Where there is politics or economics, there is no morality. - Karl Wilhelm Schlegel

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REFORMS 2.0 – THE GOOD AND THE BAD

While many may think that the Indian economy is going through a difficult time, most would agree that the situation is not as bad as it was in the pre-liberalized India. The License system and highly protected Indian firms produced nothing but the twin elements of corruption and inefficiency due to close to zero exposure and almost no competition in all sectors, not any with credible threat anyways. Starting from the 1980s, there has been considerable and consistent changes in the policies that govern our economy but it was particularly after 1991 that all major economies and international associations recognized the hidden growth capability. People away, unfamiliar with this *poor little country,* grabbed their popcorns, waiting to watch a *miracle on the ganges river* while those not so away were busy making investment decisions.

The recent slowdown then, has a simple yet an obvious solution – We need more reforms. After all, it was the reforms wave that gave us a second life, a better one at that.

Inside this issue

REFOMS: THE TWO SIDES

It would not invite much criticism if it is said that the service sector is least affected by the global economic conditions and is still going strong with a healthy setup. Nevertheless, slowdown in other sectors will eventually take its toll on services and hence it is in the need of the hour that statistics are monitored consistently and corrective actions be taken, if necessary to cushion any adverse effects. On the other hand, loss of investor confidence credited to many corruption issues that were raised recently, high interest rates, soaring inflation and an equally depressing sentiment coming from the euro-zone bought our manufacturing industry to its knees by the end of the last financial year. Things only got worse throughout the year but it is fortunate that the sector is showing some progress lately. A matter of concern for major industrial players presently is that the government is doing *too little too late* as far as reforms are concerned. These include the much debated FDI, tax structures, exchange rates regulation and the most sensitive topic of fuel subsi-

dies. Equally important are other topics such as pension plans, food security bill, corruption and money laundering laws. Although at first it seems only rational to believe that reforms in the mentioned areas will provide a much needed push and take the economy back to levels of growth it witnessed only a few years ago, it is not so obvious when viewed under the microscopic lens.

India started inviting foreign investment from the 80s, best symbolized by the setup of Maruti and entry of other international brands like Coca Cola later in the decade. FDI not only provides additional investment and creates tangible as well as intangible assets in the country; it also helps in establishing an informal communication network with the outside world. But such investment does not necessarily translate into more or even better job opportunities for the domestic market. While many jobs are created, even more might be destroyed. Moreover, many of the jobs that are created are sweat shop jobs with inhumane working conditions that exploit cheap labor. In the particular case of inviting FDI in multi brand, many middlemen in the agriculture sector may lose their job. Another argument is that with overcapacity prevailing in most manufacturing industries; the immediate need is demand side support. Add to that the fact that organizations that enter the domestic market are very power hungry and usually seek protection under complicated international legal structures and at such, these have the capability to harass domestic consumers, producers and even government at times. There are cases where big organizations engaged in multi brand retail of goods (you can always guess who it is) have been accused of twisting the laws and using their monetary power and political influence for their personal interest at the cost of public welfare. Most importantly, when such huge investments are made, every attempt is made to recover *some* cost in a short period of time which further translates into an upward push on prices. If coupled with deregulation of diesel and rise in other fuel prices, it can produce serious consequences, which can be difficult to control for any government, not only for a democratic one which is already under the media lens for a close to normal fiscal deficit for any developing country. In such conditions, it is inevitable for any government to come under pressure and not follow the policy of gradual deregulation – gradualism as it is known. As has happened, fuel prices have been deregulated *too much too fast* in our case.

"...organizations that enter the domestic market are very power hungry and usually seek protection under complicated international legal structures and at such, these have the capability to harass domestic consumers, producers and even government at times."

While complicated and inefficient tax structures are part of any developing economy, it does not mean that these are not attended to or paid little attention. As far as the exchange rates are concerned, it is now very well known that RBI has let the market forces take over since 2004-05. One school of thought is of the view that RBI's silent decision of not intervening in the market is a bold move and should be supported and praised. This is in light of the Asian currency crisis of 1997, which many economists believe could be avoided had the currency was not so tightly regulated. Discussing any further about the exchange rates is beyond the scope of this paper and capabilities of the author who writes it.

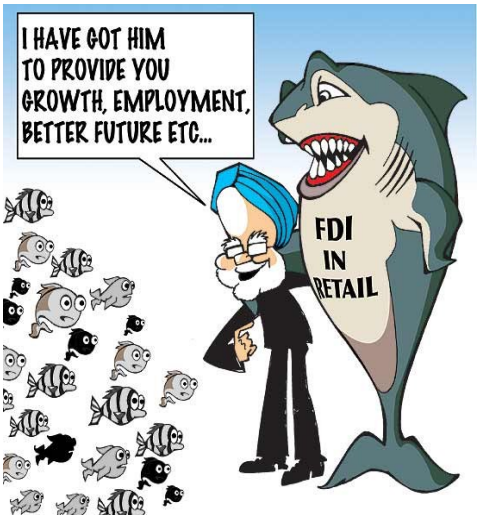
RURAL INDIA: NEGLECTED?

Although Agriculture contributes almost 17% (2011) in total output, it still holds importance as 51% (2010) of population derives its income from land. Although it is highly unlikely that proportion of people engaged in agricultural activities will show an upward trend, every attempt is made to increase the productivity levels. At such, there is potential for share of Agriculture in total product to increase. Such is a usual trend in most developing countries. Nevertheless, recent attempts like *Vikas yojanas*, food security mission and certified seeds program by the government have been successful in improving the conditions in the sector. Not to mention, Microfinance has also played a role in improving the livelihood of the farmers lately. The result is an improvement in almost all variables depicting the state of agriculture. This, however, is not to deny that there is no further scope of improvement in the sector. There are various problems at each level of market. Producers face harassment by informal lenders and usually complain about tight margins. Then, there are common problems like alarming levels of groundwater for irrigation, inefficient surface-water irrigation projects, unfriendly fi-

nance options, complicated land ownership laws that make it difficult for producers to even straighten their back. There is a large price spread between price producers get and price consumers pay mainly because of lack of competition within agencies that buy from farmers and sell it to consumers. There is a need to call for private investment that would not only help in increasing productivity but also in reducing this price gap. Nearly 68% of our population lives in rural areas (833087662 people and counting). This directly translates into the fact that such areas are most important for any manufacturing sector unit in our country. More so for industries that carries the 'we produce what people in modern/urban areas consume' tag. It would not be very wise to ignore this huge consumer base. Demand from such markets relies solely on the income which is generated by agricultural activities. ***Nielsen estimates that by 2025, the fast-moving consumer goods (FMCG) market in rural India will hit $100 billion and that inflation and pricing will be outstripped by consumption***[1]. It is then fortunate that performance of agriculture has been improving since last couple of years and will have a definite impact on other sectors of the economy in future.

To illustrate the importance of Agriculture, these are some excerpts from a recent article written by a reputed economist[2],

"The main reasons for this are that (for agriculture being of central importance to policymakers and public), one, till date, more than half the total workforce in the country remains employed in this sector and agriculture is a source of livelihood for a majority of the population; two, the performance of agriculture is much more important than other sectors for inclusive growth and for reducing poverty (Ravallion and Datt 1996; Datt and Ravallion 1998; Virmani 2008); three, the performance of agriculture determines the food and nutrition security of the population of the country, which cannot depend on external sources of supply; four, the growth of agriculture has a significant bearing on food and overall inflation and macroeconomic stability; and five, much of the trade and commerce and industrial activity are linked to agriculture."



CONCLUSION

It should be kept in mind that manufacturing industry slowed down after 1996; just five years after major reforms were introduced in the economy. Nevertheless, they helped the country with a much needed push but note that the Indian economy is not 'new' for major international players now. The huge demand reserve it once enjoyed has dried out. Many industries are already facing problems of overcapacity and over-investment.

The recent slowdown is then best viewed as an influence of international factors that are not within our control. In fact, any attempt to make the link stronger with international economy will only make us more dependent and sensitive to variations in market conditions outside the national boundary. It is important to get the basics right before making any advanced movement and therefore, it is important that agricultural reforms get the attention they deserve. Results produced will help our country presently and also to stabilize any adverse affects that are not within our control in future.

FDI in multi brand will decrease the price spread of agriculture produce by eliminating the middlemen, benefitting both consumers and producers. As explained, when income of people in rural areas increase, it is the manufacturing industry that reaps the benefit out of it. But do the benefits outweigh the costs?

Harshit Chugh

CHANGES IN CRR:
IN THE RIGHT DIRECTION?

CRR rate reduction has been an important step towards improving the current condition of the Indian economy and as a consumer and future manager we need to know what is its significance and what are we getting out of it.
In the month of September ,Reserve Bank of India took some steps to push growth at the time when the economy is facing a downturn .One of such important steps are cutting cash reserve ratio(CRR) by 0.25%
How is this decrease in CRR going to influence consumers and the economy? To understand this, we need to know what is CRR. The portion (expressed as a percent) of depositors' balances banks must have in hand as cash. This is a requirement determined by the country's central bank. The reserve ratio affects the money supply in a country. For example, if the reserve ratio defined by RBI is to be 10%, this means all banks in India must have 10% of their depositors' money on reserve in the bank. So, if a bank has deposits of Rs 25 lakhs , it is required to have Rs.2,50,000 on reserve.

The CRR is an instrument with multiple attributes .The cut in CRR is one of the effective instruments to cut interest rates. It is a tool to manage liquidity. The leading economists of the country assert that the correlation between the CRR and the bank lending rate is very strong, and, if the objective is to reduce the bank lending rate, then CRR cut possibly is the most effective instrument for this purpose.

The RBI believes that the cut in CRR would release around Rs.17,000 crore into the economy, meaning banks will have this much extra money to lend to their borrowers. Given the comfortable liquidity and the recent reduction in deposit rates by banks, interest rates in general could be expected to trend downwards gradually.
Reduction in CRR from 4.75% to 4.5 % indicates that now depositor's balance in hand with the banks has been reduced .This would lead to liquidity in the economy as more cash is available in the economy.
There are expectations that **RBI will further bring down the CRR** by 50 to 100 basis points in coming months to infuse more liquidity and stimulate seasonal demand, especially with the festival season and advance tax payments coming up in the next three months. Overall, liquidity infusion measures are going to have a positive impact on investor sentiment. The gradual liquidity easing by the RBI together with the other reforms announced by the UPA Government is expected to lift sagging economic sentiment.

Dipti Dhanuka

Economic and Business News

- Father of White Revolution ,Dr V.Kurien passed away on September 9,2012
- Nokia unveiled its first smart-phones that run on Microsoft Windows
- Indian exports have dipped by 11% and imports rose by 5.09% in September 2012
- Mc DONALD's said it would open its first-ever outlets with vegetarian-only options in India next year

BRICS-THE BIG FIVE

As a MBA student, I have realized the importance and benefits of teamwork. If I were to extend this concept of teamwork and interdependence to the BRICS nation (BRAZIL, RUSSIA, INDIA, CHINA AND SOUTH AFRICA) wherein each of the developing nations have come to a common understanding of leveraging each of their economic strengths in such a way that together they can help each other progress and at the same time aim at their individual prosperity. The idea of BRIC nation was proposed by economist Jim O' Neil. The first BRIC summit took place in Russia (Yekaterinburg) in June 2009. South Africa joined the grouping at the third Summit in Sanya, China in April 2011.With the joining of South Africa the association is now referred as BRICS instead of BRIC. The latest summit took place in India (New Delhi) in March 2012. What I really like about the BRICS nation is the reason or the goal with which this association of leading emerging economies was formed, which was to protect and act as a promoter of developing economies. And over the years the agenda of this association has considerably widened to encompass global challenges such as international terrorism, climate change, and food and energy security, tense economic and financial situations. India has always been actively involved in BRICS. In the very first summit Dr Manmohan Singh proposed setting up of a BRIC Business Forum to further consolidate intra-

As of 2012, the five BRICS nation represent almost 3 billion people with a combined nominal GDP OF US$ 13.7 trillion

BRIC Trade and Economic ties. The focus of BRICS nation has always been on collaborative development and inclusive growth. The issue of nuclear safety was also taken upon in one of the summits after the Japan tragedy. In the latest summit at New Delhi, an agreement was signed by the BRICS nation to create a mechanism for settling accounts and financing projects in national currencies between authorized BRICS banks. I started off by saying that "working in group has got many benefits", but at the same time I cannot ignore the fact that while we work in a group we ought to have issues and disagreements. Sadly, same is the case with BRICS nations. Talking about India then it has got state border issues with China. Many a times the views of the BRICS nations differ from each other. Like in case of UN Security Council resolution on Syria (resignation of Bashar Assad), India voted in favor of the resolution while China and Russia were against the resolution. Similarly last year BRICS failed to agree on a common candidate to head the IMF. But then, differences among group members always exist while working in a group, what is important is to keep aside these differences and focus on achieving the common goal. I hope same is the case with BRICS nations. Seeing the current trend and economic conditions in years to come China and India are said to become dominant suppliers of manufacturing goods and services; while Russia and Brazil are said to become dominant suppliers of raw materials. If this proves to be true then who knows in years to come BRICS might over take G7 economies. At present all we can do is to wait and watch and keep our fingers crossed.

Sugandh Jindal

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OKONOMOS *The Business and Economics Forum*

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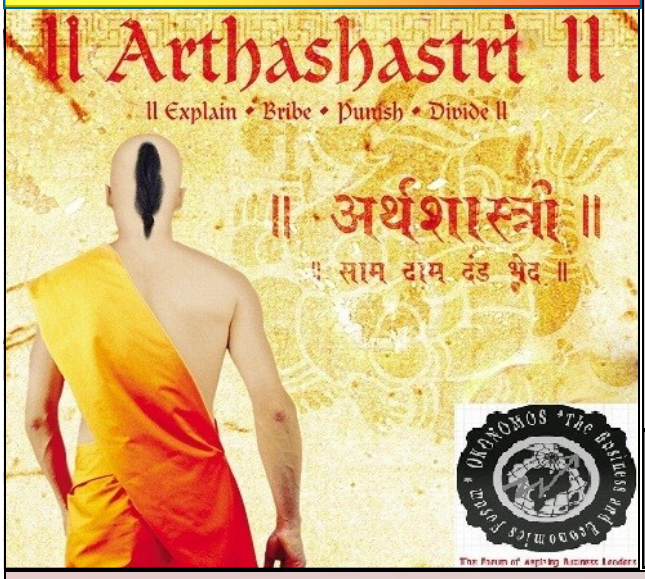
THE FUN AND LEARNING AT UNCOP 11

The 11th United Nations Conference of Parties is currently being held at Novotel HICC, Hyderabad, India. The agenda for this conference is Biodiversity, Climate change, Sustainable Development and Access and benefit sharing arising out of Genetic Resources. I had the privilege of attending the conference from the 9th to the 12th of October, 2012, getting to discuss issues with the actual international delegates who are going to shape our destiny in the coming times. Bureaucrats, Ministers and Scientific advisors, Nobel Laureates and High Level government functionaries were in attendance at the said conference. Issues like Kyoto protocol, Implementation of Nagoya Protocol, marketability of locally made goods, climatic change effects and causes and their mitigation was widely discussed to which I was a party. Other issues which were debated were the economic ramifications of climate change, organic farming, financial issues of carbon credits and green tax. All in all it was an experience of a lifetime where I got the opportunity, thanks to the governments of India, Andhra Pradesh and The United Nations to learn, discuss and make a difference in my own little way.

However, it was not all serious stuff. We got to see the lighter side of these international diplomats at the lunches and dinners where a glass of alcohol had them being friendly and out of the "negotiation" mode.

Punyashlok Dwibedy - Team Okonomos

COMING SOON



INVITING ARTICLES

Hello friends,

Greetings from Okonomos - Economic and Business Forum, IMT-N. Articles are being invited for the special edition of Okonomist. After getting the overwhelming response that it received from students around the campus, it is now going to be bigger and better this time. We invite articles for the next issue. Minimum of 500 words. Selected entry will get cash prize. Students from all MBA schools are invited for the same.

Pick a topic of your choice (related to business or economics) and Send in your articles to okonomos.imtn@gmail.com. Last date is 3rd November.

SO GO AND TELL YOUR FRIENDS TOO!!

Don't forget to check out our website.
You can also write your own blogs related to economics and business.
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