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ORIGINAL ARTICLE

The Impact Of Global Recession On Indian Rural Economy

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Abstract:
Recession is equally big an opportunity as robust economic growth. The global economic crisis has definitely taken a toll of India's economic performance. It has also reduced our potential for economic development in the next 2 or 3 years. Despite the severity of the global crisis, India's economy has demonstrated considerable resilience due to agricultural sector. We were managed the crisis of the 90's but how we manage global recession 09. That time, we were alone in the crisis and now it is a Global crisis. With sound and determined economic policies we should be able to recover a growth momentum of 7-8 per cent in a year or next another one year. The challenge for our policies and programmes is to convert this potential into performance.

INTRODUCTION:

About 60-65 per cent of India's population and workforce depend on agriculture. It is the known fact that the agriculture sector will continue to provide support to our economy. Indian agriculture has not much impacted by global economy crises, except some export oriented crops. Country's agriculture sector will save the India from the huge impact of the global economic recession. Right now agriculture is the key for Indian growth in this difficult time. Agriculture is an absolute necessary, producing the basic human needs of food and clothing. An Investment in agriculture is considered as a conservative and tangible Investment with consistent returns. Agriculture is the best solutions to maintain economic growth this year. Even in down markets agriculture companies performed very well in 2008 and will do the same in 2009.

In economics, 'a recession is a general slowdown in economic activity over a sustained period of time, or a business cycle contraction. Production as measured by Gross Domestic Product (GDP), employment, investment spending, capacity utilization, household incomes and business profits all fall during recessions.' Now this is recession only by definition. Although India has not been directly impacted by the global financial crisis, we should be cautious about the indirect knock-on effect of the global crisis. According to the GET report, over 50 million could lose their jobs by 2009 worldwide. The one thing is that as we live in an agrarian economy where the unemployment rate is already high and 60 per cent of the population is still dependent on agriculture, the rate of unemployment is rising further due to these worldwide lay-offs.

India has always been a land of 'Rishi' and 'Krishi'. We forgot this aspect of India. We still have not done much for the farmers of this nation. We know for sure that 18 percent of the GDP (agriculture) supports

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60 per cent of the population. What we need is value addition to agriculture and connecting the value chain of agriculture business to farmers at the place of produce. We need to think more about farmers producing cash crops besides staple crop. We need to increase the value of 18 per cent. We must note that 80 per cent farms in India are smaller than 5 acres. From 1971-96, the average size of the farms has reduced from 2.3 to 1.4 acres. Whilst, in the developing countries the average farm size has decreased, same has increased in developed world.

IMPACT OF GLOBAL SLOWDOWN:

The impact of global slowdown on India's economy is impacting the employment scenario. In fact the rising joblessness in India has assumed worrisome proportions. With overall economic growth sharply slowing down, the ranks of those without work are growing by the day. Many people were rendered jobless in 2008-09, according to a survey conducted by the Ministry of Labour and Employment. India could lose up to 1.5 million jobs during the period.

A disturbing trend of India's economic performance is a deceleration in employment growth to 1.92 per cent per annum from 1993-94 to 2006-07 from 2.61 per cent between 1983-1993-94 although growth in terms of gross domestic product (GDP) was rapid. Clearly, there has been a decline in employment per unit of GDP growth or employment elasticity to 0.28 from 1993-94 to 2006-07 from 0.52 over the years 1983 to 1993-94. Applying this elasticity to the likely GDP growth of 7 per cent in 2008-09 and 5 per cent in 2009-10 to project the generation of employment provides an aver age of 8 million work opportunities this year and 6 million the next. This is much short of the 10 million opportunities generated during each of the last five years. In other words, there will be 2 million fewer jobs than before this year and 4 million fewer jobs next year.

Official number crunchers might suggest that a better measure is to focus only on non-agriculture. Even on this basis, the economy would turn out 1 million fewer non-agricultural opportunities this year and 2 million fewer the next than the average of 5.6 million jobs per annum during the growth boom of the last five years. This striking shrinkage of employment opportunities when 9 to 10 million people join the labour force each year looking for work will certainly result in a spike upwards in unemployment and exacerbate social tensions. Interestingly, more up-to-date economy wide estimates of unemployment — based on extrapolations from recent trends — are consistent with the above numbers for job losses this year as growth is likely to decline to 7 per cent as compared to 8.8 per cent per annum during the last five years. But with India's growth expected to plunge to 5 per cent next year, the incidence of joblessness will be more severe than before.

The global recession has impacted only the urban India. But rural India, which depends mainly on agriculture which grew by 2.7 per cent in the last quarter of 2008-2009 (compared to -1.4 in manufacturing), has a lesser impact due to global slowdown. Because of buying power of the rural India, the Economy in the fourth quarter of the fiscal year (January-March 2009), the economy grew 5.8 per cent against expectations of less than 5 per cent. Is rural India's growth a short term anomaly or a secular trend that is going to aid India's long term growth? Let's look at some numbers. 12.2 per cent of the world's consumers live in India and rural households form 72 per cent of the total households. This puts the rural market at roughly 720million customers. According to the Wharton article, total income in rural India (about 43 per cent of total national income) is expected to increase from around US$220 billion in 2004-2005 to US$425 billion by2010-2011, a CAGR (Compounded annual growth rate) of 12 per cent.

GLOBAL RECESSION AND AGRICULTURE SECTOR:

India is dependent on USA and other developed nations for its trade. Eventually developing nation's economy affected by recession due to globalization. Recession will have its plus point and minus points. The minus points are that, there will be job scarcity; retrenchment will be all time high, liquidity in the market will be low; export market will be severely hit etc. The plus point is that cost of living will come down. Things we were exporting will be forced to be sold locally, bringing the price of products down. Real estate which was out of reach for the common man will be within his reach. Every one has to think global recession is a challenge posed to the nation and work accordingly keeping agriculture at the centre-stage. The country has to lay more focus on agriculture sector. Agriculture Sector of India shows Strong resistance against recession. The agricultural sector will also have to contend with the rising challenges of growing water scarcity and rising temperatures from global warming also.

The agriculture sector is performing well compared too other industries in recession owing to high food demand, emerging bio-fuel markets and economic recovery. According to the Annual Agriculture Outlook report prepared by the Organization for Economic Cooperation and Development (OECD) and the

Food and Agriculture Organization of the United Nations (FAO), there is no impact of global economic crisis on agriculture as compared to other sectors. The report also says that the underperforming sectors are still facing a number of difficulties like credit access, low liquidity and constricted trade finance, but the agriculture sectors has shown remarkable resistance against the global recession.

The average prices of agricultural products in the next 10 years are projected to stay at or cross the levels of the decade before 2007-08 peaks. Vegetable oils prices are expected to surge by nearly 30 per cent, while crops prices rise by 10-20 per cent. Although diary products prices will see slight gain in coming years. The projected increase in agricultural products prices is likely to stem from economic recovery, emerging bio-fuel markets and food demand from developing markets. A number of companies are seeking ways to enhance the crop production to meet the continuously rising food demand. While the scenario varies in terms of commodity, the overall sector is expected to perform better on account of the recent period of high incomes and demand for food.

According to a Research Analyst at RNCOS, "The agriculture sector is showing strong resistance against the global economic crisis compared to other industries due to consistent strong demand for food products. However, food security is the main issue that needs to be addressed at present because it not only solves the urgency in short time period but also helps in dealing with long-term issues such as poverty alleviation and economic growth. Rise in food prices in coming years is likely to be driven by the recovery of global economy. According to the study, the food prices have substantially dipped after touching the peak level in 2008. Given the downturn in food prices, the pressure is shifted to consumers who have lesser money to spend on. Despite this, many developing countries continued to be battered by high food prices.

GOVERNMENT'S EFFORTS THROUGH BUDGET:

Poverty in India is predominantly a rural phenomenon. About 70 per cent of the population, and about 75 per cent of the poor, live in rural areas and agriculture provides livelihood to 60 per cent of the rural people. But Indian agricultural will take a direct hit from the poor monsoons this year. India's rural economy has received more attention and resource commitments in the government's latest budget proposals than in recent years. The budget's pro-poor and pro-rural biases are not surprising. Huge funds have been allocated for rural programs that involve rural job guarantees, food subsidies and farm lending. At first site, budget is generously shown in favor of rural India. For instance, the budget provides for a 144 per cent funding increase over last year's estimates for programs under the National Rural Employment Guarantee Act, to Rs. 39,100 crore. This covers higher unemployment payments and an expanded scope of the program. Another program for the 2009-2010 year ensures that every poor family will get 25 kg of rice monthly at Rs 3 each. In addition, the Pradhan Mantri Gram Sadak Yojana, a high-profile program that aims to connect every village with a motorable road, has been given a 59 per cent higher allocation in the budget over that of 2008-2009 at Rs. 12,000 crore. A rural housing program (Indira Awaas Yojana) is 63 per cent richer compared to last year, with an allocation of Rs. 8,800 crore. Other programs promise to bring integrated development to combat caste-based discrimination in villages, housing subsidies for the poor and other poverty eradication measures. Prime Minister Manmohan Singh said the Union Budget 2009-10 is aimed at minimizing the impact of the global recession and achieving 8 to 9 per cent growth in the medium term.

FOCUS ON AGRICULTURAL DURING THE RECESSION PERIOD:

Greater investment in rural infrastructure in the form of road connectivity and much better water management is absolutely crucial.

There has to be much greater emphasis on commercially applicable Research and Development in agriculture for both crop agriculture and animal husbandry.

Improvement in primary education and health will continue to bring high returns in terms of agricultural productivity. Such improvements are urgently required for their own sake.

There are many shortcomings are pointing out in our present rural credit delivery system which need to be urgently improved.

Public spending in support of agriculture continues to be excessively dominated by input subsidies for fertilizer, power and irrigation. The returns to these massive subsidies is much less than if the same resources were used to improve rural road network, organized better water management systems and support much stronger R & D and agricultural extension.

We need to focus and take immediate steps for setting up Agri and processed foods SEZ on an urgent basis. Agriculture and food processing SEZ must be established near ports and in every state.

The government in support of the local villages should concentrate on the sectors like diary cooperatives, horticulture, this will sustain and help in growing the livelihood of villages and make them self reliant. For this, corporate have to come forward to adopt villages and make them self reliant.

CONCLUSION:

Recession is equally big an opportunity as robust economic growth. The global economic crisis has definitely taken a toll of India's economic performance. It has also reduced our potential for economic development in the next 2 or 3 years. Despite the severity of the global crisis, India's economy has demonstrated considerable resilience due to agricultural sector. We were managed the crisis of the 90's but how we manage global recession 09. That time, we were alone in the crisis and now it is a Global crisis. With sound and determined economic policies we should be able to recover a growth momentum of 7-8 per cent in a year or next another one year. The challenge for our policies and programmes is to convert this potential into performance.

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