) have reported little support for export led growth policy for sample of 14 countries including Pakistan. Dorado (1993) concluded no causality between export growth and economic growth in the case of Pakistan. Dust and Ghost (1996) found validity of growth led export hypothesis for USA and Pakistan. Anwar and Sam path (2000) have reported different findings. All the above studies used Granger or Sims causality and econometric

techniques of co-integration and Error correction model. Plumper and Graff (2001) investigated a causal link between export and economic growth on sample of 90 countries, they found that export specialization boost the economic growth rate.

Awoke (2003) found the valid relation between export and economic growth using Granger Causality Test for the period 1961-2004 on a sample of Canada. Sofia Devi (2013) used data sample of India for the period 1990-91-2011-12 using Ganger Causality found that bilateral causality exist between export and economic growth. Li et al (2003) used dynamic panel data technique on data set of 82 countries to investigate the casual link between import of services and economic growth found that import of services have positive impact on economic growth of developed countries and negative impact of developing countries.

Awoke (2007) conducted study on three central and European transition countries for the period 1993-2004. In case of Bulgaria bidirectional causality exist between export and economic growth, however in the Czech Republic case, ELG and ILG hypotheses are supported. And for Poland, ILG hypothesis is proved. Tsegaye (2009) used causality and vector correction model to find out log term relationship between export, import and economic growth in South Korea on annual data. He found that unidirectional long term causality from export to economic growth and bidirectional causality in import and economic growth. Ugur (2008) analyzed empirically the relationship between import and economic growth using VAR in Turkey for the period 1994:1 to 2005:4 found that bidirectional causality flows from GDP and import of capital goods and raw material.

Sharma and Smyth (2009) examined the export led and import led growth hypotheses for Pacific Island countries for the period 1982-2004 using panel data technique, they found bidirectional causality between export and growth, import and growth and export and import. Bhattacharya and Bhattacharya (2011) conducted study for the period of 1996-97 to 2008-09 using quarterly data on India reveals that unidirectional causality is observed from merchandise trade to economic growth and bidirectional causality has been observed between FDI inflows and economic growth. Khan et al (2012) using Error Correction Model on time series data of Pakistan for the period 1972-2009 concluded that long run correlation relationship is found between export, import and economic growth.

Nader (2013) conducted study on 40 countries' data base and putting them into high income group countries, medium income group, and low income group countries. He found that long term and bidirectional relationship is observed between two variables except Japan in the group of high income countries. Diverse results were obtained in other income group countries of causality running from import to growth and vice versa. Konya and Singh (2006) used data on India for the period 1951-52 to 2003-04 and established export and import led growth hypothesis using granger causality. However, no causation found from GDP to export and import.

Trends in GDP, Export, Import

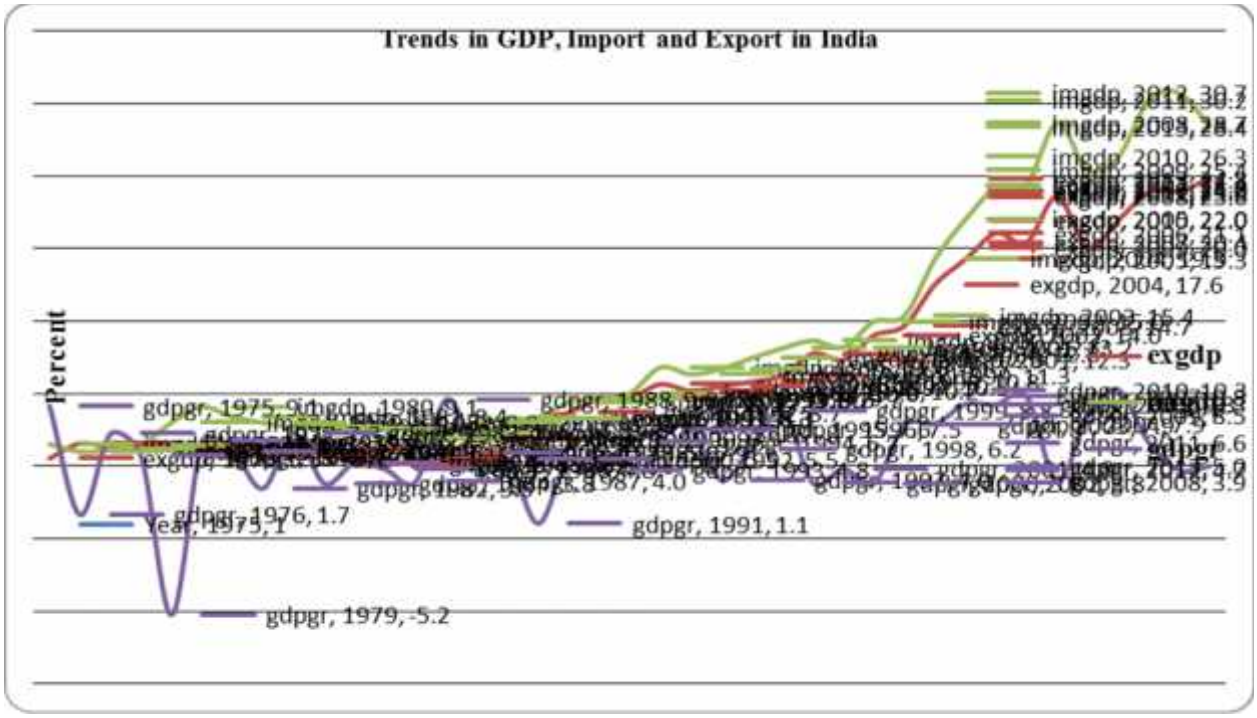
International trade is a natural virtue in the closed as well as open economy. Prior to 1991, Indian economy was in the protected regime. Therefore, trade did not grow at faster rate. With the inception WTO in 1991, being a founder member India has been deregulating restrictions on foreign trade. Reform related to exchange rate, tariff rationalization and licensing of export and import were undertaken and made more simple and friendlier. Export led growth and import led growth hypotheses are well recognized as a way for rapid

development of an economy in the New Economic Program.

It can be seen in the figure 1 that export GDP and import GDP ratios increased gradually from the year 1975; however, the pace of both picked up after the introduction of New Economic Reforms in 1991. Export GDP and import GDP ratios were 5.54 and 6.53 percent respectively in 1975 which increased to 6.93 and 8.30 percent in the 1990 a year of economic crises. Till the year 2003, the difference in export and import gap ratio was of near about 1 of 2 percent which climbed to 3 percent from the year 2004 onwards. This is due to cut down of import duty and along with implementation of exchange rate reforms. Government of India allows many companies to raise capital by economic commercial borrowing out of the country. Restrictions on tourism have been slashed. All these reasons excelled the import over the export of India.

Further, from the year 2007 onwards the gap between export GDP and Import GDP reached to 5 percent and more. Ultimately, it scaled up to 7 percent in year 2012. It clearly shows that import of goods and services rose exponentially from one side and export GDP earnings fall drastically from 23.60 in 2008 to 20.9 in the year 2009. Finally export GDP ratio reached to 24.81 percent in 2013. Annual GDP growth rate couldn't cross the band of 10 percent though it was already gone to 9.14 in the year 1975 and later reached to 10.25 in the year 2010. It is again dropped to 4.73 at the end of 2012. The reasons being dropping of GDP growth rate can be attributed to repercussion of world economic crises which seen after a lag of 3 to 4 years in India along with uncertainty in economic climate in the country and slow pace of economic reforms.

Figure 1



Source: Drawn on the basis of data World Development Indicators of World Bank downloaded on 24/9/2014 from the World Bank website. Data is at 2005 constant prices.

Note: exgdp = export to GDP, imgdp= Import to GDP, gdpgr= GDP annual growth rate. Export and import comprises value of goods and services.

It can be concluded from the figure 1 that both export and import GDP ratios rose rapidly after economic reforms along with annual growth rate of GDP in Indian case. India's import comprises of petroleum products, fertilizers, chemicals, technology, raw materials, aircraft, defense goods and electrical and electronics components, atomic reactors and engineering goods. All these products are being used as intermediate products in assembly of goods except petroleum, edible oils and defense goods. Petroleum products are partly used as final as well as intermediate. Generally, import is understood as drain of foreign exchange flow however it is also one of catalyst in propagating industrialization, development of agricultural, service and transport sector. With this background, we like to check the contribution of export, import and total trade in excelling the economic growth in India.

Data and Methodology

Data

The data for the present study has been collected from World Development Indicators published by World Bank. It is online data base down loaded on 29/9/2014. Time series data on export to gross domestic product (exgdp), import to gross domestic product (imgdp) and annual growth rate of gross domestic product (gdpgr) are compiled for the period 1975 to 2013. In order to see the causality, co-integration relationship among these series we complied data given in the Handbook of Statistics on India Economy 2014 for the period 1975 to 2013. Times series data of export, import, GDP and total trade are in Billion Rupees (Indian currency) at 2005 constant prices which converted into natural log. Hence hereinafter there are known as Export (Lnexp), Import (Lnimp), total trade comprises export and import (Lnttr), and Gross domestic product (Lngdp).

Methodology

Generally time series data are non-stationary. In the present study, data are starting from the year 1975 and end to 2014. During the span of data period lot of policy changes and economic events have been place. Hence data series does now show constant amplitude and definite trend. To avoid this, series considered for analysis in the present study are converted into logarithm form. If we use these time series in the original form and without checking their quality, results appeared from the regression model would be spurious and co-efficient values would be either high or misleading. The R^2 values of regression would be necessarily high.

Thus, to avoid all these and to offer valid estimates, it is necessary to check stationary properties of the time series. Present study uses Augmented Dickey-Fuller (ADF) stationary test and then co-integration relationship among the variables are examined by conducting multivariate co-integration tests. Pair-wise series do not show co-integration are used for Granger Causality Test.

Unit Root Test

The Dickey fuller (DF) and Augmented Dickey Fuller (ADF) tests are widely used by the researchers for checking unit root of the time series by researchers. Three are tests also but all the tests show the same results hence we rely upon ADF. Hence, we use the test to check the quality of data in the present paper.

$$Y_t=\beta_0+\beta_1 Y_{t-1}+\mu_t \text{---------- (1)}$$

Taking first difference operator of equation (1) gives

$$\Delta Y_t=\beta_0+\beta_1 \delta Y_{t-1}+\mu_t \text{---------- (2)}$$

Where Y_t time series is are used for checking unit root, β_0 constant term and μ_t is white noise error

term. The null hypothesis $\delta = 0$, i.e. the $\{Y_t\}$ sequence / series contains a unit root (non-stationary) process and alternating hypothesis is being assumed as series is a stationary $\delta \neq 0$. If null hypothesis is rejected on the basis on Mackinnon critical value at 95% significance level, series is said to be stationary. Table 1 show results ADF test at level (0) and first level (1).

Table 1: Results ADF Test

Variable	Test statistics	1%	5%	Decision
Lngdp	3.147	-3.628	-2.95	Do not reject
d.Lngdp	-6.004*	-3.634	-2.952	Rejected null hypothesis
Lnexp	0.527	-3.628	-2.952	Do not reject
d.Lnexp	-6.076*	-3.634	-2.95	Rejected null hypothesis
Lnimp	0.005	-3.628	-2.952	Do not reject
d.Lnimp	-5.266*	-3.634	-2.95	Rejected null hypothesis
Lnttrade	0.301	-3.628	-2.95	Do not reject
d.nttrade	-4.912*	-3.634	-2.952	Rejected null hypothesis

*Note: MacKinnon critical values for * ** shows statically significant at 1% and 5%.l*

Source: Author's calculation

Co-integration

To verify co-integration exists if any in the series, we use co-integration test suggested by Johansen. In fact it is a multivariate co-integration test, which is widely used by the researchers to check the relationship between pair of non-stationary series using Vector Auto-Regressive Model (VAR). in the present study, co-integrated relationship between non-stationary series exist if any are checked: (Lngdp – Lnexp), (Lngdp – Lnimp), and (Lngdp – lnttrade). We use Johansen likelihood test ratios such as maximum Eigen value and Likelihood test ratio (LR) statistic. The LR statistic is used to test the null hypothesis r = o (No co-integration exist) against an alternative hypothesis of r > o (pair series is co-integrated).

The test statistics obtained from trace (λ_{LR} and $K_{max)\ max}$ test are compared with the asymptotic critical value of two test statistics given by Johansen and Juselius. The decision rule followed is that if computed value is more than the MacKinnon values at 5% or less level of significant then series is integrated. The results of Johansen's co-integration test are reported in the Table 2.

Table 2: Results of Johansen's co-integration Test

Integrated Series	Eigen value	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value	Hypothesized No. of CE(s)
Lngdp-Lnexp	0.306004	16.40484	15.41	20.04	None *
	0.034229	1.42798	3.76	6.65	At most 1
Lngdp-Lnimp	0.358608	25.06153	15.41	20.04	None **
	0.153922	6.85287	3.76	6.65	At most 1 **
Lngdp-Lnttrade	0.346716	22.00615	15.41	20.04	None **
	0.105054	4.550676	3.76	6.65	At most 1 *

*Note: *(**) denotes rejection of the hypothesis at 5%(1%) significance level.*

L.R. test indicates 2 co-integrating equation(s) at 5% significance level expect first pair where one Co-integrating equation exists.

Source: Author's calculation

Ganger Causality Test

Series not integrated or weakly integrated can be used for checking causality direction. The idea of causality test is simple, if the variable X Granger causes variable Y; then changes in X variable should precede changes in Y. In bilateral causality analysis, simple regression technique is used in which Y is regressed on another variable X

along with its own past value. This can help to predict the value of Y, which is known as X (Granger) causes Y and same way if Y (Granger) causes X. The Standard Granger Causality Test (1969) has been used to explore the nexus between GDP and Export, Import, Total trade. Hereinafter these variables are abbreviated as Lngdp, Lnexp, Lnimp, Lnttrade respectively. In the present study, the following model is used to predict the causality between GDP and Export, Import, Total trade in India.

$$Y_t = \alpha o + \sum_{\copyright=1}^{m} {}_i\, Y_{t-k} + \sum_{i=1}^{n} \sim_i X_t - i + \varepsilon_t \text{ ------ (3)}$$

$$X_t = \beta_0 + \sum_{k=1}^{m} Y_k\ X_{t-k} + \sum_{t=1}^{n} \partial_i\, Y_t - i + \mu_t \text{ ------- (4)}$$

Where Y_t and X_t are the variables to be tested, and ε_t and μ_t are mutually uncorrelated white noise errors, and‘t’ denotes time period and ‘k’ are number of lags. The null hypothesis is $\alpha_i = \delta_i = 0$ against the alternative hypothesis $\alpha_i \neq 0$ and $\delta_i \neq 0$ for at lowest ‘i’ s. If the coefficient α_i ‘s are statistically significant but δ_i ‘s are not, then X causes Y and vice versa but if both α_i and δ_i are significant then causality runs in both directions. The lag values are selected on the basis of Akaike information criterion. To avoid bias in estimation, proper lag values are selected. The results of Granger causality are reported in the Table 3.

Table3: Results of Granger Causality

Null Hypothesis	F-Statistic	Probability	Lag	Decision
LNEXP does not Granger Cause LNGDP	1.67252	0.2033	2	Accepted
LNGDP does not Granger Cause LNEXP	3.31198	0.04888**		Rejected
LNIMP does not Granger Cause LNGDP	4.68942	0.03705**	1	Rejected
LNGDP does not Granger Cause LNIMP	1.25845	0.26937		Accepted
LNTTRADE does not Granger Cause LNGDP	3.36091	0.07528***	2	Rejected

*Note: ** and *** significant at 5% and 10% level.*

Source: Author’s calculation

It can be seen in the Table 3 that hypothesis export does not ganger causes GDP is not rejected. It means that export led growth (ELG) is not valid in Indian case. Export does not work as solely the engine of economic growth in India. On other hand, GDP growth promotes export. This finding can be understood as the spillover effect of rise in GDP is realized in excelling export volume. Second hypothesis of import does not granger causes GDP is rejected at 5% significance level.

It can be concluded as Import led Growth (ILG) is occurred in India. Inward oriented hypothesis is valid. The percentage of import to GDP expanded from 8.3% in 1991 to 28.4% in 2014. Imported goods are used in the production process directly as input or intermediate products. The NEP made easy to import materials and technology for Indian industries. Further, null hypothesis total trade does not Granger Causes GDP is rejected. Total trade comprises the value of export and import in the economic year. It can be concluded as the total trade Granger causes GDP of India. India’s trade with trading partners in the globe has helped in promoting the economic growth process for the period 1975-2014. As results of Granger Causality shows that closed economy, controlled regime or protected trade is not the away to pick up the speed of economic

growth in Indian case. The total trade induced growth (TTLG) hypothesis is proved in Indian case.

II. CONCLUSIONS

In the present study, we used econometric techniques such as Unit root, co-integration and Granger causality for investigating the relationship between Economic growth proxy by GDP and export, import and total trade for the period 1975-2014. The trend analysis shows that the since 1991, export and import expanded exponentially whereas in GDP growth went through many ups and down during the period of study and stuck to 9% as highest and tolerance growth rate for India. In fact it went down to 4.7% in the year 2013.

The result on co-integration test reveals that economic growth and export are weakly integrated. But on the other hand, import, total trade and economic growth are integrated. The Granger Causality result reveals that there is no causality running from export to economic growth in India. However, unidirectional causality exists that flows from economic growth to export. Further, one way import led economic growth causality is found. The impact of total trade in promoting economic growth in India is also seen as unidirectional causality. With this backdrop, we conclude that Import Led Growth (ILG), and Total Trade Led Growth (TTLG) hypotheses are true in Indian case.

Policy implications emerged from the presents study are: 1. Indian government should open the economy further for foreign direct investment in the crucial sectors such as infrastructure , oil and natural gas, banking, insurance, shipping , port management, civil aviation, urban transport, express highways and education. 2. Proactive policy to boost export should be designed. 3. Restrictions on import should be liberalized further. 4. India should fight for opening of world economy for Indian exports on the platform of WTO.

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INDIA- AFGHANISTAN TRADE RELATIONS

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Abstract

The study 'Indo-Afghanistan Trade Relations' has been undertaken with objectives to study historical development of trade relations between India and Afghanistan, to examine present position of trade between the two countries and identify items of mutual trade. The study of Indo-Afghanistan trade relations showed that the volume of exports to Afghanistan increased by about 26 times during 1991 to 2016. The compound growth rate of exports to Afghanistan during the 1995-2005 years was as high as 23.5 percent. However, percent share of Afghanistan in India's exports varied between 0.10 percent in 1991 to 0.35 percent in 2016. The import of India from Afghanistan, however, increased at a much faster rate and the growth rate even during the 1991-2016 years of century was 37.1 percent. The share of imports from Afghanistan in India's total imports varied from 0.06 to 0.10 percent. India's trade balance with Afghanistan has been favorable during the period 1991 to 2016 except in 1998 and 2000. It is because of limited capacity of Afghanistan to export. Afghanistan's production structure is not diversified and industrial development is at elementary level.

Keywords: India, Afghanistan, imports, exports, trade

I. INTRODUCTION

In the present era of globalization, the development of international trade relations is of utmost important. The trade relations between the developed and developing countries in the past have been essentially colonial in nature and hence biased against the latter. The pattern of Comparative advantage between the developed and the developing countries in which former specialize in industrial production and the latter specialize in the agriculture production, has led to the phenomena of unequal exchange and adverse terms of trade for the developing countries. The regional economic groupings within the developed countries and the international financial institutions have further strengthened this trend. As a result, the share of the developed countries in the world trade remained 61 per cent and that of developing countries was 39 per cent only securing 2016. Not only this, the major portion of the developed countries trade is among them, whereas the developing countries have a very low proportion of their trade among themselves. By way of economic cooperation, the developing countries of every region can become more and more inter-dependent on each other, thereby reducing their dependence on the developed countries. The study of Indo-Afghanistan trade potentials is broadly in the above mentioned context.

The Islamic Republic of Afghanistan is a landlocked sovereign, bordered by Iran on the west, by Pakistan on the east and south, and by Turkmenistan, Uzbekistan, and Tajikistan on the north; and China in the far northeast. It has 13 per cent of the total area of South Asian Association for Regional Cooperation (SAARC). Its population was 3.5 crore in 2015. It is a developing economy of the world with its per capita income US$ 621 and GDP as US$ 20 billion in 2015. Bilateral trade between India and Afghanistan in 2016 was US$

754 million, of which India's exports were US$ 472 million and imports were US$ 282 million.

Afghanistan is considered as a gateway to Central Asia and since the ancient period India had trade relation with the region and the country. Even when the British attempted to make Afghanistan a part of India but it was not practicable. British-India had common border with Afghanistan and the British entered into many agreements with Afghanistan. Trade relations continued between India and Afghanistan during British period also and exports and imports of Afghanistan to the rest of the world were routed through Karachi port. Partition of India in 1947 and formation of Pakistan became a major hurdle in the trade relations between India and Afghanistan as India lost geographical contiguity with Afghanistan and hostile relations between India and Pakistan on one hand and Afghanistan and Pakistan on the other led to decline in trade between the two countries. However, the trade continued, sometimes even by air. Trade relations between India and Afghanistan have been persistent since British period. the first Treaty of Friendship between Independent India and Afghanistan was signed on January 4 1950, which provided for continuation of the existing bilateral trade. The hostile relations of Pakistan with India and Afghanistan led to decline in trade ties between India and Afghanistan. Afghan-Pak Transit Trade Agreement (APTTA) has been established on July 18, 2010. Under this agreement, Afghanistan's trucks have been permitted to carry their transit export cargo on designated routes to Pakistani seaports and Wagah border for destinations in India. However, Indian goods for Afghanistan were not allowed to transit through land route in Pakistan, and could be airlifted to Afghanistan using Pakistani air space. Through APTTA, Afghanistan would have the opportunity to export to India.

It is relevant to know key economic indicators of India and Afghanistan. Table 1.1 shows the same during 2016. Afghanistan was home to 35 million (mn) people with Gross Domestic Product (GDP) of US$ 19.4 billion (bn) during 2016. However, India's population was 1324 mn (nearly 17 per cent of the world's total) with a GDP of US$ 2264 bn during same period. On the basis of their macroeconomic indicators both economies differ significantly. The size of Indian economy in terms of GDP is approximately two thousand times more than the size of Afghanistan economy. In terms of per capita GNI both countries are somehow same as compared to their size of population and GDP, which differ significantly. Among the social indicators there is not much similarity between two nations. During 2016, Life expectancy and literacy rate was 68 per cent and 74 per cent respectively in India and 60 per cent and 38 per cent respectively in case of Afghanistan. Further, both countries have low proportion of urban population in total population which was 32 per cent in India and 27 per cent in Afghanistan, during 2016. However, being a small country with small size of population, Afghanistan is showing marginal improvements in his social indicators over India. Moreover, the much reliable Human Development Index (HDI) developed by United Nations Development Programmed to compare the level of development of countries has shown the much difference HDI ranks for India and Afghanistan as shown in Table 1.1. India is ranked 135 while Afghanistan is ranked 169 during 2016. This has shown that as far as the level of development is concerned India is far ahead of Afghanistan.

Table 1.1 Key Economic Indicators of India and Afghanistan during 2016

Indicator	India	Afghanistan
GDP (US$ bn)	2264	19.4 b
Total area (000 Km Sq)	2973,190	652,864
Population (mn)	1324	35
Urban population as % of total	32	27
Life expectancy at Birth(2016)	68	60.71
Literacy Rate (percent)	74	38
Per Capita GNI (US$)	1680	580
HDI Rank	135	169
Per Capita Exports (US$)	249.2	14
Per Capita Imports (US$)	373.8	196

Source:

- *World Bank. 2016: World Development Indicators*
- *www.worldatlas.com, Accessed on November 2016*
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In this chapter, we discuss the development of economic relations between India and Afghanistan. An attempt has been made to examine economic relations between them in terms of volume, composition and direction of trade. This chapter is devoted to the historical perspective and recent scenario of Indo-Afghanistan trade relations. The paper provides details of structure of Afghanistan economy and examines the trade composition and trends between the two countries in the contemporary and the recent past.

Trade at Bilateral level

India Afghanistan bilateral trade has been growing steadily and got big boost in recent years. Table 3.1 depicts the volume of bilateral trade between India and Afghanistan during 1991-2016 at current prices. India's trade with Afghanistan has increased from US$ 28.8 mn in 1991 to US$ 754 mn in 2016. India's exports to Afghanistan have been growing faster than her imports from latter. India's exports to Afghanistan have increased from US$ 18 mn in 1991 to US$ 472.8 mn in 2016. As regards to India's imports from Afghanistan, these have increased from US$ 10.8 mn during 1991 to US$ 282 mn during 2016.

Table 1.2: India's Trade with Afghanistan during 1991-2016(US$ MILLION)

Year	Exports to Afghanistan	Imports from Afghanistan	Trade balance	Total trade volume
1991	18	10.8	7.2	28.8
1992	41	3.4	37.6	44.4
1993	21.5	3.5	18	25
1994	15.6	6.5	9.1	22.1
1995	19.4	8.3	11.1	27.7
1996	22.7	3	19.7	25.7
1997	21.2	10.6	10.6	31.8
1998	12.8	28.1	-15.3	40.9
1999	33.4	21.1	12.3	54.5
2000	23.3	25.9	-2.6	49.2
2001	20.8	19.9	0.9	40.7
2002	50.1	17.3	32.8	67.4
2003	115.1	26.9	88.2	142
2004	167.7	53.2	114.5	220.9
2005	147.9	54.3	93.6	202.2
2006	170.6	46.6	124	217.2
2007	218.4	76.0	142.4	294.4
2008	364.8	133.0	231.8	497.8
2009	471.5	120.5	351	592
2010	392.5	143.6	248.9	536.1
2011	504.5	120.1	384.4	624.6
2012	475.6	79.7	395.9	555.3
2013	513.5	213.1	300.4	726.6
2014	442.8	243.7	199.1	686.5
2015	534	317	217	851
2016	472	282	190	754
CAGR				
Pre-SAPTA	1.89	-6.3		-0.9
During SAPTA	23.5	37.1		25.7
Post-SAFTA	10.7	19.7		13.2

Source: United Nations Commodity Trade Database; www.comtrade.un.org

UN Statistical Year Book for Asia and the Pacific, various issues.

As regards to India's trade balance with Afghanistan, table 3.1 shows that India's trade balance with latter was favorable, except for the period 1998 and 2000. It has been noticed that India faced balance of trade deficit with Afghanistan during the years 1998 and 2000. The highest trade deficit that India faced with Afghanistan was US$ 15.9 mn during 1998, whereas the lowest was US$ 2.6 mn during 2000. The maximum positive trade balance was $395.07 in 2012. It is mainly because limited capacity of Afghanistan to export. India's exports to Afghanistan have been growing with CAGR 10.2 per cent during 1991-2016. During SAPTA period, India's export to Afghanistan was growing at CAGR 13.9 per cent and at 10.7 per cent during post-SAFTA period (2006-16). As regards to India's imports from Afghanistan, these have increased from US$ 21.8 mn during 1991 to US$ 520.7 mn during 2016. India's imports from Afghanistan were growing with CAGR 13.9 per cent during 1991-2016. During SAPTA period, these were grown at CAGR 37.1 per cent. But it was interesting to see that during post-SAFTA period CAGR of India's imports from Afghanistan declined to 19.7 per cent from 37.1 per cent during post-SAPTA period. For the same period CAGR of India's exports to Afghanistan declined to 10.7 per cent from 23.5 per cent during post-SAPTA period. Hence, during post-SAFTA period India's exports to Afghanistan and imports from the latter declined. As regards to India's trade balance with Afghanistan, table 3.1 shows that India's trade balance with latter was favorable, except for the period 1998 and 2000. The highest trade deficit that India faced with Afghanistan was US$ 15.3 mn during 2000, whereas the lowest was US$ 2.6 mn during 1998.

Table 1.2 shows the details of imports from Afghanistan. The available figures indicated that imports from Afghanistan varied from US $ 8.3 million in 1991 to $ 282 million in 2016. There have been continuous fluctuations in imports from Afghanistan. India's trade balance with Afghanistan during 1991 to 2016 in terms of U.S. dollars is given in Table 1.2.

The foregoing discussion explains very low volume of mutual trade between India and Afghanistan. The potentialities of bilateral trade expansion are largely influenced by the share of India and Afghanistan in each other's total trade. Therefore, it is worthwhile to discuss the share of India and Afghanistan's in each other's trade. These respective shares are shown in tables 1.2 and 1.3 for the period 1991 to 2016.

It is evident from table 1.3 that India was marginally dependent on Afghanistan since beginning. Afghanistan's average share in India's total trade was 0.04 per cent during 1991-2016. Afghanistan's average share in India's total export and import was 0.1 and 0.03 per cent respectively, during 1991-2016. During this period, Afghanistan's average share in India's export, import and total trade was 0.1 per cent, 0.03 percent and 0.04

Table 1.3: Share of Afghanistan in India's Trade during 1991-2016 (percent)

Year	Share of Afghanistan in India's Exports	Share of Afghanistan in India's Imports	Share of Afghanistan in India's Total Trade
1991	0.10	0.06	0.07
1992	0.20	0.01	0.1
1993	0.10	0.02	0.05
1994	0.06	0.02	0.04
1995	0.06	0.02	0.04
1996	0.06	0.007	0.03
1997	0.06	0.03	0.04
1998	0.04	0.07	0.05
1999	0.09	0.04	0.06
2000	0.06	0.05	0.05
2001	0.05	0.04	0.04
2002	0.10	0.03	0.06
2003	0.19	0.04	0.1
2004	0.22	0.05	0.1
2005	0.15	0.04	0.08
2006	0.14	0.03	0.07
2007	0.15	0.03	0.08
2008	0.20	0.04	0.1
2009	0.27	0.05	0.13
2010	0.18	0.04	0.09
2011	0.17	0.03	0.08
2012	0.16	0.02	0.07
2013	0.15	0.05	0.09
2014	0.14	0.05	0.08
2015	0.20	0.08	0.1
2016	0.35	0.10	0.1
Pre-SAPTA	0.1	0.02	0.06
During SAPTA	0.1	0.03	0.06
Post-SAFTA	0.2	0.05	0.09

Source: United Nations Commodity Trade Database; www.comtrade.un.org

UN Statistical Year Book for Asia and the Pacific, various issues

percent respectively. The highest share of Afghanistan in India's total trade was recorded at 0.1 per cent during 2003, 2004 and 2008 and lowest was recorded at 0.04 per cent in 1995, 1997 and 2001. During 2009, Afghanistan's share in India's total export was also recorded highest at 0.27 per cent and share of import was recorded highest at 0.05 per cent during 2000, 2004, 2009 and 2014. This is concluded that Afghanistan's capacity to meet India's import requirements has been very limited during the period under study. This necessitates a systematic study of the trade between India and Afghanistan. It is perhaps, here that investment and joint ventures could play an important role in increasing Afghanistan's exports to India. Overall, Afghanistan share in India's total trade was very low during 1991-2016. During SAPTA period, Afghanistan's average share in India's export, import and total trade was 0.1 per cent, 0.03 per cent and 0.06 per cent respectively. However, it was marginally increased during post-SAFTA period. During this period, Afghanistan's average share in India's export, import and total trade was 0.2 per cent, 0.05 percent and 0.09 per cent respectively. Table 3.3 shows that Afghanistan was much more dependent on India in 1985, the

establishment year of SAARC. However, these respective shares export; import and total trade during SAPTA period were 15.5 per cent, 4.2 per cent and 10.3 per cent respectively and changed to 29 percent, 9 per cent, and 11 per cent respectively during post-SAFTA period. It has been observed India's share in Afghanistan's trade increased during post-SAFTA, as compared to SAPTA period. Table 1.3 shows that Afghanistan is much more dependent on India. India's average share in Afghanistan's total export, import and trade was 22.5 per cent, 6.2 per cent and 7.3 per cent respectively during 1991-2016.

Table 1.3: Share of India in Afghanistan's Trade during 1991-2016 (per cent)

Year	Share of India in Afghanistan's Exports	Share of India in Afghanistan's Imports	Share of India in Afghanistan's Total Trade
1991	5.7	4.06	4.5
1992	1.8	10.3	7.6
1993	0.5	4.6	2.1
1994	6.1	3.9	4.4
1995	5.0	5.0	5.0
1996	2.3	3.4	n.a
1997	7.3	3.5	4.2
1998	17.7	2.7	6.5
1999	12.7	3.3	4.6
2000	18.9	1.9	3.7
2001	29.3	1.2	2.3
2002	17.3	2.0	2.6
2003	18.6	5.4	6.3
2004	17.4	7.7	8.9
2005	14.1	5.9	7.0
2006	11.4	6.5	7.2
2007	15.3	7.7	8.8
2008	24.6	12.0	13.9
2009	29.9	14.1	15.8
2010	37.0	7.6	9.6
2011	31.9	7.8	9.2
2012	18.5	7.6	8.3
2013	41.3	6.0	8.0
2014	42.6	5.7	8.3
2015	33.05	11	10.2
2016	35.6	10.2	14.4
Average			
Pre-SAPTA	3.8	5.5	4.7
During SAPTA	15.5	4.2	10.3
Post-SAFTA	29.1	9.6	11.3

Source: United Nations Commodity Trade Database; www.comtrade.un.org

UN Statistical Year Book for Asia and the Pacific, various issues.

Composition of Major Imports and Exports from Afghanistan:

India's imports from Afghanistan have shown modest diversification. The two most important items of India's imports from Afghanistan are gums, resins and dates, figs, pineapples during this period. These accounted for 29.5 percent and 32.2 per cent, respectively, in India's total imports from Afghanistan during 2009-16. While the share of dates, figs and pineapples was 30 per cent in 2009, it declined to 21 per cent in 2016. However, the share of gums and resins increased from 18.9 per cent in 2009 to 21 per cent in 2016. The other major items of

India's import from Afghanistan were nuts fresh or dried (17.9 percent), grapes fresh or dried (17.6 percent), marble (1.9 percent), oil seeds and oleaginous fruits (0.06 percent), dried leguminous vegetables (4.9 percent) etc. during 2009-16.The share of grapes, fresh or dried, dried leguminous vegetables, plants and parts of plants, seeds of anis, badian, fennel, coriander, cumin and apples, pears India's import from Afghanistan increased from 10.5 per cent, 2.9 per cent, 0.08 percent, 2 percent and 0.008 respectively, during 2009 to 19 per cent, 5.3 per cent, 5.3 percent 2.2 percent, 4 percent and 0.7 per cent respectively, during 2016. However, the share of nuts fresh or dried, melons, marble and apricots, cherries, peaches etc. in India's total import from Afghanistan was 28 per cent, 0.2 per cent, 0.4 per cent and 0.008 per cent respectively, during 2005 and came down to 13 per cent, 0.003 per cent, 0.3 per cent and 0.02 per cent respectively, during 2016.

Composition of India's exports has been changing over the time. India's exports to Afghanistan cover wide variety from consumer goods to capital goods and intermediate to final goods over the period India used to export diverse items to Afghanistan over the period of time. The major items of India's exports to Afghanistan include medicaments, woven fabrics of synthetic filament yarn, manufactured tobacco and manufactured tobacco substitutes, women's' or girls' suits, milk and cream, concentrated or containing added sugar or other sweetening matter, new pneumatic tyres of rubber, made-up articles of textile materials, imitation jewellery, tea etc. during the period 2009-16 Their total share in India's exports to Afghanistan was 7.9 per cent, 27 per cent, 6.5 per cent, 6.8 per cent, 0.6 per cent, 2.4 per cent, 0.6 and 3.5, 20.7 per cent respectively during 2005-11. All these items continued to figure in India's exports to Afghanistan since 2009. While the share of medicaments in India's total exports to Afghanistan was 8.3 per cent in 2009, it increased to 10.8 per cent in 2016. The share of tobacco products in India's total exports to Bhutan was 2.8 per cent in 2009 and increased to 8.1 per cent in 2016. The share of women's or girls' suits, footwear with outer soles and uppers of rubber of plastics, cane or beat sugar, instruments appliances used in medical, surgical, dental sciences, standard wires and cables, made up articles of textile, motor car and other motor vehicle in total India's export Afghanistan was 0.02 per cent, 0.004 per cent, 0.2 per cent and 0.1 per cent, 0.01 percent, 0.3 percent, 0.04 respectively, during 2009. These respective shares increased to 5.4 per cent, 1.8 per cent, 1.5per cent, 1.2 per cent, 1.0 percent, 0.9 percent, and 0.2 respectively during 2016. However, the share of woven fabrics of synthetic, new pneumatic tyres of rubber, tea, birds' eggs in shell, fresh, preserved or cooked rice, in total India's exports to Afghanistan was 42.2 per cent, 5.07 per cent, 3.2 per cent and 3.4 per cent respectively during 2009 and came down to 7.5 per cent, 0.8 per cent, 2.4 per cent, and 0.2 per cent respectively during 2016.

II. CONCLUSION

The study 'Indo-Afghanistan Trade Relations' was undertaken with objectives to study historical development of trade relations between India and Afghanistan, to examine present position of trade between the two countries and identify items of mutual trade. The study of Indo-Afghanistan trade relations showed that the volume of exports to Afghanistan increased by about 26 times during 1991 to 2016. The compound growth rate of exports to Afghanistan during the 1995-2005 years was as high as 23.5 percent. However, percent share of Afghanistan in India's exports varied between 0.10 percent in 1991 to 0.35 percent in 2016. The import of India from Afghanistan, however, increased at a much faster

rate and the growth rate even during the 1991-2016 years of century was 37.1 percent. The share of imports from Afghanistan in India's total imports varied from 0.06 to 0.10 percent. India's trade balance with Afghanistan has been favorable during the period 1991 to 2016 except in 1998 and 2000. It is because of limited capacity of Afghanistan to export. Afghanistan's production structure is not diversified and industrial development is at elementary level. However, share of India in Afghanistan's imports was quite substantial, varying from 4 percent in 1991 to 10.2 percent in 2016. In case of exports, India's share is still substantial, varying between 5.7 percent in 1991 to 35.6 percent in 2016.. One of the visible factors behind the low volume of trade may be Afghanistan's limited export capacity to India. The capacity issues may be addressed by joint-investment and joint ventures with buy-back arrangement. Infrastructural bottlenecks, lack of confidence, different perception of development and a host of bilateral issues seem to be the other concerns which may not be allowing the exploitation of trade potentialities with each other. All these issues need a thorough discussion so that they could be addressed at the highest policy level.

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A STUDY ON INDIA-MYANMAR TRADE RELATIONS

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Abstract

The trade relations between the developed and developing countries in the past have been unfair against the latter. The share of the developed countries in the world trade remained 60 per cent and that of developing countries was 40 per cent only during 2014. Not only this, the major portion of the developed countries trade is among them, whereas the developing countries have a very low proportion of their trade among themselves.

India and Myanmar are the developing countries of the world. Only way-out is the more economic cooperation and inter-dependence among the developing countries, which can reduce their dependence on the developed countries. This paper is based on the secondary data collected from various sources. The findings of the study reveal that there is lot of scope of improvement in trade relations in between both countries.

Key Words: Trade relations, India, Myanmar, development.

I. INTRODUCTION

India and Myanmar are the neighboring and developing countries of the world. Myanmar is located south of the north-eastern states of Manipur, Mizoram, Nagaland and Arunachal Pradesh. The two countries share a 1643 KM. long land boundary. Indo-Myanmar relations are also deeply established in shared cultural and religious practices. India has been actively engaged with the regional groupings of the developing countries like the Association of South East Asian Nations (ASEAN), Bay of Bengal Initiative for Multi-Sect oral, Technical and Economic Cooperation (BIMSTEC), etc., as a part of her 'Look East Policy'. Myanmar (also known as Burma) a member of both ASEAN and BIMSTEC, is the second largest country in Southeast Asia. Myanmar shares a long international border with the North East India, and is a bridge between India and ASEAN. Myanmar was given the status of observer in South Asian Association for Regional Cooperation (SAARC) during August 2008.

Myanmar came under British rule in 1886 and became an independent nation on 4th January 1948. Burma was administered as a province of India by British government until 1937. After independence, Myanmar was a democratic nation and then, following a coup on 2nd March 1962, a military dictatorship came, which formally ended on 30 march 2011. Thereafter, military backed government formed. But the results of the first openly contested general election on 8 November 2015 gave absolute majority to National League for Democracy. On 15 March 2016, Thin kyaw was elected as the first non-military President of the country. Myanmar is a developing economy of the world with its per capita income US$ 1280, GDP-US$ 65 billion and population as 54 million in 2015. In contrast, India's per capita income was US$ 1590, GDP-US$ 2089 billion, and population as 1311 million during the same period (World Bank, 2017). Geographically, Myanmar is about one-fifth of India. More than 40 per cent of Indian origin population lives in Myanmar.

Literature Review

Yahiya, Faisal. (2003) pointed out the India's relations with ASEAN states namely

Myanmar, Laos, Cambodia and Vietnam. The first, section of his article examines about the India's strategy towards Southeast Asia through its "Look East" policy which helps India in the growth and economic development in the form of roads, communications and power. Second, section focuses on the china's increasing influence in the Asian region as it has become motivation for India to engage with Southeast Asian regions. This study concludes that to make its relations stronger with Southeast Asian countries, then it needs to be arranging on a long term basis.

Kudo and Mieno (2007) pointed out that Myanmar strengthened its trade relations with India, China and Thailand during 1990s to 2005. The development of external trade wielded a considerable impact on the Myanmar economy. The country's external sector improved since 2000 because of the emergence of two new export goods, namely, natural gas and garments.

Kudo, Toshihiro. (2008) examined the Economic, Political and Trade Relations between Myanmar and China. The China built a strong economic relations with Myanmar by providing the consumer and capital goods, infrastructure, energy (oil and gas) etc. Therefore, china plays an important role in Myanmar's external trade in which it exports Iron and Steel, Machinery equipment's, Durables etc. on the other hand, Myanmar imports from china have increased more as compared to exports. This study concluded that the china's relations with the Myanmar have become stronger at present and china's exports are more than Myanmar's exports.

Rout ray Bibhu Prasad (2011) conducted a study to examine foreign relations of India-Myanmar. India has to maintain a good relationship with the Myanmar for achieving its Look-East Policy objectives. The study discussed the pragmatic shift of India's Myanmar policy and about its four drivers that are the growing existence of china in Myanmar, search for energy, Northeastern insurgency, and India's looking east policy. The study concludes that neither India been able to hold China, nor the military junta able to solve the problem of northeastern insurgency.

Gottschlich, Pierre. (2015) highlights the importance of cross-border relationship between India- Myanmar for economic development. The study discussed the opportunity for rearrangement of India's foreign policy to overcome the issue of past foreign policy failure towards Myanmar. This articles deals with six different policies that include Trade & Infrastructure, Democracy & Stability, Security in India's Northeast region & illegal migration, energy resources, economic development and role of china. This study concludes that both countries should meet each other on regular basis just to maintain its good relationships for the trading business.

Indo-Myanmar Trade

Bilateral trade between India and Myanmar in 2016-17 was US$ 2178 million, of which India's exports were US$ 1111 million and imports were US$ 1067 million. Major items of India's export to Myanmar include sugar, pharmaceuticals, electrical machinery and equipment, mineral oil, cotton, iron and steel products etc. similarly, the major items of India's import from Myanmar were edible vegetables, tea, coffee, oilseeds, fish etc. There are enormous trade potentials between two countries. India and Myanmar signed a treaty of friendship in 1951. As the two countries continue to develop and strengthen trade links and their economies .The Indo-Myanmar Border Trade Agreement signed in 1994 was the outcome of India's Look East Policy. According to this agreement, border trade between the two is conducted through More (India)-Tame (Myanmar), and Champlain (India)-Rhiw

(Myanmar). A third border trade point is expected to be opened is Avakhung- Pansai /Somrai.

As the table below shows, bilateral trade has been increasing every year. As per the data available, the volume of trade would be increasing if India's businessman were to invest more. India's trade figure with Myanmar for last year stands at US$ 2175.14 as per Indian Commerce Ministry figures. Total trade between the countries is growing at steady pace. It has shown a growth of 135% over the decade.

Table 1: India - Myanmar Trade during Period 2006 – 2017 (US$ Million)

Year	Export	Import	Total Trade	Trade Balance
2006 - 2007	140	783	923	-642
2007 - 2008	186	809	994	-623
2008 - 2009	222	929	1151	-707
2009 - 2010	208	1290	1498	-1082
2010 - 2011	321	1018	1338	-697
2011 - 2012	545	1381	1927	-836
2012 - 2013	545	1413	1957	-868
2013 - 2014	787	1396	2183	-609
2014 - 2015	773	1232	2005	-458
2015 - 2016	1071	984	2055	86
2016 - 2017	1108	1067	2175	41

Source: Government of India (2017): Export Import Data Bank, Ministry of Commerce & Industry, http://commerce.nic.in/eidb/Default.asp

According to data published by World Trade Organization, as shown below Myanmar's share in India's trade is below 1%. Myanmar is trying to attract Indian investments & entrepreneurs for investment into their country. India also has been taking measures to strengthen transportation routes so as to strengthen trade links with Myanmar.

Table 2: Myanmar's Share in India's Trade during 2006-17 (per cent)

Year	Export Share	Import Share	Total Share
2006 - 2007	1/9	4/9	1/3
2007 - 2008	1/8	1/3	1/4
2008 - 2009	1/9	2/7	2/9
2009 - 2010	1/8	½	1/3
2010 - 2011	1/7	2/7	1/4
2011 - 2012	1/6	2/7	1/4
2012 - 2013	1/5	2/7	1/4
2013 - 2014	1/4	2/7	2/7
2014 - 2015	1/4	¼	1/4
2015 - 2016	2/5	¼	1/3
2016 - 2017	3/7	2/7	1/3

Source:

- *Government of India (2017): Export Import Data Bank, Ministry of Commerce & Industry, http://commerce.nic.in/eidb/Default.asp*
- *World Trade Organization (2017): https://www.wto.org*

India's trade with Myanmar still remains thin, with India's share reducing over the decade. This could be pointed towards limited trade routes and bilateral policies for trade between countries. As per data received from World Trade Organization depicted in table below.

Table 3: India's Share in Myanmar's Trade during 2006-17 (per cent)

Year	Export Share %	Import Share %	Total Share %
2006 - 2007	17.2	5.5	13.0
2007 - 2008	12.9	5.7	10.5
2008 - 2009	13.5	5.2	10.3
2009 - 2010	19.4	4.8	13.6
2010 - 2011	11.8	6.7	10.0
2011 - 2012	15.0	6.0	10.6
2012 - 2013	15.9	5.9	10.8
2013 - 2014	12.4	6.5	9.4
2014 - 2015	10.8	4.8	7.2
2015 - 2016	8.6	6.3	7.3
2016 - 2017	9.7	6.7	7.9

Source:

- *Government of India (2017): Export Import Data Bank, Ministry of Commerce & Industry, http://commerce.nic.in/eidb/Default.asp*
- *World Trade Organization (2017): https://www.wto.org*

India has taken considerable steps to boost-up its trade links with Myanmar. It is reflected with switch from 'Look' to 'Act' East Policy, with more focus on action & implementation.

II. CONCLUSION

It is observed that there many studies undertaken on Indo-Myanmar trade and economic relations. The different aspects of Indo-Myanmar trade relations have been studied by researchers in the areas of present and future bilateral trade developments, India's trade relations with ASEAN states, cross border relationships for economic development, foreign relations of India-Myanmar, development of external trade etc.

To maintain a stronghold position in Southeast Asia, and counter effect increasing influence of China in the region, both countries should come closer in their socio-political-economic relations. Myanmar's share in India's Trade is even below 0.5% as evident from past data.

With increased trade relations, there is lot more scope for both countries to maintain stability and security in the South East Region. Increased trade between countries would further benefit India's and support Myanmar's economy.

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FROM TSC TO NBA TO SBM: INDIA'S ODF OBJECTIVE

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Abstract

India has an open defecation (OD) rate of 60% – four times the global rate. It is well documented that OD leads to the transmission of diseases and produces adverse health outcomes for nearby populations, especially children. Since 1986, India has taken measures to address this problem by implementing various sanitation campaigns such as the Central Rural Sanitation Program (CRSP), Total Sanitation Campaign (TSC, 1999) and Nirmal Bharat Abhiyaan (NBA, 2012) to eliminate OD. Unfortunately, the campaigns have achieved limited success in changing the population's OD behavior. The current campaign is Swachh Bharat Mission (SBM) or "Clean India Mission". After the announcement of 'Swachh Bharat Mission', there has been a change in the attitude of open defecation in India .The two previous programmers has been evaluated in this paper. The two main constraint (capacity and behavior constraint) coming out to achieve the goal till 2019 are also discussed. The paper suggest that Community led total sanitation method (CLTS) can be effective tools to triggering the community for eradicating OD. The paper observed that without acknowledging the heterogeneity of latrine use preferences, executing large-scale behavioral interventions will fail to increase demand for latrines. Rather than promoting building toilets as a means of preserving women's dignity, the SBA campaign promotes latrine use among all adult men and women.

Keywords: Open Defecation Free (ODF),Total Sanitation Campaign(TSC), Nirmal Bharat Abhiyaan(NBA),Swachh Bharat Mission (SBM).

I. INTRODUCTION

India is the world's largest democracy and yet it is also home to the largest number of people defecating openly, every day. Functional toilets, considered a bare necessity in other countries, are not even available to half the citizens of India. India presently ranks first in the world in the practice of open defecation followed by Indonesia, a far second with Only 60 million of its citizens practicing open defecation**.** These statistics indeed call for alarm and attention. The puzzle of why India has such anomalously high rates of open defecation is an important one because poor sanitation is widely recognized as a cause of poor health, especially in places with high population density. Open defecation spreads bacterial, viral, and parasitic infections, including diarrhea, polio, cholera and hookworm and is an important cause of child stunting (Spears 2013; Chambers and Von Medeazza 2013, Coffey et al 2013; Ghosh et al 2014) and infant death. Open defecation is also a classic example of a "negative externality" in which one person's behavior hurts other people. Public economics tells us that in situations with negative externalities, government intervention is needed to either stop the externality, or reduce its harm.

The aim of this paper is to evaluate the previous efforts made by the government to combat open defecation and to discuss the constraint to achieving target of ODF India by 2019.The paper proceeds as follows. The first section of the paper discusses the previous attempts of Central Rural Sanitation Programmers to combat open defecation. Under this section, two plans have been

covered i.e. Total Sanitation Campaign &Nirmal Bharat Abhiyaan. Since 1986, India has taken measures to address this problem by implementing various sanitation campaigns to eliminate open defecation. Unfortunately, the campaigns have achieved limited success in changing the population's open defecation behavior. The second section of the paper deals with the current campaign, Swatch Bharat Mission (SBM) or "Clean India Mission". After the announcement of 'Swatch Bharat Mission', there has been a change in the attitude of open defecation in India, by July 2017, Five Indian states have been declared as ODF States i.e. Sikkim, Himachal Pradesh, Kerala, Uttarakh and, Haryana. However, all these states had also give$_n$ good performance in the previous efforts. Therefore, we can't give full credit for this outstanding performance only to SBM. The third section of the paper discuss the constraints to achieve Total sanitation by 2019.The current campaign SBM may fail to reach its goal of an open defecation-free (ODF) India by 2019 if the previous shortcomings are not properly addressed. The last section concludes the paper with a discussion of what can be done to make India free from open defecation and how this program can be made successful with the help of Community led total sanitation method (CLTS Method).

Previous attempts for ODF India

Indian policymakers are aware of the OD challenge, and have introduced a number of campaigns over the past three decades in response. Despite the rhetoric, however, much of the focus has been on building latrines rather than improving usage.

Total sanitation campaign (TSC) and Nirmal Bharat Abhiyaan (NBA)

The first national campaign to target sanitation – the Central Rural Sanitation Program (CRSP) – was launched in 1986, "primarily with the objective of improving the quality of life of the rural people and also to provide privacy and dignity to women." An additional goal was to provide 25% of the rural population with improved sanitation facilities by the end of the decade. The effort was mostly supply-driven, with a focus on latrine construction. As a result, latrines were built despite low demand and they went largely unused.

In 1999, the central government restructured and rebranded CRSP as the Total Sanitation Campaign (TSC). Learning from the disappointing result$_S$ of CRSP, TSC intended to place greater emphasis on changing behavior and generating demand for toilets. Total Sanitation Campaign (TSC) was a comprehensive programmed to ensure sanitation facilities in rural areas with the broader goal of eradicating the practice of open defecation. The TSC reform principles were demand-driven and community-led. The concept of sanitation, which was previously limited to the disposal of human excreta by cess pools, open ditches, pit latrines, bucket system, had now been expanded to include liquid and solid waste disposal, food hygiene, personal, domestic as well as environmental hygiene. With the aim to make India open defecation-free (ODF) by 2017, the campaign dispersed information, education, and communication (IEC) materials about the negative health consequences of OD. However, while TSC called for greater investment in behavior change, actual implementation was limited. In addition to the information-based behavior change efforts, TSC also offered financial incentives. Households below the poverty line (BPL) received subsidies for toilet construction in the amount of 3,200 rupees if the household contributed 300 rupees. To foster competition among communities and reward achievement, in October 2003, Government of India initiated an incentive scheme named the 'Nirmal Gram

Puraskar' (NGP). NGP was given to those "open defecation free "Nirmal Gram Panchayats, Blocks, and Districts which had become fully sanitized. While over 2,000 communities were declared ODF under the NGP, the program was phased out due to the difficulty of verifying ODF status. Despite programmatic changes, TSC also proved ineffectual. Though census data indicates a modest increase in latrine coverage in rural areas, from 22% in 2001 to 31% in 2011, latrine usage stubbornly lagged behind. (Table1)

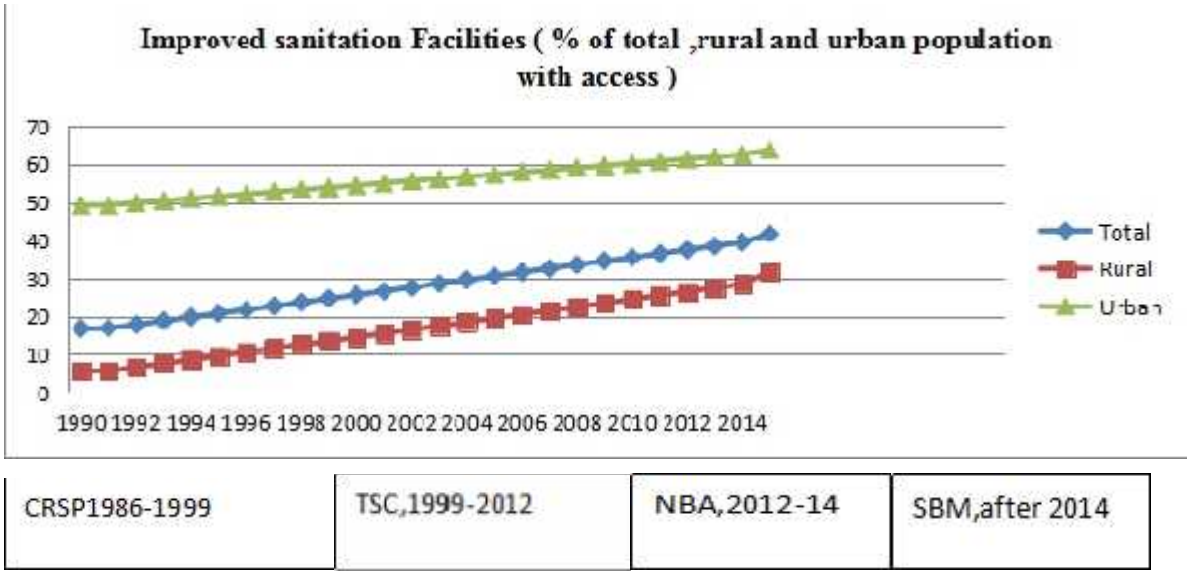
Table 1: Percentage of having households having latrine

Types of Latrine	Rural		Urban	
	2001	2011	2001	2011
Water closet latrine	7.1	19.4	46.1	72.6
Pit latrine	10.3	10.5	14.6	7.1
Other latrine	4.5	0.8	13.0	1.7
No latrine	78.1	69.3	26.3	18.6

Source: Census 2011

In 2012, the TSC was replaced by the Nirmal Bharat Abhiyaan (NBA). The goal of NBA was to achieve 100% access to sanitation for all rural households by 2022 and enabling all villages to reach ODF status. Under this scheme, Village Water and Sanitation Committees were formed with the task of managing the sanitation program at the local level, and to promote transparency, community participation, inclusion, and ownership. The maximum incentive per toilet available to a BPL household had been increased from Rs. 4600 to Rs. 10000.In 4600 Rs., The Centre's share was Rs. 3200 while the States had to give Rs. 1400.The remaining Rs 900 had to be provided by the families. Additionally, for the first time households above the poverty line (APL) were eligible for subsidies. The drawbacks of this programme was to Constructed latrines had not been in used, most people, even when they had the option to use toilets, choose to stick to their habitual practice of open defecation. The major cause of failure of this programme was the lack of Coordination with related departments of health, education, women and child welfare. It was necessary to receive the maximum benefits of sanitation, but this remains extremely weak at the implementation level due to communication gaps and tendency among the field functionaries not to converge their activities. The sanitation program hence tends to become a scheme of the particular department implementing the campaign rather than a sectoral intervention where every department should have a stake.

Figure:



Source: World Bank data 1990-2015

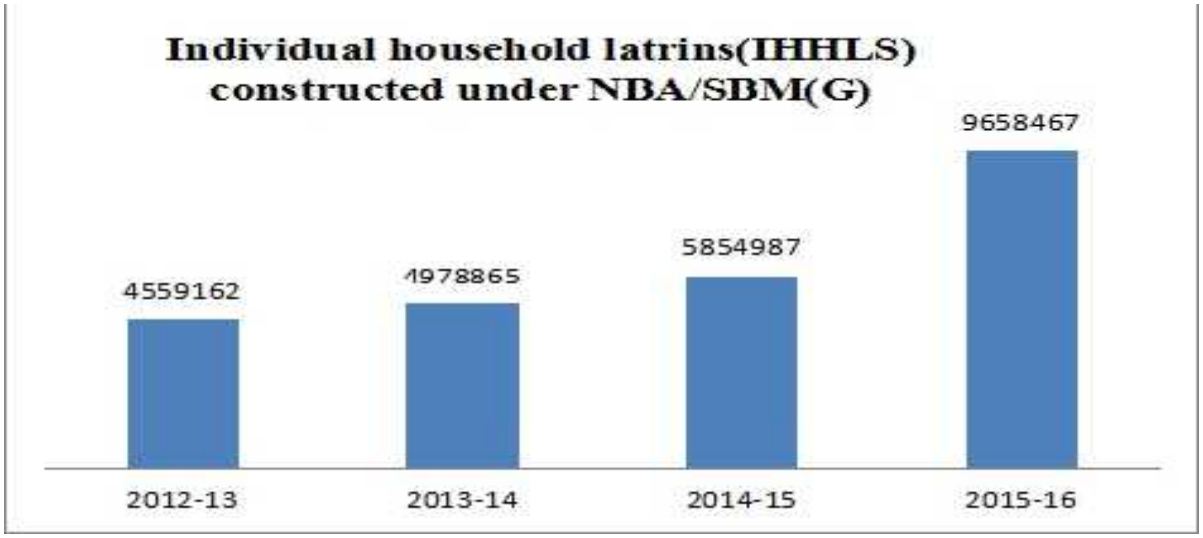
Present Situation: Swachh Bharat Mission

The NBA campaign was short-lived. To accelerate the efforts to achieve universal sanitation coverage and to put focus on sanitation, the Prime Minister of India, Shri Narendra Modi ,replaced it with the Swachh Bharat Mission on 2nd october,2014.There are two submissions-the Swachh Bharat Mission(Gramin) and the Swachh Bharat Mission(Urban).The Mission aims to achieve a Swachh Bharat by 2019, as a fitting tribute to Mahatma Gandhi on his 150th birth anniversary. In general, the structural guidelines are best understood as a gradual aggregating of implementation plans from each unit of government in the Indian state, with national level plans meant to supplement state plans; the latter includes specific annual activities and a communications and monitoring strategy. Various frontline actors are to carry out sanitation activities, including social health activists (ASHAs), Anganwadi workers, self-help groups, civil society organizations, and a limited number of Swachhata Doots (SBA workers) hired specifically for that purpose. In sum, the government expects to spend $22 billion on the initiative.

Performance of the Scheme

The Ministry of Drinking Water and Sanitation has recently released a report on the progress of the Swachh Bharat Mission Gramin in the last two years. According to the release, 2.4 crore toilets (including IHHLS, Schools and Anganwadi center) have been constructed under the Swachh Bharat Mission and 15.04 lakh under MNREGA across rural India. The rural household toilet coverage has increased from 42% at the start of Swachh Bharat Mission Gramin to 55.34%.

Figure 2:



Source: Swachhata status report: 2017 by NSSO.

In the first year of the Swachh Bharat Mission, an increase of 106% in construction of toilets was observed, as compared to the pre-SBM period of 2014-15(figure 2). 35 districts and about one lakh villages are targeted to be declared open defecation free.

Over Rs 18,000 crore have been spent under the Swachh Bharat Mission (SBM) since its launch in October, 2014. According to Accountability Initiative, allocations for Swachh Bharat Abhiyan (Gramin) increased over threefold from Rs. 2,850 crore in FY 2014-15 to Rs. 9,000 crore in FY 2016-17. (Figure3). Part of this jump is due to the introduction of the SBM (Swachh Bharat Mission) cess in November 2015 [1].

Figure 3:



Source: Accountability initiative data, 2016

The Swachh Bharat Kosh- which seeks to attract the participation of the private sector-has reportedly received Rs 400 crore to aid this national goal. The pace of toilet construction increased in 2015-16, government data says. But the toilet construction numbers are not always reliable, as was found by an audit report by Comptroller and Auditor General (CAG) of India that was released in December 2015. The CAG found that during the UPA-II regime, governments of at least 16 states exaggerated the data on individual household toilets by over 190 per cent of the actual constructions.

Obstacles to Achieve 'Total sanitation':

Lack of institutional and administrative capacity to promoting and implementing SBM: Effective implementation of a large-scale program like SBA requires significant administrative and institutional capacity at various levels of government. This is the key binding constraint to achieving Swachh Bharat. India's public sector, however, is relatively small by international standards. According to data from International labour organization (ILO, 2015). Across G-20 countries, the median estimated number of public sector employees is 572 per 10,000 population. On the other hand India's public sector employment is just 143 per 10,000 population .In this situation the administrators have more pressure to achieve this goal till 2019.

Actually, allotted time for obtaining the goal under the SBM by 2019 is also one of the biggest obstacle. Political visibility has brought with it serious pressure to meet targets till 2019. District collectors are being monitored frequently resulting in a competition to meet targets, at speed. This is hardly something to complain about—after all for a bureaucracy infamous for its lethargy and apathy, most would argue that pressure and targets are the only way to get things done. But in the absence of corresponding investments in administrative capacity, these targets have created conditions for a race to the top that undermines the core objectives of the programme. as officers joined the ODF race, penalization of citizens, rather than awareness raising and demand creation, has become the preferred tool to achieve success.

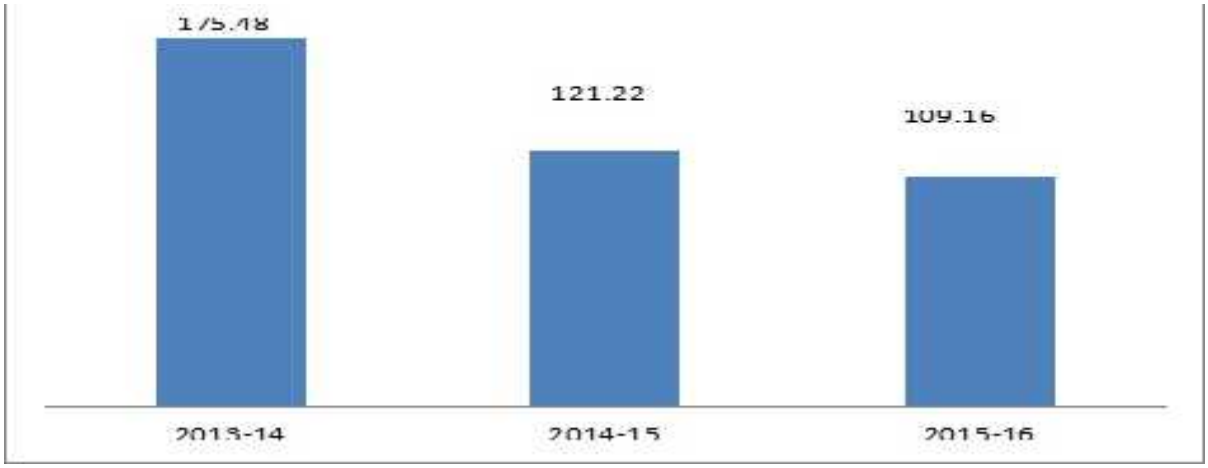
For the moment, the assumption seems to be that top-down targets, slick advertising with Bollywood stars and helicoptering in teams of volunteers from the outside can substitute for building local institutional capacity and community engagement. But their reach is limited. A phone survey conducted by R.I.C.E. economists in July 2016

found only 2.6% respondent$_S$ in rural Uttar Pradesh and 5.4% in Delhi were aware that SBM promotes toilet use. One reason for this is the lack of on-ground engagement. A survey by Accountability Initiative in December 2015 found that less than 10% respondents had heard of an awareness programme on sanitation being conducted in the village and only 3% had been visited by government or Panchayat officials to discuss sanitation.

Behaviourial Constraint

The SBA guidelines recognize that latrine construction is not a sufficient strategy for ending OD and that behavior change must also be a priority. We know that Religion, caste, and social group norms have shaped OD habits in India. It is a fact that constructing toilets alone cannot ensure total sanitation. The real challenge lies in getting people to use them. While treating fecal sludge and disposing it are largely urban concerns, modifying behavior and motivating people to abandon open defecation are considered rural sanitation challenges. There is many research has been found that the generic information on sanitation and hygiene, most villagers lacked clarity about the health impacts, especially the oral-fecal contamination route. Behavior change is a slow process requiring repeated interventions. While home visits and interpersonal communication are the most effective methods to elicit sanitation behavior change, this is rarely followed in the current IEC regimen. The reason i.e. the lack of funds and dedicated project staff. Lesser funds are now being spent on Information, Education and Communication (IEC) activities. Expenditure on IEC reduced from Rs. 175 crore in 2013-14 to Rs. 109 crore in 2015-16, government conveyed in response to a parliament question.

Figure 4: Central expenditure incurred on Information, Education and Communication (in Rs. Crore)



Source: Swachhata status report, 2017

IEC spending as a percentage of overall sanitation spending can therefore be seen as a rough measure of the district focus on behavior change strategies GOI/state/local governments need to invest more to develop their sanitation capacity. The capacity-building component of SBA funding comes out of the (already limited) IEC budget and is capped to 1% of district total project costs Given the limitations capacity constraints impose on SBA implementation, GOI should strongly consider raising this cap and increasing the IEC component proportionally.

Policy Suggestions:

SBM with Community led total sanitation Method (CLTS Method): Community Led Total Sanitation (CLTS) is an innovative methodology for mobilizing communities to completely eliminate open defecation (OD). Communities are

facilitated to conduct their own appraisal and analysis of open defecation (OD) and take their own action to become ODF (open defecation free).CLTS focuses on the behavioral change needed to ensure real and sustainable improvements – investing in community mobilization instead of hardware, and shifting the focus from toilet construction for individual households to the creation of open defecation-free villages. By raising awareness that as long as even a minority continues to defecate in the open everyone is at risk of disease, CLTS triggers the community's desire for collective change, propels people into action and encourages innovation, mutual support and appropriate local solutions, thus leading to greater ownership and sustainability.

Evidence of Bangladesh and African countries to eradicate OD with the help of CLTS Method : One of the best and notable example is Bangladesh, which has a shared history and similar health and economic conditions to India. Considering this, it is unsurprising that the nation faced analogous public health challenges, including a measured OD rate of 42% in 2003.43 However, after launching the Bangladesh National Sanitation Campaign (BNSC) in 2003, which endeavored to end OD by 2010, OD fell to 3% over the next decade. As such, BNSC provides a salient example of how broad government commitment and behavior change methods can effectively reduce OD. BSNC's success was the emergence and adoption of a behavioral change method called community led total sanitation (CLTS), this method brings members of a community together to appraise and analyze their defecation practices and change perceptions of OD as a shameful practice. These efforts are initiated by facilitators, who bring residents together for activities that show how OD leads to accidental ingestion of feces. Underlying this model is the "basic assumption...that no human being can stay unmoved once they have learned that they are ingesting other people's shit."

Several African countries have also implemented CLTS principles to address OD. For example, in Mali, the government adopted CLTS to trigger households to construct simple latrine designs from locally available materials. According to the Institute of Development Studies, within six years of its implementation in 2009, the program was operating in five of Mali's eight regions. These areas demonstrated great success, with the construction of 60,000 new latrines and 1,780 villages (approximately 12% of the rural population) declared open defecation-free.

In India, The government should focus on using the 'Community-Led Total Sanitation' (CLTS) approach with people building toilets on their own. This will encourage communities to take the lead and identify their own measures to end OD. The national-level approach is meaningless if it is not achieving the desired results. The community should become the starting point and single window for implementing the Swachh Bharat Mission. There is also a direct need for a dedicated cadre of trained personnel to scale-up the programmed and trigger change. This requires people from within the community as facilitators. Trained in participatory approaches as well as facilitation skills, these people will be able to mobilize and inspire the community to expedite change.

CLTS can be effective tools to triggering the community for eradicating OD. There has not been much effort in this direction in India. Although The government is endeavoring to increase awareness through various campaigns .Government is trying to people attract through some catchy slogans ,advertisement and appointed some celebrities as 'Swachata Doot'.But the problem is that, their access is limited. In this

situation, CLTS Method can be very effective because through this method, things could be explained locally, and it encourage to active participation of local people.

II. CONCLUSION

This study concludes that there are some missing links from TSC to NBA to SBM .Where TSC based on supply driven approach on the other hand NBA was demand driven. Under the SBM Scheme the government has highlighted behavior constraint of the people and is showing commitment on completion of the target in due time. But the missing link is that the policy and approach behind it ignores a fundamental pre-requisite to ensure sustainable results through Community Led Total Sanitation (CLTS). SBM seeks to simply adopt tools without bothering to provide an environment which enables CLTS to succeed. This conveys that toilets are being sought, not the collective behavior change essential to secure sanitation as a public good.

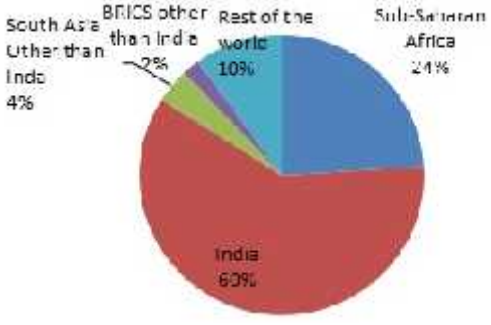
In reality, the way which work is being done, the purpose of government still focused on the construction of toilet and not to increase awareness for usage. This mission is viewed as a center plan and the mantle for its implementation has been done by the concerned central Ministry. It is setting its sights on district level achievement and engaging with district administrators directly. States end up feeling little responsibility for delivering outcomes and are accountable only for doing what the Centre asks them to. Direct central involvement with the districts means that it loses the ability to critically examine ODF declarations. It becomes an actor responsible for the result and not a judge of the outcome. This can end up putting a question mark on the sustainability of the achievements that will be rewarded through the World Bank loan.

There is need to learn from the past experience the clear message from past experience is to avoid more emphasize on toilet subsidies since they detract from behavior change. And another thing is that the ideal solution is to leave sanitation to the states and local/bodies and not have a central programmed at all. After the increase in untied devolution following the recommendations of the 14th Finance Commission, states have enough funds to spend on any function they priorities. However, this would run counter to a situation in which the Centre needs to show that it is driving the sanitation agenda. The next best option is a Central programmed which does two things.

First, the Centre should not prescribe how toilet funds are spent and let states choose their own approach. Second, it should focus on outcomes and thus, reward states which perform better. This will incentivize them to adopt policies that deliver better sanitation and not just toilets which become derelict or at best are partially used. India can become ODF country, but the objective of India's ODF can be achieved by changing the behavior of the people, not by making toilets alone, in the last two schemes, this mistake has happened. It would have to be improved in SBM.

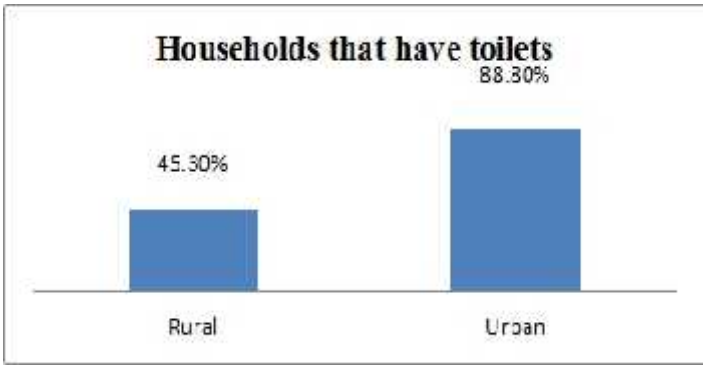
Appendix

Figure5: OD in India compared to other regions of the world



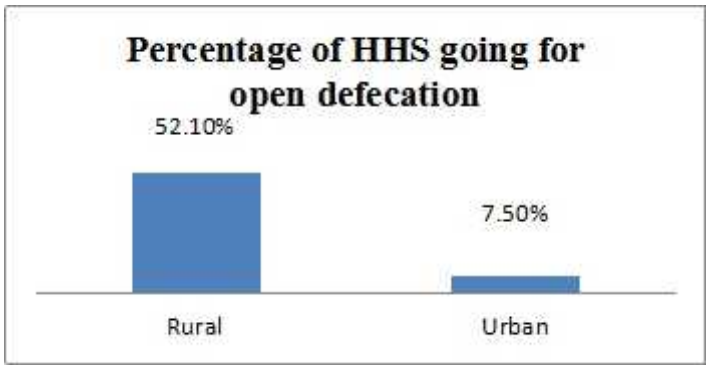
Source :World Bank Data 'Water supply and Sanitation Facility'

Figure 6:



Source: Swachhata status report,2017

Figure7:



Source: Swachhata status report, 2017

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IMPACT OF AIFTA ON INDIA-ASEAN THE TRADE RELATIONSHIP: AN OVERVIEW

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Abstract

Regional Economic Integration is one of the important phenomenons in today's world. From last few decades, regionalism expanded rapidly because in this globalised era no country can exists in economic isolation. Free Trade Area is the most basic form of economic cooperation. Currently there are various regional economic cooperation exist in the World. ASEAN is one of the oldest regional group which exist in South East Asia. Association of South East Asian Nations (ASEAN) is a free trade agreement between the ten South East Asian countries namely Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam. It came into force on 8th August 1967. The main purpose to established ASEAN is to accelerate economic growth, social progress and cultural development in the region and to reduce their custom duties to promote the free flow of goods between the member countries. To achieve the benefits of economic integration, India signed ASEAN India Free Trade Agreement (AIFTA) on 13 August 2009. The main aim of signing the AIFTA is to liberalise the tariff over 90% of the products traded between the ASEAN and India. The main purpose of this study is to analyse the trends of India and ASEAN trade before and after implementation of AIFTA. For this study, the secondary data are used.

Key Words: Regional Economic Cooperation, ASEAN, AIFTA, Trade, Tariff Barrier

I. INTRODUCTION

Regional Economic Cooperation is one of the most notable trends in the global economy in recent years. It is an agreement between two or more countries which facilitates reduction or elimination of trade barriers and coordination of monetary and fiscal policy. In this globalised era, no nation can exist in economic isolation because growth rate, levels of income and employment, industries, service sector, etc. of a country is linked to the economies of trading partners.It is universally accepted that international trade plays an important role in the development of an economy. Many countries believe that expansion of free trade is possible through the establishment of Regional Economic Cooperation. Over the past 25 years, world trade has grown significantly due to the economic integration. Larger markets and complete utilisation of production capabilities, transfer of technologies, economies of scale, better utilisation of local resources, etc. are few advantages of economic integration. To achieve these benefits of economic integration within the South East Asia, a regional bloc namely Association of South East Asian Nations (ASEAN) was found.

Association of South East Asian Nations (ASEAN) is a free trade agreement between ten Southeast Asian countries. ASEAN was established on 8 August 1967 in Bangkok by the five Southeast Asian countries namely Indonesia, Malaysia,

Philippines, Singapore and Thailand.In a few span of time the membership has expanded to include the Brunei on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997 and Cambodia on 30 April 1999. Thus, at present ASEAN have ten member states.

Objectives Of ASEAN

The main purposes of establishing the ASEAN are:

- To promote regional peace and stability
- To promote collaboration and mutual assistance on matters of common interest
- To provide assistance to each other in the form of training and research facilities.
- To provide a mechanism for the member countries to resolves the differences peacefully
- To collaborate for the better utilization of agriculture and industry to raise the living standards of the people
- To maintain close, beneficial co-operation with existing international organizations with similar aims and purposes.
- ASEAN is built on three pillars namely ASEAN Political-Security Community (APSC), ASEAN Economic Community (AEC) and ASEAN Socio-Cultural Community (ASCC).

Principles

The ASEAN countries signed a Treaty of Amity and Cooperation at first ASEAN Summit on 24 February 1976. Following are the principles lays down in the treaty:

- Mutual respect for the independence, sovereignty, equality, territorial integrity and national identity of all nations,
- The right of every state to lead its national existence free from external interference, subversion or coercion,
- Non-interference in the internal affairs of one another,
- Settlement of disputes by peaceful manner among member states,
- Renunciation of the threat or use of force, and
- Effective cooperation among member countries

India is one of the important trade partners of the ASEAN countries. India's Look East Policy was initiated in 1990 and since then India's relationship with ASEAN improving day by day. India became a sectoral dialogue partner of ASEAN in 1992 which was upgraded to full dialogue partnership in 1996. Since 2002, India has had annual summits with ASEAN. On 8th September 2016, India's Prime Minister Shri Narendra Modi visited Vientiane, Lao PDR to attend 14th ASEAN-India Summit. The negotiations on a trade in goods between India and ASEAN were started in March 2004. The negotiation continued for the six years and finally the ASEAN-India Free Trade Agreement (AIFTA) was signed on 13 August 2009 in Bangkok. This agreement covers only the trade in goods between India and ASEAN member countries. This agreement came into force on 1 January 2010. The main aim of signing the AIFTA is to liberalise the tariff over 90% of the products traded between the ASEAN and India which include "Special Products" such as Palm Oil, Coffee, Black Tea and pepper. The agreement aims to eliminate the tariffs on over 4000 products.

Literature Review

Ahuja and Bhattacharya (1988**)** in their study titled "Trade Complementarities and Prospects for Regional Import Substitution among SAARC-ASEAN Countries" analyzed the trade complementarities between India and the ASEAN countries. They state that overall trade complementarities index between India and ASEAN has been generally low. The limitation of this study is that it is only confined upto the year 1984. Therefore, there is a need to examine the more recent trends.

Asher (1991**)** in his study titled "Economic Cooperation and Linkages between SAARC, ASEAN and other sub-regions in the Asia-Pacific Region" identifies the economic cooperation and linkages between India and ASEAN grouping. He observed that in the South Asia, India is only country which invested the most in the ASEAN countries. He also argues that Singapore and Thailand also invested in India but the value of investment is relatively very small.

Dr. Wadhwa (1992) in his study titled "Regional Economic Cooperation between SAARC and ASEAN and other countries of the Asia Pacific Region" analyzed the various fields of economic cooperation between India and ASEAN countries. He state that prospects of making India, a dynamic partner of the highly growth oriented Asia-Pacific Region, in the fast changing global as well as regional and sub-regional economic environment of the 1990. He also observed that the recent trends in the growth of Indo-ASEAN trade are encouraging. He also observed that during the last decade India's imports from the ASEAN countries has been growing faster than its exports. Hence, India is facing growing adverse balance of trade with the ASEAN countries.

Prof Rao and Das (1993**)** in their study titled "India and ASEAN: Issues in Sectoral Dialogue Partnership" analyzed the economic cooperation between India and ASEAN countries especially in the field of Engineering, Financial Services, Tourism, Science and Technology and Joint Ventures. They also provide a list of goods in their study which have been traded between India and ASEAN countries along with the list of joint ventures. The limitation of this study is that it does not identify the new area for mutual cooperation. It is necessary to examine all these factors so that volume of mutual trade can be increased.

Pratibha Chauhan (1999) in her doctoral dissertation titled "India's Trade and Investment Relationship with ASEAN Countries: With Special Reference to Singapore and Malaysia" analysed the India's trade and investment relationship with the ASEAN countries more particularly with the Singapore and Malaysia for a period of ten years starting from 1988 to 1998. She observed that India enjoys a harmonious relationship with the ASEAN countries. India enhanced its trade and investment relationship with the ASEAN countries, more particularly with Singapore and Malaysia due to the liberalisation of trade policy. India's export to and import from selected countries of ASEAN namely Singapore and Malaysia reflected an increasing trend during the period of 1988 to 1998.

Gaur (2003**)** in his research study titled "Framework Agreement on Comprehensive Economic Co-operation between India and ASEAN: First step towards Economic Integration state that Trade and Investment being the most important factors in ASEAN-India relationships, the FTA between ASEAN and India is a step in right direction. However, currently the trade between India and ASEAN is still low but the growth rate is impressive. Despite the satisfactory growth in trade post 1991 period, India is still a marginal player in the global trading relations of all ASEAN countries. Currently about 85 to 90 percent of India-ASEAN trade is with three or four ASEAN countries. Thus, diversification is what India should seek out for.

Sen, Asher and Rajan (2004**)** in their research study titled "ASEAN-India Economic Relations: Current Status and Future Prospects" observed that there is a significant potential existed for greater economic cooperation between the India and ASEAN.

Pal and Dasgupta (2009) in their study titled "The ASEAN-India Free Trade Agreement:

An Assessment" pointed out that India is unlikely to benefit in the short term from the ASEAN-India FTA because ASEAN is not a natural trading partner of India like China and has not established close relations with the region. However, India can take benefit from the AIFTA by make strategic sense in the long run if India looks at the option of becoming a hub for services exports to the ASEAN countries.

Veeramani and Saini (2010**)** in their study titled "Impact of ASEAN-India FTA on India's Plantation Commodities: A Simulation Analysis" suggest that ASEAN-India FTA would lead to a significant increase in imports by India driven mainly by trade creation rather than trade diversion. This study showed that the proposed tariff reductions under the India-ASEAN trade agreement might lead to a significant loss of tariff revenue for the Government of India. However, the gain in consumer surplus would outweigh the tariff revenue loss leading to a net welfare gain.

Francis Smitha (2011**)** in her research study titled "A Sectoral Impact Analysis of the ASEAN-India Free Trade agreement" presents an overview on the pattern and composition of India's global trade as well as it trade with the ASEAN countries. She argued that recent trends in India's export and import structures point to its increasing participation in FDI driven production networks centred on ASEAN. She further state that ASEAN countries will gain significantly increased market access in India in several semi-processed or processed agriculture products.

Sikdar and Nag (2011) in their study titled "Impact of India-ASEAN Free Trade Agreement: A cross-Country analysis using applied general equilibrium modelling" found that India's bilateral trade with the ASEAN countries increases considerably. India gains the largest market access in Cambodia, the Lao People's Democratic Republic, Malaysia, Philippines, Thailand and Vietnam. They gave a list of the goods which exported to the ASEAN countries namely wearing apparel, textiles, food products, other crops, wood and wood products, fisheries, minerals, meat and meat products, leather and leather products and beverages and tobacco.

Sarika Choudhary (2013)in her research study titled "India and ASEAN Trade: An Overview" analysed that since 1980, ASEAN importance has been increasing for India. She concluded that ASEAN four member countries namely Singapore, Malaysia, Indonesia and Thailand are the destinations of more than 80 percent share of India's exports. The empirical analysis of growth of trade of ASEAN countries shows that after 1995, Vietnam emerged as a significant trade partner of India. Apart from this, increase in export and import of Cambodia, Lao and Myanmar also showed that there great potential of trade for India and ASEAN and India and ASEAN trade has a lot of scope for future.

II. OBJECTIVES

Following are the objectives of the study:

1. To provide an overview on ASEAN-India Free Trade Agreement.
2. To analyze the trends in trade between India and ASEAN as a whole for the period 2008-09 to 2016-17 before and after implementation of AIFTA.
3. To analyze the trends in India's trade with Singapore and Malaysia for the period 2008-09 to 2016-17 before and after implementation of AIFTA.

Research Methodology

In the present study an attempt has been made to analyze the impact of ASEAN-India Free Trade Agreement (AIFTA) on the India's trade relationship with ASEAN as a whole and with Singapore and Malaysia after implementation of

AIFTA. For this study, the secondary data are used. The data has been collected from the Ministry of Commerce (Govt of India), various journals, research articles, etc. The study covers a period ranging from 2008-09 to 2016-17.

India's Trade with ASEAN as a Whole

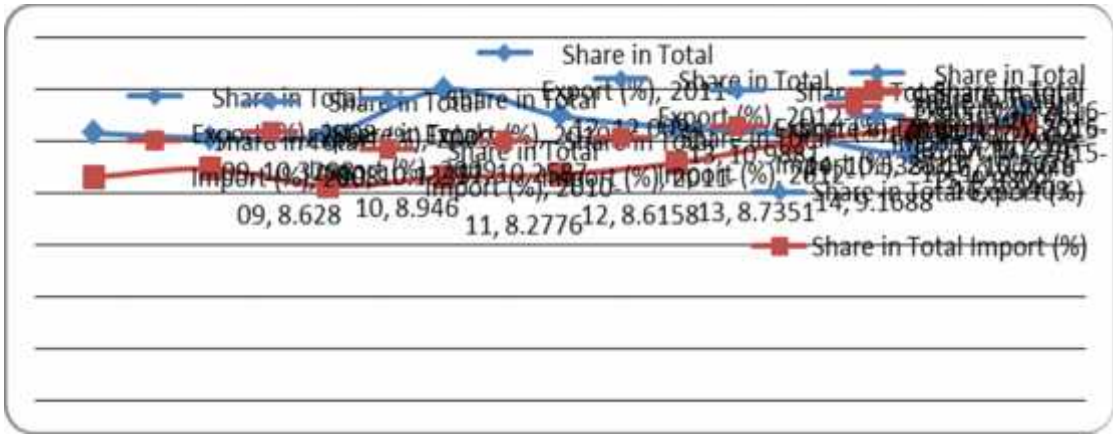
Following table shows the trends of India's trade with ASEAN as a whole. The AIFTA was come into force on 1 Jan 2010. So with the help of this table, it can analyze the trends in India's trade with ASEAN before and after signing of AIFTA, period ranging from 2008-09 to 2016-17.

Table 1: India's Trade with ASEAN (US $ Million)

Year	India's Export to ASEAN	India's Total Export	Share in Total Export (%)	Growth in Export (%)	India's Import from ASEAN	India's Total Import	Share in Total Import (%)	Growth in Import (%)
2008-09	19,140.63	1,85,295.36	10.3298	16.62	26,202.96	3,03,696.31	8.628	15.56
2009-10	18,113.71	1,78,751.43	10.1335	-5.37	25,797.96	2,88,372.88	8.946	-1.55
2010-11	25,627.89	2,49,815.55	10.2587	41.48	30,607.96	3,69,769.13	8.2776	18.64
2011-12	36,744.35	3,05,963.92	12.0094	43.38	42,158.84	4,89,319.49	8.6158	37.74
2012-13	33,008.21	3,00,400.58	10.9881	-10.17	42,866.36	4,90,736.65	8.7351	1.68
2013-14	33,133.55	3,14,405.30	10.5385	0.38	41,278.09	4,50,199.79	9.1688	-3.71
2014-15	31,812.58	3,10,338.48	10.2509	-3.99	44,714.77	4,48,033.41	9.9802	8.33
2015-16	25,154.50	2,62,290.13	9.5903	-20.93	39,909.60	3,81,006.63	10.4748	-10.75
2016-17	30,961.62	2,75,851.71	11.224	23.9	40,617.31	3,84,355.56	10.5676	1.77

Source: Ministry of Commerce (Govt of India)

Figure1: India's Total share in Export & Import to ASEAN



It is clearly seen from the above table that before the signing of the AIFTA, in the year 2008-09, the India's total share in export to ASEAN is 10.3298%. The India's export to ASEAN was growing at a rate by 16.62%. In 2009-10, when AIFTA was signed the share of India's export to ASEAN in total export was 10.1335% and export was decreases by a rate 5.37%. But after implementation of AIFTA, in the initial two years, 2010-11 and 2011-12, there was impressive growth in India's export to ASEAN at a rate 41.48% and 43.38% respectively and India's share in export to ASEAN in total export was 10.2587% and 12.0094% respectively. But after this period there were very disappointing trends in India's export to ASEAN. In the year 2012-13, 2014-15 and 2015-16 there are negative growth at a rate by 10.17%, 3.99% and 20.93% respectively. In the year 2016-17, there is growth in India's export to ASEAN by a rate 23.9%. On the other hand, in the year 2008-

09 the share of India's Import from ASEAN in total import was 8.628% which is increases to 8.946% at the time of signing the AIFTA, in the year 2009-10 but in the same year there was negative growth in India's import from ASEAN at a rate 1.55%. After implementation of AIFTA, there is rise in the India's import from ASEAN in the year 2010-11 and 2011-12 at the rate 18.64% and 37.74% respectively. In the year 2013-14 and 2015-16, there were negative growth in the India's import from ASEAN at the rate 3.71% and 10.75% respectively. In the year 2016-17, the India's import from ASEAN increases at a rate by 1.77%. It can be easily depicted from the above table and figure that after signing the AIFTA there is a rise in share of India's import from ASEAN in total import at a gradual rate.

India's Trade with Malaysia

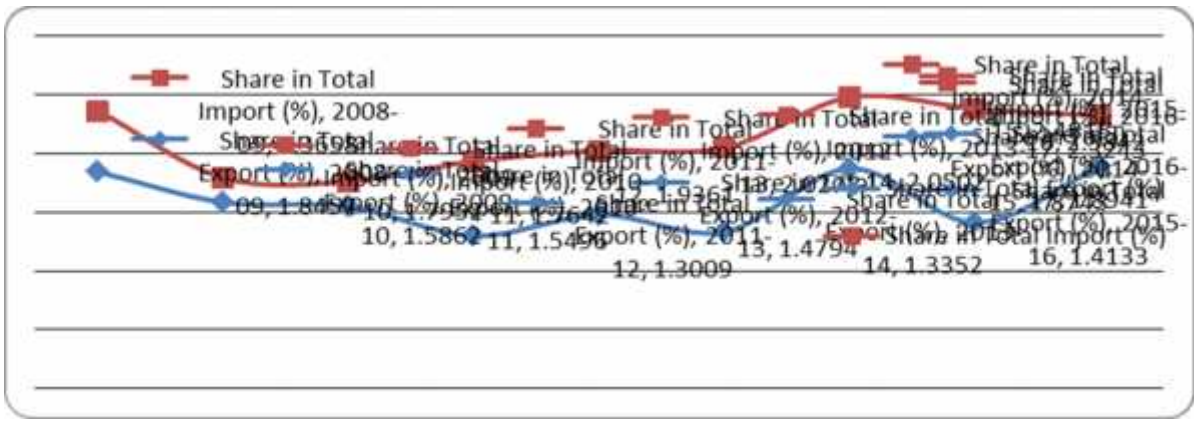
Malaysia is one of the leading trading member states of ASEAN with India. The trends of trade between India and Malaysia can be analysed with the help of following table:

Table2: India's Trade with Malaysia (US $ Million)

Year	India's Export to Malaysia	India's Total Export	Share in Total Export (%)	Growth in Export (%)	India's Import from Malaysia	India's Total Import	Share in Total Import (%)	Growth in Import (%)
2008-09	3,419.97	1,85,295.36	1.8457	32.8	7,184.78	3,03,696.31	2.3658	19.49
2009-10	2,835.41	1,78,751.43	1.5862	-17.09	5,176.78	2,88,372.88	1.7952	-27.95
2010-11	3,871.17	2,49,815.55	1.5496	36.53	6,523.58	3,69,769.13	1.7642	26.02
2011-12	3,980.36	3,05,963.92	1.3009	2.82	9,473.64	4,89,319.49	1.9361	45.22
2012-13	4,444.07	3,00,400.58	1.4794	11.65	9,951.06	4,90,736.65	2.0278	5.04
2013-14	4,197.93	3,14,405.30	1.3352	-5.54	9,229.88	4,50,199.79	2.0502	-7.25
2014-15	5,816.55	3,10,338.48	1.8743	38.56	11,117.74	4,48,033.41	2.4815	20.45
2015-16	3,706.86	2,62,290.13	1.4133	-36.27	9,083.83	3,81,006.63	2.3842	-18.29
2016-17	5,224.86	2,75,851.71	1.8941	40.95	8,933.59	3,84,355.56	2.3243	-1.65

Source: Ministry of Commerce (Govt of India)

Figure 2: India's Share in Export & Import to Malaysia



It is depicted from the above table and figure that there is instability in share of India's export to Malaysia in the total export. After signing the AIFTA in the year 2008-09, before signing the AIFTA, the share of India's export to Malaysia in total export was 1.8457% which was decreases to 1.5862% in the year 2009-10 which is further decreases to 1.5496% in the year 2010-11.In the year 2012-13, there is rise in the share of India's export to Malaysia at a rate 1.4794% but again in 2013-14 it is fall at a rate 1.3352%. The share of India's export to Malaysia in total export is 1.8941% in the year 2016-17. The share of India's import from Malaysia in total import was 2.3658%

in the year 2008-09 which was also decreases to 1.7952% in the year 2009-10. After signing the AIFTA, there is a gradual rise in share of India's import from Malaysia in total import. It is 1.9361% in the year 2011-12 and increases to 2.0278% in the year 2012-13, 2.0502% in the year 2013-14. The share of India's import from Malaysia in total import in the year 206-17 is 2.3243%.

India's Trade with Singapore

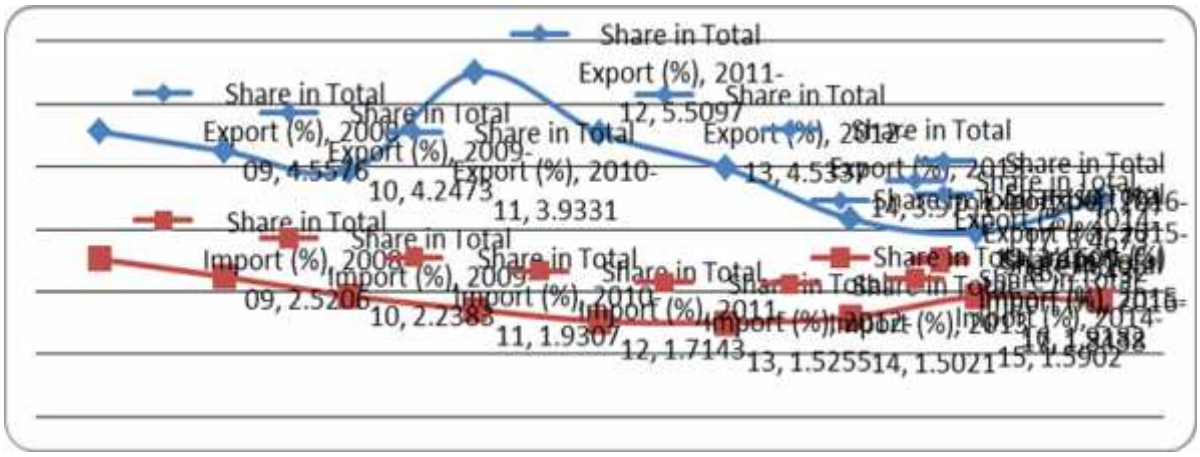
Singapore is another significant trade partner with India among ASEAN countries. Following table and figure showing the trends in trade between India and Singapore:

Table 3: India's Trade with Singapore (US $ Million)

Year	India's Export to Singapore	India's Total Export	Share in Total Export (%)	Growth in Export (%)	India's Import from Singapore	India's Total Import	Share in Total Import (%)	Growth in Import (%)
2008-09	8,444.93	1,85,295.36	4.5576	14.44	7,654.86	3,03,696.31	2.5206	-5.76
2009-10	7,592.17	1,78,751.43	4.2473	-10.1	6,454.57	2,88,372.88	2.2383	-15.68
2010-11	9,825.44	2,49,815.55	3.9331	29.42	7,139.31	3,69,769.13	1.9307	10.61
2011-12	16,857.71	3,05,963.92	5.5097	71.57	8,388.49	4,89,319.49	1.7143	17.5
2012-13	13,619.24	3,00,400.58	4.5337	-19.21	7,486.38	4,90,736.65	1.5255	-10.75
2013-14	12,510.54	3,14,405.30	3.9791	-8.14	6,762.49	4,50,199.79	1.5021	-9.67
2014-15	9,809.36	3,10,338.48	3.1609	-21.59	7,124.47	4,48,033.41	1.5902	5.35
2015-16	7,719.81	2,62,290.13	2.9432	-21.3	7,308.38	3,81,006.63	1.9182	2.58
2016-17	9,564.58	2,75,851.71	3.4673	23.9	7,086.57	3,84,355.56	1.8438	-3.04

Source: Ministry of Commerce (Govt of India)

Figure 3: India's Share in Export & Import to Singapore



Above table and figure shows that before the signing of AIFTA, the share of India's export to Singapore in total export were 4.5576% and 4.2473% but after signing the AIFTA, in the year 2010-11, it is decreases to 3.9331%. In the year 2011-12, the share of India's export to Singapore in total export increases to 5.5097% then there is fall in share of India's export to Singapore. It is 3.9791%, 3.1609% and 2.9432% in the year 2013-14, 2014-15 and 2015-16 respectively. Similar trends are also found in India's import from Singapore. Before signing of AIFTA, the shares of India's import from ASEAN in total import were 2.5206% in the year 2008-09 and 2.2383% in the year 2009-10. But after signing of AIFTA it was decreases. The share of India's import from Singapore in total import in the year 2010-11, 2011-12, 2012-13, 2013-14and 2014-15 are 1.9307%, 1.7143%, 1.5255%, 1.5021% and 1.5902% respectively. In the year 2016-17, the share of India's import from Singapore increases to 3.4673%.

Limitation of the Study

The limitation of this study is that it is based on secondary data. No primary data is being collected. Secondary data may be lacking of accuracy and reliability.

III. CONCLUSION

Presenting an overview on the pattern of India's trade with ASEAN and two member countries of ASEAN, Malaysia and Singapore, this paper concludes that there is no much greater influence of AIFTA on India' trade with ASEAN as expected at the time of signing the AIFTA. The share of India's export to ASEAN in total export before signing the AIFTA was 10.3298%. After signing the AIFTA, it remains in the range from 10% to 11%. 2011-12 is the only exception where the share of India's export to ASEAN increases to 12.0094%. On the other hand, share of India's import from ASEAN in total import increases at a gradual rate after signing the AIFTA.

It is also found that there is a negative impact of AIFTA on India's trade with Malaysia and Singapore. Before signing the AIFTA, in the year 2008-09, the share of India's export to Malaysia and Singapore are 1.8457% and 4.5576% respectively. But after signing the AIFTA, the shares of India's export to Malaysia fall as compared to India's share in export to Malaysia before signing the AIFTA. The highest share of India's export to Malaysia in total export is 1.8941% in the year 2016-17. The share of India's export to Singapore also falls after signing the AIFTA. The only exception is 2011-12 year where the share of India's export to Singapore increases at a rate 5.5097%. Similar trends also found in the shares of India's import from Malaysia and Singapore. Before signing the AIFTA, the share of India's import from Malaysia was 2.3658% in the year 2008-09 which is fall after the signing of AIFTA. The highest share of India's import from Malaysia is 2.4815% in the year 2014-15. India's share of import from Singapore also falls after implementation of AIFTA.

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POWER TRADE BETWEEN INDIA AND BHUTAN

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Abstract

India and Bhutan are developing countries of South Asia. India is seventh biggest country in the world in terms of area with a total area of 3,287 thousand square kilometers and second largest country in the world in terms of population with 131 billion people in 2015. Whereas, Bhutan had total area of 38.4 thousand square kilometers with the population of 0.77 million during same period. Per capita Gross National Income in India and Bhutan was US$ 1590 and US$ 2380 respectively during 2015 (World Bank, 2017). In spite of these differences both nations have warm and cordial relations since long time. Further, electricity trade has strengthened the economic relation between India and Bhutan. India is one of the fastest growing countries as its GDP growth estimated 7.1 per cent in current year 2016-17. But it lagged far behind at its development counterpart in terms of access to clean reliable and affordable energy especially power. Even today a large number of rural populations rely on conventional source of energy like oil, gas and coal etc. but these reserves of primary resources in the boundaries of country are not sufficient to meet domestic needs. As against 17.5 per cent of the world population, India only has 0.6, 0.4 and 0.8 per cent of world's total oil, gas and coal reserves respectively. So it is not possible to fulfil all requirements domestically. On the other hand Bhutan is blessed with natural resources like hydropower. The estimated hydropower potential of the country is 30,000 MW which can be tapped with financial and technical Assistance of India and both the countries are already working in this direction. The mutual cooperation between India and Bhutan to develop power generation capacity and electricity trade has been a win-win situation for both the countries. It has provided a possibility to fulfill the energy requirements of India and for Bhutan. It has also been an economically beneficial venture. This paper aims to analyse the opportunities and challenges to trade of power between India and Bhutan.

Key Words: India, Bhutan, Trade, Power, Oil, Gas.

I. INTRODUCTION

India and Bhutan are developing countries of South Asian region and also founder member of SAARC. Bhutan is a landlocked country situated between the Tibetan autonomous region of China in the north and India in the south, east and west. Its geographical location increases its dependence on India for export and import with rest of the world. The Indo-Bhutan relations are very deep rooted in history. In seventh century Tibetan king Songster Gampo converted to Buddhism and in 747 A.D. a Buddhist Saint Padmasamhava came to Bhutan from India connected both the countries culturally. Also, the relation between two thrived during British rule. During 1809, the volume of trade between Bhutan and Assam was recorded at Rs 2 lakh. The Chinese invasion of Tibet (1910-12) and subsequent claims made on Bhutan resulted in the signing of the Treaty of Punakha in 1910 with British India. Although this treaty served to expel

any claims that China might have tried to make, it did not define Bhutan's status technically or legally; for the Bhutanese, this was a source of uncertainty over its relations with India at the time that the British rule was nearing an end. After India's independence in 1947, standstill agreements with Sikkim, Nepal and Tibet were signed to continue existing relations until new agreements were made. Bhutan's status as a country with respect to India became clearer following Prime Minister Jawaharlal Nehru's invitation to participate in the Asian Relations Conference in 1947 (Bandyopadhyay, 2009). After Independence, both the countries signed "Indo-Bhutan Friendship Treaty" in 1949 with the aim of perpetual peace and friendship, free trade and commerce and equal justice to each other's citizens. After military conflicts in 1962, between India and China, India was not in the position to afford Bhutan to be a buffer state. And this is also a well known fact that India's entire border with China is quite vulnerable. The strategic location of Bhutan is a safeguard for India against any aggression or encroachment by China. So time to time India tried to build up strong relations with Bhutan. Electricity trade can be seen as an important factor to develop healthy relations between India and Bhutan. However, India is one of the fastest growing countries as its GDP growth estimated 7.1 per cent in current year 2016-17. But it lagged far behind at its development counterpart in terms of access to clean reliable and affordable energy especially power. Even today a large number of rural populations rely on conventional source of energy like oil, gas and coal etc. but these reserves of primary resources in the boundaries of country are not sufficient to meet domestic needs. As against 17.5 per cent of the world population, India only has 0.6, 0.4 and 0.8 per cent of world's total oil, gas and coal reserves respectively. So it is not possible to fulfil all requirements domestically. On the other hand Bhutan is blessed with natural resources like hydropower. The estimated hydropower potential of the country is 30,000 MW which can be tapped with financial and technical assistance of India and both the countries are already working in this direction. The mutual cooperation between India and Bhutan to develop power generation capacity and electricity trade has been a win-win situation for both the countries. This paper aims to analyze the current scenario of power trade between India and Bhutan and to suggest policy measures that would strengthen the cross border trade between both the countries.

Current Scenario of Electricity in India and Bhutan:

India and Bhutan are developing countries of South Asian region. Presently both witnessed a structural change it the economy where the share of energy consuming industrial and service sector finds an increasing role. Also the increasing use of electricity in agriculture and household have further leads to increase in electricity demand. In spite of being well endowed with natural resources they have not achieved desired goals of electrification. Both the governments have made continuous efforts to strengthen their power system to catch up with the increasing requirements of electricity.

Table-1 shows total installed capacity of India and Bhutan during 1985-2017. During 1985 the total installed capacity of India and Bhutan was 43583 and 9 MW which increased to 326849 and 163 MW during 2015. In the increase of Bhutan's installed capacity India played a major role because she assisted major power plants of Bhutan.

Table-1: Total Installed Capacity of India and Bhutan during 1985-2015 (Mega Watt)

Year	India	Bhutan
1985	43583	9
1990	63616	347
1995	80164	350
2000	95782	354
2005	115545	478
2010	159413	1497
2015	271722	1631
2017	326849	1631

Source: Central Electricity Authority, 2015-17 and Royal Monetary Authority of Bhutan, Annual Reports 2004-05, 2016-17.

Even after making continuous efforts to strengthen power sector, India is facing power shortage because poor technical maintains, lack of infrastructure and fuel availability, high T&D losses and under utilisation of resources have always remained trait of power generation and distribution. But Bhutan emerged as a power surplus country. In spite of making continues efforts the natural resources have not been exploited fully yet. The electricity generation and consumption both remained low in both the countries.

Table-2 depicts the power generation in India and Bhutan. During 1985 Electricity generation in Bhutan was 21 million kwh which tremendously increased after the commission of Chukha HEP with installed capacity of 336 MW and power generation has increased thereafter and total power generation increased to 7396 million kwh during 2015. Similarly electricity generation in India was 183390 million kwh during 1985 which increased to 1217941 million kwh during 2015.

Table-2 Total Electricity Generation in India and Bhutan during 1985-2017(Million Kwh)

Year	India	Bhutan
1985	183390	21
1990	289439	1564
1995	394800	1717
2000	501204	2131
2005	697459	2355
2010	844846	7328
2015	1217941	7396

Source: Asian Development Bank, Economic Indicators, 2005-17.

In spite making continuous efforts and being well endowed with natural resources both countries have not achieved the goal of 100 per cent electrification. Even the power consumption remained low in both the countries.

Table-3 shows total electricity consumption in India and Bhutan during 1985-2017. During 1985 power consumption in Bhutan and India was 30 and 183299 million kwh respectively. With in the span of 30 years Bhutan emerged as a power surplus country and also consumption of electricity also increased domestically. During 2015 total electricity consumption in Bhutan increased to 2123 million kwh. Electricity consumption in India has also increased but she has not been able to fulfil all electricity needs domestically so sheis dependent on Bhutan for electricity supply. Total electricity consumption of India was 1012884 million kwh.

Table-3 Total Electricity Consumption in India and Bhutan during 1985-2017(Million Kwh)

Year	India	Bhutan
1985	183299	30
1990	290817	172
1995	419565	246
2000	502506	446
2005	699013	620
2010	694392	1713
2015	1012884	2123

Source: Asian Development Bank, Economic Indicators, 2005-17.

Indian power supply has always remained in the deficit due to poor technical maintenance, lack of infrastructure, lack of fuel availability, high T&D losses and under utilisation of resources

Government agency Central Electricity Authority (CEA) accounted the T&D loss of power at 23.3 percent in 2014. Coal is the mainstay of power production in India. In turn supply of coal depend upon railway within the country and unloading the coal at ports but both cases India currently faces capacity shortage which is causing a slow working of thermal power plants in the country. In India, theft and pilferage accounts for a substantial part of the high transmission and distribution losses also results over/under estimation of demand and supply conditions in the country. These existing power deficits and increasing demand for electricity strengthen the case for power trade with neighboring countries who have potential to generate surplus. India and Bhutan are already working in this direction.

Power Trade between India and Bhutan:

The electricity trade between India and Bhutan started in 1961 with the signing of Jaldhaka agreement. The interconnection for sharing of electricity started in 1968 after the commissioning of Jaldhaka Hydropower Project with installed capacity of 27 MW. The major part of power produced at Jaldhaka Hydropower Plant was exported to Southern Bhutan through 11 kv interconnection. By the middle of 1970's, India started supplying power to border towns of Bhutan like Daifarm, Bhangtar, Darranga /Samdrapjongkhar and Gelephu/ Hatisar from Assam through 11kv and 33kv system. Even though Bhutan is well endowed with hydropower resources, but it was a net importer of electricity at that time. Bhutan has a theoretical potential of about 30,000 MW of which 16,280 MW is considered to be techno-economically feasible. This potential can be tapped with financial and technical assistance of India and both the countries are already working in this direction.

Bhutan itself cannot harness all its resources. So India has provided an open hearted support to Bhutan. Presently, Bhutan has installed capacity of 1480 MW with five major power generating stations out of which three major power stations export electricity to India. One side domestic demand for electricity is very low in Bhutan. On the other hand demand is continuously rising in India as estimated to be 283,470 MW by 2021((World Energy Outlook, 2013). And Expert Committee Report (Planning Commission, 2006) estimated that India's power generation must increase to 800,000 MW by 2031-32. In such scenario, electricity trade will be beneficial for both countries.

As shown in Table-4 Chukha, Kurichu and Tala are the major power projects developed with technical and financial assistance of India. Chukha Hydel-Electricity project with 336 MW installed capacity was the first hydropower project in Bhutan with full technical support of India under intergovernmental agreement of 1974. The diverse benefits of this project motivated both the nations to extend the co-operation on hydro-power projects. And further, Kurichu Hydel-Electricity project with 60 MW installed capacity and Tala Hydel-Electricity project with 1020 MW installed capacity were developed in 2002 and 2007 respectively. This co-operation turned into a successful venture. One side it fulfilled the energy requirements of India and on the other hand electricity export turned her deficit trade balance with into surplus. Even though Bhutan is well blessed with hydro resources but still has not realised the potential due to lack of financial resources.

Table-4 Existing Hydropower Generating Stations in Bhutan

Name of Project	Installed Capacity(MW)	Year of Commissioning
ChukhaHEP	336	1988
Kurichu HEP	60	2001
Basochhu-IHEP	24	2002
Basochhu-IIHEP	40	2004
Tala HEP	1020	2007
Total	1480	

Source: Royal Monetary Authority of Bhutan, Annual Reports 2004-05, 2010-11 and PTC India Ltd

Table-5 shows Bhutan's electricity trade balance with India during 1985 to 2015. During 1985 Bhutan was net importer of electricity but after the commissioning of Chukha hydro power project with installed capacity of 336 MW, it started exporting electricity to India. And the commissioning of Tala Hydel Project (1020) in 2007, export of electricity increased tremendously. Presently, Tala Hydel project has largest installed capacity among all the installed power projects in Bhutan. Cooperation between Bhutan and India proved to be a successful venture and turned her negative trade balance into positive over the period of time. During 2015 the total trade of electricity of Bhutan was 4905 mn kwh and the trade balance was 4807 mn kwh.

Table-5 Bhutan's Electricity Trade Balance with India During 1985-2015(Million Kwh)

Year	Export	Import	Balance of Trade	Total Trade
1984-85	0	9	-9	9
1989-90	1395	3	1392	1398
1994-95	1475	4	1471	1479
1999-00	1635	24	1601	1669
2004-05	1794	18	1776	1812
2009-10	5576	132	5444	5711
2014-15	4965	158	4807	4965

Source: PTC India Ltd., 2017.

It has been observed that industry in Bhutan is expanding rapidly due to spill-over effects created by the hydro power projects. Hence, economy is also prospering, which leads to increasing urbanization and better standard of living of the Bhutanese. All these developments are causing more domestic demand for electricity, as a result of which Bhutan can reduce the export of power to India under given power generation capacity (Mohammad, 2012). The power cooperation has been proved beneficial for both the countries. This power cooperation is an interest driven cooperation with a win-win situation for both the countries. The diverse benefits from this trade motivated both the nations to enhance the cooperation.

Table-6 shows the upcoming power projects in Bhutan by 2020, primarily to export electricity to India. The table depicts that the total installed capacity of these projects would be 10334 MW. The major power plants are Punatsangchhu-1 (1200 MW), Punatsangchhu-II (1020 MW), Sunkosh (2500 MW) and Kuri-Gongri (1800 MW) which are under construction and will be commission in between 2019 or 2020. All the power projects given in table-5 are under construction in Bhutan with the economic and technical assistance on India. Since the domestic needs of Bhutan is very low so these projects will primarily export electricity to India after meeting the domestic needs of the country.

Table-6 Upcoming Hydropower projects in Bhutan (For export purpose)

S. No.	Name of Project	Installed Capacity	Year of Commissioning
1.	Amochhu Reservoir HEP	540	2018
2.	Chamkharchhu-I HEP	770	2018
3.	Mangdechhu HEP	720	2018
4.	Wangchhu HEP	570	2019
5.	Punatsangchhu-I HEP	1200	2019
6.	Punatsangchhu-II HEP	1020	2019
7.	Sunkosh Main HEP	2500	2020
8.	Sunkosh Barrage HEP	85	2020
9.	Bunakha Reservoir HEP	180	2020
10.	Dagachhu HEP	126	2020
11.	Nikachhu HEP	210	2020
12.	Kuri-Gongri HEP	1800	2020
13.	Kholongchhu HEP	600	2020
14.	Bindu Khola HEP	13	2020
	Total	10334	

Source: Central Electricity Authority, India 2017

Challenges:

In spite of being well endowed with natural resources Bhutan has not achieved a hundred percent electrification goals because it has not fully utilised its domestic potential. Secondly, Bhutan is not able to undertake the capital intensive projects and also there is a lack cross border infrastructure to facilitate energy trade. Even though Bhutan is ready to invest to hydro power projects but the country has always feared about market for its surplus power because China is already to increase its installed capacity to fulfil all energy requirements domestically. And on other hand Bhutan share its eastern, western and southern border with India only. So it is completely dependent on India which is a vast market for Bhutan's surplus power. And lastly, there is a lack of institutional mechanism that could promote inter and intra regional energy trade.

II. SUGGESTIONS

It is suggested that both countries needs to work on political as well as structural level. In this context, following policy suggestion may be helpful to increase the cooperation among these countries:

- India and Bhutan needs to harmonies legal and Regulatory frameworks.
- Since Royal Government of Bhutan not able to undertake the capital intensive projects, therefore, private participation and public private partnership should be encouraged.
- With support of India, Bhutan can create a market for its surplus power in the South Asian region where all the countries are facing acute power shortage.
- A comprehensive and reliable database for the region would facilitate better estimation of intra and inter regional trade and cooperation benefits. Moreover, sharing of information is a strong confidence building measure that could pave the way for better cooperation and trade within the region.
- Both states should have to commit a common agreement to promote energy trade in the region.

III. CONCLUSION

This paper addresses the opportunities and challenges of trade of power between India and Bhutan. After adopting New Economic Policy in 1991 a dramatic structural change has emerged in India. With this change demand for electricity has increased in India which cannot be fulfilled domestically but Bhutan has hydropower potential to generate surplus electricity. It is already

exporting electricity to India. But Bhutan is not economically strong to undertake the capital intensive projects and cannot bear the risk associated with these projects. The cooperation between India and Bhutan on the power projects has build-up an environment of confidence. Up to now this cooperation has been a fruitful venture for both the countries. One side it has fulfilled the energy requirements of India, and on the other side it has turned Bhutan's deficit trade balance into surplus. But the only condition to make this trade a successful venture is a mutual trust and strong will power.

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CROSS LOC TRADE: TRENDS AND PROJECTIONS

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Abstract:

The cross LoC interaction has highlighted the need for cross LoC Trade as a legitimate aspiration of the people of J&K and PoK. The movements of goods across LoC are considered as meaningful CBM between New Delhi and Islamabad where as this trade helped to improve the economic situation in both sides of LoC and the much untapped potential of horticulture especially the fruit growers, carpet and furniture industry is utilised. Clearly the benefits of cross LoC trade are immense, however, this process has numerous problems, hurdles and challenges that need to be overcome. The present Cross LoC Trade between J&K and PoK in respect of 21 agreed items on zero duty basis started on Srinagar-Muzaffarabad and Poonch-Rawalakote routes with effect from 21.10.2008.

Keywords: Barter Trade, Cross LoC Trade, J&K, PoK.

I. INTRODUCTION

Trade has been consider as an important and mainspring of growth for countries at different stages of development. The growth rates of developing countries since 1950s correlate better with their export performance than any other single economic indicator. Economists consider trade as important pillar of economic development. The economy will get static and dynamic gains from trade because of specialisation and economies of scale. Import and export often reduce the violent fluctuations of prices of those commodities which are scarce or in surplus. One of the important functions of foreign trade is to explore means of procuring imports of capital goods without which no process of development can start. An outward looking trade policy is considered as helpful in promoting growth and development.

In experimenting with trade as a trust generating step that might lead to final settlement of issues, experience from Ireland serves as point of reference. The cross border trade between North-South Ireland, Israel- Philistine and South Sudan- Uganda are the examples of trade making significant contribution to normalization of bilateral relations in these regions. (Kira, 2011)

India also worked on these lines with its neighboring countries. The Memorandum of Understanding (MoU) on the resumption of border trade with China in December 1991, the Border Trade Agreement with Myanmar in January 1994, the agreement to start border trade with Pakistan in 2008 and the agreement to establish Border Hats along India- Bangladesh border are cases in point. At the bilateral level, border trade is a major Confidence Building Measure (CBM) especially India and Pakistan as it reduces trust deficits, encourages constructive engagements, stabilizes the borders by reducing frictions and importantly, gives a legal basis to the hitherto disputed international borders. At the local level, opening of trade routes brings economic prosperity to the people residing in the far-flung border areas and has a positive impact on their emotional well-being. It also aids in better border management as attention gets focused on better regulation of the traffic of goods and people across the international border (Das, 2014).

The rationale for such kind of trade arises from two main reasons. The first reason is the

remoteness of the border areas, which does not allow access for the local people to commercial centres to sell their products and buy items of daily necessity within the national borders. The second is the traditional socio-cultural ties and economic complementarily that these people share across the border, provides them with a natural environment for greater economic interactions. The concept of irrelevance of borders used in this regards which implies that the Line of Control (LoC) that symbolized the division of the State of J&K as well as its unsettled and unresolved status is to assume more dynamic character. Rather than being a barrier, it is to be animated so that interaction between the two sides of J&K can be possible through free movement of people, goods and services (Chowdhary, 2010). Keeping all things in mind, border trade is allowed so that the residents can trade their surplus produce in exchange of essential commodities from across the international borders. Such type of trade is barter in nature as it is based on mutual trust developed over a period of time through sustained interactions between traders residing on both sides of the border. Border trade forms a part of border area development plan as it provides an alternate means of livelihood to the border residents in the economically depressed areas. Successful conduct of border trade also curbs smuggling in essential items as it provides legitimacy to traditional exchange of commodities (MHA).

Since partition India and Pakistan had a continuously adverse relationship. They have gone through four full scale wars and another so called proxy war in J&K state. The events and policy trends are known which have led to distances between India and Pakistan. Nevertheless in terms of history, culture, language and religions, both countries have much in common. Geography has made us neighbours. No amount of political manicuring can wish away the geographic proximity of India and Pakistan.

The present LoC trade is also the result of a series of CBMs taken in the past. The Srinagar – Muzafarabad (April-2005) and Rowalkote-Poonch (June -2006) bus services and ultimately the cross border trade was in fact realization of the dreams and aspirations of the people of the divided Jammu and Kashmir. All this was made possible only because of rigorous and sincere efforts by the state political leadership and magnanimity of the Central Government. The decision to initiate trade across the LoC was the outcome of a meeting between the Prime Minister of India and the President of Pakistan in April, 2005. Further discussions were held on the subject during the Technical level talks between the two countries at New Delhi on May 2–3, 2006 as a part of Confidence Building Measures (CBMs). At this meeting, it was agreed that the Cross LoC trade would be by way of truck services; the list of items for trade would be identified; and the exchange of delegations between the Chambers of Commerce on both sides would be facilitated(GOI).

The process of holding Round Table Conferences on Kashmir was initiated by the Hon'ble Prime Minister of India in 2006. One of the five Working Groups constituted during the Second Round Table Conference was the Working Group on strengthening of relations across LoC. This Working Group recommended increasing Cross LoC movement and interaction among people on both sides, including commencement of Cross LoC Trade. An Oversight and Monitoring Committee (OMC) was set up under the chairmanship of the Union Home Secretary to study the recommendations made by the various Working Groups for its implementation in respect of Cross-LOC Trade. The Ministry of External Affairs (MEA) pursued the main recommendations

with the Government of Pakistan, whereas the Ministry of Home Affairs (MHA) pursued the issue of creation of the requisite infrastructure at the crossing points in Jammu and Kashmir (J&K Economic Survey, 2009-10).

The trade involves two sovereign countries Governments of India and Pakistan and one of the peculiarities of the terms of exchange in cross-LoC trade is that it is not international trade. Exports are called "traded-out" and imports are called "traded in" goods. The Standard Operating Procedure (SOP) signed between India and Pakistan serves as the basic document for undertaking trade (Kira, 2011). There are certain issues which need to be sorted out by mutual agreement of both the sides and such matters are being stalwartly persuaded at the State level with the Government of India. The LoC trade will go a long way in improving the relationship between the two neighboring countries and will definitely pave way for the success of SAFTA.

In the meeting of the Inter-Ministerial Committee and the State Administration held at Srinagar on June 16 2008, it was decided to develop Land Customs Stations (now Trade Facilitation Centres) for Uri-Muzaffarabad Trade Route at Salemabad & for Poonch-Rawalkote Trade Route at Chakkan-da-Bagh. The State Government was asked to identify suitable land for the purpose after getting the specifications and requirements of the Customs and other Central Agencies. Accordingly, land was identified and acquired by the State Government at both the places. Temporary infrastructure was put in place at Salemabad and the bare minimum permanent infrastructure was put in place at Chakkan-da-Bagh out of the resources of the State government after consultation with the Central Government.

As per agreed modalities, cargo passes LoC points at Kaman Post in Salemabad and Chakan-da-Bagh in Poonch after being cleared by the respective TFCs. The movement of vehicles carrying goods on the two routes is initially allowed between 9 am and 4 pm on permitted days (Kira, 2011).Infrastructure (Phase-I) created at Salemabad, Uri & Chakkan-da-bagh, Poonch at a cost of Rs. 895.72 lakhs & Rs. 995.00 lakhs respectively under SRE and ASIDE funding. DPRs under (Phase-II) at an estimated cost of Rs. 585.00 lakhs for Salemabad, Uri & Rs. 1040.70 lakhs for Chakkan-da Bagh, Poonch submitted to MHA, for approval/release of funds. The TFCs are now being funded by the Ministry of Commerce and Industry under the ASIDE Scheme. The modalities of the Cross-LoC Trade were drawn up and the list of items to be traded across the LoC was finalized in the meeting of the Joint Working Group held in New Delhi on 22.9.2008 and the necessary infrastructure for launching the Cross-LoC Trade was put in place both at Salemabad & Chakkan-da-Bagh(J&K Economic Survey, 2016).

Ultimately the Cross LoC trade started on 21.10.2008 with 13 vehicles carrying goods from Salemabad to Chakoti and 14 vehicles coming in from Chakoti to Salemabad carrying goods from across the LoC. Similarly, 03 vehicles carrying goods from Chakkan-d-Bagh crossed the LoC to Rawlakote on 21.10.2008 and 04 vehicles carrying goods from across the LoC came to Chakkan-da-Bagh. The duty free Cross-LoC trade is being carried on Tuesdays and Wednesday on both routes in 1-1.5 ton capacity trucks (J&K Economic Survey, 2009-10).

Trends and Pattern in cross LoC Trade:

Initially, trade was permitted twice (Tuesday and Wednesday) a week with only 25 trucks from both sides being allowed to cross the LoC each day. However, following ministry-level talks between the Foreign Ministers of India and Pakistan in July 2011, trade was allowed to take

place four days (Tuesday to Friday) in a week with 100 trucks from both sides allowed to cross-LoC per trading day. The 21 items identified under this arrangement for trade enjoy duty-free market access. The basket of tradable goods consists Kashmir origin and mainly agricultural products like fresh fruits and vegetables, saffron, honey, walnuts, almonds and various types of handicraft and handloom products. The list does not contain any manufactured products. Despite trade in limited items, LoC trade has expanded from Rs 2 crore in 2008-09 to Rs 4830 crore in 2015-16(MHA). In 2011-12, imports comprised dry dates, almonds, walnuts, carpets, Peshawari chappal, dry grapes, whereas exports comprised imli, cardamom, dhania, red chilli, embroidery items, black pepper, rajma, and coconut(Taneja, 2015).

Table 1: Quantity and Value of Exports and Imports (21 October 2008 to March, 2016)

	Exports to PoK		**Imports From PoK**	
Year	**Quantity (quintals)**	**Value crores of Rupees(Indian)**	**Quantity (quintals)**	**Value crores of Rupees (PoK)**
2008-09	5522.07	1.75	7478.89	0.60
2009-10	261,926.51	138.97	252417.59	219.48
2010-11	380,678.92	245.23	273,284.94	431.77
2011-12	465,272.41	320.19	368,535.17	531.24
2012-13	768,061.86	371.67	790,245.70	657.79
2013-14	624607.15	347.59	352946.78	513.62
2014-15	8.18*	508.84	3.38*	811.01
2015-16	10.54*	634.34	5.87*	846.75
Total	4,378,068.92	2568.58	2,969,909.07	4012.26

Source: *Directorate of Economics & Statistics, J&K.* **in lakh Quintals*

The growth of cross-LoC trade within a short period demonstrates the importance of the trade. As on the first three years of trade there are 472 traders belonging to ten districts of Kashmir province and two districts of Jammu province registered for trade through Salamabad-Chakhoti sector (also known as Srinagar-Muzaffarabad route) and 165 traders belonging to only three districts of Jammu province and two districts of Kashmir province registered for trade through Chakan-da-Bagh – Tetrinote sector (also known as Poonch-Rawalakot road). On AJK side of Line of Control there are around 2200 traders but only 600 of them have reported active(Sengupta et al, 2013). Traders involved in cross-LoC trade are widely spread across J&K and the majority of traders belong to areas that are close to the LoC. Majority of the traders associated with this trade since its inception. The trade has also led to addition in employment and majority of the business entities have augmented their workforce since the opening of the trade. Around 800-1000 of labourers, including truck drivers, mostly belonging to the border areas have benefited directly as trade opened an alternative labour market for people residing the peripheral areas of the state. Where as significant proportion of trader is in favour of ease of doing business in such type of trade. Trader also indicated that primary goods exports generated an average sale of Rs 5 lakh and maximum of Rs 80 Lakh per month during the period of initial two years (Kira, 2011).

As survey of traders dealing cross LoC trade is conducted by Indus Research Foundation (IRF) and Centre for Peace Development and Reforms (CPDR) in 2011-12 reveal that majority of trade taking place between the relatives on both sides of border as trade is in barter form they are more comfortable with their relatives. Traders on both sides of LoC admitted that life become comfortable while opening of cross LoC trade. Around 65% respondents are in favour of this

trade. Whereas 85 percent respondents respond that present form of trade is profitable. Majority of them have apprehension on such trade in future as it is long lengthy and hectic process. They also demands initiation of banking system and formalization of such trade. Whereas 57 percent respondents are not happy with the infrastructural facilities at TFC. They also revealed certain difficulties while trading like offloading and reloading of goods for inspection. As they are mainly trading agriculture/perishable goods resulted depreciations of value of products. They also demand full body scanning machine as in Bagha-Attari Border. There are 62 percent of the traders who associated with this trade since its inception which clearly support the argument that this is profitable business even inspite of its barter nature (Sengupta et al., 2013)

Potential in Cross LoC Trade:

Despite these constraints, trade volume has been growing at an impressive rate over the years with both imports and exports showing an upward trend. For example, between October 2008 and March 2016, goods worth PKR 4012.26 crore were imported from PoK and goods worth RS. 2568.58 were exported from Jammu and Kashmir (Singh, 2016). The volume of trade in 2016 also remained encouraging with export worth RS. 634.34 crore and import worth PKR 846.75 crore (See Table 1) being traded across the LoC.

Table 2: Total Number of Truck Movements (21 October 2008- 28th February, 2015)

Trade Route	Number of trucks from J&K to PoK	Number of trucks from PoK to J&K	Total
Chakothi-Uri, Salamabad	27981	18293	46,274
Tetrinote-Chakanda Bagh	12415	8253	20,668
Total	40,396	26,546	66,942

Source: Centre for Peace, Development and Reforms (CPDR)

The Table 2 shows the movement of trucks from both the points and it is analyzed from the table that the Chaotic-Uri, Salemabad Route has more potential as compare to Terminate-Charade Bagh. According to the Ministry of Home Affairs between October 2008 and October 2016, a total number of 52,529 trucks have crossed over to PoK and 32,660 trucks have crossed over to India's side through these two routes.

The profits made by traders may actually be quantified. The average value of goods being exchanged over the LoC in the Poonch- Rawalakot sector alone varies from Indian 6-8 crore per week or roughly Rs 350 crore per annum. If this is assumed to be equally shared by registered traders in this sector, it translates to turnover Rs 2 core per annum per trader. For any reasonable rate of return, the profit earned would be considerable (Sengupta et al., 2013).

Issues in Cross LoC Trade:

LoC trade is plagued with host of logistical, infrastructural and operational bottlenecks. In addition to the limit on the number of trucks that can cross per day, an added woe for traders is that that they cannot transport their goods to the final destinations (Akhter, 2012).

The maximum truck capacity permitted to cross LoC is nine tones due to infrastructure constrains in both sides. All this adds significantly to the transaction costs of trading. The most important constraint on trade is the absence of a financial arrangement (Ali, 2012). Since the modalities of the trade do not allow trade to take place through a financial intermediary, the real costs faced by traders is that there is no guarantee

of equal returns and recovery of differential amounts from their counter parts. Even in case of default in payment by their counterpart no legal action provision is there. The other difficulties range from a lack of communication, problems arising from negotiation, adhering to administrative requirement and redeeming trade credit, product quality, lack of a proper grievance redressal system, and a restrictive visa regime etc. (Taneja and Bimal,2015).

Conclusion and Policy Recommendations:

Thus we can conclude that the cross LoC trade is a landmark decision of the government to strengthen the economic ties between the two regions of Kashmir. The sustainability of present form of trade is doubtful as such trade have numerous problems and challenges that need to be overcome. The amicable solution is to shift from barter trade in a limited number of items to regular trade through a formal and institutionalized channel. This would follow trade rules that are applied to all other trading routes. The process of formalization of cross-LoC trade would give a free rein to huge trade opportunities for the two countries and especially for the two parts of LoC.

The formalization of this trade necessitates formalization of banking channels across both regions of LoC for payment settlements. This should be supplemented by legal arrangements for enforcement of contracts. A proper grievance redress system also needs to be put in place. The additional measures need to be undertaken to fully realised such trade. These include modernising infrastructure at the border, removal of restrictions on the types of trucks, permitting Indian and Pakistani trucks to move freely in the other's territory, improved communication links and easing business travel.

To facilitate smooth trade possibilities at LoC, Government is exploring to provide banking facilities to the traders at two trade centres in this regard. The J&K Government unveiled a proposal to sort out the banking problems offering the commercial banks in J&K and PoK and would provide a facility to their respective exporters to realise their dues by opening a Trade Facilitation Account at their end. A presentation was made by the representative of the Reserve Bank of India (RBI) on the proposed banking mechanism in the Joint Working Group Meeting. The Indian side made a lot of effort to persuade the Pakistani delegation on this issue in view of the enormous increase in the volume of trade. And for infrastructure improvement The Ministry of Home affairs Government of India approved the DPRs under Phase-II at a cost of Rs.10.73 Crore for Salemabad, Uri & Rs. 10.41 Crore for Chakkan-da-Bagh, Poonch respectively and released funds amounting to Rs.5 Crore for each.

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INDIA-PAKISTAN AGRICULTURAL TRADE

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Abstract

International trade plays a great role in economic developed and developing countries. In 1990s and 2000s, most of the countries liberalized their trade. India adopted the policy of Liberalization, Privatization and Globalization (LPG) in 1991. The developing countries were dependent on the developed countries for their 57.8 per cent imports during 2014.The share of developing countries in the world trade also diminished to 39.9 per cent only during this period (IMF, 2015). Agriculture is one of most important sector and backbone of India and Pakistan economy. After green revolution India consistently making innovative methods to increase agriculture production. India and Pakistan are the major countries in South Asia. Together they constituted 89 per cent of Gross Domestic Product (GDP) and 86 per cent population of South Asian Association for Regional Cooperation (SAARC) region in 2014. By way of economic cooperation, the developing countries of every region can become more and more inter-dependent on each other, thereby reducing their dependence on the developed countries. The objective of this paper is to study the agricultural trade between Indo and Pak.

Key Words: South Asia, India, Pakistan, Trade, Agriculture.

I. INTRODUCTION

Trade among neighboring nations has remained an important economic activity. Basically, international trade plays an finest role in economic development of trading partners. The literature on trade suggests that closeness is one of the major determinants of trade. Geographic closeness is also used as an important explanation for regional trade groupings or blocs. Often, regional economic relations are marred by historical hostility between neighbors, because of which neighboring countries trade less with each other than with more distant countries. Trade between India and Pakistan has not achieved much progress in increasing regional trade in South Asia despite efforts to promote preferential trade. India-Pakistan relations are drawing considerable attention from the world at large, with the two countries now at a point where significant economic gains could serve as a powerful means for conflict resolution (Chand 2006, p 2). Both are natural trade partners. Like many other less developed or under developed countries, India and Pakistan suffered colonial exploitation before14 August 1947. Partition was made on a religion basis with the migration of Hindus**}** and Sikhsto India and Muslims to Pakistan. After partition both the countries tries to minimize their dependence on each other due to Kashmir dispute. Right from the partition, Kashmir has been a bone of contention between the two countries even after four wars of 1947-48, 1965, 1971 and 1999. There after many other disputes came in way of India–Pakistan relations like Mumbai attack December 2008, Uri attack by Pakistan in September 2016 etc.

Trade is the only way through which India and Pakistan are trying to normalize their relations with each other. In 1990s and 2000s, most of the countries liberalized their trade. India adopted the policy of Liberalization, Privatization and Globalization (LPG) in 1991. Agriculture sector is one of the important sectors in both the countries. Agriculture is one of the important sectors in India

and Pakistan. This sector (including agriculture, livestock, forestry and fishery) contributes 16.1 per cent of the Gross Value Added during 2014–15 at 2011–12 prices in India (CSO, 2015). Over 58 per cent of the rural households depend on Indian agriculture as their principal means of livelihood. Agricultural export constitutes 10 per cent of the India's exports. In Pakistan, the agriculture sector accounts for 20.9 percent of GDP and 43.5 percent of employment during 2014-15 (GoP, 2015).Since 1975, when Trading Corporation of Pakistan, a state owned company, was allowed to import 40 commodities, Pakistan has gradually increased the number of commodities permitted to be imported from India to 1963 in 2011. Since 1982, private corporations in Pakistan were also allowed to import from India. Currently, Pakistan's import via Wagah border land route is limited to 138 items, instead of about 7500 items (1209 negative items) allowed via Mumbai-Karachi sea route and Attari rail route. Indian agricultural exports to Pakistan via- Wagah land route are tomato, peas, garlic, carrots, radishes, beans, cucumber, soya bean, potato, ginger, fruits, etc. Similarly, Indian agricultural imports from Pakistan are seasamum seeds, dry fruits, dry dates, etc. Though India has accorded MFN status to Pakistan in 1996, yet Pakistan has not reciprocated this gesture. SAARC, established on 8thDecember 1985, has played an important role in boosting the intra-trade ties between India and Pakistan. Both India and Pakistan have preserved 614 and 936 sensitive items, respectively, for each other w.e.f. 1st Jan 2012. There is no tariff reduction for sensitive items.

There are 47 agricultural items in Pakistan's sensitive list for India and 246 items in India's sensitive list for Pakistan. During 2012-13, agricultural trade between India and Pakistan accounted for 43.6 per cent of the total trade (Go I, 2015). Bilateral agricultural trade is in the interests of Pakistan as it enables the Pakistani authorities to stabilize prices of the foodstuffs due to insufficient supply. Pakistan's cotton import from India is very important for the textile millers located in Northern Pakistan in view of the compatibility and the lesser cost of transportation. On 18thSAARC meeting(November, 2014) at Kathmandu, Indian Prime Minister Narender Modi addressed that both the countries do not leave without doing trade with each other. So there is need to improve their relations. This paper is based on India agriculture trade with Pakistan. In this paper top 25 agriculture items are selected which are under top 100 commodities.

Review of Literature

Various authors have done so much work in field of India and Pakistan agricultural trade relations.

Tridivesh (2012) quoted that South Asian Free Agreement Trade (SAFTA) at 12th summit in Islamabad served as booster India and Pakistan trade relations. All the SAARC countries agreed to reduce their tariff to 0-5%. The period followed by 2004 SAARC summits witnessed an improvement in bilateral trade between India and Pakistan.

FICCI's status paper (2012) examined that SAFTA played a great role between India and Pakistan bilateral trade. India-Pakistan trade became almost double after SAFTA 2006-07. In this paper author gave an attention to sensitive list in which 47 agricultural commodities put by India and 246 agricultural items put by Pakistan.

Mohsin (2013) quoted that both India and Pakistan were aware about the merits of trade with each other. If India and Pakistan truly tries to normalize their relations than both the countries benefits, but Pakistan benefits more. Trade is not only a way to solve all problems between India and Pakistan but it could be a great step to decrease tension.

P.H.D Chamber report (2013) observed that bilateral trade relations between India and

Pakistan diminish in recent years. The reason for this decline is increment in informal trade between both the countries. Informal trade between India and Pakistan done by re-routing trade through a third country and illegal trade through land borders.

Sailen Das (2016) study based on impact of WTO on Indo- Pak trade relations. This paper clearly mentioned that after implementation of SAFTA agricultural exports from India to Pakistan remained higher than those from Pakistan to India in all years but show a lot of variability. Trade is not always affected by political reasons most of the time it may affect by climatic conditions.

II. OBJECTIVES

My study is based upon top 25 agricultural commodities trades which are covered under to 100 commodities.

1. To study the Top 25 agricultural Commodities in India's Global Exports and imports during 2005-17.
2. To study the Top 25 agricultural commodities in India's exports and imports from Pakistan during 2005-17.

India's Trade with World

International trade presents a very different face across the world after the establishment of World Trade Organization (WTO) and subsequent liberalization of trade barriers. Various agreements and policies plays an important role in international trade. Agreement on Agriculture (AoA) with WTO had a major impact, and redefined agricultural trade on the international platform. South Asian Free Trade Agreement (SAFTA) in 2006 plays an important role to boost the trade between both the countries. In the recent past, Indian agricultural trade in various commodities has occupied an important place in world agricultural trade. Today, India is a major supplier of several agricultural commodities such as rice tea, coffee, spices, fresh fruits and vegetables, meat and marine products to the international market. In the following tables are shown the share of India's agricultural exports-imports in total exports-imports with world from 2005-17.In following tables data taken from top 100 commodities in which only 25 agricultural commodities are selected. These selected agricultural commodities are those which are exportable and importable from India. In this paper I have included following four tables.

Table 1:Top 25AgriculturalCommodities in India's Global Exports during 2005-17

(Value in million US$)

S. No.	HS code	Commodities	2005-06	2012-13	2014-15	2016-17	CAGR
1	1	Live animals	5.99	10.61	12.72	78.75	26.3
2	2	Meat and meat products	616.5	3,286.87	4,929.27	4,037.16	18.6
3	3	Fish and crustaceans	1,421.17	3,322.71	5,249.51	5,501.05	13.0
4	4	Dairy products and birds eggs	249.98	410.01	379.03	292.93	1.4
5	5	Products of animals origin	41.1	111.07	99.94	79.76	6.2
6	6	Live trees and other plants	68.09	77.79	75.39	81.55	1.6
7	7	Edible vegetables	567.86	1,037.38	1,180.80	1294.73	7.7
8	8	Fruits	850.03	1,412.37	1,610.71	1731.21	6.6
9	9	Tea, coffee and beverages	905.1	2,742.92	2,871.86	3185.2	12.1
10	10	Cereals	1,633.62	9,655.41	9,550.98	6012.95	12.5
11	12	Oilseeds	421.35	1,728.06	2,213.94	1809.01	14.1
12	13	Lac,gum, etc.	398.88	4,321.32	1,947.54	844.41	7.0
13	14	Vegetables planting material	22.96	60	59.87	67.78	10.3
14	15	Animal or vegetable fat	279.95	958.79	973.29	892.62	11.1
15	17	Sugar	168.53	1,750.11	1,075.16	1508.52	22.0

S. No.	HS code	Commodities	2005-06	2012-13	2014-15	2016-17	CAGR
16	19	Cereal preparations	122.61	406.5	489.85	519.11	14.01
17	20	Vegetable and fruits preparations	154.33	383.91	504.71	493.77	11.1
18	21	Misc. edible preparations	175.01	508.99	587.5	628.17	12.3
19	22	Beverages	58.32	361.98	377.84	311.96	16.4
20	24	Tobacco	300.55	924.13	958.62	958.69	11.1
21	40	Rubber and articles	1,034.95	2,773.74	2,726.26	2493.22	8.3
22	41	Raw hides and skins	644.02	1,095.44	1,333.64	887.36	2.9
23	51	Wool	80.87	174.3	177.21	160.44	6.4
24	52	Cotton	2,984.21	8,937.03	7,717.95	6611.05	7.4
25	53	Other vegetables fibres	157.49	321.89	373.8	400.35	8.8
Total			13363.5	46773.3	47477.4	40881.8	270.4

Source: EXIM data bank, Ministry of Commerce, Government of Indi

The above table shows that during 2005-06, cotton was the most exportable commodity with 2.89% share and value US$ 2,984.21. Cereals became most exportable commodity with 3.21% highest share in 2012-13.However, latest data shows that cotton become major exportable commodity during 2016-17. Trade between both the countries does not only affected by political reasons, but also due to domestic reasons. These 25 agricultural commodities have 14.8% exportable capacity with world in total of top 100 commodities in 2016-17.

Table 2: Top 25 agricultural commodities in India's global imports during 2005-17

(Value in million US$)

S. No.	HS Code	Commodities	2005-06	2012-13	2014-15	2016-17	CAGR
1	1	Live animals	2.06	10.2	11.9	9.2	14.6
2	2	Meat and meat products	0.45	2	3.2	3.1	19.2
3	3	Fish and crustanceans	22.37	67.4	61.6	58.8	9.1
4	4	Dairy products and birds eggs	9.28	33.5	50.0	36.3	13.2
5	5	Products of animals origin	12.14	35.1	37.1	40.2	11.5
6	6	Live trees and other plants	4.06	15.7	18.5	19.9	15.5
7	7	Edible vegetables	637.63	2,461.6	2,834.4	4287.3	18.9
8	8	Fruits	787.08	2,152.9	2,672.0	3041.5	13.0
9	9	Tea and beverages	190.97	541.2	729.4	757.8	13.3
10	10	Cereals	6.88	22.0	22.1	1343.2	61.5
12	12	Oilseeds	72.39	249.6	322	380.9	16.2
13	13	Lac, Gum,etc	54.5	161.7	182.8	218.6	13.4
14	14	Vegetable planting material	3.37	9.8	22.5	37.5	24.5
15	15	Animal or Vegetable fat	2,292.95	-	-	10946.3	15.2
17	17	Sugar	177.05	642.5	686.4	1103.6	18.0
19	19	Cereals and preparations	28.26	39.5	65.3	55.01	6.2
20	20	Vegetable and fruit preparations	21.95	77.9	75.0	81.9	12.7
21	21	Misc. edible preparations	24.32	122.1	124.5	149.1	17.9
22	22	Beverages	218.53	325.0	541.5	673.2	10.7
24	24	Tobacco	17.93	45.5	48.6	494.5	35.1
40	40	Rubber and articles	741.12	3,634.7	3,253.5	2907.7	13.2

41	41	Raw hides and skins	298.8	508.5	733.4	609.3	6.6
51	51	Wool	265.49	388.9	401.0	324	1.8
52	52	Cotton	438.08	789.0	739.6	1132.2	9.0
53	53	Other vegetable fibres	102.84	279.4	305.4	340.5	11.4
Total of 25 agricultural commodities			6430.5	12616.7	13942.9	29052.9	403.007

Source: EXIM data bank, Ministry of Commerce, Government of India

The above table shows that animals fat became most importable commodity of India from world with its share of 1.53% in 2005-06, and value worth US$ 10946 in 2016-17. Total import from world was also increased from 6430.5 in 2005-06 to 29052.9 in 2016-17. According to compound growth rate cereals and tobacco was most importable commodities during this given time period. These 25 agricultural commodities have 7% importable capacity from world in total of top 100 commodities in 2016-17. It was 384,355.58 million tones importable capacity in 2016-17 and 29052.9 million tons of top 25 agricultural importable capacity in 2016-17.

Bilateral Trade between India and Pakistan

India-Pakistan trade relations have travelled through various oscillations. In following tables, 25 agricultural commodities are taken which were covered under top 100 exportable commodities from India to Pakistan. South Asian Free Trade Agreement (SAFTA) in 2006 played an important role to boost the trade between both the countries.

Table 3: Top 25 agricultural commodities in India's exports to Pakistan during 2005-17

(Value in million US$)

S. No.	HS Code	Commodities	2005-06	2012-13	2014-15	2016-17	CAGR
1	1	Live animals	0.06	0	-	-	-100*
2	2	Meat and meat products	5.84	4.16	6.23	6.29	0.67
3	3	Fish and crustances	0.06	0	-	0.24	13.4
4	4	Dairy products and birds eggs	8.03	14.29	28.89	12.7	4.2
5	5	Products of animals origin	0.01	0.83	0.76	1	51.9
6	6	Live trees and other plants	0.01	0.11	0.01	0	-100
7	7	Edible vegetables	30.46	144.51	164.02	80.13	9.1
8	8	Fruits	0.88	25.03	36.87	11.43	26.2
9	9	Tea, coffee and beverages	12.01	83.71	77.42	39.31	11.3
10	10	Cereals	1.71	14.47	17.95	10.12	17.5
11	12	Oilseeds	13.63	52.37	62.31	55.22	13.5
12	13	Lac, gum, etc.	2.31	12.24	8.01	5.21	7.6
13	14	Vegetable planting material	2.04	2.84	1.77	2.19	0.6
14	15	Animal or vegetable fat	0.65	0.38	0.6	13.49	31.7
15	17	Sugar	30.48	0.5	4.28	46.79	3.9
16	19	Cereals and preprations	2.73	6.02	6.22	4.86	5.3
17	20	Vegetable and fruits preparations	0.04	1.63	4.01	4.48	53.5
18	21	Misc. edible preprations	0.19	0.83	1.9	2.38	25.8
19	22	Beverages	-	0.01	0	0.04	41.4**

20	24	Tobacco	0.42	6.53	0.29	0.11	-11.4
21	40	Rubber and articles	42.61	45.08	50.59	40.8	-0.3
22	41	Raw hides and skins	0.19	0.51	1.16	2.19	24.8
23	51	Wool	0.67	0.09	0.17	0.16	-12.2
24	52	Cotton	58.09	471.93	200.22	477.46	21.1
25	53	Other vegetable fibres	0.04	0.01	0.29	0.11	9.6
Total of top 25 agricultural commodities			213.16	888.08	673.97	816.71	150.0

Source: EXIM data bank, Ministry of Commerce, Government of India.

Note:* mentions that data taken to find out the CAGR from 2005-12 and **mentions that data taken to find out CAGR 2012-16.

Agricultural trade trends between the both the countries reveals a clear cut one times increase in year 2006-07. Cotton is now dominant exports item from India to Pakistan. It accounted for 38.8% of total exports of agricultural products to Pakistan in 2012-13. These 25 commodities have 45% exportable capacity to world in total of top 100 commodities in 2016-17. It was 816 million tones in 2016-17 and 560 million tones of top 25 agricultural exports in 2016-17. Exports of edible vegetables including pulses, tomatoes, onion also increased. During the eight years of SAFTA, the exports of more than half products on this list declined. These are milk, egg, groundnuts, spices etc. On the other side rice, tomato, rubber, vegetable seeds and cotton registered a positive growth.

Presently, Pakistani authorities "halted" the import of cotton and other agricultural commodities, including vegetables, from India via the Wagah border. Cotton importers and customs clearing agents claimed that the department had stopped the import of agriculture commodities from India without a warning or written order citing increase in tensions across the LoC.

Table 4: Top 25 agricultural commodities in India's imports from Pakistan during 2005-17

(Value in US Million$)

S. No.	HS Code	Commodities	2005-06	2012-13	2014-15	2016-17	CAGR
1	1	Live animals	-	-	0.02	-	-
2	2	Meat and meat products	-		-	-	-
3	3	Fish and Crustaceans	0.6	1.4	0.11	2.07	11.1
4	4	Dairy products and bird eggs	0	-	0	-	-
5	5	Products of animals origin	0.0	-	-	-	-
6	6	Live trees and origin	-	-	-	-	-
7	7	Edible vegetables	67.9	2.9	2.44	0.26	-39.7
8	8	Fruits	26.1	92.5	106.82	126.7	13.6
9	9	Tea and beverages	0.9	0.6	2.74	6.68	19.6
10	10	Cereals	0	-	-	0.17	-
11	12	Oilseeds	1.7	5.8	5.72	1.33	-2.3
12	13	Lac, gums, etc.	0.8	1.6	1.32	2.02	8.0
13	14	Vegetables planting material	0.0	-	-	-	-
14	15	Animal or vegetable fat	-	0.0	-	-	-
15	17	Sugar	7.4	6.7	-	0	-100
16	19	Cereals preparations	0	0	0	0.01	-
17	20	Vegetables and fruits preparations	0	1.8	0.98	1.65	-
18	21	Misc. edible preparations	0.04	0.4	0.13	0.07	19.3
19	22	Beverages	-	0.9	2.41	3.47	12.4*
20	24	Tobacco	-	-	0.01	-	-
21	40	Rubber and articles	0.01	0.1	4.18	3.86	71.8
22	41	Raw hides and skins	1.71	11.6	29.88	19.83	24.9

23	51	Wool	2.15	10.4	9.88	5.35	8.6
24	52	Cotton	28.1	60.3	60.44	23.6	-1.5
25	53	Other vegetable fibres	0	0.2	0.05	0.75	-
	Total		**137.7**	**197.9**	**227.1**	**197.8**	**46.1**

Source: EXIM data bank, Ministry of Commerce, Government of India.

Note:* mentions that data taken to find out the CAGR from 2012-17.

Pakistan's agricultural exports to India were dominated by a few commodities. Edible vegetables had 67.94 maximum shares during 2005-06. Cotton became second highest importable commodity from Pakistan. Customs duty plays an important role during Indian imports to protect the domestic farmers. The duty on sugar was increased from 15% to 25% in 2014 and duty on edible oils raised from 2.5% to 7.5%. Imports from Pakistan has been increasing after SAFTA, it was 137.44 US million $ in 2005-06 and it was 197.8 US million $ in 2016-17. These 25 commodities have 43% importable capacity from world in total of top 100 commodities in 2016-17. It was 454 million tones importable in 2016-17 and 197 million tones of top 25 agricultural imports in 2016-17.

Comparative Advantages

Both countries have comparative advantage in the export of some commodities to each other. These commodities include tomato, cane sugar, onion, fresh vegetables, cotton, ground nut, coarse cereals as feed and dairy products for exports from India to Pakistan. Similarly, Pakistan has comparative advantage in exporting dates, leather, hides and skins and woven fabrics to India. There is considerable scope for promoting export of specialized items as trade is stable and growing in this case. Despite implementation of SAFTA, some strong tariff and non-tariff barriers continue to restrict agricultural trade between the two countries. Another important factor is that differences in the level of agricultural subsidies between India and Pakistan are an important reason for not liberalizing India's agricultural export to Pakistan. As there is a huge difference in the size of the sector in the two countries, comparisons of subsidies make better sense in terms of the ratio or share. Indian farmers have a benefit of 4 per cent over Pakistani farmers in terms of subsidies and this can be factored into the trade policy (Chand, 2013.p24). Therefore, higher levels of subsidy in Indian agriculture compared to Pakistan should not be a major issue in terms of promoting trade between the two countries.

India Pakistan trade relations have travelled through various oscillations. Various studies shows that Exports and imports between India and Pakistan decline from 1990-91 to 2001-2002 due to various reasons not only limited to political issues. SAFTA in 2006 played an important role to boost the trade between both the countries. Share of agriculture sector in total trade with Pakistan increased from 36.4%. to 43.6%.

III. CONCLUSION

Both India and Pakistan are natural trade partners. After partition, both resorted to deliberate measures to minimize their trade dependence on each other due to various issues like terrorism attack, Kashmir disputes, peace and security etc. Now, trade is only way through which both the countries tries to normalize their relations. India and Pakistan trade relations have travelled through various oscillations and phases over the last years. Now study of various sources I conclude this paper with these lines that India and Pakistan both counties are depend upon each other for various commodities trade. When one country reduce or do any changes in their policies both the countries effects more many economic and political policies effects the trade pattern. As latest case comes into news that Pakistan reduce their imports from India with this statement that India are not meeting our bio-security conditions. So it's a matter of both the

countries to reduce their disputes and makes safe and healthy relations in future.

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INDIA'S TRADE RELATIONS WITH BIMSTEC COUNTRIES

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Abstract

In today's world no nation exists in economic isolation. A nation's economy, its industries, service sectors, levels of income and employment and living standards are linked to the economies of its trading partners. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products and a greater range of consumption choices. In an open trading system, a country will import those commodities that it produces relatively at a higher cost. Since resources are channeled from uses of low productivity to that of high productivity, gains from trade are attained permitting higher levels of consumption and investment. The process of a sub-regional cooperation among South and South East Asian nations was first initiated in June 1997 by establishing Bangladesh, India Sri Lanka and Thailand Economic Cooperation (BIST-EC). Myanmar joined this organization in December 1997 and it was renamed as Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMST-EC). In 2004, Nepal and Bhutan became the members of this group. Subsequently, the name of this organization further revised as the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMST-EC). BIMST-EC was formed with the idea of imparting greater economic cooperation among the member nations in the area of technology, transport and communications, energy, tourism, agriculture, fisheries and human resources Development. India is leading transport and Communication, counter- terrorism and transnational crime, and environment and natural disaster management.

Key Words: Foreign Collaborations, Mutual Trade, Regional Corporation, Collaborative Links, Free Trade Area.

I. INTRODUCTION

In addition to the sectoral cooperation, BIMST-EC also wanted to strengthen cooperation in the areas of trade and investment The main aim of this group is to fully utilise the existing potential of member countries for promoting economic co-operation in the areas of investment, industry, technology, human resource development, agriculture and infrastructure. BIMST-EC provides an opportunity to optimise complementarities in trade, investment and production between South and Southeast Asia countries.BIMSTEC was formed with the idea of imparting greater trade and economic cooperation among the member nations. This sub-regional group was initiated with the aim to combine India's look east policy and Thailand's look west policy. Hence it constitutes a bridge between South and South East Asia around Bay of Bengal, and established a platform for intra-regional cooperation between SAARC (South Asian Association for Regional Cooperation) and ASEAN (Association of South East Asian Nations) members. The BIMSTEC region account 22.1 per cent of the world population and 3.6 per cent of the total land area of the world. Its share in the world output was merely 3.6 per cent (US$ 2775 billion) in 2014. The region's per capita Gross National Income (GNI) was US$ 1738 during this period. Its

economic growth rate was 7.1 per cent in 2014 (World Bank, 2015).

There is a strong political and commercial case for India to put more weight behind BIMSTEC. Given the geo-strategic importance of the BIMSTEC group of countries with minus Pakistan, it is imperative for India to adopt a more accommodating, pragmatic approach towards this regional group. India's dealing with small neighboring countries in a group instead individual poses more trust and confidence among small member countries. Further, as compared to SAARC, BIMSTEC will be more promising because all the BIMSTEC members are purely guided by economic interests rather than by political interests under SAARC.

Review of Literature

There are several studies which have focused on the economic dimensions and distributional aspects of trade in different services. It reviews the views of different authors on the subject area. The main objective of this study BIMSTEC was to integrate the states on both sides of the Bay of Bengal.

In the process of globalization, India has attempted to strengthen trade and investment relationships with the rest of the world. The survey of literature aims to establish certain significant conclusion regarding India-BIMSTEC FTA.

Mehta (2002) discussed some issues relating to the formation of FTA in BIMST-EC. He found that India's export basket was diversified as compared to corresponding baskets of other BIMSTEC countries. In fact, India is exporting a large number of items to other BIMSTEC countries. There was a possibility that India could capture a large share of these countries' import market, if FTA is formed at earliest date. The formulation of FTA (with negative list approach) will lead to decline in un-official trade at the earliest date.

Palit Amitendu (2006) this study attempted to such possibilities for firms in some BIMSTEC nations in the context of global production networks dominated by Japanese lead firms. The paper examined extant national technological capabilities, in terms of efficiencies in applying advanced technologies to commercial applications, as well as innovative capacities for tackling more advanced operations. The findings indicate India as the leading BIMSTEC nation having capabilities for taking on diverse 'high-end' activities, with other nations requiring considerable technological 'catching-up'.

Upreti (2007) pointed a study on development of BIMSTEC, its nature, direction, challenges and issues. The study described that BIMSTEC alliance basically economic in nature and confined itself to economic growth and social issues. BIMSTEC has given major importance to intra regional trade and accepted to taking the trade facilitation for the enhancement of regional trade. Study demonstrated that BIMSTEC nations offer vast scope for the cooperation in the field of trade, investment, hydropower generation, natural gas etc. and Free Trade Area agreements play vital role for the development of trade among the member nations.

Vanajamani (2007) discussed a study on India's political economic relation with some BIMSTEC nations. With the economic integration among the BIMSTEC nations, the South Asian nation's exports of services had been grown especially commercial services export show significant growth. In case of Sri Lanka, commercial service exports had made vibrant growth in total exports and Bangladesh made remarkable increase its share of export in transport sectors. But from the observations or evident the

trade performance of BIMSTEC countries at the global level had been miserable in relative sense and India play an significant role to be future cooperation in South Asia in general and BIMSTEC in particular.

Cho Cho Thein (2008) argued that the sub-region has been facing tremendous challenges in order to enhance the merchandise trade. One of the major impediments that this sub-region was facing was the lack of improved cross-border physical connectivity. To meet these challenges, BIMSTEC countries need to delop regional transportation and transit network that offers efficient transportation. He suggested that by enhancing cooperation with developed economy like Japan will benefit the sub-region in terms of transportation technology and infrastructure development.

Islam, as &Musa (2014) identified the development of trade performance of Bangladesh with the BIMSTEC member countries on the basis of trade performance and providing the policies formulation to gain from the integration. The period of study was 1994-2008. The study found that the export performance of Bangladesh with member countries had increased and the average import growth had decreased after functioning of BIMSTEC. It recommended various measures like elimination of political disputes, removal of protectionism, centralization of political and economic authority, identification of new market for export, arrangement for regional transport and communications infrastructure, etc.

Sharma and Roy (2015) observed that India adopted “Look East Policy” (LEP) to integrate its economy with Southeast Asian countries. As a part of its LEP, India engaged in two important sub-regional economic grouping viz - BIMSTEC in 1997 to promote technical and economic cooperation, and. Bangladesh-China-India-Myanmar regional economic forum (BCIM) in 1999 to promote sub-regional cooperation in infrastructural development and people to people contact between these four countries.

Methodology

The proposed study will be based on secondary data. Both published and unpublished sources would be used. The investigator procured the required data through secondary survey method. Different books, news articles, and web were used which were recorded. The suitable statistical techniques would be used in the analysis of data. The study would cover the period 1997 onwards. The proposed study would identify potential items of trade between India and BIMSTEC countries. The proposed study would identify items of gains to India for her trade with BIMSTEC countries. The study would find out the actual and potential gains to India by comparing the import prices of various commodities from BIMSTEC and from rest of the world. Making useful discussion with experts would cover an important aspect of the study.

Following statistical techniques may be used in this study

Trade Complementarity Index

For expansion of bilateral trade, it is important that the trade profiles of the countries match i.e. what is exported by one country should be imported by partner country, and vice versa. The Trade Complimentarily Index (TCI) can show how well the trade profile of two partners matches. A high degree of complementarity is assumed to indicate more favourable prospects for a successful trade arrangement. The index lies on the range 0-100, with zero indicating no overlap and 100 indicating a perfect match in the import/export.

The TCI can be constructed as under

$TCI_{ikj} = 100 - \sum (\left| M_{ik} - X_{ij} \right| \div 2)$

Here M_{ik} = Share of good i in all imports of country k and

X_{ij} = Share of good i in the global exports of country j.

Trade Intensity Index

A measure of trade relationship among partners is trade (both exports and imports) intensity The Trade Intensity Index is used to determine whether the value of trade between two countries is greater or smaller than expected, on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the same partner. It is calculated as:

$$TIIij = \left[\frac{\left(t_{ij} / T_{iw} \right)}{t_{wj} / (T_{ww})} \right] X100$$

Where t_{ij} is the value of total trade of country i with country j, T_{iw} is the value of the total trade of country i with the world, t_{wj} is value of world trade with country j, and T_{ww} is the value of world trade.

Development of Trade India and BIMSTEC Countries

Trade Share of India with BIMSTEC Countries

The trade share of India with the Bay of Bengal initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) countries i.e. Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand for the financial year 2014-15 is as under:-

Table1.Trade Share of India with BIMSTEC Countries

S. No	Country	2014-15			
		Export (in US $ Millions)	% share (w.r.t. total export)	Import (in US $ Millions)	% share (w.r.t. total import)
1	Bangladesh	6,451.47	2.08	621.37	0.14
2	Bhutan	333.94	0.11	149.87	0.03
3	Myanmar	773.24	0.25	1,231.54	0.27
4	Nepal	4,558.77	1.47	639.91	0.14
5	Sri Lanka	6,703.72	2.16	756.17	0.17
6	Thailand	3,464.83	1.12	5,865.88	1.31

Source: ITC Trade Map

The Framework Agreement on BIMSTEC Free Trade Agreement (FTA) was signed in February 2004. The Framework Agreement includes provision for negotiation of FTA on goods, services, investment and economic cooperation amongst the member countries.

Table 2 shows BIMSTEC countries trade shows positive compound annual growth rate (CAGR), which is 25.16 percent (2005-2014), highest CAGR (2005-2014) in terms of trade, was found with Thailand (30.43 percent) and the least was found with Bhutan (7.7 percent). Whereas the growth rate of total trade of India in 2014 was –3 percent, it was 10.37 percent with the BIMSTEC countries and in 2010 it was 41.29 percent, which is measured to be the highest in a decade. Moreover, the share of BIMSTEC countries in India's total trade was 3.89 percent whereas in exports it was 6.74 percent and in imports was found to be 1.94 percent in 2014. This shows that there is a large scope in trading with the BIMSTEC countries and the share of trade with BIMSTEC countries is significantly low as of now.

Table2: Compound Growth Rate of BIMSTEC Countries in India's Trade

(InUS$mn)

BIMSTEC	2005	2014	CAGR (in %)
Bangladesh	1,823.49	6,772.51	27.14
Myanmar	606.41	2,261.29	27.29
Sri lanka	2,507.78	7,026.95	18.02
Thailand	2,255.86	9,119.46	30.43
Nepal	1,222.49	4,754.16	28.89
Bhutan	195.19	3,44.71	7.66
BIMSTEC 6	8,611.22	30,279.1	25.16

Note: 1.CAGR = Compounded annual growth rate

2. BIMSTEC 6 includes Bangladesh, Bhutan, Myanmar, Nepal, Sri Lanka and Thailand.

Source: ITC Trade Map (August 2015)

II. CONCLUSION

From the various studies, it can be concluded that the BIMSTEC region geographical characteristics have an important role in facilitating trade. However, favorable geographical characteristics without proper infrastructure facilities might undermine the growth prospect of the region. Above all, the most encouraging fact is that this trading arrangement might generate employment for its members. Since poverty is a common phenomenon in majority of the BIMSTEC countries, by creating employment opportunity for unskilled labor, BIMSTEC FTA can reduce poverty within the bloc. Moreover, it is essential that all member nations should struggle not only for the economic cooperation, but also for the cultural and social associations so that more closure and valuable ties take place.

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HURDLES IN SMOOTH SAILING OF EURO

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Abstract

The idea of European Monetary Union (EMU) was conceptualized on the recommendations of Werner Report presented in 1970. It advocated that the adoption of a single currency will act as the compensation for the psychological and political prejudice and would confirm its irrevocability. In 1986, this concept re-emerged when the European countries reprosecuted their goal of establishing a single market with free movement of goods, capital, services, and labor – termed as the "four freedom" and the irrevocable exchange rates. To pursue this goal, Delors report was drafted in which three stages, to adopt a single currency for European community, were deemed to be achieved. In 1992, the composition for ultimate amalgamation of the members of the European community as a single integration was created in Maastricht treaty. As part of this, for reducing the exchange rate risk among member states, most of the member states were committed to it. The major benefits of a single currency have been like price transparency, reduction in exchange rates uncertainty, low levels of inflation etc. However, these benefits are accrued at the cost of risks of transaction cost, price parity, divergence in monetary management etc. But the main cost of a single currency is the loss of national sovereignty. This paper is an attempt to assess that whether the benefits of adopting a single currency outweigh its costs in context of European Union.

Keywords: ***European Union integration, Exchange Rate uncertainty, Monetary Management, Single Currency, Cost-Benefit analysis, European Debt Crisis***

I. INTRODUCTION

The euro is the official currency of the Euro zone, which is adopted by 19 out of the 28 member states of the European Union: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Outside Europe, a number of overseas territories of EU members also use the euro as their currency, Andorra, Monaco, San Marino, and Vatican City have formal agreements with the EU to use the euro as their official currency and issue their own coins. Kosovo and Montenegro have adopted the euro unilaterally, but these countries do not officially form part of the Eurozone and do not have representation in the European Central Bank (ECB) or in the Euro group. It is both now the second largest reserve currency and most traded one, US Dollar being the first. The evolution of euro is the most significant monetary reform in Europe after Roman Empire. It is a symbol of European identity, integration, shared values and Europeans themselves.

The history of the European Union has been one of growing integration between Member States, covering a huge range of social, economic and political issues. Many of the initiatives for integration have been aimed at building the single market and allowing goods, people, capital and services to move freely within the Union.

The idea behind its evolution dates decades back and from then it has come a long way.

Historically trade in Europe, world's largest trading region then, was complicated by fragmented currencies. This led to contemplation of an economic and monetary union in 1929 by the League of Nations. Euro, as a name, was officially adopted in 1995 and as a currency was introduced on January 1, 1999. It replaced the former European Currency Unit at a ratio 1:1. Except for Denmark, United Kingdom and Sweden, all member countries converted their national currency to Euro via triangulation. National currencies soon got disappeared from the market and euro coins, banknotes, traveler's check, stocks, mortgages, etc. were all made available in euro by 2002. The incredible performance of euro within couple of years amazed the dealers and it soon drove Deutsche Mark out of the market that was thought to be trading in parallel to euro.

Robert Mundell in his optimum currency area theory gave the idea of how sharing a single would maximize the efficiency of any geographical region. He advocated the international risk sharing model and favored the adoption of Euro. However, concerns regarding the possibilities of diverging economies on adoption of Euro soon emerged among the member states of EU. With introduction of Euro it was hoped that it would confer many benefits on member countries strengthening the position of EU on the world level. It was advocated that with a single currency the transaction cost incurred in changing currencies would reduce and that this benefit will be equal to 1% of GDP and so will be quite significant. It would also help increase tourism. It would also make it easy to compare prices in different member countries as they would all be denominated in Euros. Firms and consumers will thus be able to buy cheaper raw materials and goods respectively. Exchange rate uncertainty between countries would be eliminated boosting trade among them. Access to greater variety of goods and services and lower prices due to increased competition would have favorable effect on trade. The resulting lower volatility in exchange rates will enhance business confidence in investments. Countries with high inflation would benefit from inflationary discipline as European Central Bank (ECB) would set commit to keep low inflation rate while setting interest rate over whole Eurozone area. Memberships in Eurozone would help reduce bond yields since euro was a strong and safe currency. This would lower the interest rate in whole area. Initially this occurred with bond yields in Greece, Spain and Ireland converging on German bond yields. The lower transaction costs would make more firms to invest within Eurozone. The introduction of the Euro was also thought to reduce the cost of trading in bonds, equity, and banking assets within the Eurozone. Among others, preventing competitive devaluations to encourage exports and speculative attacks are also the benefits.

The benefits of switching to a single currency don't come without costs. Probably the biggest cost is that each country gives up its right to set monetary policy to respond to domestic economic problems. This is a major problem if a country's economy is at a different stage in the business cycle. In addition, exchange rates between countries can no longer adjust in response to regional problems. Loss of autonomy of

formulating individual economic policy by member countries also adds to the woos of the countries. The currency union implies a single monetary policy and a single exchange rate for all member countries. As a practical matter, the costs associated with giving up the possibility of independent monetary policy may be small for most European countries. The elimination of all the trade barriers among member countries of EMU has created a very competitive multi-country financial market. A common monetary policy involves a common interest rate for the whole Eurozone area. However, the interest rate set by the ECB may be inappropriate for regions which are growing much faster or much slower than the Eurozone average. Also too much concentration on maintaining low inflation and interest rate on the part of ECB is detrimental to growth and employment opportunities in Eurozone. The EMU member countries have also agreed to limit the use of fiscal policies. It is argued that being a member of the Euro protects a country from a currency crisis. Therefore, there is less incentive for countries to implement structural reform and fiscal responsibility. However in case of EU this argument was proved to be wrong when the union faced crisis from 2010 to 2014 raising questions on its survival. The ECB is unwilling to buy government bonds if there is a temporary liquidity shortage. This makes markets more nervous about holding debt from Eurozone economies and precipitates fiscal crisis. Giving up the sovereignty monetary policy didn't go well with member countries since ECB was not able to loosen monetary policy when needed in 2005. This led to divergent bank rates in peripheral Eurozone countries, like Italy and Spain. The price differentials among the countries trigger arbitrage leading to convergence of prices to parity. The same happened in Euro zone as an effect of common currency dampening competition among different markets. In general, any asymmetric shock demands different response in different countries. However, this is not the possible with a common currency. This gives rise to imbalances in that particular country experiencing such shocks. Joining the Euro is supposed to be an irreversible decision. But, individual countries could always pass individual acts of parliament to leave the Euro. However, leaving aside all the political issues, there are many economic stumbling blocks. One problem is that countries generally would only consider leaving when there was a real economic crisis – but, it is during an economic crisis, when it would precisely be most difficult to leave. Some difficulties at the face of countries leaving Euro would include transaction costs of converting cash and machines, deciding exchange rate at which to leave, converting all contracts, mortgages, bank accounts from Euro to native currency, possibility of capital flight in anticipation of Euro exit and subsequent devaluation, issues of loss of confidence in economy among others. Such decision would be even more difficult for countries with uncompetitive positions, trade deficits, large budget deficits and who need to devalue.

A number of economists question whether the common currency is useful and in future can it survive. Eurozone leaders have always been determined to keep Euro stable what come may. This is the reason that, even after going through so much turmoil and collapse of banking system, Euro has always managed to survive. But it has also been recognized that the actions undertaken by Eurozone leaders are often driven by the vested interests of large banks. This attitude needs to be changed and such decisions should be in the interest of public.

European debt crisis create a panic situation in both financial and government sector.

With banking system on the brink of collapse and government on the verge of default, the need for adopting a monetary union emerged among the EU members. The crisis was so severe to the extent that Germany, the strongest and leading economy, was not able to maintain the 3% deficit limit of the Growth and Stability Pact. Even after breaching this limit and violating the pact, it managed to take the advantage of being the most consistent economically managed economy. Hence, no Excessive Deficit Procedure was imposed on it which was meant to be applied. Following the same suit, countries Portugal, Spain, Greece and Italy too got away from this procedure after breaching the abovementioned limit. Consequently the relative competitiveness of member countries diverged weakening their performance and increasing their government deficits.

When a country enters into a monetary union, its government abandons all of the tools of monetary policy. Instead, in the case of the Eurozone, only the European Central Bank can set the level of euro interest rates, which it does taking account of economic conditions in the Eurozone as a whole, not by reference to the situation in any particular country.

The Conflict- Greece, Germany and France

In 2009, with the onset of the Greek debt crisis, concerns regarding the viability and strength of Euro had been raised by the member states who suffered from the debt's subsequent contagion in their countries. These countries were, however, revived their economies by imposing fiscal discipline tools. However, Greece remained in distress. The crisis created tensions by the way of generating tradeoff between imposing austerity measures and stimulating growth among the member states. Serious concerns about the issues relating to fiscal integration and EU's unity emerged soon after the negotiations with Greece in 2015. While France (and Italy) emphasized the political importance of maintaining the integrity of the Eurozone, Germany (and others such as the Netherlands, Finland, Slovakia, and Slovenia) stressed the need to adhere to Eurozone fiscal rules. Many countries that backed Germany's hard-line position during the negotiations with Greece also did so because they did not want to embolden other struggling Eurozone governments or anti-austerity, Eurosceptic opposition parties by making concessions to Greek demands. ECB, then, announced to adopt quantitative easing measures post considering the fall in economic and financial situation of Greece and its wish of temporarily exiting Eurozone. Other measures that were undertaken include Securities Markets Programmes (SMP) and Long Term Refinancing Operation (LRTO) to prevent Greece from exiting.

Germany has played an important part in designing the architecture of the euro and has been a decisive actor in recent efforts to repair the Eurozone. In the preparatory phase of euro Germany argued that low inflation rates, low levels of government debts, control and supervision of Eurozone members would help develop a homogenous economic area in long run. However, it became apparent that its idea of stability was a narrow one when crisis hit the Eurozone in the euro area in its present form has some serious design faults which necessitate crucial amendments to help save Eurozone from collapsing. The opinions on how a common currency should be designed and how it should work didn't coincide for Germany and France. Germany advocated for a convergence process among member states before the initiation of monetary union. This included maintaining low inflation rates, low interest rates, and low levels of government debts, exchange rate stability and budget discipline. However, in practice the currency union has not been the kind of

"stability community" that Germany had envisaged.[7] Though, within 15 years of euro's introduction, the goal of low inflation has been reached yet the levels of debts remain rather patchy over this period. Even convergence process experienced reversed trend. This suggests that other factors which were initially ignored for this convergence process were the key factors behind the crisis. These included imbalances in the current accounts of the Eurozone countries and the interdependence of the state and financial sectors ("sovereign bank nexus"). The German government, which always adhered to its traditional notion of control and supervision for stability, always acted in a pragmatic manner to save Euro and EU. Its willingness to lend support for creating European Stability Mechanism and the Banking Union and acceptance of other crucial measures like government bond purchases and Outright Monetary transactions undertaken by ECB proves the same.

Two different approaches advocated by Germany and France emerged in the negotiations on the Treaty of Maastricht. The very starting point of the issue was that how much economic convergence a monetary union actually needs. France was of the view that, to create a homogenous monetary area, process would begin with the common currency backed up by an economic government. Contrary to this, the necessity of a priori economic convergence was emphasized by German. Another issue that surfaced was the degree of independence to be accorded to the new European Central Bank, which was going to be responsible for the common monetary policy. France advocated for the independent functioning of ECB to frame a common monetary policy and also agreed to the overall principles of price stability. The formulation of exchange rate policy by policymakers and a robust political framework on EU level was also recommended by the country. On the other hand Germany, in addition to a robust ant inflationary mandate, demanded the depoliticization of monetary policy with the help of an independent central bank. In 1989, Delors report suggested that economic and fiscal policy decisions should be binding on all member states implying that they should be made within an agreed macro-economic framework. Germany totally ignored any common economic or fiscal policy. However, it was a great supporter of budget discipline, a proposal that enjoyed the support of member states too. For stability of EU, Germany was in favor of making strict rules against excessive budget deficits and the imposition of sanctions as defined in the treaty whenever they were broken. The Stability and Growth Pact was adopted in 1997 for the same purpose. To a large extent the vulnerability of the common currency can be traced back to its origins as a monetary union in a heterogeneous economic area[11]. The idea that the European economies would converge in the course of time was too optimistic. These economic cycles of the Eurozone countries failed to converge. For this reason the ECB's single monetary policy, which was based on average inflation rates, could not have a stabilizing effect. Due to the weak adjustment mechanisms there were imbalances in the current accounts of the member countries. With no tools for adjustments in hand, the countries were left alone to deal with this problem and they failed to cope with it's a result the private debt levels increased and in Greece this trend was accompanied by excessive public spending. Germany and France, had also broken the rules, but remained stable. The principle rules that were the basis of formation of EMU were breached owing to the crisis. These included the violation of bailout principle, rules composed in the Stability and

Growth Pact and the ignorance of the significant imbalances in the private sector and their interaction with public finances. The sluggish political response of the euro area was partly due to the fact that the European Union did not have at its disposal any ready-made mechanisms for dealing with crises in the monetary union. German policymakers found themselves in a cleft stick. On the one hand they wanted to avoid the communitarization of debt, and on the other they realized that Greece's financial problems could spread to other countries and cast doubt on the currency union as a whole. The German focus on government debt had a lasting effect on the responses of the Eurozone member states. Various counter- measures like the European Financial Stability Facility (EFSF), designed to prevent defaults with a combination of emergency loans and austerity measures, measures undertaken to prevent macroeconomic imbalances, formation of European Banking Union, etc. were adopted to tackle the problem of government debt.

Pre-crisis EMU Policy Principles

In the monetary policy area, the institutional design of the EMU was based on a clear separation between monetary and fiscal authorities. This was achieved in EU by delegating the monetary power to the European level and fiscal powers with national countries. However, EMU imposed fiscal discipline on member states which was strengthened by the stability and growth pact in 1997. The financial regulation was left for national countries to deal with and was fully ignored by EMU. This ensured no distraction for central bank that would be only committed to its primary objective of price stability. Since the high credit- rated countries like Germany and others feared for the moral hazard on the part of low-credit countries the provision of bailout was prohibited. Hence, according to the pre-crisis EMU policy principles, if the transfer of resources is to take place within the EU, it has to be subjected to the laws of the market, based on extreme agreements among autonomous political and economic units. However this principle was violated by Germany itself post-crisis. Along with the Bundesbank, Netherlands and Finland, it advocated the use of bailout to resolve crisis, impose fiscal discipline, sound money policies, and structural reform in exchange for liquidity. Formation of a fiscal Union was thus proposed. But the other European Countries, ECB and Commission suggested for the establishment of a banking union instead of a fiscal union.

Lack of Confidence in Single currency- Reasons and Remedies

The structural deficiencies within the fundamental institutional design were the very reason for the onset of crisis. The EMU, adopted in 1990s, was not virtually a union. It lacked credible economic governance institutions and coordinated structural economic policies. The required and appropriate reforms were not implemented until great depression hit the economy. The EMU, even today, has not been able to cope up fully with severe market reactions that triggered post great depression.

Faced with two alternatives of either discarding monetary union or adopting a complimentary economic union, Europe chose to complete the original concept of economic and monetary union, reviving the faith in Euro. The deficit member countries back lashed EMU for not recognizing the nature of macroeconomic imbalance and taking any corrective measures. It even refused to accept the obligations of these countries about the leadership roles of Greece in Eurozone. Given such conflicts, a golden rule was implemented. "If the golden rule is effectively put into practice, then the 3 per cent deficit ceiling

would play a different role than it played in the past. Instead of avoiding deficits surpassing 3 per cent of GDP in difficult times, Eurozone countries would be forced to have balanced budgets in normal times. This would render it much less likely that a deficit of more than 3 per cent is reached during economic downturns (Buti and

Sapir (1998). The existing medium-term budgetary objective (MTO) is similar to the golden rule.

The MTO requires member states to adhere to a country-specific structural balance that can range from a structural deficit of 1 per cent of GDP to a budget in surplus. In practice, future MTOs will have to be in line with the 0.5 per cent limit imposed by the golden rule. Eurozone countries could still decide to commit to an even stricter over-the-cycle budget." After its implementation, the price and cost competitiveness improved for some countries only. Some suffered from gradual decrease in their export shares and growing external imbalances. Increase in domestic demand expansions in non-tradeable sectors led to faster rates of growth in Greece, Spain and Ireland. The function of EU-level fiscal norms reduced significantly. However, this also resulted in less productive uses due to low costs and increase in capital flows. With the increase in supply of credit and housing prices, some countries suffered from chronic current account deficit. On the other hand, the countries in which domestic demand was constrained due to rigidities in markets enjoyed surpluses in their current account. The inflation differentials were particularly high in Germany and Greece which formed for the trouble that they are caught in even to this day. To continuously improve the system that has been put in place, strengthen the Euro, to improve economic viability and restore the faith of member states. It was decided to keep the European Banking Authority independent. Consequently, a €750 billion "rescue parachute" was created to support European Governments and banks in time of need. It also started outright purchase of government bonds which raised money questions on ECB's credibility and independence. Germans, however, were against the bailout fund as they were continuously operating under the guidelines when others were embarking on wild spending sprees. Germans assess the bailout of Greece as a rip off. The bailout makes the involuntary transfers embedded in the EMU more obvious. But most people still do not understand exactly how and why they pay. They suspect that the Euro has something to do with it. There is a one currency and one interest rate, but there is no fiscal union to stand alongside monetary union.

II. CONCLUSION

How to fundamentally strengthen the euro? French President and the German Chancellor are not seeking out technical support because they are convinced that politics can solve any problem. Both are known to have such an inclination. Yet, they must have been repeatedly surprised that their 'comprehensive solutions' promptly fizzled out. One would expect that these sobering experiences eventually lead them to accept that the laws of economics cannot be discarded. To overcome the ongoing Euro zone crisis European leaders need to take some strict actions. The policy principle of "no bailout" should be scrapped off as it will help in restructuring debt. However, it should be carried out only by ECB as amounts required could be huge and meant to be kept as a secret. The banks must be recapitalised, if possible before some sovereigns default. Also European Financial Stability Facility (EESF) should come for support of banks that can't raise sufficient capital. Fiscal discipline guidelines should be issued and implemented with an immediate effect. Improved

fiscal integration and tackling the significant inflation differentials is also needed. Yet the design of these interventions runs into the constraint that caps should not translate into a subsidy to countries with weaker fundamentals.

A policy of differentiated caps would do, but this raises the issue of which standard should be applied to differentiate them. Steps to prevent speculation in financial markets and provide shelter from sudden large swings to the countries should be taken as a priority. Benefits should be offered on a non-biased basis to institutionally reform EMU. The establishment of the Single Supervisory Mechanism, the involvement of creditors in bank restructuring costs, and the creation of a Single Resolution Mechanism will make it possible in future to reduce the impact of a banking crisis on government finances and thus the potential for contagion within the Eurozone.

These measures did not form part of the original German ideas on stability, but are certainly compatible with them. Eurozone still have many tools like exit rules, stabilization rules, fiscal discipline, purchase of Eurobonds, etc, in its pocket. Adopting such measures will strengthen the institutional structure of Eurozone and will help Euro survive despite the hovering crisis. Though out of the scope of this paper, areas like credible commitment, migration, tourism, fiscal independence, financial sector regulation, free mobility, stringent policies of ECB, etc can be further researched upon to better understand the hurdles that Euro, as a single currency, still faces.

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25 YEARS JOURNEY OF GLOBALISATION OF INDIAN ECONOMY: BOON OR BANE!!!

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Abstract

Under the influence of the process of globalisation, India in 1991 introduced series of economic policy reforms and integrated its economy to the global economy. Globalisation has far-reaching implications on India's economic, trade and investment relations with the countries of the world. India's economic achievement over the last two decades has attracted the attention of other regional and global powers for closer cooperation with India. Henry Kissinger predicts that in the twenty-first century, the international system will be dominated by six major powers: The U.S., Europe, China, Japan, Russia and probably India. Thus in this paper the researcher has tried to study the 25 years of journey of globalisation in Indian Economy, as it is a long inning with various economic variables, we have taken few parameters like Agriculture, National Income, GDP, Foreign Trade, Foreign Exchange Reserves, FDI to study the current position of our economy after adoption of LPG system, is it a boon or bane? Researcher also tries to link the roots of globalization with the principles of Laissez Faire Policy advocated by the founding father of Economics Sir Adam Smith.

Keywords: Globalization, GDP, FDI, Trade, BOP, Forex reserves.

I. INTRODUCTION

Globalization is a social process in which the constraints of geography on social and cultural arrangements recede and in which people are increasingly aware that they are receding. In context to India, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNC's in India, allowing Indian companies to enter into foreign collaborations and also encouragingthem to set up joint ventures abroad; carrying out massive import liberalization programs by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

Under the influence of the process of globalisation, India in 1991 introduced economic policy changes and integrated its economy to the international economy. India introduced changes in industrial and trade policies to improve its efficiency, productivity and competitiveness of its economy. Besides, it also brought changes in industrial licensing, foreign collaborations, investment by NRIs, portfolio investment by foreign institutional investment, reduction in tariff

rate and simplification of export-import procedures, opening of the IT-sector, reducing public expenditure investment norms to attract inflow of capital from both the domestic and foreign enterprises in sectors like banking, insurance, retailing etc. Since then India's economic performance has witnessed paradigm shift from low growth to high growth trajectory resulting in an increase in domestic savings. Indian economy has become more open and gained competitiveness in the world economic scenario. It was able to maintain an annual average growth rate between five to seven per cent. Given the current growth rate, it is being projected that by the end of the second decades of the twenty first century, India would become the third largest economic power behind the United States and China. Globalisation has far-reaching implications on India's economic, trade and investment relations with the countries of the world. India's economic achievement over the last two decades has attracted the attention of other regional and global powers for closer cooperation with India. Henry Kissinger predicts that in the twenty-first century, the international system will be dominated by six major powers: the U.S., Europe, China, Japan, Russia and probably India. India's Gross National Product (GNP) of $2.14 trillion in Purchasing power parity (PPP) terms is larger than that of three P-5countries such as Russia, France and Germany. This way, in PPP terms, India's economy is more than twice than that of Russia. Apart from Trade, Foreign Direct Investment (FDI) also increases from 1991 onwards. Besides, there has also been an increase in the number of foreign firm's presence in our country. They are well aware of the presence of a large pool of skilled brains power and the advantage that would accrue out of it. The liberalization process has opened the excellent opportunity for the foreign firms to access Indian market and changed their mindset about the Indian economy from a poor, underdeveloped economy to an emerging market.

India is one of the world's most dynamic and fast-growing economies and its growth at an annual rate of about 6per cent over 25 years (showing a 4per cent annual per capita growth) is quite extraordinary. Almost three decades back, the 80's witnessed an absence of knowledge as to what was to follow. One hardly knew that there was going to be something better in store for poverty-stuck and populated country. The paper examines the performance of the Indian economy since the arrival of globalisation in India. It also highlights the measures taken by the government to improve the economy of our country.

Hypothesis

- Globalisation may increase a cut throat competition under which the developing economies will be suppressed.
- Globalisation will repeat the history that UDC's and developing economies will be treated as constant source of raw material and market for finished goods and regional economic disparities may increase.
- Globalisation may invite the chronic unemployment particularly in LDC's as there is a heavy pressure of population.

II. OBJECTIVE

1. The aim of the research is to critically evaluate the Recent Performance and Prospects in the Wake of Globalization on Agriculture Sector in the parts of India.
2. To look at the level and adequacy of foreign exchange reserves in balance of payments transactions.
3. To prepare the short run strategies for meeting the challenges of globalisation on Indian foreign exchange reserves, trade pattern, national income, per capita income.

4. To propose the long run strategies for the better use of the opportunities provided by the globalisation for Indian economy.

New Economic Policy

The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis triggered by a serious Balance of Payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy. The response to the crisis was to put in place a set of policies aimed at stabilisation and structural reform. While the stabilisation policies were aimed at correcting the weaknesses that had developed on the fiscal and the Balance of Payments fronts, the structural reforms sought to remove the rigidities that had entered into the various segments of the Indian economy. Former Prime Minister Manmohan Singh is considered to be the father of New Economic Policy of India. Under the influence of the process of globalisation, India in 1991 introduced economic policy changes and integrated its economy to the international economy. India introduced changes in industrial and trade policies to improve its efficiency, productivity and competitiveness of its economy. Besides, it also brought changes in industrial licensing, foreign collaborations, investment by NRIs, portfolio investment by foreign institutional investment, reduction in tariff rate and simplification of export-import procedures, opening of the IT-sector, reducing public expenditure investment norms to attract inflow of capital from both the domestic and foreign enterprises in sectors like banking, insurance, retailing etc. Since then India's economic performance has witnessed paradigm shift from low growth to high growth trajectory resulting in an increase in domestic savings. Indian economy has become more open and gained competitiveness in the world economic scenario. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her 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 economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. Indian economy was in deep crisis in July 1991, when foreign currency reserves had plummeted to almost $1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit was very high and had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and we were close to defaulting on loans. Along with these bottlenecks at home, many unforeseeable changes swept the economies of nations in Western and Eastern Europe, South East Asia, Latin America and elsewhere, around the same time. These were the economic compulsions at home and abroad that called for a complete overhauling of our economic policies and programs. Though some economic reforms were introduced by the Rajiv Gandhi government (1985-89), it was the Narasimha Rao Government that gave a definite shape and start to the new economic reforms of globalization in India. Presenting the 1991-92 Budgets, Finance Minister Manmohan Singh said: After four decades of planning for industrialization, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market.

In the Memorandum of Economic Policies dated August 27, 1991 to the IMF, the Finance Minister submitted in the concluding paragraph:

The Government of India believes that the policies set forth in the Memorandum are adequate to achieve the objectives of the program, but will take any additional measures appropriate for this purpose. In addition, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

Current Situation

Henry Kissingerpredicts that in the twenty-first century, the international system will be dominated by six major powers: the U.S., Europe, China, Japan, Russia and probably India. India's Gross National Product (GNP) of $2.14 trillion in Purchasing power parity (PPP) terms is larger than that of three P-5 countries such as Russia, France and Germany. This way, in PPP terms, India's economy is more than twice than that of Russia. Apart from Trade, Foreign Direct Investment (FDI) also increases from 1991 onwards. Besides, there has also been an increase in the number of foreign firm's presence in our country. They are well aware of the presence of a largepool of skilled brain power and the advantage that would accrue out of it. The liberalization process has opened the excellent opportunity for the foreign firms to access Indian market and changed their mindset about the Indian economy from a poor, underdeveloped economy to an emerging market.

India is one of the world's most dynamic and fast-growing economies and its growth at an annual rate of about 6 per cent over 25 years (showing a 4per cent annual per capita growth) is quite extraordinary. Almost three decades back, the 80's witnessed an absence of knowledge as to what was to follow. One hardly knew that there was going to be something better in store for poverty-stuck and populated country. Thus to study the 25 years journey of globalization, a biggest move of Indian economy, we have taken some important parameters which are as follows:

The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 periods. In the last four years, the annual growth rate of the GDP was impressive at 7.5 per cent (2003-04), 8.5 per cent (2004-05), 9.0 per cent (2005-06) and 9.2 per cent (2006-07) and 5.7 per cent (2016-2017)

Agriculture

Agriculture in India is the means of livelihood of more or less two thirds of the work force in the country. It has always been INDIA'S most important and desired economic sector. Agriculture has been and still of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness. The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period.

The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on

Import of Wheat and Agrarian Distress on May 18, 2006, the then Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1, 00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness. During the post-reform period, India has been shining brilliantly with a growing number of billionaires. Nobody has taken note of the sufferings of the family members of those unfortunate hundred thousand farmers. About the plight of agriculture in developing countries, Nobel Prize-winning economist

Joseph Stiglitz said: Trade agreements now forbid most subsidies excepted for agricultural goods. This depresses incomes of those farmers in the developing countries who do not get subsidies. And since 70 per cent of those in the developing countries depend directly or indirectly on agriculture, this means that the incomes of the developing countries are depressed. But by whatever standard one uses, today's international trading regime is unfair to developing countries.

He also pointed out: The average European cow gets a subsidy of $ 2 a day (the World Bank measure of poverty); more than half the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country.

The Economic Survey reports released till 1991 contained the Chapters in the following order: (1) Introduction, (2) Agricultural Production, (3) Industrial Performance and Policies, (4) Infrastructure, (5) Human Resources, (6) Prices, Price Policy and Public Distribution System, (7) Fiscal Policy and Government Budget, (8) Monetary and Credit Developments, (9) The External Sector and (10) Problems and Prospects.

In the Economic Survey 1991-92, Finance Minister Manmohan Singh recast the Chapters in the following order: (1) Introduction, (2) Public Finance, (3) Money and Credit, (4) Prices and Distribution, (5) Balance of Payments, (6) Industry, (7) Agriculture, (8) Infrastructure and (9) Social Sectors.

It is not known as to why the Finance Minister demoted the importance of agriculture that has about 90 per cent population from the second place to the seventh in the annual Economic Survey of the country. In a way does it symbolize the low importance deliberately given to the growth of the agriculture sector in the scheme of globalization?

Trends in National Income

National Income estimates are published annually by the Central Statistical Organisation of the Government of India (CSO) in its publication 'National Accounts Statistics'. The current series of national income estimates records India's national income since 1950-51 onwards.

The estimates presented are of two types, viz.

- Those based on current prices i.e. the prices prevailing in the year to which the estimates relate and
- Those based on 2004-05 prices, popularly Known as national income at constant prices. For the purpose of comparing national income and per capital income over different years, it is desirable to take into accounts only the estimates of national and per capita income at some constant base year prices. This is so, because the national income figures at current year prices value the output of that year at the prices prevailing in that very year.

GDP Per Capita

Current situation

India's per capita income, a gauge for measuring living standard. Per capita income in India has not grown at a pace at a national income has risen over the past four decades. At 2004-05 prices the per capita income in 1950-51 was Rs. 7,114. It has gone up only to Rs. 38,037 by the end

of 2011-12. There has, thus, been only a little, over a fivefold increase in per capita income over this long period of over six decades. The reason for this slow growth of per capita income is the rapid growth of India's population during this period. Increasingly large numbers of people being added to the existing population every year takeaway a major share of increase in national income and, thus, permit only a small rise in her capita income. Real GDP or Gross Domestic Product (GDP) at constant (2011-12) prices in the year 2016-17 is likely to attain a level of 121.65 lakh crore INR, with growth rate of 7.1 percent over the GDP for the year 2015-16 of 113.58 lakh crore INR. Nominal GDP or GDP at current prices in the year 2016-17 is projected at Rs. 152.51 lakh crore, with growth rate of 11.5 percent against Rs. 136.75 lakh crore for 2015-16.

India's per capita income is estimated to cross Rs 1 lakh in 2016-17, up from Rs 93,293 in the previous financial year. As per the 'First Advance Estimates of National Income, 2016-17' released by the Central Statistics Office (CSO), the per capita net national income during 2016-17 is "estimated to be Rs 1,03,007" at current prices. This is higher by 10.4 per cent compared to Rs 93,293 during 2015-16."The per capita income in real terms (at 2011-12 prices) during 2016-17 is likely to attain a level of Rs 81,805 as compared to Rs 77,435 for the year 2015-16," the estimates said. At constant prices, the growth rate in per capita income is estimated at 5.6 per cent during 2016-17, as against 6.2 per cent in the previous year. The Central Statistics Office said India's GDP is expected to slow down to 7.1 per cent during 2016-17 from 7.6 per cent in the previous fiscal mainly due to slump in manufacturing, mining and construction activities

The Gross Domestic Product per capita in India was last recorded at 6092.60 US dollars in 2016, when adjusted by purchasing power parity (PPP). The GDP per Capita, in India, when adjusted by Purchasing Power Parity is equivalent to 34 percent of the world's average. GDP per capita PPP in India averaged 3256.23 USD from 1990 until 2016, reaching an all time high of 6092.60 USD in 2016 and a record low of 1737.60 USD in 1991. The GDP per capita PPP is obtained by dividing the country's gross domestic product, adjusted by purchasing power parity, by the total population. GDP per capita in India is expected to be 2000.00 USD by the end of the current year, according to Trading Economics global macro models and analysts expectations. In the long-term, the India GDP per capita is projected to trend around 3500.00 USD in 2020, according to our econometric models.

At constant prices GVA (Gross Value Added)are 137.51 lakh crore, GNI (Gross National Income)150.83 lakh crore and NNI (Net National Income)134.86 lakh crore. According to International Monetary Fund World Economic Outlook (October-2016), India is now 7th largest economy of the world. India is behind by only $237 and $399 bill from 6th and 5th ranked France and United Kingdom, respectively. It is projected that India will be 6th largest economy of world in 2019 by overtaking France and will become 5th largest in 2019 by overtaking United Kingdom with GDP (Nominal) of $3,297.India is at 3rd position after China and Japan among Asian Countries. India shares 8.50% of total Asia's GDP (nominal). On the basis of PPP, economy of India stands at 8,720.5 billion international dollar, 3rd largest economy of the world after United States and China. India contributes 7.32% of total world's gdp (ppp). India shares 15.98% of total Asia's GDP (PPP). Gross domestic product (GDP) of India at purchasing power parity (PPP) is 3.87 times more than GDP at nominal.



Source tradingeconomic.com |world bank

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Indian States

In India, Goa has highest NSDP per capita among 33 Indian states and union territories. Per capita income of Goa is 3.01 times more than India's average and 7.18 times more than poorest state Bihar. Ranking of Delhi is second with per capita income around of 212,219 INR. Sikkim is at third, Chandigarh is at fourth and Puducherry is fifth richest economy of India. In Top 5, 4 states/UTs have population less than 1.5 million. Maharashtra and Tamil Nadu is at 7 and 8 number, respectively. Gujarat is at 10th place with per capita income 106,831 INR behind Andaman and Nicobar islands. India's 29th state Telangana is at 13th position above Andhra Pradesh. Andhra Pradesh is now at number 18.All five south Indian states have higher GDP per capita than India's average. Bihar, Uttar Pradesh, Manipur, Assam, and Jharkhand are at top 5 poorest states in terms of NSDP per capita. These five states have net state domestic product per capita below Rs. 50,000.

Foreign Trade (Export- Import)

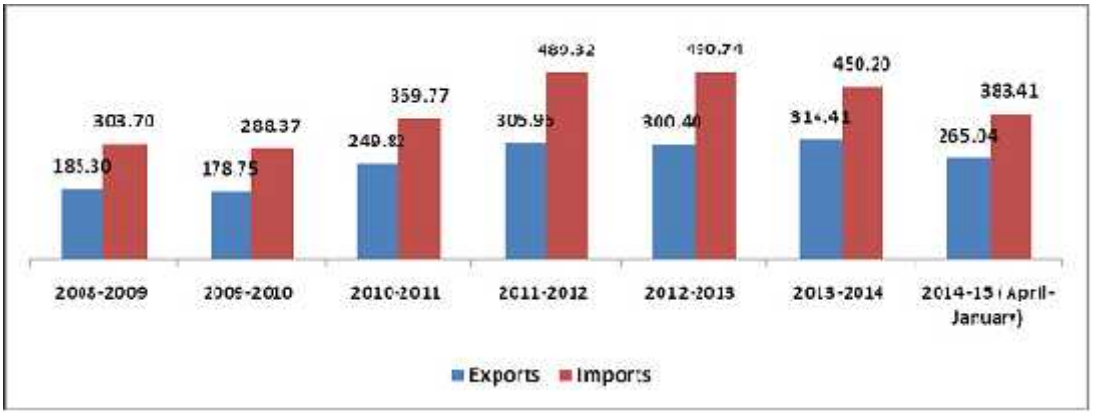
India is fast emerging as a global leader, what with its vast, natural resources, and huge base of skilled manpower. Combined with cutting edge technology, Indian trade market is making its presence felt all across the world. Indian products and services are seen as of international standards and globally competitive. Trade in India has made good progress on liberalizing trade regimes and cutting tariffs since the recent times, when most of the countries started with reforms. The idea behind the new economic model known as Liberalization, Privatization, and Globalization in India (LPG), was to make the Indian economy one of the fastest growing economies in the world. An array of reforms was initiated with regard to industrial,

trade and social sector to make the economy more competitive. Earlier India was afraid of global companies and facilitated government to ensure high tariff barriers. But now the scenario is changing and the competition is looked at the holistic angle.

The study has find that the economic reforms in the Indian economy initiated since July 1991 have led to fiscal consolidation, control of inflation to some extent, increase in foreign exchange reserve and greater foreign investment and technology towards India. This has helped the

Indian economy to grow at a faster rate; presently more than 100 of the 500 fortune companies have a presence in India as compared to 33 in China. India's export and Import in the year 2001-02 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18 of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6 million were exported from the country 23% of which has been contributed by marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oilseeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the country's agricultural exports.

Exports from India advanced 10.3 percent from a year ago to USD 23.82 billion in August 2017, as sales increased for engineering goods (19.5 percent); petroleum products (36.6 percent); organic and inorganic chemicals (32.4 percent); drugs and pharmaceuticals (4.2 percent); and RMG of all textiles (0.6 percent). Considering April-August 2017-18, exports rose 8.6 percent to USD 118.57 billion over the same period of 2016. Exports in India averaged 4953.78 USD Million from 1957 until 2017, reaching an all time high of 30541.44 USD Million in March of 2013 and a record low of 59.01 USD Million in June of 1958.



According to International Monetary Fund World Economic Outlook (April-2015), GDP (nominal) per capita of India in 2014 at current prices is $1,627 compared to $1,508 in 2013. India is the ninth largest economy of the world. But, due to its huge population of more than 1.26 billion, India is at 145th position in term of GDP (nominal) per capita. Per capita income of India is 6.69 times lower than world's average around of $10,880. This figure is 68.66 times lower than richest country of world and 6.5 times greater than poorest country of the world. India is at 34th position in the list of Asian countries. On the basis of PPP, GDP per capita of India stands at 5,855 International Dollar in 2014. GDP (ppp) per capita of world is 15,189 Int. $. World rank of India is 125 and Asian rank is 30.By 2015, Rank of India will be 141th and 124th with per capita income of about $1,808 and $6,266

in nominal and purchasing power parity method, respectively.

Foreign Exchange reserves

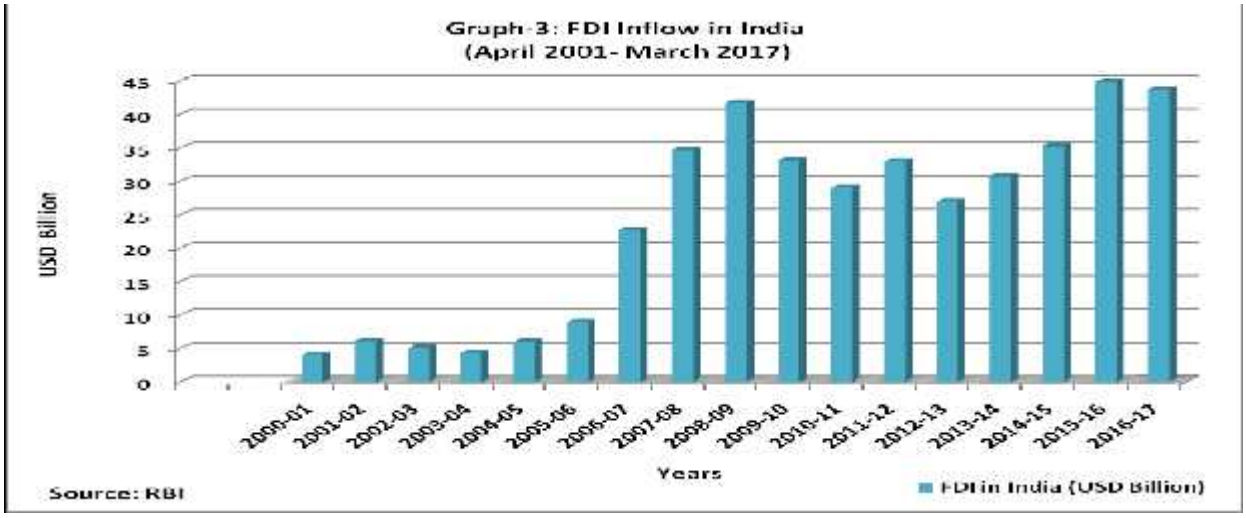
Post 1991, after India faced the worst economic crunch in terms of its FOREX reserves. Foreign exchange crunch made India close to defaulting on loans. The response was a slew of domestic and external sector policy measures partly prompted by the immediate needs and partly by the demands of the multilateral organizations; it was none other than the Finance Minister Dr. Manmohan Singh who gifted India with liberalization. Foreign Exchange Reserves in India increased to 400730 USD Million in September 8 from 398120 USD Million in the previous week. Foreign Exchange Reserves in India averaged 206346.53 USD Million from 1998 until 2017, reaching an all time high of 400730 USD Million in September of 2017 and a record low of 29048 USD Million in September of 1998.

Foreign Direct Investment:

As per the International Monetary Fund (IMF), Foreign Direct Investment, commonly referred to as FDI is an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor. The policy with respect to FDI is regulated by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, in the Government of India. The Circular on Consolidated FDI Policy, issued by DIPP, which is updated every year, makes provisions in respect of FDI, foreign technical collaborations, royalty payments, joint ventures abroad etc. Among the developing countries in Asia, India and China are the two major economies that have adopted market oriented economic policies designed to attract FDI inflows. A company that goes for Foreign Direct Investment could possibly enjoy many incentives in the new country.

Foreign Direct Investment in India increased by 3409 USD Million in July of 2017. Foreign Direct Investment in India averaged 1252.56 USD Million from 1995 until 2017, reaching an all time high of 5670 USD Million in February of 2008 and a record low of -60 USD Million in February of 2014.

Industrial studies have revealed that as foreign investors' confidence in the Indian government will increase, their levels of investment in India will also go up.



In the 2015-2016 fiscal years, it is expected that FDI will exceed 60 billion US dollars. In the 2013-14 fiscal years, the aggregate foreign investment amounted to 29 billion dollars. This increase owes a lot to the high expectations that foreign investors have from the Modi

administration. It has been estimated that in the ongoing Twelfth Five Year Plan, which continues till 2017, India will need almost a trillion US dollars in FDI. This money will be used to develop infrastructure such as highways, airways and ports.

Top 10 FDI Cities in India:

The 2012 attractiveness survey done by Ernst & Young 2012 states that the leading cities in India such as Bangalore, New Delhi, Pune, Mumbai, and Chennai draw 42 percent from the investment related projects that come to India from outside the country. They also generate 36 percent of the jobs that are created in India from these projects and account for 28 percent of the aggregate worth of such projects. The other cities in question are also performing creditably as far as foreign direct investment is concerned and taking several steps to spruce up their economy so as to enhance their viability for potential investors. The proposals for foreign direct investment in India get their approval through two routes that are the Reserve Bank of India and the Foreign Investment Promotion Board. Automatic approval is given by the Reserve Bank of India to the proposals for foreign direct investment in India. The Reserve Bank of India gives approval within the time period of two weeks. It gives approval to the proposals for foreign direct investment in India that involve FDI up to 74% in the nine categories that are included in List four, FDI up to 50% in the three categories that are included in List two, and FDI up to 51% in the forty eight industries that are included in List 3. FDI Approval in India is also done by the Foreign Investment Promotion Board (FIPB), which processes cases of non- automatic approval. The time taken by Foreign Investment Promotion Board for approving the proposals for foreign direct investment in India is between four to six weeks. The approach of FIPB is liberal as a result of which it accepts most of the proposals and rejects very few. Government of India has announced new FDI proposals on 17th July 2013. According to the announcement, Foreign Direct Investment in sectors like Telecom and Defense has been relaxed. 100 percent Foreign Investment is allowed in Telecom and Defense on case by case basis. The 100 percent FDI in defense is only for the state of the art technology coming to India and Ministry of Defense will decide what the state of the Art is. The IT industry is one of the booming sectors in India. At present India is the leading country pertaining to the IT industry in the Asia - Pacific region. With more international companies entering the industry, the Foreign Direct Investments in India has been phenomenon over the year. The rapid development of the telecommunication sector was due to the FDI inflows in form of international players entering the market and transfer of advanced technologies. The telecom industry is one of the fastest growing industries in India. With a growth rate of 45%, Indian telecom industry has the highest growth rate in the world. The liberalization of the regulations of foreign direct investment by the government of India has helped to generate the interest of the foreign investors in the country. This has helped to turn the country as one of the best destinations for the inflow of foreign direct investment (FDI) from across the world. Foreign firms are establishing fully owned enterprises and joint ventures in various sectors like tourism, food processing, pharmaceuticals, computer software, chemicals, financial services, and telecommunications. Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign

investments are being made, it also means achieving technical know-how and generating employment. Data for April-June 2017 indicates that the services sector attracted the highest FDI equity inflow of US$ 1.88 billion, followed by computer software and hardware – US$ 1.32 billion and trading – US$ 769 million. Most recently, the total FDI equity inflows for the month of June 2017 touched US$ 3.12 billion. During April-June 2017, India received the maximum FDI equity inflows from Mauritius (US$ 3.29 billion), followed by Singapore (US$ 3.01 billion), Germany (US$ 798 million), USA (US$ 660 million), and Netherlands (US$ 584 million).Indian impact investments may grow 25 per cent annually to US$ 40 billion from US$ 4 billion by 2025, as per Mr Anil Sinha, Global Impact Investing Network's (GIIN's) advisor for South Asia.

Measures taken to Improve Indian Economy:

In recent times, keeping in mind the challenges facing our country and in a bid to recuperate our economy, the Government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The Reserve Bank of India (RBI) International Journal of Interdisciplinary and Multidisciplinary Studies took a number of monetary easing and liquidity enhancing measures to facilitate flow of funds from the financial system to meet the needs of productive sectors.

Other steps are also taken such as:

- Hike in Diesel prices.
- Limit on LPG subsidization.
- Opening up several other areas for investment. This includes – FDI in single-brand retail, multi-brand retail, broadcasting, aviation and pension and insurance.
- Amendments to Companies Bill, 2011 so as to have modern legislation for growth and regulation of corporate sector in the country.
- Reduction on withholding Tax.

III. CONCLUSION

Much improvement has also been recorded by way of indicators like balance of payments and foreign exchange reserves. There has also been a lot of progress with regard to balance of payments as well as the foreign exchange reserves. In fact, the last two decades have been particularly good in terms of the spread of telecommunication and information technology. Globalisation seeks to achieve economic efficiency through competitiveness, while seeking the broader objectives of economic and social development. The process of globalisation has brought significant success for our country's economy- increase in GDP growth rate; strengthen the volume of exports and imports, huge flow of investment and many others. Rather than economic stagnation, globalisation has shown the way to high economic growth rate for our country.

India's rank in per capita GDP showed an improvement from 117 in 1990 to 94 in 2009. Globalisation has helped improve India's standing thereby making it an important player in the global economy. However, what has been achieved so far is not up to the potential, reflecting huge scope for improvement in the coming decades or so. India's overall exports (including both goods and services) to GDP ratio had increased from 6.2 per cent in 1990 to 21.5 per cent in 2010 but account for just 1.5 per cent of the world exports.17 Globalisation alone will not bring success for the country's economy unless necessary measures are taken in time. The government needs to take up appropriate measures to capture that significant opportunities lay down by globalisation. The government has to introduce a number of measures for reducing trade

deficit. At first, we need to control imports on the one hand and to promote exports on the other. This would require Indian exports to acquire a high degree of competitiveness in the world markets. This way we can ensure that the Indian economy move towards a higher growth path, for it to be able to catch up with other countries such as China and other Asian countries. The challenge ahead of our country is the quick recovery from the existing crisis and ensures sustainability of the high growth of our economy. Despite of the fact that the performance of Indian economy during the last few years has come down, it is still being considered as one of the fastest growing economy. Indian effort would be sustaining the growth momentum and achieving an annual average growth of 9 plus per cent in the coming years. From our side, we need to simplify procedures, reduce trade constraints and barriers and create investor friendly laws and open more areas for investment.

As per the current study it was proved that globalisation has not had any positive impact on the balance of payments in India despite globalisation having a significant impact on the balance of payments. The current analysis also proved that while there was a non-significant slightly negative relation between Growth in Foreign Exchange Reserves and economy of a nation, it can be concluded that there was some positive effect of Growth in Foreign Exchange Reserves on growth in GDP of India. Globalization can be referred to India with both higher and lower estimations. It has been noted as a one-way process, which has foreign enterprises being favorable towards Indian business from the day of Independence. Many foreign companies invested in India, when the policies led by GOI started favoring market and thereby seeking aims of foreign firms. These foreign firms have either left India or remained critique towards India. From historical data, it can be noted as imperative, whereby GOI, foreign companies added by governments of all the other nations identified 169 demands of Globalization within India and to ensure that the globalization process that takes off sustainably. Thus, in the process of comprehending policies related to liberalization noted within Indian economy, GOI handles it liberalization and never leads towards Indian globalization as the same gets presumed in past 15 years. As per the results it can be concluded that there is some link amongst advancement in Foreign Exchange Reserves and development of GDP. Thus, it may be inferred that there is some positive effect of Growth in Foreign Exchange Reserves on growth in 172 GDP of India. Increasing Foreign Exchange Reserves has positive effect on the health of the economy stands validated. It can vary as per the data which can be segregated year wise, country wise or variable wise. It can thus be inferred that rise in the foreign exchange reserves has resulted in positively impacting the health of the economy. The FDI inflows have in no way assisted in improving the health and environment conditions of the people. On the other hand, the financial capital of India and the political capital of India are set to become the topmost slum cities of the world.

In India, there had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary. But the benefits had not yet reached the majority, and new risks had cropped up for the losers the socially deprived and the rural poor. Significant numbers of non-perennial poor, who had worked hard to escape poverty, were finding their gains reversed. Power was shifting from elected local institutions to unaccountable trans-national bodies. Western perceptions, which dominated the globe media, were not aligned with local perspectives;

they encouraged consumerism in the midst of extreme poverty and posed a threat to cultural and linguistic diversity.

Mr.Samuel Huntingt on that during the coming decades, "India could move into rapid economic development and emerge as a major contender for influence in world affairs."

Limitations:

The current study undertaken had to deal with several limitations. These limitations have been outlined subsequently:

- Data Collection: It is anticipated that some mistakes occurred when the author assessed the collected data. On the other hand, it is possible to mitigate such mistakes by using careful selection techniques during the procedure related to data analysis.
- Restricted financial resources: Several financial resources were requires conducting the current research. However since the available resources were limited, the current study was impacted adversely.
- Time constraints: The limited time available to conduct the current study resulted in limiting the activities which were supposed to be undertaken extensively. Limited time for the research did not permit the researchers to conduct the research activities in a comprehensive manner which would have had an adverse impact on the study undertaken.
- Legal and ethical limitations: It was essential to ensure that the researchers assured that the data they gathered was kept secure and employed solely for lawful purposes. They also had to guarantee that the data would be kept for as long as it was necessary. Furthermore, the researchers had to stick to the directives laid down by other regulatory authorities to ensure that they behaved ethically when handling the sample populace.

However, it was possible to nullify the above limitations to a great extent if they were considered carefully and the data would have been evaluated very carefully.

Road map ahead

The current theme discussed was an absorbing and engaging one. There are varied sides and viewpoints to be considered in terms of globalisation being successful. There were several reasons why India decided to opt for globalisation. Its impacts were also many. It also becomes essential to add quantifiable results for the theme under the phenomenal growth of information technology which has shrunk space and time and reduced the cost of moving information, goods and capital across the globe, the globalization has brought unprecedented opportunities for human development for all, in developing as well as developed countries. Under the commercial marketing forces, globalization has been used more to promote economic growth to yield profits to some countries and to some groups within a country. India should pay immediate attention to ensure rapid development in education, health, water and sanitation, labour and employment so that under time-bound programmers the targets are completed without delay. A strong foundation of human development of all people is essential for the social, political and economic development of the country. Though at present India appears to be dominant in some fields of development as in IT-ITES, this prosperity may be challenged by other competing countries which are equipping themselves with better standards of higher education.

It should be remembered that without a sustainable and productive growth of the agricultural sector, the other types of development in any sphere will be unstable and illusory. Despite the concerted development in manufacturing and

service sectors, despite the remarkable inflow and overflow of foreign reserves, agriculture is still the largest industry providing employment to about 60 per cent of the workforce in the country.

Any study related to the theme in the future must also be expanded and conducted in other developing nations. India tried to integrate with the world economy as soon as it became a sovereign state but with its own terms and conditions. However, over these years, India has slowly been pressured by the several external forces like the foreign governments, foreign corporations and international agencies to integrate on their terms. The roots of the present globalization process in India lie way back in the l980s. India started to liberalize trade in 1977-78. This open policy increased the number of items in the Open General License (OGL). India tried to integrate with the world economy as soon as it became a sovereign state but with its own terms and conditions. Hence, while undertaking policies on liberalization of Indian economy, the GOI has to take care that liberalization does not lead to globalization of India alone as it has been presumed in the past 15 years. The policies of the GOI should be able to direct foreign direct investment into manufacturing sector and high technology areas through which the Indian economy can effectively be part of the globalization process worldwide. To sum up, it can be said that during the post globalisation period, India has improved the growth of its total GDP, per capita GDP, saving rate, investment, service sector, service trade, balance of payment and foreign investment regime. But, globalisation did not prove beneficiary for the improvement in India's agricultural and industrial sectors. Hence, it can be said that whatever the growth has been attained by the Indian economy during the post globalisation period, it seems to be a very little success if compared with other developing countries like China. Thus, the lesson of recent experience of globalisation is that India must carefully choose a combination of policies that best enables it to take the opportunity - while avoiding the pitfalls.

The novel Tale of Two Cities of Charles Dickens, the tale of two India's:

We have the best of times; we have the worst of times. There is sparkling prosperity, there is stinking poverty. We have dazzling five star hotels side by side with darkened ill-starred hovels. We have everything by globalization, we have nothing by globalization.

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AN EMPIRICAL STUDY OF POST REFORM FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract

The main objective of this study was to examine the interrelationship and causality among GDP, FDI and trade openness in India. Interesting results are found in this analysis that GDP, FDI and Trade Openness are co integrated thus having long-run relationship. Unidirectional causality is found that runs from GDP to FDI and Trade Openness and Trade Openness to FDI. Some research work exposed stronger relationship between FDI and GDP while some others could not. Therefore it is concluded after this empirical study that there is a unidirectional relation as GDP Granger causes FDI. So, there is need to emphasize more on GDP growth to attract more FDI and to influence Trade Openness which ultimately positively influences the FDI inflows. Based on these findings, the study suggests that India should go more of trade liberalization policies to enhance more FDI. Therefore, to attract larger FDI inflows, the government must adopt liberal policies to improve the investment climate (trade openness) and achieve higher economic growth.

Keywords: FDI, post reform, India

I. INTRODUCTION

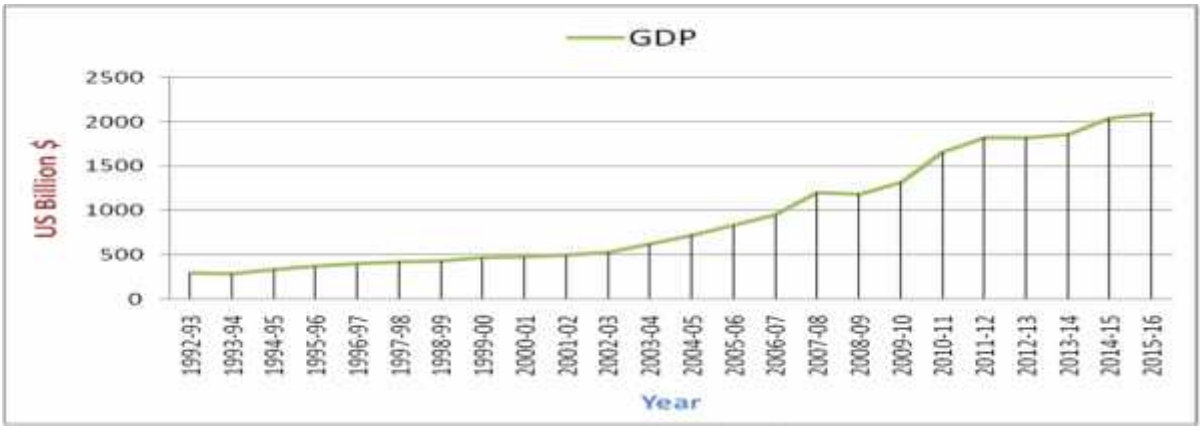
Foreign Direct Investment (FDI) plays a crucial role in the process of economic development particularly in the capital scarce country, where the domestic base of created assets like technology, skills and entrepreneurship are quite limited. It also plays an important role in accelerating the pace of Economic growth. FDI creates positive externalities and generates increasing returns which leads to sustainable economic growth. In developing countries like India, FDI helps to tackle socio-economic problems such as unemployment, deficit, balance of payment, lack of capacity, scarcity of foreign exchange and poor technological ability. Presently India has opened up to world markets and trying to attract more foreign direct investment. This study examines the impact of GDP and Trade Openness on FDI inflows and analyzes the long run relationship between them. Further study analyze the causality among FDI, economic growth and trade openness.

Gross Domestic Product:

Gross Domestic Product is always considered as a major macro variable for almost all the economic policies. It depicts the producing capacity of an economy in terms of goods and services. Rate of growth of GDP reflects the nature of economy whether it is expanding or contracting and on behalf of it all the monetary and fiscal policies are formulated. Indian economy is growing with a faster rate of growth since liberalization policy is adopted. It is most growing economy among the developing nations. So it becomes

crucial to understand the pattern and growth rates of GDP for better understanding and policy framing.

Trend of GDP in India Graph-I



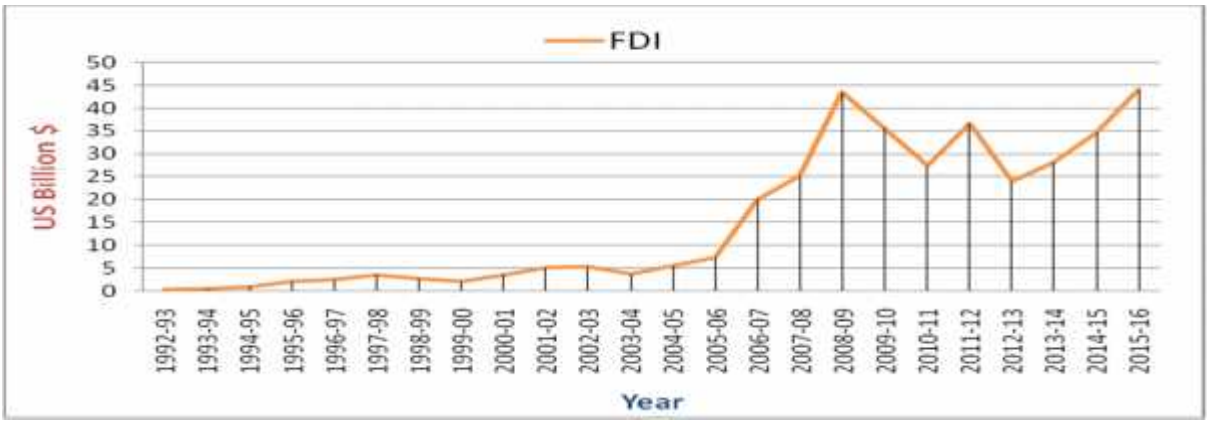
Source: WDI World Bank Data

The graph-1 reflects the continuous increasing trend of GDP in India since 1992 to 2015.In 1992, it was around 293 US billion $ which increased up to 2,000 US billion $ in 2015.1992 to 2002 GDP grows in a smooth manner but since 2002 to onward it reflects a rapid increase in GDP. Figure shows some fluctuations in 2008 and 2009 but since then GDP increased steadily.

FDI Inflows in India:

Economic theory has acknowledged a number of outlets through which FDI inflows may be advantageous to the host economy. Developing countries trying to attract more and more amount of FDI for better financial resources, increased market size, global integrity and technological transformation. In India FDI extensively attracted since 1991 with the aim to meet planned investment and the actual savings of the country.

Trend of FDI inflows in India Graph-2



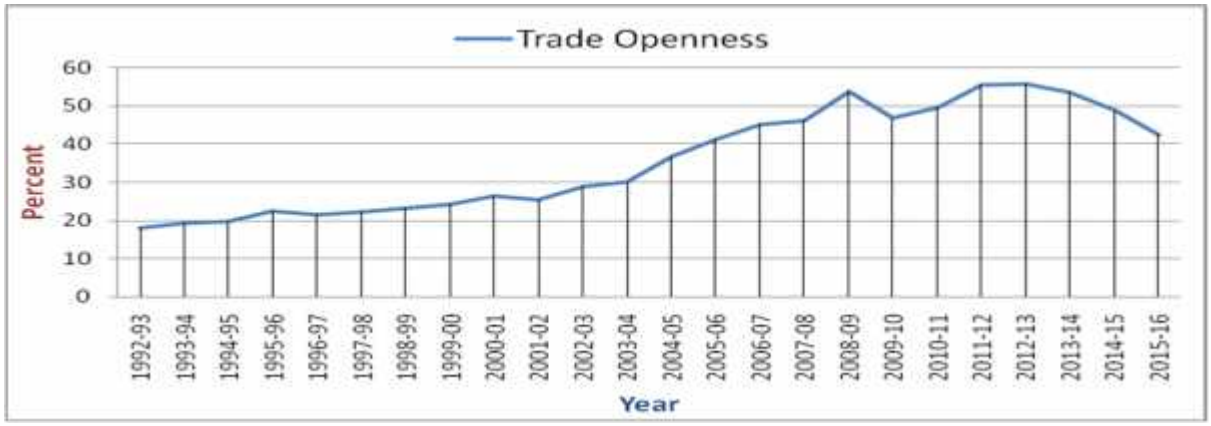
Source: WDI World Bank Data

The graph-2 shows that Foreign Direct Investment inflows (FDI) have gone up significantly in Post-reform era undoubtedly due to radical changes in the policies that have increased the confidence of the investors. Since 1992 to 2005 FDI increased in a smooth manner but since 2005 to 2008 it shows a rapid increase in its inflow. In 2009 there was down fall in FDI inflows due to economic crisis in world economy and it continued for the next two years. Since 2012 onwards the graph reflects a highly increasing trend of FDI with minor fluctuations.

Trade Openness in India:

Trade Openness is an essential element of economic liberalization and includes the elimination of trade barriers, such as tariffs and non-tariff barriers, as well as internal boundaries. This reduces the additional direct costs of the producers, thereby increasing the output and stimulating growth. It also promotes technological changes by raising the worldwide competition, leading to enlarge innovations. Initially Indian economy followed restrictive trade policies but since emergence of globalization it adopted liberal policies in terms of trade openness. Recently trade structure as well as trade pattern is widely changed in India.

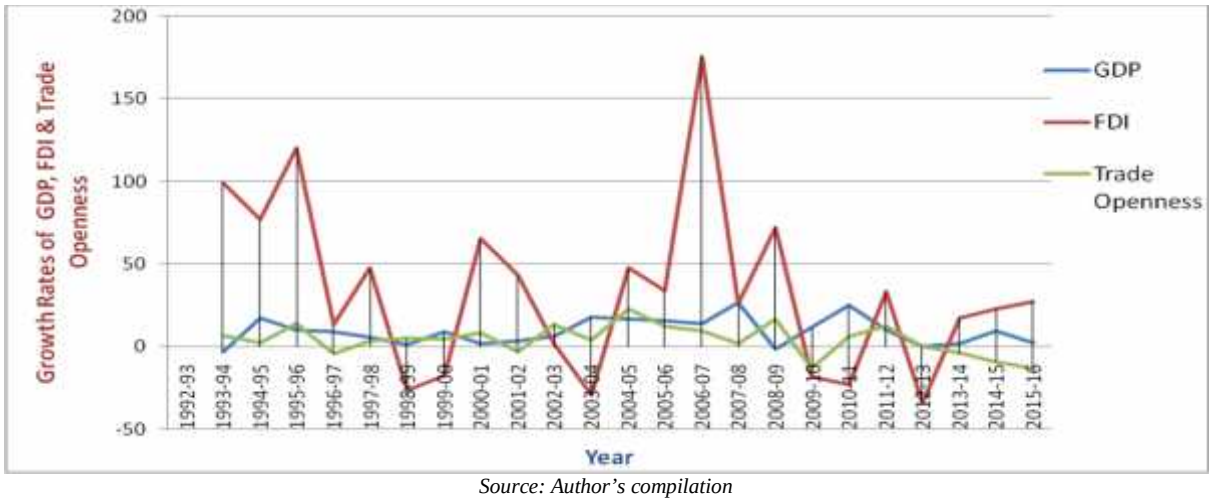
Trend of Trade Openness in India Graph-3



Source: WDI World Bank Data

Trade openness in India was just 18 percent of GDP in 1992 which increased up to 42 percent of GDP in 2015. It was highest in 2012. Since 1992 to 2008 there is upward trend in trade openness. There was negative growth of trade openness in 2009, but since then it shows positive growth. Graph shows upward trend since 2010 to 2012 but since 2013 decreasing trend starts and it continues till last.

Trends in Growth Rates of GDP, FDI and Trade Openness in India Graph-4



Source: Author's compilation

The graph-4 reflecting the simultaneous growth rates of GDP, FDI and Trade Openness. The trend of GDP growth rate during 1992 to 2015 shows a positive growth with ups and downs but in 2008 it eventually declined and become negative. In 2009 again it achieves a positive phase of growth and this positive phase continues till last. During this period 2010 is the year when highest rate of economic growth was achieved. As for FDI growth, it is not a smooth one. There are too much ups and down in the growth of FDI during 1992 to 2015. Growth rate of FDI inflow was maximum in

2006 with 175 percent growth and minimum in 2012 with 34 percent negative growth. From the graph it is very much clear that the growth of FDI inflow has a lot of variations over time.

Therefore, question arises that if FDI growth is based on GDP growth then why there are so many fluctuations in FDI growth while GDP is growing almost at a constant pace. The earlier studies suggested that there exists an interrelationship between these variables. Some of them show that growth of an economy depends upon FDI inflows and trade openness. On the other hand some studies observed that FDI inflow depends upon GDP and trade openness. In this background the present study examines the causal relationship between the FDI inflows, Trade Openness and GDP in India during the post-liberalization period i.e., 1992 to 2015.

Review of Literature:

Mottaleba K. A. And Kaliappa Kalirajanb, (2010) attempted to identify the determinants of FDI inflows in developing countries and make an effort to come across that why some economies are being successful in attracting FDI while others are not. This study asserts that larger proportion of international trade, grater GDP and high growth of gross domestic product and industrially favorable environment are main factors responsible for attracting FDI.

Marelli1 E. and Marcello Signorelli, (2011), analyze the integrity of the economy of India and China in global perspective. Comparison between these two economies is also done on the basis of economic growth, trade openness and trade specialization. Panel data model and 2SLS models are applied to find out the relationship between economic growth and trade. This study favours that positive economic growth directly affect the openness and increase the integrity in the world economy.

Barua R., (2013) examined the advantages of FDI inflows for the export promotion and economic growth for the host country. The result of study reveals that FDI boost the exports as well as accelerate the GDP growth. FDI enhance the local development efforts through increasing exports, higher employment generation and skill development, improve technological abilities and provides larger financial resources for development.

Kirthika M. and S. Nirmala, (2014) tested the relationship between FDI inflows and its impact on economic growth of India for the period 2003-04 to 2012-13. Through correlation coefficient technique this study highlights that foreign direct invest influences the growth of Indian economy and act as a significant vehicle for economic development.

Vishwakarma R., (2015) highlighted the significance of FDI for a developing economy. She checked the causality between FDI and gross domestic product in India and found that there is unidirectional causality runs from GDP to FDI. This study emphasize that there should be good infrastructure, stable socio-economic environment and favorable conditions for production then FDI can also accelerate the growth of GDP.

Gupta K. and Ishu Garg, (2015), considered time lag for the effectiveness of the FDI to improve GDP growth. They worked on Indian data for the period 2000-01 to 2012-13 and used lag regression model. Study makes it clear that a period of three years is needed for the FDI to successfully influence the economic growth. So there should be continuous rise in FDI to maintain pace of economic growth.

Pattayat S. S., (2016) determined the factors affecting FDI and the role of FDI in economic development. Test results show that all the variables are co-integrated and having long run

relationship. GDP has highest influence on FDI inflows and it indicates the significance of market size in attracting the FDI in a developing economy.

II. OBJECTIVES

The objectives of the study are as follows:

1. To examine the impact of GDP and Trade Openness on FDI inflows.
2. To analyze the long run relationship between GDP, FDI and Trade Openness.
3. To find out the causality among these macro variables.

Hypothesis:

Following hypotheses are formulated

- H0: GDP has no significant impact on FDI inflows.
- H1: GDP has significant impact on FDI inflows.
- H0: Trade Openness has no significant impact on FDI inflows.
- H1: Trade Openness has significant impact on FDI inflows.

Descriptive Statistics:

Table-1

	FDI	GDP	TO
Mean	15163.63	943.1207	35.75883
Median	5319.109	669.9706	33.46132
Maximum	44009.49	2095.398	55.75262
Minimum	276.5124	284.1940	18.11541
Std. Dev.	15395.08	629.0535	13.43737
Skewness	0.635014	0.647170	0.156911
Kurtosis	1.816485	1.875613	1.434293
Jarque-Bera	3.013679	2.939561	2.549921
Probability	0.221609	0.229976	0.279442
	363927.2	22634.90	858.2118
Sum Sq. Dev.	5.45E+09	9101290.	4152.949
Observations	24	24	24

The mean-to-median ratio of FDI is approximately three which is high while for GDP it is below one and for Trade Openness it is just above one. The standard deviation of FDI is very high and greater than mean, showing a high value of coefficient of variation i.e., there is much

Data Collection and Sources:

Secondary data is used for empirical analysis. The required data of the defined variables have been taken for the period 1992-93 to 2015-16. The present study uses gross domestic product and FDI inflows at current US $ for Indian economy. All the time series data have been taken from the World Bank data bank. The defined variables are transformed into natural log form in order to remove the problem of heteroscedasticity.

Empirical Analysis:

Descriptive statistics is applied to understand the nature of data. To check the stationary of the time series data, Augmented Dickey-Fuller (ADF) test is adopted. Johansen co-integration test is employed to check long run relationship among the variables. Granger-causality test is applied to investigate the direction of causality across the variables. Linear Regression is used to determine the impact of variables.

fluctuation in the FDI data. While in case of GDP and FDI coefficient of variation is low showing less fluctuations in the data. The range of variation between the maximum and minimum is also high indicating the high range of fluctuations. The numeric of skewness of each variable is low and mildly positively skewed. The figure for kurtosis in each variable is below 3 which confirms near normality. The Jarque-Bera test statistics also accept the null hypothesis of normal distribution of each variable with varying probabilities Therefore, the normality of the distribution is ensured.

Results of Unit Root Test

Table-2 FDI

Model	Level		1st Diff	
	t-stats	p-value	t-stats	p-value
Intercept	-2.19	0.20	-4.03*	0.00
Intercept & Trend	-2.55	0.30	-4.05*	0.00

II. Trade Openness

Model	Level		1st Diff	
	t-stats	p-value	t-stats	p-value
Intercept	-1.55	0.51	-3.85*	0.00
Intercept & Trend	0.00	0.99	-4.20*	0.00

III. Gross Domestic Product

Model	Level		1st Diff	
	t-stats	p-value	t-stats	p-value
Intercept	0.06	0.96	-4.42*	0.00
Intercept & Trend	-1.87	0.67	-4.22*	0.00

*significant at 5 percent level

Table shows that the null hypotheses of presence of unit root for all the time series are accepted at their levels since the ADF test statistic values are less than the critical values at five percent level of significance. All the variables become stationary at 1st difference since their p-values are significant and test statistic values are greater than the critical values. Therefore, GDP, FDI and Trade openness are integrated of order 1{I (1)}.

Results of Johansen Co-integration Test

Table-3

Trace Value				Maximum Eigen Value	
Hypothesized No. of CE(s)	Eigen value	Trace Stats	p-value	Maximum Eigen Stats	p-value
None	0.90	67.13*	0.00	50.08*	0.00
At most 1	0.39	17.04*	0.03	10.93	0.16
At most 2	0.24	6.12*	0.01	6.12*	

* Denotes rejection of the null hypothesis at the 5 percent level of significance

From the Johansen co-integration test, the number of co-integrating relationships implied by Trace test is three and by Maximum Eigen value test is one. Generally, when the results of Trace test and Maximum Eigen test are different, we go with Trace test having maximum rank of co-integration. Therefore, all the variables are co-integrated with three co-integration equations and thus having long run relationship among them.

Granger-Causality Analysis:

Table: 4

Independent Variable	Dependent Variable		
	D1(LnGDP)	D1(LnFDI)	D1(LnTO)
D1(LnGDP)	-	12.455*	35.075*
D1(LnFDI)	0.344	-	4.949
D1(LnTO)	3.299	6.127*	-

*significant at 5 percent level

The results represent that there is a unidirectional causality that runs from GDP to FDI and Trade Openness. (i.e.GDP Granger-causes FDI and Trade Openness).Trade Openness also

Granger-causes FDI having unidirectional causality. Therefore, it is the GDP and Trade Openness who influences the FDI inflows while FDI does not have any influence on GDP and Trade Openness.GDP also influences the Trade Openness.

Simple Linear Regression Equation:

LnFDIt = b0 + b1 LnGDPt + b2 LnTOt + ut

Where,

LnEmp = Log of FDI,

LnGDP = Log of Gross Domestic Product proxy for economic growth,

LnTO = Log of trade openness,

ut = error term & t = time period

Results of Simple Linear Regression Model

Table-5

LnFDI	Coef.	Std. Error	t-value	P-value
LnGDP	1.045*	0.489	2.14	0.045
LnTO	1.793*	0.851	2.11	0.047
Intercept	-12.22	10.578	-1.16	0.261

*significant at 5 percent level

Number of Observation=24, F= 102.84, p-value = 0.000

R-squared = 0.907, Adj R-squared= 0.898

Regression results show that GDP and Trade Openness both have positively significant impact on FDI inflows in India since their p-values are significant. Over all p-value and F-static values are also significant for the model. R-square and Adj. R-square values are also very high, 90.7 percent and 89.8 percent respectively, determining the high degree of explained variation in FDI by explanatory variables. Coefficient of GDP indicating that if GDP increases by one percent it increases the FDI inflow by 1.05 percent. While Trade Openness coefficient reflecting that one percent increase in Trade Openness increases the FDI inflows by 1.79 percent.

III. CONCLUSIONS AND SUGGESTIONS

The main objective of this study was to examine the interrelationship and causality among GDP, FDI and trade openness in India. Interesting results are found in this analysis that GDP, FDI and Trade Openness are co integrated thus having long-run relationship. Unidirectional causality is found that runs from GDP to FDI and Trade Openness and Trade Openness to FDI. Some research work exposed stronger relationship between FDI and GDP while some others could not. Therefore it is concluded after this empirical study that there is a unidirectional relation as GDP Granger causes FDI.So, there is need to emphasize more on GDP growth to attract more FDI and to influence Trade Openness which ultimately positively influences the FDI inflows. Based on these findings, the study suggests that India should go more of trade liberalization policies to enhance more FDI.Therefore, to attract larger FDI inflows, the government must adopt liberal policies to improve the investment climate (trade openness) and achieve higher economic growth.

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