

# MIRROR ECONOMIQUE

*A MONTHLY VENTURE FROM THE DEPARTMENT OF ECONOMICS*



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## Devaluation of Chinese Currency

China has devalued its currency bringing more concerns and questions in the world economy. It has fallen by 1.8 per cent versus the dollar and 2.2 per cent versus euro. The question arises why has it been devalued? The economy itself gives the answer for this. For few months, the exports of China have shown a declining trend, their stock market has crashed. These reasons resulted in devaluation of Chinese currency. While we look closer we can see some hidden strategies too behind this devaluation. The China wants to make their currency Renminbi as a re-eminent global currency. They plan to make the Renminbi as a reserve currency within Asia. But this is not possible since China is putting restriction to control their domestic economy. By making the Renminbi as a global currency, it helps to enhance the country's diplomatic goals and solidify the country's centrality to global economy. Apart from this, the other big goal is to make the Chinese economic growth and employment high. Christen Lagarde, IMF Managing Director suggested to make the Chinese currency more 'freely usable'. If the Yuan drifts lower over an extended period of time, it could result in steady deflationary pressure in advanced economies.



With the sudden depreciation of China's Renminbi, it's worth looking at the link between currency values and trade agreements. China's currency last week dropped by a cumulative 4.4% against the U.S. dollar,

making Chinese exports cheaper and imports into China more expensive by

that amount. The reasons for the devaluation: the Yuan maintains a close relationship with the dollar. China still manages the exchange rate within a range against the dollar. Some say that, they are doing this intentionally to help the exports as the economy is struggling to hit the growth rate of 7%. Some eminent economist comments on the phenomena that “China is managing the pace of trade weighted Renminbi appreciation”. So as to maintain competitiveness with trading partners. China’s Central Bank opinioned that this devaluation is to make the country’s financial system more market oriented. Market spot prices are determined through daily position and over a few months this rate is below the exchange rate, which is to support a strong Yuan. The effect of this approach is that other major Asian countries are suffering of weak demand abroad. It’s very much early to say that china is starting a currency war.

### **What impact will it have?**

The intended effect of the lowered exchange rate is to boost exports from the country, to make Chinese exports less expensive and thus, more desirable. Local Chinese businesses could also benefit as

"Devaluation" means official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency.

imported goods could prove too costly for most consumers.

One of the concerns is that China now appears to be entering the currency wars and that others may follow suit, perhaps by using other monetary tools like lending rates to attempt to influence their currencies, as the Bank of Canada did earlier this year, which led to the falling dollar.

In some ways, China is coming late to this game. Japan embarked on the devaluation of its yen two years ago, using U.S.-style quantitative easing to drive down its value, and Britain and the European Central Bank have also deployed monetary policies, as recently as the spring, aimed at bringing down the value of the pound and euro as well. But the repercussion on Indian Economy will be limited even if we have slight fluctuations in the short run. The export of Chinese products especially electronics will become cheaper in the Indian markets . But the strong and suitable monetary and fiscal policies can help in solving the crises in the long run.

## **A fight for survival: Mediterranean Refugee Crisis is worsening**

The European Refugee Crisis arose out of the rising number of refugees coming to the European Union (EU). Most of these people are from Syria, Iraq, Africa, South Asia, and Central Asia. The crisis started due to the increasing tension between several African countries. Among the refugees the natives from the civil- war displaced Syria is on rise According to reports, the number of forcibly displaced people is highest since the Second World War.

The civil war in Syria has displaced about 4 million people. Another round of about 1.8 million asylum seekers is Palestinians. Though the problem arose between 2007 to 2011, when



large number of migrants from Middle East and Africa crossed over to Turkey and Greece this time it's mainly from the disputed land of Syria. The 'Arab spring' brought an end to many dictator rules in different parts of Africa and South West Asia. The civil war in Syria is continuing between the government of Syria under President Bashar al- Assad and the armed opposition Free Syrian Army. The emerging extremists like the Islamic State has brought the situation further worse. The long and continuing conflict in Syria compelled the people to find a new place to survive. The immigrants prefer moving to better countries in the Europe, especially countries of European Union where they could start a new life. Massive in-migration of refugees forced many European nations to adopt strict restriction and regulation which forced the people to follow illegal means of entering without proper documents and clearances. This has caused a huge loss of life. In April 2015, a boat carrying refugees capsized in the Mediterranean sea. As far as 950 people were feared dead. Other such accidents have taken their toll and thousands of lives have been lost.

Western countries have implemented policies to make it difficult to cross over to the EU. Countries like Hungary, Austria etc feel that taking in large number of refugees may bring change in the nation's identity and culture and could also affect the stability of their economy. Australia has gone to extreme lengths to prevent refugees by imprisoning them in detention centres on remote islands. Countries of the EU are securing their borders. But Germany has opened its borders allowing the entry which has its own objectives in such a decision. According to some reports, the US and many Arab nations are not taking in refugees due to fear of terrorist attacks.

With so many displaced refugees & migrants and so little help offered, these people have no place to go to. There are a lot of problems to be addressed and immediate action is a far cry.

The question of overflowing refugees crossing the Mediterranean seeking shelter in nearby countries is still a growing matter of concern. Many International Agencies could not even come out with proper means for their peaceful settlement.

\*European Union (EU): EU is an organisation consisting of 28 member countries. Its orientation is "politico-economic"; its formation is strongly based on the Treaty of Rome, 1958 and the Treaty of Maastricht, 1993. The main goal of the EU is to bring a barrier-free trade.

## **Reconciling the Relation: Strengthening ties between India and Sri Lanka**

Once again India and Sri Lanka accepted the need for strengthening the bilateral relation between the two countries in South Asia. The recent visit of Sri Lankan Prime Minister to India revamped the ties especially in areas like trade, defense, maritime security, Tamil reconciliation, connectivity etc. These ties will bring the nations strategically closer.

Combating terrorism and securing stability between India and Sri Lanka were two main agendas put forward in the meeting between Indian Prime Minister and Sri Lankan Prime minister. One of the major concerns of the meeting was the condition of the Tamil community of the country. India emphasized the

need on “life of equality, justice, peace and dignity” in a “united Sri Lanka” for the Tamilians.

Another issue discussed was the economic cooperation between the two countries. The two prime ministers hope to finalise new policies by 2016. The main aim is to create one million jobs in the next one year. A number of Indian investors have been sought to secure the ties with the island neighbour, Sri Lanka especially in areas like energy, infrastructure and transportation.



To bring peace and stability in the Indian Ocean region the countries also agreed to strengthen their maritime relations. Discussions on signing the Comprehensive Economic Partnership Agreement were also made during the visit. With these, the bilateral economic and maritime ties between India and Sri Lanka are expected to blossom.

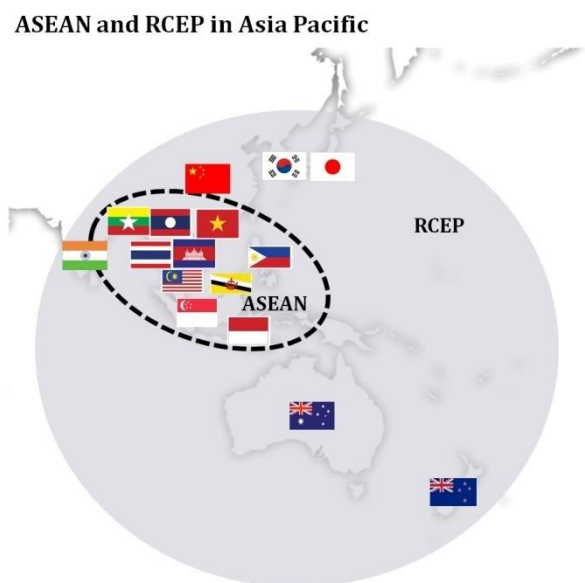
## **Regional Cooperation Pact Talks: China Demands more concessions from India and Japan.**

RCEP is an acronym that stands for Regional Comprehensive Economic Partnership. It is a free trade agreement (FTA involve cooperation between at least two countries to reduce trade barriers -import quotas and tariffs and to increase trade of goods and services with each other) between member countries.



RCEP negotiation currently involves 16 countries including South Korea, Japan, China and 10 member countries of ASEAN i.e. Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia. Along with this other 3 countries are Australia, India, and New Zealand. RCEP was introduced in November 2011 on 19th ASEAN summit. It was formally launched in November 20, 2012 at ASEAN summit in Cambodia. It focuses on integrating the ASEAN and non- ASEAN countries in the Asia Pacific regions where there exists multiple free trade pacts between countries among themselves. The main objectives of RCEP are to achieve modern, comprehensive, high quality and mutually beneficial economic partnership agreement along the ASEAN member states and ASEAN's FTA partners. The major areas which RCEP covers are trade in services, investment, economic and technical co-operation, intellectual property, competition, dispute settlement and other issues

China has now emerged as India's toughest adversary. At the conference in Nay Pyi Taw, Beijing blocked a preliminary agreement on goods market liberalisation. China insists New Delhi and Tokyo to improve their initial offers on the import duties in goods market but New Delhi keeps initial offers low because of the sensitivity of number of industrial sectors. New Delhi managed to convince it to all other members except China. If the duties are lowered, the country will be



flooded of cheaper goods from different parts especially from China and thus the country must be more careful in matter of what it offers to China. Japan too has made many duty concessions including zero import duty on Chinese products except certain agricultural products and now China requires import duty concessions on agricultural products too as the Chinese electronics market has not penetrated much in Japanese markets. RCEP is now focusing on China as if China agrees, then they could move on to next level of this agreement. The importance of RCEP is much greater. Once the pact come into being it can make an integrated market worth \$21.4 joining all the active ASEAN countries and their trading partners by 2025. But China is still upset because India has chosen to offer preferential duties on less than half of items traded between the two countries. The officials are in opinion that since China doesn't have FTA's with both India and Japan, it was hopeful of getting more concessions in both the market through RCEP agreement. But if it wants a deal, it has to be less ambitious.

## India – Nepal Oil Pipeline

India signed an agreement to lay a 41 km long oil pipeline from Raxaul, Bihar to Amlekhgunj, Nepal to supply petrol, diesel, and jet fuel to the land-locked Himalayan kingdom. Petroleum Minister of India and Nepal Minister of Commerce and Supplies signed a Memorandum Of Understanding for the petroleum product pipeline. The two ministers reviewed bilateral



cooperation in the petroleum sector. This will be the first trans-national petroleum pipeline in the South- Asia and forms part of improved regional connectivity among SAARC (South Asian Association for Regional Cooperation) countries. IOC (Indian Oil Cooperation) will take 30 months to complete the project after receipt of necessary statutory clearances from the government of Nepal. The estimated cost of the project is Rs 275 crore. The pipeline was to be funded 50:50 by IOC and Nepal Oil Cooperation. IOC has now agreed to spend the Rs 200 crore cost in exchange of Nepal's commitment to buy petroleum products for at least, 15 years. The significance of this project lies in its geopolitical impact. It marks one of the first cross-border infrastructure projects within the eight-nation South Asian Association for Regional Cooperation, which also includes Afghanistan, Bangladesh, Bhutan, the Maldives, Pakistan and Sri Lanka.

IOC will also do re-engineering of the Amlekhgunj petroleum depot to make it compatible to receive petroleum products by pipeline. India exports about USD 1.1 billion worth of petroleum products per annum to Nepal. Bulk of this volume will be transported through this pipeline. This will also ensure smooth, cost effective and environment friendly supply of petroleum products to Nepal. The pipeline was first proposed in 2006 for transportation of fuel from Raxaul to Amlekhgunj. Of the 41 km long pipe line, 9 km lies in Nepal. This will promote the bilateral ties in oil and gas sectors and secure long term supply of petroleum products to Nepal.

## **Indradhanush: Plan to revive Public Sector Banks**

To tackle the various issues faced by Public Sector Banks of India, the Government has launched a seven point strategy called Indradhanush to save the loss mounting Public sector banks. The seven shades of Indradhanush mission include Appointments, Bank Board Bureau, Capitalization, De-Stressing, Empowerment, Frameworks of Accountability and Governance Reforms. It seeks to achieve the objective of economic growth revival through improving credit and minimizing the political interference in the functioning of PSBs. One of the biggest challenges faced by PSBs is Non-Performing Assets (NPA). In 2001 the NPA was 13.11 percent and now in 2015 it has reduced to only 6.03 percent. This scheme talks about setting up a proper mechanism to tackle this issue. As a first step towards setting up a bank holding company, the government has announced the setting up of a Bank Board Bureau (BBB) that will be operational from April 1, 2016. The BBB will be a board of eminent professionals and officials which will replace the Appointment Board of Banks. There will also be a new framework of key performance indicators. These indicators will include efficiency of capital use, diversification of business, NPA management and financial inclusion. The government has announced a comprehensive of Rs. 70,000 crore capitalization plan for 4 years till 2019, which includes an infusion of Rs.25,000 crore in the current financial year. The highlights of the mission are:



## **1. Appointment**

Separate post of CMDs and MD and CEO in PSU. Two bankers from the private sector have been appointed as heads of PSU banks.

## **2. Bank Board Bureau:**

The government will set up Bank Board Bureau. It will be linked between government and bank and the performance of state run banks will be monitored by the BBB. Bank Board Bureau will be operational from April 2016.

## **3. Capitalization:**

The government will inject a total of Rs 25,000 crore of capital into debt-laden state banks in this fiscal. Rs. 20,000 crore injected in a month. Over the next four years, the government plans to inject Rs 70,000 crore. SBI will get the highest capitalization worth Rs 5,511 crore.

## **4. De-stressing:**

A Cell in department of FS to monitor stressed assets, meanwhile the government has assured that the situation of stressed assets is not so bad.

## **5. Empowerment:**

More flexibility will be given to state-run banks for hiring manpower. Greater autonomy to PSB and government is also looking to set up bank holding company.

## **6. Framework of accountability**

New indicator to measure performance of PSBs has been announced.

## **7. Governance reforms**

Performance link incentives will be announced.

## **A New segment of Indian Handloom Sector**

A new venture was put forth by the Government of India to rejuvenate the handloom sector, one of the ancient cottage industries of the country. The official launch of 'India Handloom brand' was set in by the Prime Minister of India on August 7, 2015. The day August 7, will be known as the National Handloom Day from 2015 onwards. This mission provides the Indian Handloom brand a better marketing position of international quality with global recognition in the world market.

The programme highlighted the need to boost up the handloom sector as a means to eradicate poverty and as better contributor to national development. Handloom sector of India has much scope at the present era of introducing eco-friendly products in the market.

The day August 07 has relevance in Indian history. August 07 commemorates, the official launch of Swadeshi movement of 1905 in India asking the people to boycott British goods and use Indian products. The same day is chosen to



promote genuine, global quality Indian handloom products throughout the world assuring zero defects to domestic and international consumers. It also generates awareness about the importance of

handloom industry which is also a part of our rich heritage and culture. Promoting handloom products can raise the level of income of many traditional weavers and can improve their confidence and profit. The Prime

Minister called for an increase in the use of handloom products in every household saying that a 5percent increase in consumption can increase the revenues by 33 percent for the sector. The Indian handloom sector has many inherent strength and potentials which can be expanded to the maximum. The rising e-commerce can also be used as a better platform for the sale of handloom products. This handloom weaving provides direct and indirect employment to more than 43 lakh weavers and allied workers. The sector is responsible for nearly 15 percent of cloth production and also contributes to export earnings . Around 95 percent of the world’s hand woven fabric comes from India .The industry is a source of livelihood to large sections of rural population particularly women and BPL families along with exhibiting the rich cultural heritage and traditions worldwide.

## **A Repo Rate Cut by the RBI**

The Reserve Bank of India has reduced the repo rate from 7.28% to 6.25% by September 30, 2015. The rate has been cut down on 50 basis points instead of 25 basis points to stimulate the economic growth. The other steps taken by RBI are ceiling on Statutory Liquidity Ratio securities reduced to 21.5% in January 9, 2015. They emphasize to bring inflation to 5% by March 2017. In accordance with all these, the banks have reduced their lending rate making loans taken by home buyer cheaper. The median base lending rate has fallen only about 30 basis point being a fraction of 75 basis points of the policy rate reduction during January-June. Arun Jaitley, the finance minister opines that the RBI’s cut will boost



confidence and economic growth. The decision will also provide policy support. RBI Governor, Raghuram Rajan said that “Investment is likely to respond more strongly if there is more certainty about the extent of monetary stimulus in the pipeline, even if transmission is slow.” The impact of this rate cut on common people is that the EMIs on home and vehicle loans are likely to reduce and the move will make positive impact on interest rate sensitive sectors like durable goods and capital goods. The inflationary pressure is now at a control but there should be constant monitoring about the inflation always. The positive impact is that it is a great relief to corporate sectors but evidence is not satisfactory.

REPO RATE – Rate at which the Central Bank lends loans to commercial banks in the country. A lowering of Repo rate will stimulate the money supply in the economy and promote investment opportunities

## **Kerala may soon have a Real Estate Regulatory Authority**

A belated mechanism to regulate the state’s thriving real estate sector is getting final nod as the Kerala Real Estate (Regulation and Development) Act will commence its operations soon. The ordinance promulgated by the Governor P. Sathasivam is likely to be piloted in the next assembly session in November. The initiative is being taken up by the Government due to the absence of strong laws in the real estate sector. More important is the proposed establishment of Real Estate Regulatory Authority (RERA) which will be vested with penal powers. After Maharashtra, Kerala is the second state in India to have a regulatory authority dealing with real estate sectors. There will



also be a Real Estate Appellate Tribunal (REAT) to settle the disputes . Complaints pending before the Consumer Disputes Redressal Forum and the Consumer Redressal Commission can be transferred to RERA. The civil courts will not have jurisdiction over RERA or the Appellate Tribunal. While welcoming the proposed law, Confederation of Real Estate Developers Association of India (CREDAI) says that Government stakeholders such as the KWA ,KSEB etc , should also be brought under its ambit. It seems that the government wants to regulate the real estate promoters but does not want to apply the same rules on its own departments. Builders contribute 25 to 30 per cent of the project cost collected from the customers to the state exchequer.

## **Need a Rescue Package for Cashew Industry**

The cashew industry in the organized sector is said to be passing through crisis and its revival, according to the industry, is possible only by government intervention through a package. Vice-Chairman, Cashew Export Promotion Council of India (CEPCI), said the industry was finding it difficult to run the factories for long providing employment to thousands of workers, mostly women, throughout the year. Many factories in the organized sector continue to remain closed because of the substantial hike in wages by the state government, reduction in incentives for export of cashew in the new foreign trade policy, high



raw nut prices and growing competition with countries like Vietnam. Export is also showing a declining trend . Being a labor intensive sector, serious shortage for laborers with no excise duty levied on the imported raw nuts , many

suggestions are coming up for the mechanization of the processing sector to revive them. A strong mechanization can increase the production and decrease the cost of the production units. Vice-Chairman alleged that some of the new entrants, of late, trading in raw cashew nuts in West African countries were buying raw nuts at prevailing higher prices and selling to processors in unorganized sectors here.