

Impact of demonetization on indigenous product market in non metro cities, with special reference to Pathanamthitta, Kerala.

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Abstract:

Indian population comprises of most of young citizens and more innovative force. To achieve this vision into reality our economy should match with developed economy's economic, financial, status. In this process, Honorable PM Sri.Modi has been launching many strategies and plans to make Indian economy strong such as make in India, special provisions and policies for MSMEs, and to make India free from black money, counterfeit cash, corruption and terrorism the present government has taken a bold step of banning Rs.500 and Rs.1000 recently. Demonetization is withdrawal of currency from circulation from economy with attainment of the certain objectives. Earlier demonetization has done two times, first in 1946 and second time in 1948. The third time demonetization has done on Nov 2016 by present Government to fulfill the vision. A sudden announcement has affected the economy in many ways. Demonetization has influenced many sectors including indigenous product market sector, which contributes a fair growth rate towards the GDP. On one hand, the present demonetization was considered as a good move and on the other it was viewed as unplanned move. Hence, this study tries to analyze the impact of demonetization on indigenous product market in non metro cities with special reference to Pathanamthitta town.

Key words: Demonetization, indigenous product, non- metro cities, etc.

Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. On 8 November 2016, the Government of India announced the demonetization of all 500 and 1000 banknotes of the Mahatma Gandhi Series. The announcement of demonetization was followed by prolonged cash shortages in the weeks that followed, which created significant disruption throughout the economy. People seeking to exchange their banknotes had to stand in lengthy queues, and several deaths were linked to the rush to exchange cash.

Demonetization is undertaken by nations for a number of reasons:

- to combat inflation
- to combat corruption and crime (counterfeiting, tax evasion)
- to discourage a cash-dependent economy
- to facilitate trade

The sudden demonetization of large denomination currency notes by the Government of India on 8th November 2016 has created a mix of shock, horror, confusion, speculation and conspiracy theories across the country.

The government's goal was to combat several threats on our economy like: eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist-financing activities, and to promote a cashless economy. Individuals and entities with huge sums of black money gotten from parallel cash systems were forced to take their large-denomination notes to a bank, which was by law required to acquire tax information on them. If the owner could not provide proof of making any tax payments on the cash, a penalty of 200 percent of the owed amount was imposed.

Some of the reviews about demonetization are:

Kavita Chacko, senior economist with Care ratings agency, says: "Demonetisation led to disruptions in economic and industrial activity. The lower domestic GDP growth in the past two years is largely on account of demonetization and GST implementation led turbulence."

In its latest Article IV Consultation report on India, released in August 2018, the International Monetary Fund (IMF) has said: "The impact on growth appears to have been more severe and longer-lasting than anticipated at the time of the 2017 Article IV Consultation with a disproportionate impact on the informal sector."

Praveen Khandelwal, secretary general of the Confederation of All India Traders (CAIT), said: "In the first four months after demonetization, business was down by as much as 50% for small traders. It took about six months for the situation, currency flow and business to normalize."

Advantages of Demonetization

The process of demonetization had several positive effects on the Indian economy:

Promotion of a cashless society: One of the main reasons for implementing demonetization was to initially promote a 'less-cash' and then a cashless society. This would change spending habits and ultimately result in more growth. Due to the unintentional cash shortages immediately after demonetization, people were forced to use e-wallets, credit and debit cards and other methods of cashless transactions.

Combating note forgery: Due to the secretive and surprising nature of demonetization, note forgers were caught unawares and forgery of notes within India and also in foreign countries like Nepal, Bangladesh, China and Pakistan suffered major setbacks. Although eventually the forgers were able to copy the new notes too, it took quite a lot of time and expenditure of resources.

Decline in crime: Due to the demonetization of notes, criminal activities were badly hit. Hawala operations in Western and South Western India were badly hit. Decline in terrorist activities: All cash that the separatist terrorist groups like the Naxalites and the Maoists had amassed over the years was suddenly rendered useless post demonetization.

Decline in corruption: Many corrupt officials had amassed huge fortunes by accepting bribes, due to demonetization all of this cash became useless and they had to dispose of it by dumping the cash, burning it or disposing of it by other means. These officials also became much more careful about accepting bribes and instances of accepting bribes reduced after demonetization.

Disadvantages of Demonetization

Like any process, demonetization had certain unforeseen disadvantages of its own:

Lack of proper planning: Cash shortage was perhaps the greatest and most immediate disadvantage of demonetization. The long queues outside ATMs and banks made people look a bit unfavorably at demonetization. Many experts have stated that the government should have prepared more before announcing demonetization, the government has countered that too much planning would have resulted in more leakage of information thus defeating the purpose of catching tax evaders unawares.

Failure to purge black money: Although the entire process was started by the government to purge the system of black money, expose and penalize the offenders and result in economic growth, it did not succeed in this objective. The reason why the tax evaders could get away was that most of their acquired money was in the form of benami property, gold bullion, and jewelry.

Fall in GDP: Due to demonetization, global estimates for India's GDP growth rate for 2016-2017 by around 2%. The actual GDP growth was 7.1%, a decrease from the 8% of the previous year. The GDP fell so much that it was the lowest since 2014. Although the Indian economy revived and continued its growth pattern, experts have attributed the GDP fall in 2016-2017 to demonetization.

Drop in industrial output: The cash crisis adversely affected the industrial sector, with growth rates decreasing and a slowdown in both manufacturing and service industries. The growth in key sectors like cement, steel and refinery products decreased to 4.9% in November, compared with 6.6% in October.

Statement of the problem

India is a mixed economy has a huge impact of demonetization. Both supports and critics are there. All sectors like private, public agricultural, business are affected with the change in the economy. It has a great impact on the indigenous market sector too. In Kerala indigenous product has a great influence in the economic growth. Obviously there are impacts in the great cities like metros. What about the non metros or small towns? The indigenous products are playing a vital role in the local markets of non metros. Indigenous products like coir, bamboo products, handicrafts, rubber, spices etc. have their own place in the local market. Like other sectors demonetization also affects this sector too. There are a very few studies are there relates to this topic. So it is important to have a study about impact of demonetization in such sectors. Pathanamthitta is taken for the study as it is an apt specimen for the non metros.

Significance of the study

The negative impact of demonetization was felt across the all segments of economy, especially agriculture and industry. With that effect it hit more badly the indigenous product market, especially the non metros and small towns. The worst impacted were segments that relied on high-volume cash transaction, such as organized and unorganized retail. The impact was felt at both the firm level as well as at the consumer level. So in this context the present study relates with demonetization is important.

Objectives of the study

1. To analyze the indigenous product market.
2. To analyze the impact of demonetization in indigenous product market in non metros.
3. To rank them on the basis of the impact.

Research Methodology

Both primary data and secondary are collected for the study. Primary data is collected from both retailers and customers. Sample of 25 retailers and 25 customers are selected in convenient sampling method. Secondary data is collected from different published sources like journals, books, websites etc. Appropriate analyzing tools are used for the study.

Limitations of the study

- The study is limited on Pathanamthitta district, therefore the data cannot be considered as the general view.
- Incorrect statement of the sample respondents leads to wrong conclusions.
- Time period of this study was limited. It was not sufficient to conduct a detailed research.
- The sample size was limited due to cost and time constraints.

Data analysis and interpretations

For the analysis of the study four types of products are selected they are Coir and coir products, handicrafts, rubber and rubber products and spices. In the below table products changes in various factors are depicted. The factors considered for the study are Price of the products, cost of the products, marketing and availability of the products.

Table 1.1

Changes in various factors selected

Products Factors	Coir and coir products	Handicrafts	Rubber and rubber products	Spices
Price of the Product	4.6	4.4	4.8	4.7
Cost of the product	4.1	2.8	3.9	4.5
Demand for the product	3.6	3.9	3.8	3.7
Marketing of the product	2.9	2.9	3.7	2.9
Availability of the product	4.2	3.9	4.8	4.8

Source: Primary data

From the above table it is clear that the factors considered for the effect to measure the impact of demonetization were Price of the Product, Cost of the product, Demand for the product, marketing of the product and Availability of the product. It is clear from the above table that the effects are changing. To test the statistical significance, Anova test was performed. The details are shown in table 1.2

Table 1.2

Changes-Product wise-Anova Test

Groups	Count	Sum	Average	Variance	
Coir and coir products	5	19.4	3.88	0.427	
Handicrafts	5	17.9	3.58	0.487	
Rubber and rubber products	5	21	4.2	0.305	
Spices	5	20.6	4.12	0.652	
ANOVA					
Source of Variation	SS	df	MS	F	P-value
Between Groups	1.1655	3	0.3885	0.830572	0.496355

Within Groups	7.484	16	0.46775	Result
Total	8.6495	19		Not significant

Source: Primary data

From the above table it is clear that the average score assigned by the respondents to the effect of demonetization on the Coir and coir products is 3.88 ± 0.427 , Handicrafts 3.58 ± 0.487 , Rubber and rubber products 4.2 ± 0.305 and Spices 4.12 ± 0.652 . Anova test was administered to check the statistical significance. It noted that The F value is 0.830 and p value is 0.496 ($p > 5\%$), showed no significant difference among the sample products considered. This implies demonetization has no effect on the products.

Table 1.3**Changes-Factor wise-Anova Test**

<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	
Price of the Product	4	18.5	4.625	0.029167	
Cost of the product	4	15.3	3.825	0.529167	
Demand for the product	4	15	3.75	0.016667	
Marketing of the product	4	12.4	3.1	0.16	
Availability of the product	4	17.7	4.425	0.2025	
ANOVA					
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>
Between Groups	5.837	4	1.45925	7.782667	0.001328
Within Groups	2.8125	15	0.1875	Result	
Total	8.6495	19		Significant	

Source: Primary data

From the above table it is clear that the average score assigned by the respondents to the effect of demonetization on the factor Price of the Product is 4.625 ± 0.029 , Cost of the product 3.825 ± 0.529 , Demand for the product 3.75 ± 0.016 , Marketing of the product 3.10 ± 0.16 , and Availability of the product 4.425 ± 0.202 . Anova test was administered to check the statistical significance. It noted that The F value is 7.7826 and p value is 0.0013 ($p < 5\%$), showed a significant difference among the sample factors considered. This implies demonetization has an effect on the factors, which is more influenced by the Price of the Product and the Availability of the product

Conclusion

So lastly, to conclude the analysis here shows the result of it. In conclusion we can say that although the objectives of the 2016 demonetization were noble; the process of implementation was sadly lacking and could have been smoother and better organized. The main goal of demonetization – the total ‘eradication’ of black money and other corruption sourced money was met only with limited success. The analysis shows the impact of demonetization towards indigenous products non metro cities. In the analysis the highest impact is with spices and lowest with coir products. The other two products are in between them, having the same percentage of impact. Like any other sector indigenous products markets are also affected with demonetization.

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