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APPENDIX

(Source: Ahuja, 2011. Advanced Economic Theory. p.856)

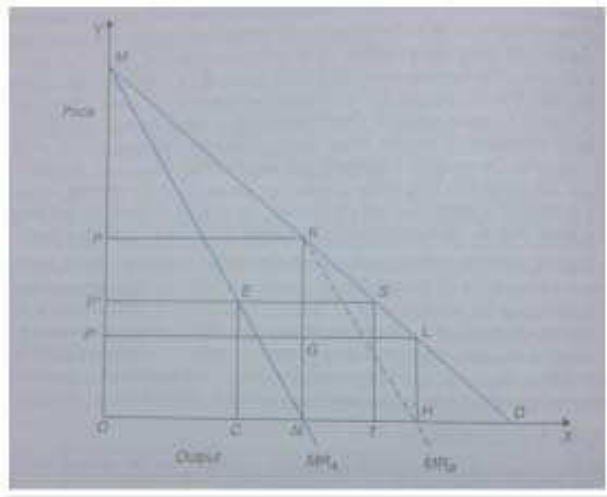


Figure 1: Cournot Duopoly Equilibrium

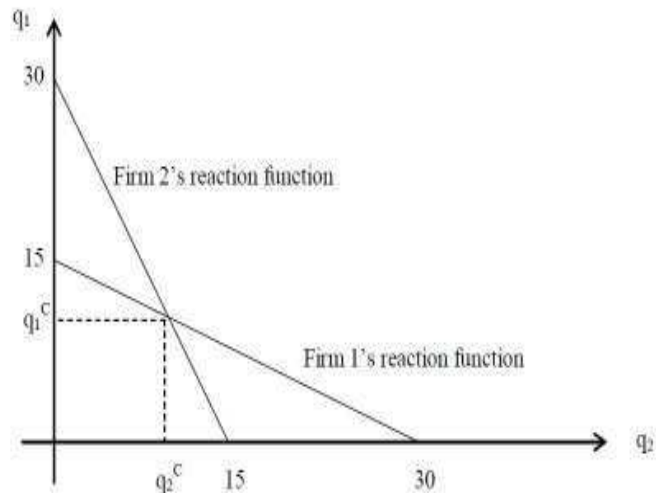


Figure 2: Reaction Curves in Cournot equilibrium

Can India Achieve 9% Growth in the Next Five Years?

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Abstract This paper attempts to reconcile the view as to whether or not India is likely to repeat it's high growth pattern as experienced in the years 2003-08. The author presents a wide range of issues that are likely to impede India's growth in the future.

1. Introduction

The time period between the years 2003 and 2008 is considered as the 'Golden Period' for the Indian Economy because India's GDP grew at an impressive

rate of around 9% per annum. This was made possible due to export led growth in IT Outsourcing and Capital-Intensive manufacturers. Also, while the Private Corporate Sector (PCS) served as the engine of the investment boom, the public sector and agriculture performed indifferently (Nagaraj, May 2013). With a view at this unprecedented growth, it was felt by many at that time that India is on its way to becoming one of the powerhouses of the 21st century.

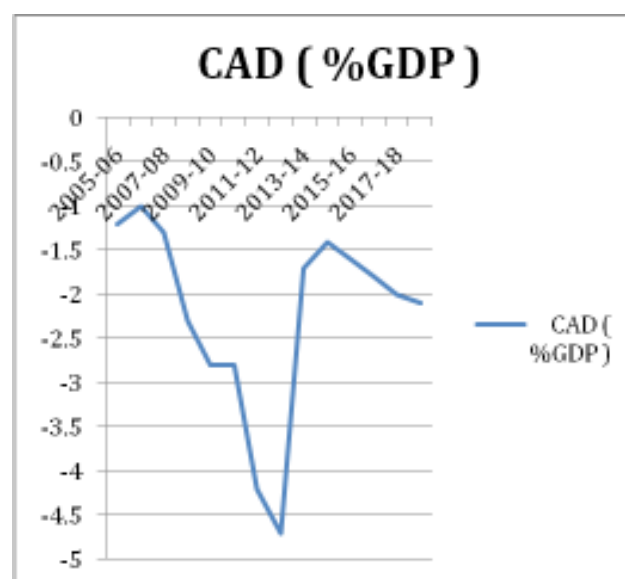
In the year 2008, the World Economy was plagued with the global economic crisis that slowed down the entire global economy. Despite a slump in the Global Economy, between 2009-2011, growth rebounded and India experienced a growth rate of 8.5% in the financial year 2009-10 and 10.3% in the financial year 2010-11 (World Bank database). However, this growth was a ladle of honey with a teaspoonful of vinegar with double-digit inflation making headlines in the newspapers and News TV Channels. From 2011 onwards, there was again a slump in the Economy and the party was over. Most of the Scholars and the Media was of the view that the internal factors such as credibility deficit of the UPA Government, emerging Corruption scandals, infrastructure bottlenecks, policy paralysis, etc. put downward pressure on the economic fundamentals of the Indian Economy.

The General Election 2014 bid adieu to the UPA

Government and Narendra Modi led BJP formed the Government. All the stakeholders, thereupon, have become buoyant about the prospects of the Indian Economy and believe that P.M. Narendra Modi has the capability to embargo India's sclerotic, corrupt, and self-serving bureaucracy by shunning archaic laws and regulations which would result in faster clearances of investment proposal projects by the central government. India today is in a very optimistic mood with hopes of recovery and prosperity that have led Scholars to speculate, hypothesize and ponder on whether India would be able to grow at 9% per annum in the next five years.

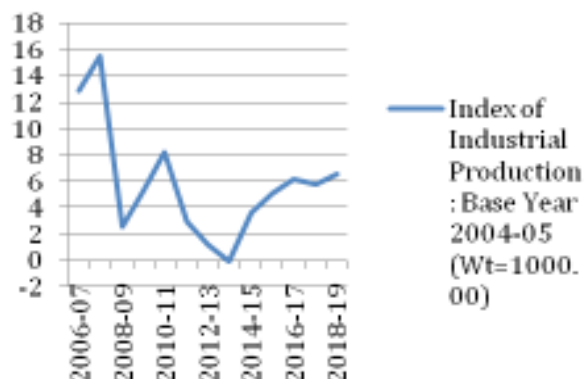
2. Macroeconomic Trends of India –

From the graphs below, it can be inferred that macroeconomic indicators are projecting optimistic growth for the Indian Economy in the next five years compared to what has been the trend in the last 4-5 years. All the indicators signify that there will be stabilization in the economy but still a 9% growth rate in the next five years seems difficult to achieve and a lot depends upon how the Government is able to overcome the challenges to the proposed policies for the Economy and how well it is able to insulate itself from any type of blow on part of the global Economy, which is what has been discussed in the subsequent sections.

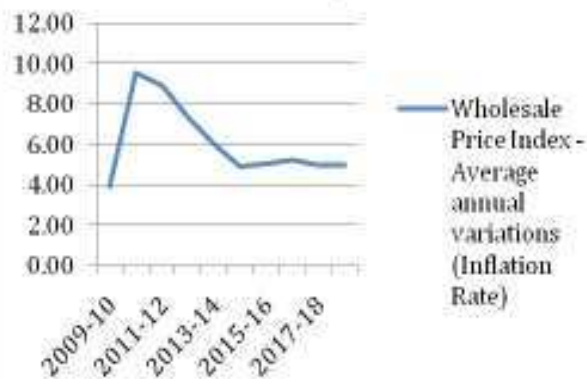


(Source: Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE) Database)

Index of Industrial Production : Base Year 2004-05 (Wt=1000.00)



Wholesale Price Index - Average annual variations (Inflation Rate)



(Source: Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE) Database)

3. Policy Response of the new Government for fuelling growth in the Economy -

The Union Budget presented by the new Government (Modi led NDA Government) had spread an optimistic investment climate in the Indian Economy. Many Scholars and dignitaries believed that the budget has a huge potential to take the Indian Economy towards the road to prosperity.

Some of the prominent Policy responses of the New Government are –

- **Financial Inclusion** – In order to boost financial inclusion in India, the new Government has proposed opening up of ‘Payment banks’ that will open accounts and facilitates deposits and remittances. Moreover, a payment bank license for India Post, where India Post has a deeper penetration than India’s largest Bank ‘State Bank of India’, would help in boosting financial inclusion by facilitating banking in the remotest corners of India.
- **3% Fiscal deficit target** - Fiscal deficit was cited as the main reason for the sluggish performance and high inflation that has plagued the Indian Economy. The new Government has shown its

commitment to fiscal consolidation and inflation targeting by targeting the fiscal deficit to 4.1 percent in 2014-15 and 3 percent in 2016-17.

- **Skill India Programme** – This is a campaign organized by the new Government designed to impart employability and entrepreneurial skills to the youth to harness and reap the benefits of the huge young labor force.
- **Make in India** - This is a campaign that invites Companies and Governments across the World to come and set up their manufacturing base in India. The main aim of the Campaign is to make India a global manufacturing hub and create huge employment opportunities for the country that will boost economic growth.

These were the policy responses of the new Government, which made the headlines in the Media.

4. Impediments on the way to a for 9% GDP growth rate over the next five years –

- **Speculations about another Global Economic Crisis** –

Since 2011, many Economists like Raghuram Rajan, Prof. Jayati Ghosh, Prof. Robert H. Wade,

Paul Krugman, Joseph Stiglitz, etc. have been claiming that it is highly likely that the world economy enters into another Global Financial Crisis in the near future. There is a venomous combination of debt and slow growth in the global economy, which is very much evident from the fact that the global debt has actually surged to \$100 trillion, according to the Bank for International Settlements (Bloomberg, 9 March 2014) and the surge is constant. Moreover, the BIS has also warned that the world economy in many respects is more vulnerable to a financial crisis than it was in 2007. Eurozone countries have for a very long period of time, now been locked in low-growth, low-inflation, plummeting stock prices and high-unemployment with little or no signs of recovery. International Monetary Fund (IMF) has cut its global economic growth forecasts for the third time in the year 2014 warning of weaker growth in the core Eurozone countries, Japan and emerging markets like Brazil. It's Chief Economist – Olivier Blanchard is also of the view that the interest rates are almost close to rock bottom in many advanced economies and is creating impediments to demand boosts (Reuters, October 2014). Uncertainty and sputtering in the global recovery will negatively impact the Indian businesses because much of their exports depend upon the developed nations, which in turn will automatically impact the economic fundamentals of India.

- Policy Challenges adopted by the Modi Government –

Narendra Modi has initiated and implemented the 'Make in India' programme to boost-up the manufacturing sector and create jobs in India. However, this programme has its own set of bottlenecks and challenges. One of the challenge is easing the ways of doing business in India by getting procedural and regulatory clearances easily and at the same time making sure that the MSME sector does not suffer as it helps in reducing regional imbalances and provide employment opportunities in rural and backward areas; hence financial as well as regulatory support should constantly be given to the MSME Sector. Also, given the rate at which the World Economy is

performing, there is a low probability that the 'Make in India' programme will give us fruitful results. Rajan (2014) has opined to the media that when we discuss 'Make in India' campaign the underlying assumption that it focuses on manufacturing should be made with caution because this is an attempt to follow China's export-led growth path. 'Make in India' should also not be seen as an import-substitution programme either, as this strategy has been tried and has not worked because it ended up reducing domestic competition, made producers inefficient, and increased costs to consumers (Rajan, 2014).

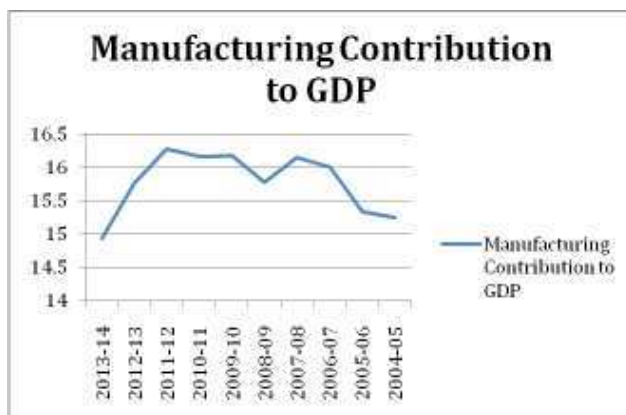
Although the financial inclusion was driven by great pomp and splendour by the Modi Government, it failed to check the issues that this drive brought with itself. The Government needs to understand that opening up of bank accounts is not enough; it also requires easy accessibility to the bank coupled with viable financial products for these account holders. If this issue is not taken into consideration, the bank accounts will remain in a state of comatose. In other words, the government needs to address this question of how many of these bank accounts (via the financial inclusion programme) will indeed be used. If we talk about the fiscal deficit target of 3%, which the Union Budget has envisaged, there is no clear roadmap of how that number would be achieved. In fact, a weak recovery from India's longest growth slowdown in decades, is pushing Mr. Narendra Modi's advisers to consider loosening the fiscal deficit targets and hence, risking the ire of investors, rating agencies and the central bank in order to fund infrastructure projects to remove bottlenecks constraining growth and to create jobs for a burgeoning workforce (Reuters, 9 January 2015). Many Scholars and Social Activist also believe that the new government is tinkering at the margins.

5. Impetus to 9% GDP growth rate for India (Growth drivers) –

- Boosting Manufacturing Sector and expanding Industrialization –

Since the inception of reforms, the Indian Manufacturers have been performing below their

potential. The contribution of manufacturing to GDP as can be seen from the graph below, has been hovering at around 14-16%. Since, the financial year 2011-12, the share of manufacturing in GDP has been showing a decelerating effect, thus, plunging our economy towards the lower phase of the business cycle. Therefore, the share of the manufacturing sector needs to increase from the current levels of 14-16% of GDP to 25% of GDP, which will put India back to the growth rate path of 8% per annum. The manufacturing sector has a huge potential to create jobs for India's burgeoning labor-force and cushioning India from the effects of downturn in the economy. During the second five-year plan regime, it was industrialization that provided jobs to millions of people in India and gave us Companies like SAIL, which changed the face of many Indian cities.

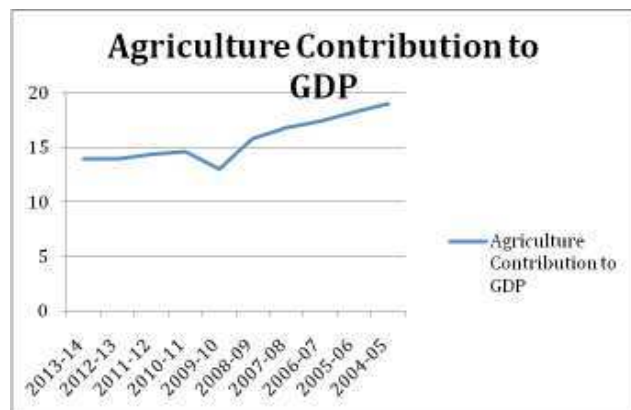


(Source: Database on Indian Economy, Reserve Bank of India.)

In the year 2011, "National Manufacturing Policy" was enforced with the aim of accelerating the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. However, by looking at the trend of its (Manufacturing Sector) performance from the above graph the possibility of achieving the vision of 'National Manufacturing Policy' seems like nothing but a mirage. There are various issues in the Manufacturing Sector of India, which needs to be redressed as soon as possible if India wants to grow at a rate of 9%. Some of these issues are complex labor laws, cumbersome regulatory framework, multiple land acquisition policies and environmental clearances that create bottlenecks for this sector to grow and flourish.

• Creating Breakthrough in Agriculture -

India is an agrarian economy. This is the only sector that employs 54.6% of the total population of the country (Source: Centre for Budget and Governance Accountability). But Post-reform, with passage of time, this sector is encountering delinquency and disdain. The crisis in Indian agriculture has been brewing up ever since 1996-97 (Himanshu, 2008) and the main reason for the downward shift in agricultural growth is declining investment (especially public investment in agriculture), R&D, irrigation, combined with inefficiency of institutions in providing inputs and services (inclusive of rural credit and extension) (Paul Sharma, 2007). In the graph below, it can be seen that marginal growth did pick up in FY 2010 but it hovered around 13-14% up until the financial year 2013-14.



(Source: Database on Indian Economy, Reserve Bank of India.)

I have always believed that agriculture has tremendous potential in reviving the economy and helping India curb poverty. In the year 2007, Waynad, a district in Kerala had been struggling with poverty and lower prices, which led to decrease in the productivity of the farmers. However, the entry of Reliance Fresh brought new hopes and opportunities, which helped these farmers, uplift themselves from poverty. Reliance Fresh directly came to these farmers, purchased the agricultural goods at better prices and weakened the hold of middlemen. This example highlights the possibility of bringing in the private sector that can play an instrumental role in curbing poverty by linking farmers to the formal market. Hence, the Government should encourage private

players to invest in agriculture. At the same time, the linkages affect of agriculture should not be forgotten as it acts as a source of raw material for other sectors of the economy.

6. Discussions and Conclusion –

From the above, it can be inferred that achieving 9% GDP growth rate in the next five years is conditional upon overcoming a lot of barriers. Firstly, there are symptoms and speculation of recession likely to unfold in the global economy and a global economic slowdown can act as a tough deterrent for the growth of the Indian economy as India is more integrated today than it ever was. With exports comprising 27% of the GDP, the events in the World Economy are likely to have an impact on the Indian GDP (Gita Gopinath, December 2013). So, at this point, it is important that we strengthen our economy internally rather than increase our reliance on foreign investors. Secondly, there are a lot of policy challenges that Government faces and which need to be strategically dealt with. Government needs to initiate new reforms that will help Indian economy to grow at an unprecedented level. It needs to invest more on quality education and human capital. Thirdly, it is very important to boost the manufacturing sector of India because this is the only sector that has the potential to provide jobs to a burgeoning young labor-force. Fourthly, we need to increase the share of agriculture's contribution to the GDP because 55% of the population depends on this sector for its survival and sustenance. This is also a sector, which produces raw materials required by the other sectors of the Indian Economy. Fifthly, the Government needs to do away with the social welfare schemes like MGNREGA, food security bill, wasteful subsidies, etc. as they are non-productive in nature and give no revenue stream to the Government and do not create any multiplier effect in the Economy in addition to inviting corruption. Therefore, the Government should invest in employment generation activities, which have interlinkages with other economic activities as well.

According to OECD, India's growth is expected to moderate to 5.9% in the time period between 2014-18. Hence, going by the speculation and prospects of future growth of the Indian economy and the extent to which the bottlenecks would be cleared in the policy

framework, the prospects of India growing at 9% seems dull and unrealistic. However, India will grow at 9% provided that the global economy revives in the coming years, there is existence of good governance, improved infrastructure, timely clearance of the bottlenecks in the policies and projects, investments in the productive economic activity of the country, revitalized manufacturing and agriculture sector, zero corruption and maintenance of transparency.

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Resource Curse – An Inevitability?

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Abstract: *This paper is an attempt to draw a relation between the abundance of hydrocarbon wealth and the prospects of economic growth and good standards of democracy in oil-rich countries. It stitches together a connective link between the three in the course of this essay⁷⁷. Initial explanations of hydrocarbons and why it’s synonymous with wealth, the correlation of wealth with growth and democracy and the working definitions of economic growth and good standards of democracy which are contentious terms and cannot be defined in black and white, set the tone for two case studies of separate oil-rich states and how both dealt with oil discovery in different ways. The two oil rich states analyzed in this essay are – Norway, considered a full democracy and highly ranked on all democratic indices, and Nigeria, with an authoritarian regime and a dismal and rankling democratic record. Norway is an exception while Nigeria is representative of most other oil-rich states. The prime objective of this paper is to conclusively put forward evidence to show that the resource curse is not a predestined inevitability; rather it can be a boon if sound economic policies are pursued.*

Hydrocarbon wealth or crude oil (as it is known in its liquid extracted form) is today, one of the world’s prime sources of energy. Its use is widespread in industry, transportation (as automobile and airline gasoline), electricity generation and various other economic activities. According to the International Energy Agency, oil as a percentage of world total primary energy supply is the single largest source at 32.4 % (IEA 2010), even though its contribution has come down from 46.1% in 1973 to 32.8% in 2009. This

decline in no way reduces oil’s importance in today’s global scenario. Rather it simply highlights greater awareness of issues such as global warming, and the need of alternative energy sources such as nuclear, hydro, wind and solar power. The binding agreements with regard to bringing down carbon emissions signed at the Copenhagen Climate Change Conference 2009 have played their part in this. The predominance of oil as an energy resource can be judged from its consumption patterns – up from 57 million barrels per day in 1970, (Wright, Oil: Demand, Supply and Trends in the United States, p. 1) to 89 million barrels per day as of 2011. (IEA 2011) And oil is here to stay at least in the foreseeable future, as alternate sources of energy are a lot more expensive and aren’t ‘ qualitatively superior’ either (Smil, 2006).

Thus, a direct link may be drawn between these patterns of consumption of the scarce resource that is oil and the massive capital receipts from exports by countries endowed with hydrocarbon riches. No wonder then that the term ‘ hydrocarbon wealth’ is used to refer to these reserves. This term is justified as oil is a non-renewable scarce resource, and it is thus a resource which can be exploited by states in possession of it, as per the demand supply scenario and in line with current consumption trends to maximize their revenues and hence wealth.

But, does this unearned wealth have a correlation to wider economic growth and the flowering and sustainability of democracy in such states? We may be slightly mistaken here. Rather the usage of the word ‘ slight’ is a gross understatement. The existence of authoritarian regimes and a dismal performance on democratic and developmental indices faced by many