Eco Shastra

Biannual Magazine
of
The Economics and Strategy Cell, NMIMS

Cogs in the Asian Juggernaught

Towards a brighter future

CONTENTS

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From the Editor's Desk

Having largely benefitted by early industrialization and fuelled by an insatiable consumer demand western countries dominated the global economy for much of the 20th century. During this period, with an exception of Japan, much of the Asia remained an agro-based economy relying on exports of natural resources to their western counterparts for sustenance. The vicissitudes of time ensured a constant churn of socio-eco-political events that saw some paradigm shifts happening on the global stage. Change, it is said, is the only thing constant and traditional centres of power saw their iron fisted control over world economy slipping through their fingers. The years from 2000-2010 which have been described as "the decade from hell" for the USA culminated in the form of a devastating financial crisis, the ramifications of which are still being felt in some parts of the world. It was during this same period that the Asian giants woke from their deep slumber. With a combined world population of 36%, India and China started to boldly stake their claims as the world's growth engines. While the latter became the world's manufacturing backyard, the former staked its claim as the world's service centre. The axis of international system that had so long revolved around the Atlantic, started shifting eastwards. With an attempt to put this tectonic shift in perspective, Ecolibria, in its current edition of bi-annual Magazine - Ecoshastra invited articles on the theme 'Cogs in the Asian Juggernaut - Towards a brighter future'. We received an overwhelming response in terms of participation. Students from reputed B-Schools all over India participated in voicing their opinion and all the articles were shared on our blog Ecoworld. We have selected an eclectic mix of articles based on our internal ratings and have included them in this impression of Ecoshastra. These articles showcases, the variegated situations that add flavour to the limitless spectrum of opportunities and challenges facing the emerging economies by addressing some concerns relevant in today's time and context.

Wishing all readers happy reading and a happier new year

Crude oil prices- Is liquid gold losing its sheen?

Ashutosh Gupta, NMIMS
Udit Sharma ,NMIMS

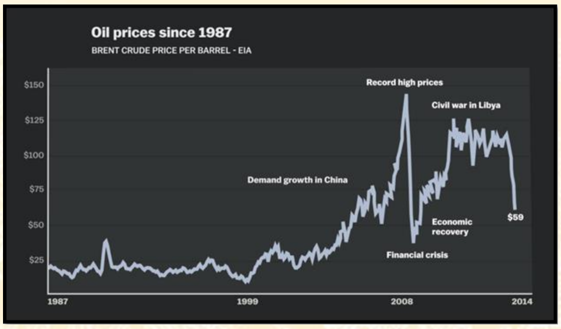
"Oil is like a wild animal. Whoever captures it has it."

It has been over 4 decades since famous American industrialist J Paul Getty has passed away giving the famous quotation. The price have risen from 12.36$ to a whopping amount of 116$ a barrel and the crude oil is one of the biggest commodity in the market. It has been a cause for a major political fight between the USA and Iraq to open the markets for the petroleum companies to setup their oil drilling plants in Iraq. The oil had been incentive for the attacks as they helped the companies funding Bush's campaign to increase their profits by 50%. The oil prices soared in 2008 to 120$ a barrel till the financial crisis where the prices fell to a low of 32$ a barrel owing to the slow economic growth worldwide. The rapid growth in the industrial output after the financial crisis, lower returns on the dollar and the user trust being established again shifted the investments towards the crude oil again which helped the oil prices surge up to 116$ a barrel.

Since March 2014 the oil prices have started dipping and in December start it has fallen to a new low of 60$ a barrel. The oil price falling has led to new series of oil wars where the supply of oil supersedes the oil demand. The major oil producers USA and OPEC, (Organization of the Petroleum Exporting Countries, a cartel of oil producing countries (nearly 40% of oil in the world) including, Saudi Arabia, Iraq, Iran and Nigeria) have tried to leverage technology and trust to establish themselves as the leader. Recent statement by the OPEC stating Saudi Arabia, the leading oil producer among the OPEC countries has stated that it will not cut the oil production till oil hits a low of 20$ a barrel. The USA Shale Gas producers on the other hand have stated that they can bear an oil production loss in the shorter run to establish themselves as leaders and reduce the imports of crude oil to USA. Amongst this scenario, smaller economies and weaker players like Russia, Venezuela, Iran, and Nigeria are suffering.

Why is there a slump in oil prices?

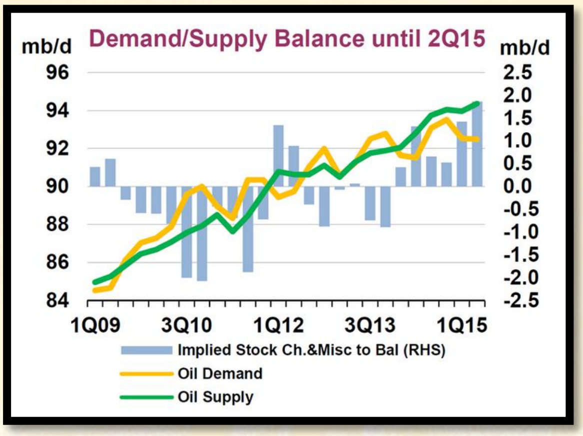
Oil prices are determined by both the supply and demand factors and by expectation. Oil prices have been plummeting since the past two months at an alarming pace. Reasons both from the Demand and the Supply side have been attributed to this phenomenon. OPEC, in the past months have had frantic meetings but indecision and bad experiences (especially for Saudi Arabia) in the 80s have still decided not to stop producing oil, thereby bringing a glut of oil in the market.



Courtesy: Vox.com Fig: The constant decline of prices in the last few months

The OPEC appears to be in a Price war with the oil producers of United States who themselves have seen a windfall of energy in the market thanks to Shale revolution in America. The cartel plans to let the prices slide till many drillers in America find their projects unprofitable and shutdown. This seems to be a very risky strategy as many of the OPEC countries like Iran, Iraq and Nigeria are badly in need for cash and they might succumb before oilmen in US do.

The demand for oil (mostly from China, Germany and Japan) and other geopolitical factors like warring Middle East keeping the supply low had kept the prices north of $100 till September 2014. But a fall in demand from a slowing Chinese economy and relative stabilization and increase in supply of oil from Middle Eastern countries has increased the supply of it.



Courtesy: (International Energy Agency)

Saudi Arabia, the biggest oil producer in the OPEC and hence the most powerful country in the club, decided not to reduce the production of oil in these times fearing a loss of market share which it experienced the last time prices fell in the 80s.

Up until recently the oil boom in US had little effect on the global oil prices. That's because at the exact time there were geopolitical conflicts going on in major oil producers like Syria and Libya, Iraq being a mess at the period. Sanctions on Iran fettered its oil production. In all, 3 million barrels per day were pulled out of the market in the past few years thereby nullifying contributions from US. Things have changed in 2014, production in Libya and Iraq have picked up thus causing a glut in the market.

Thus a contribution of weaker demand and rising supply caused the prices to fall from $115 in September to around $60 in December.

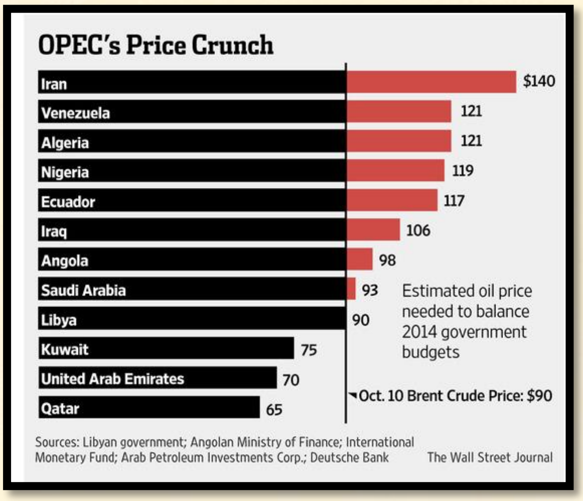
Winners and Losers

A plunge in oil prices has some significant consequences for a few countries. A few of them are:

- **Russia**: Thanks to sanctions levied on Russia due to its annexation of Ukraine, the economy is already in a plunge. Further plummeting of oil prices is going to put further stress on the economy. Oil revenues account for 45% of the economy and drop in oil prices will mean that Russia will have to dig into its $74 billion foreign exchange reserve and cut back on planned sending.

- **Iran**: after years of recession, Iran's economy had recently rebounded. IMF projected it to grow at the rate of 1.5% in 2014. Iran needs oil prices to stay at $100 to balance its budget.

- **The United States**: Cheaper oil for people will mean lower gasoline prices, meaning households have more money for spending on other things, hence giving the economy a boost. The sales for Cadillac Escalade (an SUV) surged by 88% in November showing that Americans are now buying bigger and more oil consuming cars.



Courtesy Wall Street Journal Fig: Showing the minimum price of oil countries need to balance their budgets

- **India**: India imports more than two-thirds of its oil. A one dollar drop in oil prices saves India 40 Billion Rupees. The fall in oil prices in 2014 will reduce the trade deficit by about $3 billion. This will lead to a stronger Rupee against the dollar. The fall in oil prices will reduce the petroleum commodities and will also have a soothing effect on inflation in India.

Oil has to power to strangle and elevate economies, as can be seen by the decline in economies which used to provide oil to China after demand in China reduced. Oil, as Warren Buffet suggested in his address to shareholders of Berkshire Hathaway, will not lose importance in this century (a reason why Exxon Mobil is his biggest stocks).Its prices may rise and fall but it will never (as far as we can see) lose its Sheen. In the end oil the importance of oil can be gathered from a quote by James Buchan: “It (oil) is almost as vital to human existence as water”.

BRICs bank – Plain Tokenism or a strong alternative to World Bank?

Adrita Basak, SCMHRD
Ayan Deb, SCMHRD

The Old World: Dominance of the West

Post World WAR II, all the nations formed a consortium of power that would help prevent the recurrence of such wars. Thus the Bretton Woods Conference lead to the establishment of three such institutes that facilitated harmony and stability in the world through trade and financial support. These institutes were World Trade Organisation (to facilitate trade), International Monetary Fund (to promote macroeconomic stability) and World Bank (for development assistance).

The funding from World Bank was primarily used to rebuild Europe. Asian development needs suffered as most of the financial aid by World Bank was directed towards the West. In fact, till now India does not have a seat in World Bank security.

The IMF unlike World Bank is not democratic institution i.e. larger your contribution, larger is your voting right. USA enjoys a voting right of 17.69% where as China and India have 4.0% and 2.44% respectively. In 2011 the world's largest developing countries i.e. the BRIC nations have issued a statement declaring that the tradition of appointing a European as managing director undermined the legitimacy of the IMF and called for the appointment to be merit-based.

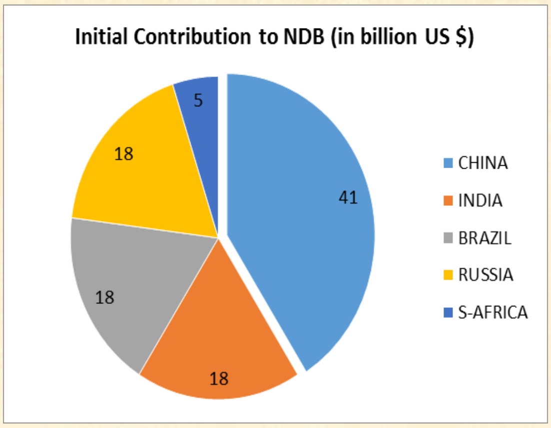
The New Beginning: Emergence of the "NDB" out of the Political Gridlock

The five BRICS countries comprises of Brazil, Russia, India, China, and South-Africa. BRICS represent almost 3 billion people which accounts for 40% of the world population, with a combined nominal GDP of US$16.04 trillion i.e. 20% world GDP. The BRICS nations represented 18% of the world economy.

With the emergence of the BRICS nation there was a need to have a separate bank. Reforms to allocate more voting power to the emerging economies like the BRICS nations were agreed by the G20 in 2010; however Congress has not yet approved these recommendations. Thus the heavy handedness of the IMF and World Bank lead to the rise of the New Development Bank –"NDB" (BRICS Bank). The NDB would have its headquarters in Shanghai, China but it would be headed by an Indian president. Also the first chair of Board of Governors will be from Russia and the first chair of the Board of Directors will be from Brazil while a regional office centre would be established in South Africa

Interesting Time: The New Dynamics

The world is no more a unipolar arena where power-politics is dominated by the West; instead we are experiencing a new era of economic and social growth driven by the developing economies. The dominance of the US dollar as a reserve currency is deemed to be undermined if the NBD, i.e. the BRICS bank can transform itself into a clearing house for trade and finance in non-USD currencies.



Thus there could be gravitation toward different currency pricing for trade in emerging markets and investors will have to rethink their risk models in regard to the currencies. These would further lessen the dominance of the US and the sanctions it impose to the world. As an instance we assume that in the Russia-Ukraine crisis the stance of US would be to put sanctions, but if Russia can convince the NBD to support its cause, all the US sanctions would become useless. The world is thus becoming increasingly multipolar. The epicentre of power is shifting from US to the emerging nations.

The IMF and World Bank have failed to meet the demands of the developing economies. The establishment of the NDB might initiate a change in the status quo of IMF and World Bank where in they would try to incorporate more voting rights for the BRICS nations. The NDB demonstrates the viability and dynamics of the emerging economies despite all the negative criticisms by West dominated economists.

Some critics argue that there would be conflict of interest and power amongst the BRICS nations since China would aggressively try to amass disproportionate wealth and power through NDB. China is expected to make the biggest contribution of $41 billion followed by $18 billion each from India, Brazil and Russia and $5 billion from South-Africa. China has contributed most to the NBD, it has the biggest surpluses and foreign exchange reserves in the world (nearly $4 trillion, almost one-and-a-half times the size of Indian economy) and hence its influence on NBD would be greater than that of the other members.

This thought is counteracted by the logic that just like there is differences among G7 members and unlike G7 the BRICS nations have set up the NDB for development activities in these nations. This single objective will be the unifying thread for the BRICS nations.

The NDB is a testimony to China's global leadership. China needs to be careful to balance its own influence on the bank and the impact of other members. This becomes all the more crucial when BRICS members do have diverging interests and even conflicting interests (such as territory disputes between China and India) among themselves.

BRICS Bank and India

India being one of the major growing economies has earned its mettle among the

BRICS nation. Through the NBD India is improving on her multinational ties with China. The status quo is already changing as India was recently invited by China to be a member of the 21-nation Asia-Pacific Economic Cooperation (APEC). This move will not only boost India's economy but also enhance the effectiveness and importance of the APEC. As a member of the G20, the East Asia Summit, as well as an ASEAN partner, India is already capable of playing a very important role in deepening trade and increasing investment in the region. India has propagated its 'look east' policy from 1991 and has already signed trade agreements with Japan, South Korea, Singapore, Thailand, Malaysia and ASEAN. India can transform itself into the production network hub for the region. Also it would encourage India to speed up its trade liberalisation process. Thus this new membership in APEC will enhance capacity building, trade proliferation and investment cooperation in the region.

The Chinese President Xi had also asked India to deepen its involvement in the Shanghai Cooperation Organization (SCO). SCO includes only six nations – China, Russia, Tajikistan, Kazakhstan, Kyrgyzstan and Uzbekistan. The importance of the SCO is that India can form larger relations with South Asia and Central Asia. Thus the NBD i.e. the new BRICS Bank has provided India the platform to pitch herself to the rest of Asia as a new powerful nation, an alternative to China.

However, the critics have started picking holes in the structure, operations and potential limitations of the new bank. According to reporters, the selection of Shanghai as the headquarters for the BRICS Development Bank might hurt Narendra Modi's domestic ratings. But the Prime Minister of India, Mr Modi was quick to dismiss all these apprehensions and he underscored India's priorities by highlighting the importance of resolving the boundary dispute. He has also urged the Chinese President, Xi Jinping that peace must be maintained on the border until there is a resolution. There have been frequent incursions by Chinese troops across the Line of Actual Control. India and China have land disputes over the Himalayan border over which the two countries went to war in 1962. Xi also called for speedy negotiations to settle this boundary dispute and dismiss all the allegations of cross-border incursions.

Modi has tried to balance two things – the trade relationship with China as well as India's security interests. He is actively seeking Chinese investment in infrastructure projects that was proposed in the recent Indian Budget. At the same time, Indian government is also proactive with the Chinese counterparts on the issue of trade imbalance which is currently in China's favour.

Confrontation Vs Collaboration

The NBD has a planned capital base of US$50 billion, rising eventually to $100 billion while the World Bank has US $232 billion capital reserves. We must realize that the NBD is not a competitor to World Bank but it is an attempt by the BRICS nation to provide hassle-free funding for the infrastructural projects through its Contingent Reserve Arrangement (CRA) framework and thus creating better conditions of living in these nations.

Thus most certainly the new BRICS development bank is not going to replace the IMF and World Bank any time soon as the latter will still remain powerful players in the global economic arena. The relationship between these two is a complementary relationship rather than a conflicting one. But in the long run the competition between the two might intensify and the final outcome will depend on the balance of power between the two poles of the world: the developing countries and the developed countries. With the emergence of the two poles the world is becoming highly dynamic and unpredictable.

Photo Credit goes to GCIS Photo Studio

Inland Waterway Transportation (Iwt) In India

Vikas Patel, NITIE Mumbai

1. Introduction

Transport is a vital component of Indian economy. Since the economic outburst of the 1990s, infrastructure development is a story to tell. Today, wide variety of mode of transport like land, water and air are used. But, low GDP per capita of India has meant that access to these modes of transport has not been uniform. By international standards, motor vehicle penetration is low; only around 10% Indian households own a motorcycle. Public transport stills the primary mode. India`s rail network is 4th largest and the most densely used in the world. 921 million tonnes of freight and 7651 million passengers

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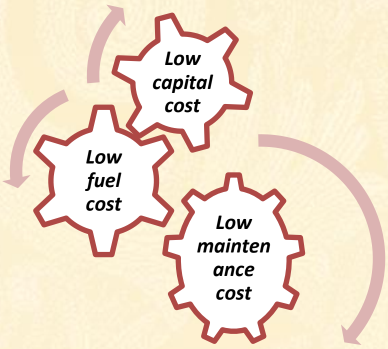

2. IWT in India

Major waterways in India are: NW-1, the Ganga-Bhagirathi-Hooghly system, from Allahabad to Haldia, NW-2, the Brahmaputra system in Assam and NW-3, the West coast canal system in Kerala. Commercially, one vital navigation system in Goa consists of Zuari & Mondovi River and Cumbarjua canal. Several possibilities do exist, but the ones that offer some potential are riverine inlets along the coast. Further possibility can be seen in river interlinking projects if they are found viable. NW-4 & NW-5 are on Godavari and Krishna rivers and East coast channel. NW-6 proposed on Barak River.

Details of NW	Distance (KMS.)	2009-10(LT)	2010-11(LT)	2011-12(LT)
National waterway 1	1620	8.52	7.31	9.45
National Waterway 2	891	0.09	0.06	0.1
National waterway 3	205	10.27	11.12	12.25 s

Table 1: *Cargo handled on National Waterways in India.*

Source: *Inland waterways authority of India.*

India`s share compare to countries like China (8.7%), US (8.3%), Europe (7%) is relatively low at 0.5%. Due to its characteristic potential, IWT holds several advantages over other modes of transportation including the bulk movement. India Inland Waterways is about 14,500 km. IWT transportation examples.

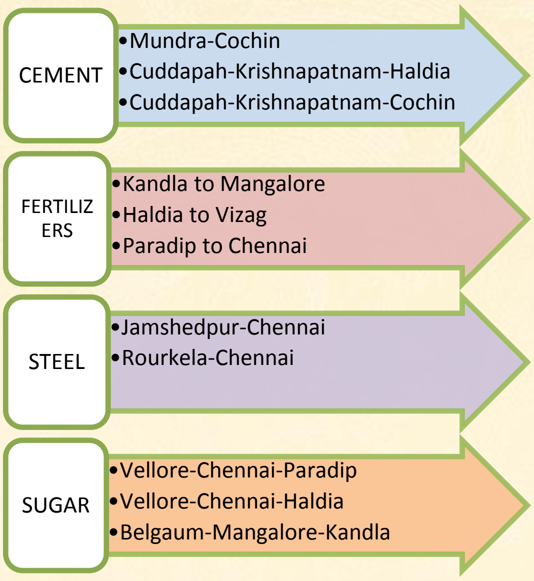

FIGURE 1: *Goods transportation through various routes*.

. **FIGURE 2**: *IWT in India*.
SOURCE: *Inland waterways authority of India*

IWT remains largely underutilized despite its high growth potential. But policymakers are ready to stir inertia of IWT as they have decided to realize its full potential. Ministry of shipping has addressed the issues like development of routes, capacity addition of port operators and incentives for ship owners. Figure 2 shows Indian GDP has grown progressively on the basis of export-import (EXIM) trade volume, which has been increasing at the higher rate than the GDPs. Growth in IWT has facilitated development of container freight stations (CFS) and inland container deposits (ICD).

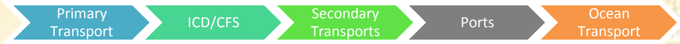

FIGURE: *EXIM Supply chain*. **SOURCE:** *KPMG in India analysis*

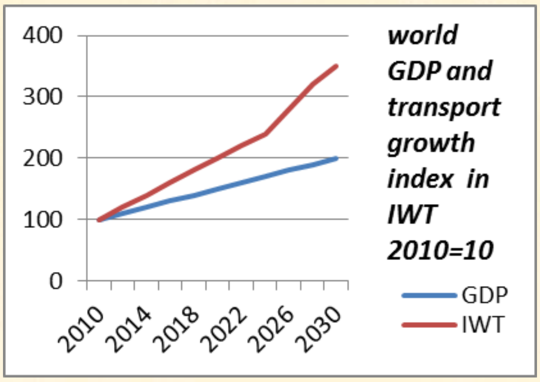

FIGURE 1: *IWT growth with respect to GDP*.

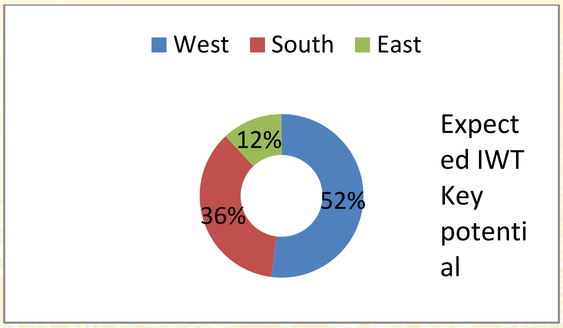

FIGURE 2: *Potential areas in IWT*. **SOURCE:** *Inland waterways authority of India (IWAI) and KPMG data analysis*.

3. Critical Success Factors.

Foreign trade in India is growing at the rate of 18% from USD 86 billion in FY 2000 to USD 791 billion in FY13. The growing demand of logistics has compelled freight forwarding community to develop value added services. This has created several success opportunities in various fields which depend upon various critical factors which have been described below.

LOCATION	• Location close to the port, Proximi to consumption hubs, Considering return expectations, Availability of contiguous land, Site adjacencies to key highways, Dedicated container terminal.
INFRASTRUCTURE	• Quick evaluation of cargo, Space availability, Good quality of infratructure, Optimum dwell time,Technology enablement, Transport mode focussed design, Positioning along sectors.
RELATIONSHIP	• Relationships with shipping lines & truckers, Offer a single window for multiple location, Integrated netqork of CFSs, Linkage with transporters and shipping lines, Developing robust catchment targeting plan

SOURCE: *KPMG in India IWT analysis*

4 Bottleneck and Obstacles

- Depth of the most of the river is insufficient at most of the stretch.
- Siltation in major rivers from erosion and deforestation.
- Most of the Inland water is designated for drinking, irrigation, power purposes, navigation comes
- Width of the several kilometers of waterway is insufficient
- Non availability of return cargo, low draft high speed vessel, adequate navigational aids.
- Non availability of permanent terminals with adequate infrastructure, bulk material transport.

Why to build Infrastructure

Proper analysis shows that development in infrastructure will lead into reduction of the cost of the transportation per tonne-km over the short haul as well as the long haul coverage by IWT.

1. Advantages of water bridging
2.River based origin and destinations
3.Project based requirements of commodities.
4. Volume of flow and revenue potential

5. Opportunities & Solutions

IWT provides several opportunities in many ways to a number of potential stakeholders. IWAI pro-actively maintain NWs with fortnight inspections, providing navigational aid in cargo movement & building terminal infrastructure. Integration of coastal shipping and IWT at Haldia and Kochi, additional infrastructure at Neendakara, TT sheds at Kolkata are few specific solutions.

- Integration of coastal shipping with Inland Waterway Transportation.
- Actively supporting self-employed Water Transportation Labor.
- Actively developing economic alliance in Inland Waterway Transportation
- Allowing private participation in the maintenance of the IWT.
- Reviving the subsidy plan and encouraging the multimodal transport.

> Earlier, Government used to subsidize private investments by 30%, now the government has scrapped the policy. Govt. should review to attract investors.

Government Policies and investments given sector Turnover of 110 crore annually, proposed investment on 5665 crore in 10th plan does not make much sense. Government should invest in measured manner. Presence of drive cargo stream is required, tourism and related activities offer good potential, liberalized policy with regard to IWT and coastal shipping will benefit the sector.

Private & Public investment in India

IWT carries very small traffic and key issues are investment in NWs and associated infrastructure. Worldwide experience suggests that investment in IWT sector can impact share of movement significantly. Huge investments with long term impact and can be used by various commercial entities are candidate for government participation. The operations in Goa have capability to invest in barge building, maintenance and repair. At Mormugao also there is proper PPP.

Benchmarking with global ports to provide standardization (SOURCE: KPMG in India IWT analysis)

PARAMETERS	INDIAN PORTS	ROTTERDAM PORT	SINGAPORE PORT
Electronic data interface (EDI)	Minimal	Mature	Mature (port net)
Enterprise resource planning (ERP)	Partial	Mature	ERP with port link
Business rule and workflow process	Manual	Mechanized	Mechanized

Dance of the dragon: Is China slowing down?

-Pushpanjali Mitra

Similar to a Chinese dragon which is the symbol of China's tradition and culture, the economy has also been showing movements - downwards particularly. The world considers China as the fastest growing and the most complicated of all the economies. It has been through a lot of cycles of prosperity and decline still standing out to be the world's largest exporter and importer. Moving against the conventional wisdom of Socialism, China signed the WTO agreement in 2001 and signed in for the ASEAN community in 2005 thus, becoming the world's largest trading power. Ever since then, China has shown an average growth in double digits with high economic prosperity until it was hit by the US recession of 2008.

The US Recession acted as an eye opener for China pointing out its huge dependency on the US. The trade link of China was affected and as a recovery measure China had to undergo a liquidity program of $600 billion. Soon the country began formulating and implementing reforms and policies to reduce this dependency on US. With the focus on the development of the nation internally the money was invested into infrastructural, real-estate development projects. This article explains the various reasons which indicate that China is going through a slow down and can act as a potential threat to the world.

Huge Debt

The nation has huge debt resulted by the various investments done on the various avenues for the growth of the country. There are a lot of "bum investments" that leads to the wastage of a part of the GDP and adds no value to the economy. These investments are the resultant of huge debts that the companies take increasing the concentration of the economy's debt which been increasing exponentially for the past few years. Soon after the recession, in order to pump money in the real estate was into a lot of debt borrowing that led to increase of 60% debt to 200% of GDP in the mere time span of 5 years (2008-13).

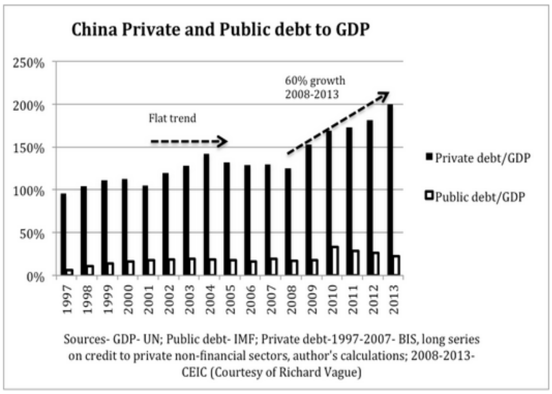

Figure1: Trend in the private and public debt of China

Source: http://www.tradingeconomics.com/china/producer

High-dependency on Shadow Banking

The dependency of the Chinese economy on the Shadow Banking is huge. Its 69% economic dependency on a non-traditional banking system speaks volumes about the vulnerability of the financial system. The development of the SME sector in the country along with the economic growth is majorly because of the Shadow Banking system and this impact can't be over looked. A lot of economists compare the shadow banking systems of China and US. The shadow banking system played a major role in the US Recession 2008. The major difference between the two countries is that in case of US this system is matured having a history of more than 4 decades, where as in case of China this system 4-5 years old without proper and adequate regulatory framework governing it.

In 2013 alone China has $7 trillion invested in the shadow banking system. These shadow banks are involved in lending money to the people at a favourable rate (sometimes more than 20%) and are not regulated by the regulatory bodies of the country. It consists of risky lending products consisting of derivatives and securities lending. Since these banks don't come under the regular banking system the Government is not able to control the liquidity flow that is happening because of these banks. In China the interest rates are set by the banks and not by the market forces. They possess a systematic risk for the economy and in case of China that would impact the whole world. Hence, it's important that the government should come up with a regulatory body that will at least try to contain the growth before it explodes.

Economic Inequity and Disparity

China has been suffering from the problem of rapid increase in the concentration of income. It has emerged as a society in which income disparity is greater than the United States and is truly astounding. Recently China surpassed the income gap between the rich and poor of US. The economic and wealth disparity which was in China in 1980 has doubled by 2010. The currency system of the economy was regulated by the Central Bank which devalued it for a really long time. The home currency was devalued to a stable limit so that the economy doesn't face a macroeconomic issue like inflation. Also a devalued currency helps in China's trade aspect. This attracts the foreign countries since they get to buy the goods at a cheap rate. But with the changing markets and international markets the currency is regulated by the market forces partially which shows that the country might adopt the concept of Flexible Currency System in the near future. Since 2006 the Remninbi has been allowed to float in the narrow margin and since then the government has been gradually increasing the flexibility of the currency.

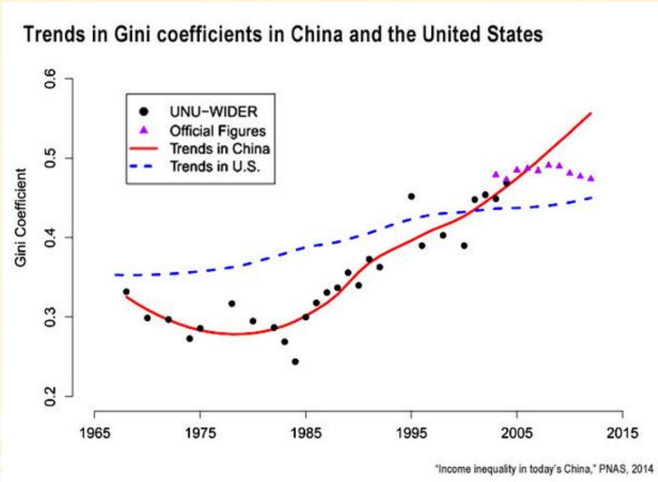

Figure2: Trend in GINI coefficients in China and United States

Source:http://journalistsresource.org/studies/international/china/income-inequality-todays-china

According to the GINI Index (Measure to calculate the economic inequality of a country) if the value is more than 0.4 then there is wealth disparity in the nation. In the year of 2000 the coefficient breached the value of 0.4 and became 0.412. China's statistical institute National Bureau of Statistics (NBS) stopped releasing the data henceforth saying that the household incomes are incomplete. From 1980-2012 the GINI value of China has gone up from 0.3 to 0.55 surpassing the US' coefficient of 0.45. The major reason for the increase in the income gap is because of the government reforms that majorly favours the urban class of the country. The government has failed to frame out reforms that can reduce the urban-rural disparities.

In 2012 a lot of people have put inequality as the biggest problem for the country even before corruption and unemployment.

Brewing Asset Bubble

China is a country that witnesses the growth of 10 new cities every year. These cities have led to the development of huge new skyscrapers for the people to rent and buy.

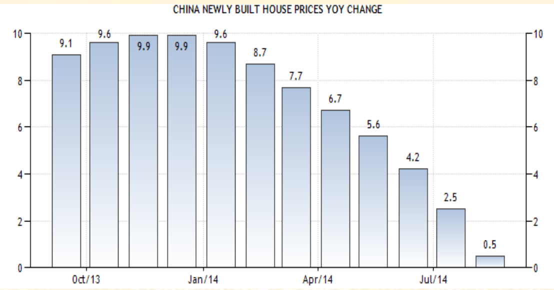

Figure3: Increase % in the price of the newly built houses in China

Source: http://www.tradingeconomics.com/china/housing-index

Recent data shows that the number of new homes under construction has fallen by 25% and the number of vacant houses is increasing thus, leading to a plunge in the prices of these houses. There are housing societies where the occupancy rate is as low as 30%. Due to the oversupply of properties right across in China a housing bubble has been created in the past couple of years.

So, basically the economy has taken huge debts to finance the real estate industries and the housing projects which presently are seeing a massive fall in price depicting the returns are not going to be favourable. The revenue generated for the government by the real estate industry in China is around 40% of the net revenue and because of this huge dependency, the falling growth of this sector is impacting the GDP. The GDP of the country has been estimated to be around 7.5% with a floor growth of 7%, marking the weakest expansion in 24 years.

Conclusion

With a fall of the purchasing managers' index and the value plunging below 50.00, the manufacturing sector is struggling showing signs of a slowdown that will just not impact China but all the economies it has trade links with. China holds almost the same importance as the United States on the other economies of the world because it leads the trading market of the world. The total Chinese trade exceeded the $4.13 trillion mark by the end of 2013.

The main issue what China is now facing is in terms of both private and government debt. Along with the debt the brewing asset bubble is in its last stage, about to burst anytime as is evident from the sharply falling rate of housing prices. The monetary policies implemented and applicable in the nation have not been proved to be effective in order to help the nation to come out of the financial troubles it has been facing since the 2008 recession. Debt is a habit that once formed is difficult to break. Moreover the loose monetary regulations regarding the loan-making process to borrowers who may not be able to repay, which is indeed in sync with socialistic ideology are adding fuel to the debt issue of the country leading to the increase in the NPA count. Hence, the slowdown of China needs to be dealt immediately else it might act as the starting point of another global meltdown.

Economy is whining with gold shining

-Phani Kumar

Abstract

Obsession for Gold is not a new phenomenon in India; it is deep-rooted in the Indian minds from ages and has probably increased in recent times. There are many reasons like cultural, social and religious factors underlying this obsession. In the recent times, however, gold has also turned into a lucrative investment option. As long as the gold was used primarily for ornamental purposes, Indian economy didn't have to face the heat. Problems started only when gold emerged as a non-financial investment option. This paper is going to study the cultural as well as the economic angles related to gold and a need for having gold-hedged financial instruments in order to curtail gold imports.

Introduction

One of the major factors that is crippling Indian economy is the gold import bill. Due to a fall in the global gold prices, there has been a surge in the demand in India in Q3. Demand for gold in volume surged by 39% compared to Q2. In India, there is a cultural flaw which is adversely affecting the nation. Gold is thought of as a form of luck, wealth and prosperity. Buying gold is a ritual for many people especially during Dhanteras and Akshaya Tritiya. Greeting card companies have created Father's and Mother's day to increase their sales. Similarly, there is so much of hype created in India about the auspiciousness of buying gold on these two days. It can be fairly assumed that the hype was created by jewellers for conspicuous reasons. Most of the people fall prey for their trap and start believing that buying gold on these two days, at least in small amounts, will make lady luck smile on them. As long as these baseless and ridiculous beliefs don't fade away from the Indian minds, no Finance Minister or Prime Minister can bring Acche din. Nobody can forget the press conference of P. Chidambaram, ex-Finance Minister, pleading the public to stop buying gold for investment purposes. Gold is one of the things that brought him nightmares, probably every night.

In 2013, the import duty on gold was continuously being increased by the government in order to curtail the growing import bill of gold. The reason being, people started losing confidence in the currency and the then existing financial investment options. And that was further fuelled by the deep-rooted cultural aspect that gold is something that can save us in times of financial distress. Due to this belief people started investing in the yellow metal which is termed as dead investment. Dead investment is something which doesn't give any return in its lifetime as long as it is not monetized. Hence, as long as the gold is not sold off, the very point of saying "investing in gold" gets questioned.

Some investors, who are prudent enough in understanding the intricacies of investing in gold, do invest in gold ETFs, which ensures zero loss in making and handling charges. But some investors do invest in gold in jewellery form. Firstly, as long as the gold is in jewellery form, a sentiment pulls back the investors from selling it during the times of rise in gold price. Because in many families, jewellery is an asset that is never sold off but is passed on to the coming generations forever. Secondly, even if they sell, they make meagre profits because of high making charges and commissions involved in selling of gold in jewellery form.

However, in order to control the appetite for gold, government cannot keep the import duty high for long time, because it fosters smuggling. Another problem with gold is that the capital gets locked up without having any productivity. This is the major problem with any non-financial investment like buying barren lands.

In 2013, appetite for gold suddenly fell because of three reasons, one being the import duty and another being the fall in international gold prices due to strong dollar and the third being the choppy rupee. Now, the case is exactly opposite. Rupee is more or less stabilised and the international gold prices are falling. Also due to reports saying that the interest rates are going to be reduced in the short future, investors are looking towards diverting the financial investments to gold which already happened to some extent and India became the largest consumer of gold tipping off China.

Way forward

In a country obsessed with gold, it is futile to completely curb the demand just by putting various regulations in place. Along with various regulatory measures, there is an urgent need to educate people about various alternative investment options available which can also fetch higher returns. All measures should go in tandem for a long term solution. Any tactic to reduce the demand for gold should consist of an amalgamation of supply side steps, demand reduction measures and augmented monetisation of idle domestic gold stocks. Various measures can be introduced on demand as well as supply side to counter this menace.

Demand Side Measures

i. Regulatory measures: Import duties on Gold should be reviewed from time to time to discourage gold imports. However, unreasonably higher import duties can be ineffectual as it might encourage smuggling. When the situation is exacerbating, we have no other option than to manoeuvre the import duties, as one among numerous strategies to be adopted. This policy can be reviewed once the CAD situation eases to a sustainable level.

ii. Introduction of novel financial instruments which can provide better returns: If alternate financial savings instrument can deliver better return than on investment in gold, significant chunk of demand would naturally be diverted to these financial instruments. E.g. Inflation Indexed Bonds.

iii. Awareness among investors, especially in rural areas to divert demand for physical gold into investment in gold related instruments like ETF is important. Either most of the people are not aware of such instruments or they don’t have accessibility to invest in the same. Various steps should be taken to increase the awareness among the buyers of physical gold.

iv. There is an urgent requirement for introduction of new gold-backed financial products to trim down the ever increasing demand for physical gold. As per the RBI's current plans, products that may be considered are Gold Accumulation Plan (a savings plan which will delay the gold import till the actual deliverance date); Modified Gold Deposit Scheme (gold which people deposit is recycled and sold to fulfil the demand and then returned back at the time of maturity) and Gold Linked Account (the entire buying and selling process of gold takes place outside India and actual gold is not imported into the country). Introduction of such instruments and awareness among buyers would significantly reduce the demand for investment purposes.

v. Documentation of gold sales and purchases: The reason which makes gold as a lucrative investment option is perception of good returns, high liquidity and lack of documentation and taxation related formalities. Most of the financial instruments need some tedious paperwork which brings them into the tax purview, while investment in gold escapes such tax mechanisms. Also there is no tax on capital gains. Although the rules stipulate that PAN should be mentioned for buying of gold worth more than Rs.5 lakhs, jewellers flout them with impunity. Also, this requirement should be imposed on all types of gold trading irrespective of the size of the transaction. It's imperative that law enforcement and tax authorities plug the loopholes of the existing system.

Supply Side Measures

i. There is huge amount of gold which is lying unproductive in the chests of the various temples. As per various official sources, there is also considerable quantity of scrap gold in the country. Many estimates have suggested that the scrap gold which enters into the system is approximately about 300 tonnes per annum. It would be significant to bring the reserves of gold in temple and scrap gold into the financial system to make it financially active.

ii. Tax incentives for the people who permanently deposit their gold with the banks in order to invest in other instruments which would provide a continuous source of income. E.g. Gold Pension Product (the customer sells his gold to the bank in lieu of monthly pension).

iii. Banks should be encouraged to issue more loans on gold (which is a dead investment) so that more liquidity can then be pumped into the system.

In order to keep CAD in check both demand and supply side measures are equally important. Also, fiscal and monetary policies should work in tandem in order to plug loopholes in the existing system by efficiently and effectively enforcing the laws.

As long as there is a burgeoning obsession for gold, India can never strike Gold.

Developed vs. Emerging Economies

-Venkatesh K.G

Although most researchers, particularly in finance, hold the view that firms should not diversify into foreign markets or unrelated product markets to reduce risk when investors are more efficient in reducing such risk in a perfect capital market, this view may need major modifications in many parts of the world where market systems deviate significantly from perfect market assumptions. For example, diversified business conglomerates often dominate the competitive landscape in many countries outside the United States. This phenomenon seems to contradict the extant theoretical argument that high levels of product diversification are detrimental to firm performance.

Firms that develop the capabilities and adopt the corporate diversification strategy appropriate for a specific country resource environment are likely to achieve higher levels of performance. Such a macro-micro linkage allows us to better understand firm capability and corporate diversification.

Developed Economies

In these economies, such as the USA and the UK, country resources, that is factors and institutions, are abundant and well developed. Abundant factors imply that competitive advantages would be mostly based on how well firms can maximize the benefits provided by those country resources. Abundant institutions enable firms to enjoy specialization benefits facilitated by the availability of market transaction mechanisms. Since most of the firms have easy access to various kinds of factors, they possess the ability to consistently challenge one another’s competitive positions. Strong institutions, such as antitrust regulations, facilitate the entrants of new firms, posing constant challenges to industry incumbents to improve their products. Well-developed capital market has the ability to assess business operations and supplies needed capital for promising projects. Furthermore, an active external market for corporate control facilitates the acquisition of inefficient firms. High levels of factors, allowing firms to develop specialized market capabilities and subsequently transact with other efficient producers at low costs, compel firms to develop expertise in specific product markets.

Domestic competition demands that firms keep improving their competitiveness to avoid deterioration of market positions or the innovative edge to competitors. If a firm refrains from adopting an aggressive strategy by resting on its past competencies, such complacency is likely to draw attacks from competitors. Therefore, firms are required to keep sharpening their market capabilities, such as R&D skills, marketing expertise, or continuous process improvements, to meet constant challenges.

In these economies, firms have efficient access to an abundant supply of environmental resources and competition is fierce. Accordingly, firms would find it beneficial to place greater emphasis on best utilizing those resources. Low levels of product diversification allow firms to devote more attention to a single or a few related product markets to sharpen its competitive edge in production efficiency or enjoy economies of scope. With a portfolio of businesses that are closely related, specific skills developed by one business unit can have positive spill over effects on other business units, resulting in lower total costs and increasing competitiveness. Because the sources of competitive advantages in these economies rest on continuous improvements in market capabilities, in-depth, specialized knowledge and skills in certain transformational activities, leading to technology patents or consumer loyalty, constitute high levels of production barriers to entry. Furthermore, sophisticated consumer demand also drives firms to improve continuously. Managing a diverse business portfolio may also cause significant strain on managerial information processing capacity, negatively affecting overall firm performance in these economies, which often demands substantial managerial efforts to keep track of the dynamic competitive landscape. Besides, managers may be constrained by their dominant logic to manage myriad of unrelated businesses successfully. Viewed in this light, low levels of product diversification, which enhance firms' abilities to compete in one or a few related product markets by developing specialized resources and skills, are likely to be optimal in these economies.

Abundant country resources allow many firms in these economies to command competitive advantages over most firms in other economies. Pursuing international diversification helps leverage firms' competitive advantages in many countries. Valuable ownership-specific advantages developed and possessed by firms in their home countries, such as superior technology or valuable trademarks, are crucial components for firms' subsequent international success. Firms may also enjoy scale or scope economies and learn from international diversification. Aided by their superior market capabilities developed within the country, firms in these economies often compete successfully, learn or present themselves as valuable cooperative partners in the global arena. In a similar vein, theories of national innovation systems emphasize the importance of home country's institutional environments in determining the rate and development of technology, which also contribute to developing these firms' international competitive advantages.

Emerging Economies

Because the emerging economies, such as Indonesia, Russia, Ukraine, and Venezuela, are relatively deficient in most types of country resources, possession of resources becomes particularly crucial for firm competition. Not only do insufficient factors limit country resource availability, but inadequate institutions also mean that firms that potentially have better transformational capabilities may experience difficulty in obtaining needed country resources.

In these economies, a firm's competitive advantage can be secured by constricting competitors' inherent capabilities by monopolizing country resources. Rather than improving production efficiency, firms can erect institutional barriers to entry, barring competitors from the resource environments, in order to enjoy prolonged competitive advantages. This is especially the case because the government often assumes a more direct role in resource allocation in these economies. For example, a firm can succeed in competition by securing monopoly status in certain product markets, thus limiting competitive entry without the need to improve market capabilities in technological expertise or marketing skills. Gasprom, a natural gas monopoly in Russia, represents a good example. Gasprom is described by critics as 'a caldron of secrecy, nepotism and corruption'. Apparently relying on its political connections in erecting institutional barriers, it has been able to maintain monopolistic status amid calls for more competition

. When faced with the threat of foreign entry, these firms generally resort to lobbying the government to impose restrictions on foreign direct investments or at least to impose behavioural guidelines to be observed by foreign entrants. Because the government usually assumes an active role in resource allocation in these economies, firms may benefit from using their nonmarket capabilities to co-opt government bureaucrats into their social systems through political contribution. In return, the government may offer subsidies in the forms of state contracts or monopolistic rights to these firms.

In addition to political influence, these firms may overcome external capital market failures by enjoying the benefits of internal financial economies by allocating capital within firm more efficiently. Because of inadequate transaction mechanisms in these economies, firms in these economies have the incentive to transact among internal subsidiaries or related companies to enjoy internal product market. Substituting for an inactive external labour market that characterizes these economies, firms often can create an internal labour market by training and allocating talented employees internally, thus maximizing their contribution.

Although firms in these economies may prefer international diversification strategy to seek foreign resources, most lack the abilities to successfully operate in other countries. Redeployment flexibility or fungibility of firms' competitive advantages determines how firms may optimally maximize their benefits. The competitive advantages of diversified firms in these economies are essentially institutionally based, principally built on their capabilities in fostering social ties among closed group of economic or political actor. These capabilities often are not tightly restricted to any specific product market, thus allowing firms to maximize returns across a larger number of product markets. On the other hand, these capabilities are localized in nature and likely to dissipate in foreign countries because firms cannot effectively transfer their non-market capabilities to other countries. Hence, despite their dominant positions at home, these firms often lack the global owner-specific advantages to expand to other countries.

India's Infrastructure – Potentials and obstacles of Inland waterway transportation

- Rohit & Ramnath

Logistics -a lifeline, a game changer, a masterstroke. It is and has been all this and much more to every person on this planet. Impacting billions of lives and driving the way businesses run, logistics industry has become the metaphorical heart pumping in the life force for every existing economy in this world. The domino effect of the logistics makes its influence on the GDP, policy changes, growth of other sectors, etc. The Indian story of the logistics industry predates its independence era, and has been thriving since then, with the contribution of transport to the GDP being 5.7% in 1999-2000; which then increased to 6.4% in 2004-05. The current size of the logistics industry in India is an estimated $225 billion and is predicted to reach $350 billion mark by the end of 2015.With over a staggering 45 million people being employed in the logistics sector and an expected growth rate of 15-20% (as per the fitch rating agency) the future growth potential is but obvious to the world at large; thus it comes as no surprise that India is in the top 5 position as the most attractive market for logistics in the "The Emerging Market Survey 2014", conducted by Transport Intelligence.

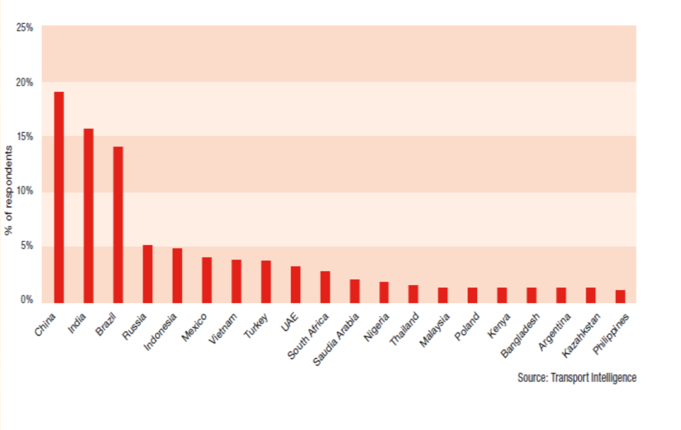

Fig1: The Emerging Market Survey 2014

Water as a mode of transport in India accounts only 8% in the movement of cargo. The inland waterways have been growing at a steady 7.2% over the past five years, with approximately 79MMT cargo being transported in 2011-12. India has 14,500 km worth of navigable waterways. Among navigable waterway, five are national waterways and span an estimated 4400 km. Besides, the capacity of this sector is under-utilized, because most navigable waterways suffer from hazards like shallow water and narrow width of channel during dry weather; silting of river beds and erosion of banks; absence of adequate infrastructural facilities like terminals for loading and berthing and surface road links. Hence, as a part of the Government's policy to optimally develop and harness the potential of Inland Waterways in the country, the 'Inland Waterways Authority of India (IWAI)' was set up under the 'Inland Waterways Authority of India Act, 1985. The IWAI has been established for the development and regulation of inland waterways for shipping and navigation and for matters connected therewith or incidental thereto.

The Inland Waterways Authority of India Act, 1985, empowers the Government to declare waterways with potential for development of shipping and navigation as National Waterways.

But still with 14,500km of navigable waterways, this sector remained neglected for a quite a long time in India. This has led to outdated infrastructure and poor utilization. The factors which make this mode of transport a prime area for investment is the fact that the overall economics suggest that it is more economical that rail & road transport, additionally it is fuel efficient & environment friendly. Transportation is the backbone of any economy, for a growing economy like Republic of India it is important part of economy. There have been constant investment in the field of infrastructure since 1990's but despite ongoing improvements in the sector, several aspects of the transport sector are still riddled with problems due to outdated infrastructure and poor implementation of system.

Inland water transport, or IWT, accounts for less than a 1% share of goods transported within India through v modes such as rail, road and water, much less than other nations that are similarly endowed.

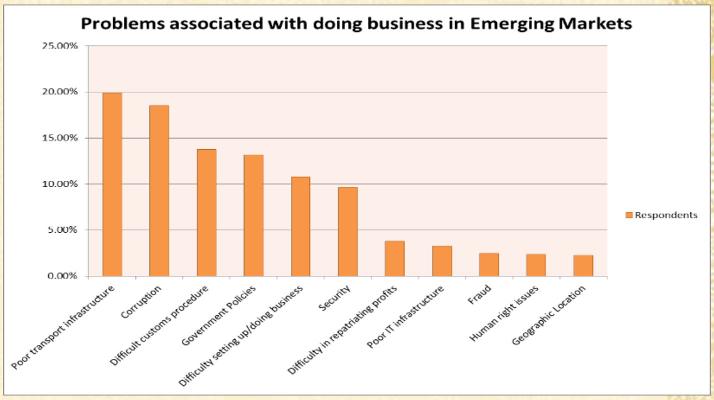

Fig 2: Problems associated with doing business in "Emerging Markets"

There are inherent problems associated with Inland Water Transport in India, the seasonal rainfall affects the water level in the rivers which make the non-operational during summer. The other problems include reduced flow in the river Ganges (due to diversion of water for irrigation in Northern India) and poor navigability due to siltation (in the Bhagirathi-Hoogly & Buckingham Canal). In the southern part of India & coastal areas salinity plays a critical role in affecting navigation leading to poor utilization. The peninsular rivers flowing westwards meet the sea through estuaries. Their courses are short and often they make waterfalls and have steep gradient. Most of the large rivers of the country enter the sea through shallow sand chocked delta channels. Thus navigation is hampered unless dredging is done. Inland waterways transport development involves the high investment cost, which cannot be recovered from the beneficiaries .To add to this night navigation facilities unavailable which is a severe setback for this mode of transport in India.

Government plans to introduce alternative travel options like sea planes, helipads along national highways

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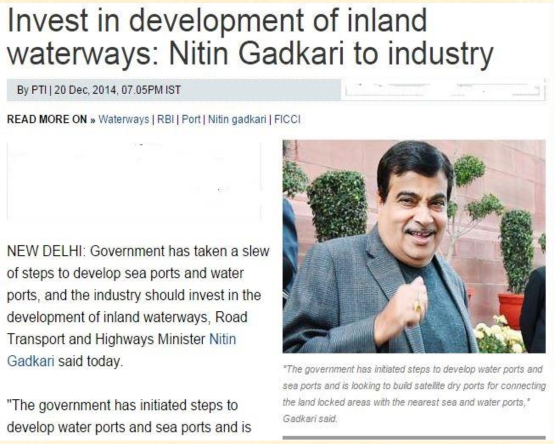
Vikas Dhoot, ET Bureau Jul 18, 2014, 09.48AM IST

Tags: World Bank | Tourism Development Corporation | Seasonal Adjustment | SAIL | Prime Minister | Nitin gadkari | net worth | Narendra Modi government | Narendra Modi | Maharasthra Tourism Development Corporation | Jawaharlal Nehru Port Trust | Insurability | Bombay Port Trust | Airports Authority of India

NEW DELHI: Boarding a flight from Bombay Port or a riverside terminus on the Ganga to fly (or sail) into the hinterland, or taking a helicopter in the middle of a highway journey could become genuine alternative travel options, with the Narendra Modi government encouraging sea plane operations, passenger ships on river-ways and helipads along national highways. It is also examining the possibility of using amphibian buses to decongest traffic in sea-side cities like Mumbai.

(The Narendra Modi government...)



Invest in development of inland waterways: Nitin Gadkari to industry

By PTI | 20 Dec, 2014, 07.05PM IST

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NEW DELHI: Government has taken a slew of steps to develop sea ports and water ports, and the industry should invest in the development of inland waterways, Road Transport and Highways Minister Nitin Gadkari said today.

"The government has initiated steps to develop water ports and sea ports and is

"The government has initiated steps to develop water ports and sea ports and is looking to build satellite dry ports for connecting the land locked areas with the nearest sea and water ports," Gadkari said.

Fig4: Govt. Focus on Development of Inland Waterways

With the new Government primarily focusing in improving the basic infrastructure for industries and transportation, there has a boost in the morale of economists and industrialists, and they hope for a bright future ahead. The future of Inland Waterways Transportation in can be improved by focusing on improving the existing infrastructure so that it can become a significant component in transportation of goods in India. A good infrastructure development strategy not only ensures great cost saving but also correct implementation of services as per the need, in the present scenario this kind of strategy implementation is required for improvement of Inland Water Transportation in India. In the highly competitive global environment wherein the margins are reducing daily, the traditional methods of transport will no longer cater to the problems faced. The organizations/Nations require perfect implementation of multimodal transport infrastructure and sound operational strategy for better transportation and cost savings.

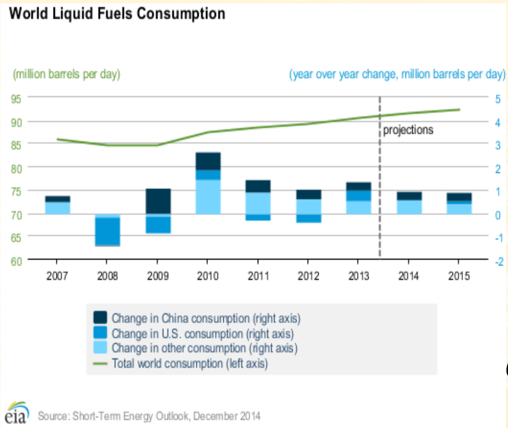
Fall of the crude oil prices

-Aakash Meena & Aman Singh

The disequilibrium in demand and supply of Oil has resulted in declining of crude oil prices recently. The stability in this break of Oil prices can be analyzed by analyzing the reasons of disequilibrium.

Why liquid gold losing its sheen?

1) ***To understand the reasons first we need to go back to 2011.*** There was continuous increase in demand of oil from China. The supply of oil was not enough & it result into increase in oil prices to around $100 per barrel. This high price lured many other companies into the business of producing oil. These companies were previously not able to enter into business due to high costs of extraction. In US, companies started using technique like fracking & horizontal drilling to extract oil from shale formations. Due to this, the US becomes able to pump extra 4 million new barrels of crude oil per day to the global market.



Source: EIA Short-Term Energy Outlook, December 2014

2) ***US Shale Gas boom:*** New shale gas technologies have suddenly made US a surplus producer of in field of non-renewable energy. This results in creating competition for crude oil not only domestically but internationally as well.

3) ***Changing condition in Iran, Iraq & Libya:*** There oil sanctions were slapped by US & Europe over Iran that took around 3 million barrels per day off the market. Libya was in a Civil War. Recently things have been eased out & these countries begin pumping lots of crude in global market.

4) ***Excess Supply by OPEC:*** Due the reasons mentioned Oil price started declining. Generally in these conditions OPEC countries start producing less to maintain high oil price. But, this time due to different conditions they have decided to maintain their share in market & continue with their three-year-old production quota of 30 million barrels per day (MBPD). Thus, they ignored nearly one MBPD oversupply in the global oil market.

5) ***Bad Economic Scenario:*** Europe and Japan, china are facing a slump in economic growth causing low demand for energy.

6) ***Alternate energy source:*** Countries have started moving towards alternate sources nuclear and renewable energy sources is

leading to further downward movement in crude oil demand.

These factors led to reduction in crude prices in recent past. Now the question is whether these low prices would sustain for long term or this is just short term effect.

The way forward for Oil may depend on how the global political scenario shifts. To understand we have to further analyze following condition:

1) ***Decrease oil prices globally, Will it affect US or other countries like Russia, OPEC etc. suffers:***

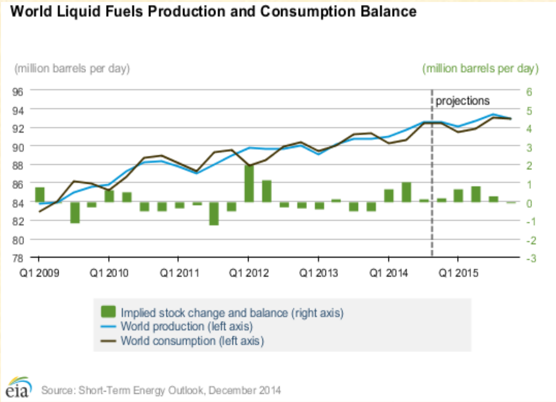
   One theory is OPEC now is in "price war" with US. To understand who will draw them back first, condition of extracting oil by these countries have to be analyzed. It's very cheap to pump oil out of countries from Saudi Arabia, Iran, Iraq, Kuwait etc. in comparison of extracting oil from shale formations. This will soon led to unprofitable conditions to some US companies. In such conditions they will stop producing & OPEC will be able to maintain its share.

   But on other hand, U.S. may also be feeling the pinch of this slide in prices but due to the rampant development of Shale oil extraction technology, the cost for extracting shale is coming down by the day. It has come from $70 per barrel to $57. U.S. may be able to take this pinch but it is seeing this as a great opportunity to empty the Russian coffers that were filled during the oil boom from 2004-05 to 2011-12. Russian ruble is the 2nd worst performing currency after the Ukrainian Hrvynia partly due to the fall in oil prices.

   Secondly, The Sheikhs of OPEC may be hell bent on running the shale oil companies bankrupt due to the high unfeasible cost of production but the fact that their own economies are bearing the brunt and that their own Oil, which cannot be replenished, is finishing at a faster pace, who will blink first will be something we will have to see.

2) Oil demand:
   a. China: In this year International energy agencies have lower down oil demand growth of china 5 times. For 2015 also, agency have drop down its earlier estimate from 4.2% growth to 3.2% growth. From these the outlook for oil demand in China does not look very promising in near future.
   b. Japan: Expected to account for more decline in consumption. Less fuel oil will be used in electricity sector as some of their nuclear power plants will return to service in 2015. There have been seen a continuous increase in use of natural gas & coal for producing electricity.

US EIA (Energy Information Administration) forecasts that Europe's consumption will decline by 0.12 million bbl/d in 2014 & 0.14 million bbl/d in 2015. The U.S. consumption is also expected to be flat in next years.



Source: EIA Short-Term Energy Outlook, December 2014

So to answer whether the Liquid gold losing its sheen or it will rebound, we will have to search for answers of the following questions: -

1) Will the U.S. Shale Oil industry roll back production? If yes, then oil break may pass.
2) Will the OPEC nations feel the heat on their own economies? If yes, then oil break may pass.
3) Will Russia continue its confrontation on the Crimean issue and Ukrainian border? If yes, then it will stay.
4) Will the situation in Libya, Iraq and South Sudan get better? If yes, then it may stay depending upon how these countries go about controlling their oil production and following OPEC.
5) Will demand from developing countries like China, India etc. due to economic growth? If yes, then oil break may pass.

Another view that most economists have ignored is that this slump in Oil prices has helped curbed the black marketing of oil that was being done by ISIS to fund its operations. The price has made it more feasible for countries to purchase oil from the free market than the black market. This may be a blessing in disguise for the world, particularly for the Government of Iraq and Syria.

Manage Inflation to fuel Growth

-Jatin Nigam

"When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes."
― A.P.J. Abdul Kalam, Indomitable Spirit

In the past few months, there has been a raging debate whether the Reserve Bank of India should cut key policy rates or not. While the industry and the Government believe that a rate cut will lead to increase in investments and spur economic growth, the RBI is reluctant to do the same considering the current level of CPI inflation. The problem is that inflation and growth have a non-linear relationship. There is a trade-off between the two only up to a particular level. Beyond a threshold, there is no trade-off.

A cut in interest rate is desired when economic activities falter. This is because firms need to borrow funds to plan and execute new projects. A fall in interest rate implies a decrease in the cost of borrowing and hence profitability increases. At the same time, a low interest rate leads to a rise in inflation. Because of more money being available in the system, there is an overall rise in prices as aggregate demand rises. That is why inflation increased after the Government pumped money into the system post the 2008 US financial crisis. On the other hand, a high interest rate increases the cost of borrowing due to which companies delay their expansion or growth plans. Companies cut costs so as to increase their profit margins. This transmits throughout the economy all the way down to the labor market. A hike in interest rates reduces liquidity in the system due to which aggregate demand falls which in turn leads to fall in prices. Thus, a tight monetary policy reduces the amount of money people have in their hands and thus helps in keeping inflation under control. That is the reason why RBI is seeking to maintain a delicate balance between growth and inflation.

A large part of government's investment expenditure over the last few years has been financed through deficit financing. Private investment expenditure has been financed by commercial bank loans or by External Commercial Borrowing. This investment expenditure aimed at promoting economic growth created huge demand supply imbalances. The increase in aggregate demand caused due to the increase in the investment expenditure outpaced the supply of food grains. In a developing economy like India, which is predominantly agricultural, price of agricultural commodities holds a key position in the price structure of the country. Any increase in agricultural prices distorts the entire price structure. The rise in the price of food grains was in turn followed by an increase in the price of essential consumer goods. However, excess demand and huge money supply are not the only factors responsible for the rise in inflation. Hike in the prices of steel, fertilizers, cement, coal, increase in railway fares and freights have led to cost push inflation. With rise in the general price level, workers demanded a rise in wages and dearness allowance.

Considering the rising cost of living, this demand was conceded which resulted in further raising the cost of production. So, the fiscal stimulus intended to fuel growth in the economy instead resulted in fuelling inflation in the economy.

With the change of guard at the Centre, we are witnessing new policies being rolled out having a whole new set of objectives. One such policy is the well-intended 'Make In India' Campaign with the objective of making more in India and improving the production efficiency across different sectors. To attain this goal, the Government should focus on building infrastructure. Agriculture in India is vulnerable to the vagaries of monsoon and is crippled by insufficient irrigation facilities and inefficient techniques of cultivation. The country lacks adequate rural infrastructure. 40% of the total agricultural produce gets wasted before reaching the market due to the non-availability of sufficient godowns and cold storages and the absence of pukka all-weather roads in the interior regions of the country. The main reason for inflation, especially food inflation, remaining so stubbornly high for such a long duration is due to the presence of these supply side bottlenecks. Once these are removed, inflation is bound to come down. Thus, through the 'Make In India' Campaign, the Government should try to physically link national and international markets via roads, railways and ports, ensure availability of water and power at competitive rates, increase penetration of internet and mobile services to the remote parts of the country and encourage development of newer markets, warehouses and cold storages. Another necessity for increasing productivity is the improvement in the quality of human capital. This demands a new boost to education, health care and nutrition programs and better access to housing and sanitation facilities.

However, we should be cautious that 'Make In India' despite being focused on manufacturing, does not try to transform the Indian economy into an export driven economy like China. The Euro zone is moving towards a recession, Japan has witnessed two quarters of negative growth and despite signs of recovery in the US, global economy remains weak. So, the Western countries and Japan are more likely to reduce their imports in the foreseeable future. Thus, the world as a whole is not ready to absorb another export driven China. In a new phenomenon witnessed recently, more industrialized countries have improved their capital intensive manufacturing capabilities and so a lot of manufacturing is now being re-shored, which means instead of outsourcing, they have started manufacturing on their own. Clearly, it is another initiative by the Western countries to reduce their import bill. Moreover, in the international markets we will have to compete with China which makes cheap and sells cheap. Export driven growth won't be as easy for nations today as it was for those who had adopted this development strategy earlier. Developing economies like India must rethink if they still wish to pursue export-led growth models.

Make For India

Make in India to Make For India. If there is low demand in the foreign markets, then we should produce and cater to the domestic market. This demands building a strong and sustainable unified market and mitigating the transaction costs of purchasing and selling. Development of a physical transportation network and fewer but efficient intermediaries between the consumer and the producer will not only boost growth but will also help in eliminating the supply side bottlenecks responsible for supply side inflation in the country. A well designed and well planned Goods and Services Tax bill aimed at reducing state border taxes will go a long way in making a national market for goods and services which will prove to be critical for growth in the coming years. Domestic demand, as far as possible, should be financed by domestic savings. This measure will ensure stability in the system and safeguard the economy when hot money exits India at the slightest hint of a crisis. When hot money exits, the rupee depreciates thereby making imports costlier and raising the cost of production.

Rate Cut or No Rate Cut

WPI measures the price of a representative basket of wholesale goods. CPI measures the price of a representative basket of consumer goods actually purchased by households. Thus CPI, which is based on the potential consumer demand and the current supply available in the market, is a better measure of inflation. Thus, zero WPI inflation has little significance when CPI inflation is still high, at almost 5.5%. Policy rates are tools for managing only demand pull inflation. Supply side inflation will be removed only when the government will start investing in infrastructure. A mere rate reduction won't give the desired boost to the economy. In fact, a rate cut at this juncture may push inflation up to 6%. When high inflation persists in the economy, people start investing their savings in gold and real estate, thereby diverting money out of the system and increasing the demand for gold. Rise in gold imports is one of the main reasons for the country's high current account deficit.

GDP Growth V/S Real Growth

Regimes across the globe seem to be obsessed with the word 'growth'. Governments understand it to be related only to the GDP and make efforts to maximize the same. There is a huge dearth of people who actually understand the depth and the meaning of this word. Growth not only means an increase in the capacity of the economy to produce goods and services but that should also be accompanied by a marked improvement in the quality of life of the people residing in that economy. A 7% or 8% GDP growth of the economy has no meaning if farmers continue to commit suicides and hunger remains the number one cause of death in the country. As per 2011 Census, 77% of the Indian population, that is, approximately 83 crore people don't even earn 100 rupees a day. India ranks 135 in UNDP's 2013 Human Development Index, which ranks countries on the basis of health, education and standard of living. The growth witnessed in the previous decade did little to bring people out of poverty or raise the common man's standard of living. Clearly, GDP cannot be the only parameter for determining growth. We should also consider human development parameters such as better access to education and health services, greater penetration of banking and insurance services, lower school dropout rate, fall in maternal mortality and infant mortality rates and reduction in the rate of unemployment which portray a better picture of development, as benchmarks of growth in the economy. The government should focus on these parameters if it wants to have growth in its real sense. A 5% or 5.5% growth at 4%-5% inflation is sufficient if it is inclusive in nature and if its benefits are reaped even by the poorest of the poor. The main objective of growth should be public welfare and not wealth creation in the hands of a few. Policies should be for the masses and not only for the classes.

Indian Economy- Achhe Din aane wale hain?

-Saptarshi & Debopam

India seems to be the only economy that is projected to be on the growth curve, whereas mixed trends are forecasted for the rest of the world. But when the entire world is looking optimistic towards a 5.6 per cent growth rate for India this year, the bigger question still looms large: will India ever be able to achieve the 9% growth rate in the next five years?For this we need to look at a few important factors prevalent in the world economy:

If we look at the GDP growth rate of the World economy as well as the BRICS, we can understand that India is going quite strong at a 5% growth rate. If we compare it to other countries across the globe, we can understand that excepting China, which generally exhibits an exorbitant growth rate, the other nations are all struggling to keep pace with a 5% growth rate that India is currently growing at. But if our country needs to prosper in terms of growth and development, there are certain aspects which our esteemed economists and finance ministers need to look at.

India ranked 132 in Ease of doing business. Today as we are moving into the 2020s, India is suffering from a chronic ailment of red-tapism and bureaucracy. Infrastructure and manufacturing projects require huge investments and have long gestation periods. If someone is looking to put money into the infrastructure or the manufacturing sector, the Government has to ensure that the project doesn't get stuck in Red Tape. There have been many examples like POSCO where corporations have come up with huge investment plans and found themselves stuck in some government clearances.

Household savings form 28% of the GDP, thus we are still struggling to reach the necessary target. So in order to have a GDP of above 9% growth, India's gross capital formation should be 35%-48% of our GDP.

Section I

Reasons pertaining to the sluggish growth rate

(I) Fiscal and Current Account Deficit: Fiscal consolidation is a conscious policy effort needed by the Government to live within its means, thereby bringing down the fiscal deficit and public debt. It includes, among other things, efforts to raise revenues and bring down expenditures like subsidies, unnecessary bills and reforms which never reach the intended recipient. Economic growth and stability are needed to revive investor sentiment and put India on a high growth path.

Fiscal Consolidation is also critical for lowering India's debt-to-GDP ratio. The internal debt of the Government stands around 48% of GDP in the last two years. The declining trend of the debt ratio post fiscal 2009 has been driven more by high inflation rather than lower fiscal deficit or faster GDP growth. In the coming days, a strong commitment to fiscal consolidation will be the key to lowering India's debt-to-GDP ratio.

(II) Volatility of High Inflation Rates:

A look at the inflation rate of India will probably give us a clearer picture about where our economy is currently headed towards. A modest inflation rate of 5.52 (CPI) should be pleasing to the eye, but a close look at the world economy will give us a different view altogether. The price of Crude oil which forms the main chunk of our import has fallen from $100 last summer to below $80 in just three months.Inflation is likely to head even lower with international crude prices falling further and the winter vegetable crop likely to push prices down.

This has obviously been a rather sweet tempting situation for the RBI Governor, Raghuram Rajan to cut the interest rates to stimulate the economy in order to prop up growth, but credit should be given to Rajan for refraining from doing so.

RBI has set a target of bringing down inflation to 8% by January 2015 and 6% by January 2016 and has talked of breaking the back of inflation once and for all, rather than relenting too early in the war on prices. Sound fundamentals are very essential for the growth of Indian economy and the RBI has probably hit the head on the nail when it said “it is actually not interest rates, but other factors that have been hindering growth”. Combating those “other factors” has been one of the key agendas for the current Prime Minister as well as the RBI Governor.

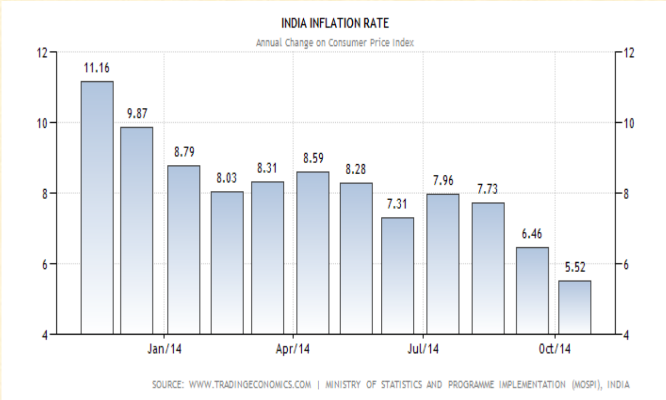


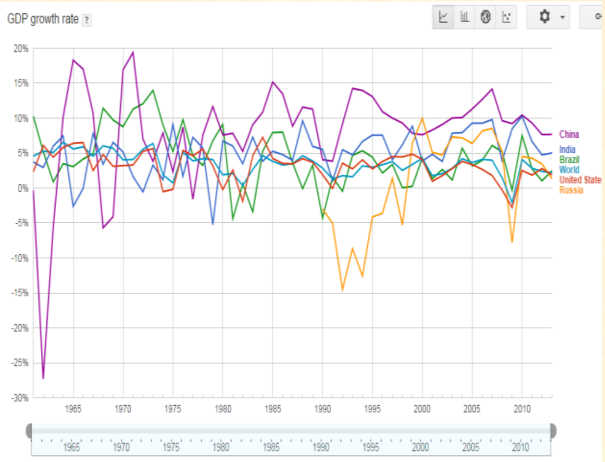
Table - 2014 inflation India (CPI)

inflation (monthly basis)	inflation	inflation (yearly basis)	inflation
january 2014 - december 2013	-0.84 %	january 2014 - january 2013	7.24 %
february 2014 - january 2014	0.42 %	february 2014 - february 2013	6.73 %
march 2014 - february 2014	0.42 %	march 2014 - march 2013	6.70 %
april 2014 - march 2014	1.26 %	april 2014 - april 2013	7.08 %
may 2014 - april 2014	0.83 %	may 2014 - may 2013	7.02 %
june 2014 - may 2014	0.82 %	june 2014 - june 2013	6.49 %
july 2014 - june 2014	2.44 %	july 2014 - july 2013	7.23 %
august 2014 - july 2014	0.40 %	august 2014 - august 2013	6.75 %
september 2014 - august 2014	0.00 %	september 2014 - september 2013	6.30 %
october 2014 - september 2014	-	october 2014 - october 2013	-
november 2014 - october 2014	-	november 2014 - november 2013	-
december 2014 - november 2014	-	december 2014 - december 2013	-

(III) Reforms being Stalled or Policy Paralysis: The state of policy paralysis in India has hurt almost all sectors in India. In order to revive the investor confidence, policy reforms should be carried out at a brisker pace. Policies like implementation of the GST have to be implemented at a much faster pace to instill the investor confidence to invest in India.

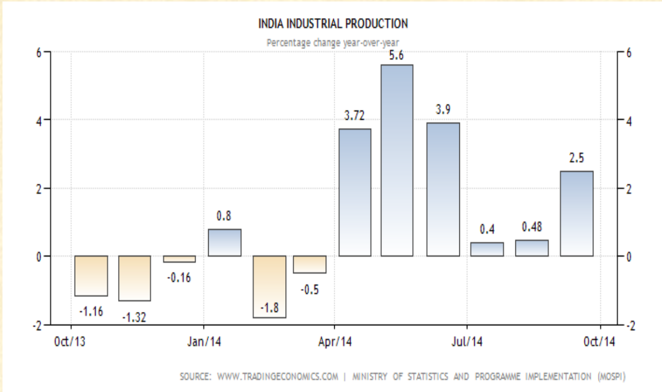
The key priorities being closely monitored by the PMO are financial inclusion, the

Digital India campaign, rural sanitation and the Make in India manufacturing-for-export initiatives. The Government's focus should be on consolidation, execution and ensuring that the plans and policies are rolled out efficiently. The nitty-gritties of key policies like rural sanitation, financial inclusion and other key programs should be ironed out so that the reforms can be rolled out soon.



(IV) Slow Industrial Growth in India:

The India Industrial Production Index gives us a clear view about the growth and development of the industries in India. The current IIP stands at around 2.5. The volatility in the industrial numbers has not really helped in devising a growth strategy for the Indian economy.If we look at the chart below, we can clearly spot a range of values, which need to be stabilizedif India has to floow the steep curve of a 9% growth. High inflation and weak IIP data are two of the main causes of concern and the government has to devise ways in order to shore up manufacturing and industrial production within the country.



(V) Global Economic Uncertainty: India's economy is attached to the United States and the global economy. It is now more coupled than ever before. This is very evident from the fact that with the slightest movement of the US dollar, Indian rupee tends to react in a big way. This gives rise to volatility in the Indian economy, as a result of which the magic figure of a 9% growth seems vulnerable. In order to ensure a sound currency and awell-balanced economic system, Indian monetary and fiscal policies have to play a major role.

The GDP per capita for India stands at 1498.87 USD which is measly compared to the US PPP of 53142.89 USD. Even if we compare India with the rest of the world, India lies at a lowly 126. In order to ensure a balanced growth of above 9%, we have to ensure a self-sustained growth of Indian economy which is only possible through industrialization and globalization.

Section II

Key factors required for 9% growth rate

(I) Increased productivity and efficiency: Productivity level of India has slowed down considerably in the last 2-3 years to about 2.5%. Considerable efforts and

reforms should be put into place to ensure an increase of the productivity level by about 5% through a combination of structural and administrative reforms and executive actions.

(II) Increase in Foreign and Domestic Investment: Accelerating economic growth requires an increase in the investment rate in India. India needs to increase its investment to around 45% of the GDP from 30% currently through a proportionate increase in the savings rate, FDIs, lower inflation and fiscal consolidation.

But most importantly India needs to create a large employment pool in order to engage them in the rebuilding strategy of India and also to ensure a self-sustaining growth level of around 9%-12%. Unemployment rate in India stands at around 7.6% reaching an all time high of 9.4% in December, 2010.

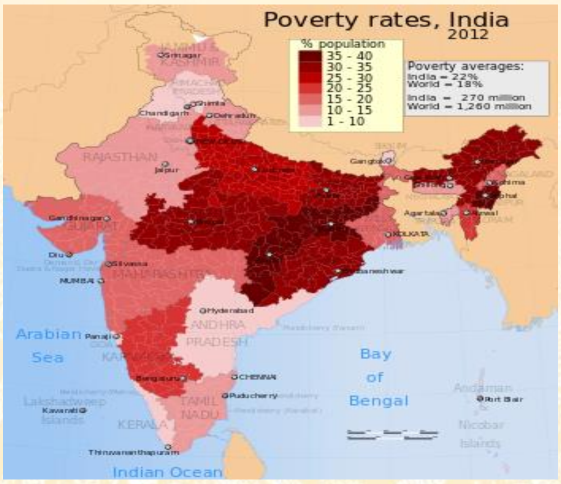
(III) Eradicating poverty & ensuring a healthy environment for all

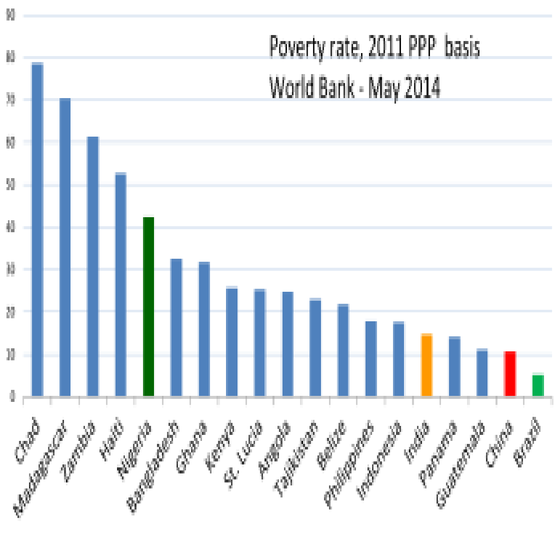
Like Modi's budget speech, India needs to invest in improving the health, water supply and sanitation facilities. The level of investment in sanitation has continuously increased in size since the 2000s.

	Urban	Rural	Total
Improved water source	96%	84%	88%
Improved sanitation	54%	21%	31%

In 2008, 88% of the population had access to improved water source, but only 31% had access to improved sanitation. So efforts should be devoted to improve the water and sanitation conditions in the rural as well as in the urban colonies.

In 2013, the Government of India put the population under the poverty level at around 21.9%. According to a UNDP estimation, about 29.8% of Indians live below the poverty line. Poverty in India is a historic reality. So to encounter poverty, the Government of India has come up with various policies and reforms in order to alleviate the poverty rate in the country and to ensure a healthy and prosperous life style for the people.



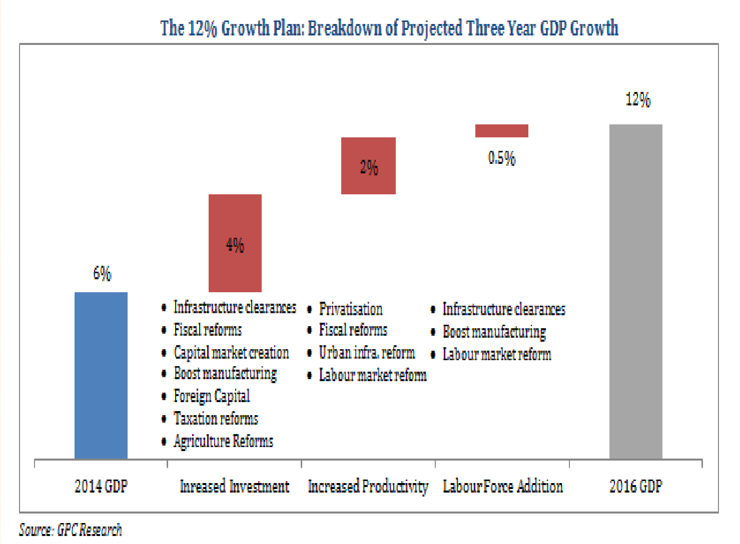


Section III

Growth Plan for the Next Few Years

If we look at a recent research study conducted by GPC Research, we will understand that the keys factors to a 12% growth are increased investment which will contribute to an addition of 4% to the annual GDP figure, an increased productivity which will contribute to a 2% net increase in GDP and Labor Force Addition whose contribution is approximately .5%.

Besides the key factors of growth, Indian economy today requires a holistic approach towards its various development indices.. Apart from this some of the other factors have also been taken into consideration like the Gross Capital Formation for GDP Growth Rate.



Conclusion

The challenge with Indian economy mainly lies in the fact that the new Government has to implement its policies and go ahead with the reforms in face of stiff opposition in order to fulfill the dream of a +9% GDP growth rate. A growth rate in Indian GDP means an increase in average per capita income from the current $92 to around $400, thereby giving thousands of Indian youth an opportunity to be lifted out of unemployment.

The early signs have been quite impressive. India's exports are expected to rise by 5.2% to $329.5 billion in 2014-15 as well as there are signs of improvement for India's merchandise trade deficit. The foreign investment inflows have also showed signs of improvement in September, 2014.

So the days of economic gloom and policy paralysis and high fiscal deficit seem to be a thing of the past. We are looking forward to a revised fiscal deficit target of 3.6% and 3% for FY16 and FY17 respectively and a growth of 7% in the coming years.

The report released by Investment Bank Morgan Stanley probably sums up our sentiments:

“If our projections were to come to fruition, India’s economy would pass the $5 trillion mark (by 2025), a feat that has been achieved by only the US and China thus far and would make India the fifth largest economy in the world. Accordingly, India’s consumption and investment opportunities would rise to $3.6 trillion and $1.9 trillion, respectively.” It said in a report titled The Next India: From a cyclical downturn to a structural upturn.

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