

A STUDY ON THE EFFECTS OF DEMONETIZATION IN THE GROWTH PROSPECTS OF START – UPS IN INDIA

Mr. Shainu Mathew

Faculty

Institute of Professional Education and Research

shainumathew11@gmail.com

Mob: 94244 42293

Dr. Sanjay Jain

Professor

Govt. PG. College BHEL, Bhopal

sjain1963@gmail.com

Abstract

The present research work makes an appraisal of the impact of demonetization drive and colligates effect on the Start - up campaign. The paper wants to highlight that the demonetization drive initiated by the government was a step to decoct the approximation of black currency into the Indian economy; contrastively it fuelled the vehicle of Start – ups in India for. Demonetization was aimed to curb the parallel black economy, counter the fake currency notes from across the border, along with initiating the public to go cashless. Start –up was aimed at bringing new ideas and resplendent leaders in the form of entrepreneurs into the Indian market thus generating new infrastructure in new sectors with a new mindset of “No defect and No effect” policy. The study tries to emulate that Start- ups cannot be successful merely by introducing new policies, soaps or aids, instead the Start- ups can be productive when the elements that can destroy its main cause controlled and curbed. The demonetization drive was in fact a bold step initiated by the government to control and curb these menace.

Keywords : *Demonetization, Start- ups, Fake currency, Make in India campaign*

INTRODUCTION

The current demonetization drive was initiated by the ruling government on 8th November 2016. Demonetization was initiated to curb the parallel black economy which had directly affected the national income in the form of tax evasion and to counter the fake currency notes from across the border mainly channeled to fund terrorist activities across the country. Normally demonetization involves either introducing new currencies of the same denominations or totally replacing the old denominations with the new ones which was currently initiated on 8th November 2016. The first demonetization was initiated on 12th January 1946 and the second was done on 16th January 1978. The need for demonetization arose to curb black money, note bank politics, real estate sector cleansing, curtail hawala transactions, counter counterfeit currency and terrorism. If we concentrate on the above mentioned elements we can get a picture that these are the same elements that are the root cause which hinder direct investment opportunities by foreign entities, effect infrastructure development and thus making a hole in the state exchequer. Start – ups in India was conceptualized with a sole aim to develop in India, from India and through India thus improving our economic perspective and standing in the global stage. The concept was to develop new policies or methods along with improvising the existing methods, thus decocting our policies in such a way that there is approximation of job, innovation, balanced development including infrastructure and industrial development.

Indian business sector as of now after the demonetization drive was in a stance either to flourish or perish. Many businesses which were set up pre – demonetization were amassing and phishing funds through different channels which was clearly a far cry from the concept of make in India. The aim of the start -up concept was not only to create in India, but to share the benefit with its people, the Indians. The current government initiative was to

create a buzz that whatever is created in India its benefits should also be shared in India. As when we earn, we want to improvise, when we want to improvise, we initiate to develop, when we want to develop we develop our surroundings so that it can match our speed. This stands true in the case of developed businesses, but the only factor of concern is whether this development is also the development of its surroundings, surroundings means to the person who are directly or indirectly related to it.

REVIEW OF LITERATURE

Rani, Geeta, International Journal of Applied Research (2016) opined that, demonetization is a tool of government to eliminate the currency. It is used in very adverse situations, this paper tells about what are the post affect of demonetization on retailers. The paper focused on how much problem faced by shopkeepers and its effect on their business. The paper also discussed about new ways of cashless transactions.

Singh, Dr. Partap and Singh, Virender, in their research paper **Impact of Demonetization on Indian Economy,** published in **International Journal of Science Technology and Management,** vol no. 5 issue no. 12, December 2016 purports that money is a vital part in aeconomy. From India's point of view cash is the heart of our economy, but to survive and to differ hoarders this has to be changed and a new outlook or approach as to be taken.

Aneja, Dr. Puneet, in his research paper **Make in India:A New Paradigm for Socia Economic Growth in India,** published in **Indian Journal of Research,** vol no. 5 issue no. 4, April 2016, opined that, there is lot of potential growth in the manufacturing sector, as India have lot of labour pool it has the opportunity to take some share of global manufacturing away from China. He suggested that India has to improve the ease of doing business, stop tax terrorism, improve infrastructure, reform labour laws, investment in skill development, transparency in administration, liberalized government policies.

Kaur, Harpreet, in her research paper, **Manufacturing Sector of India: Challenging the 'Make in India' Campaign,** published in **International Journal of Commerce, Business and Management,** vol. 5 issue no. 1, Jan – Feb 2016, explained that there is lot of work to be done in providing the ease to the investors in areas like starting a business, dealing with construction permits, payment of taxes, enforcing contracts, etc. A business – friendly environment is a base for the growth of an economy. So the government of India is required to address the various issues that creates hurdles in the way of the growth of the manufacturing sector for making “Make in India” a success.

Ramana, Dr. T. V., in his research paper, **Make in India: Illusion or Possible Reality Project?,** published in **International Journal of Academic Research,** vol. 2, issue 2(5), April – June, 2015 analyzed and exhibited that there are two dimensions in the concept of Make in India. One side has optimistic nature which expects more investment by free flow of capital. On the other side, he has criticized as the economy, has adopted what look like neo – Nehruvian ideas. The author purports that the current government should focus on making business as easy and honest as possible, avoiding artificial props, curbing inflation and fiscal deficits, ensuring a realistic exchange rate, and letting the market decide which sectors should flourish. He opined that if these measures are taken, then investors from everywhere will be interested in doing business in India.

JUSTIFICATION OF THE STUDY

The concept although is not a new term, we can trace back its root from the day a free India was in the global map, as we develop into a socialistic pattern our leaders and visionaries put forth strategies and plans in order to uplift our country and make it self-reliant and self-sufficient and alleviate chronic poverty. The phase after demonetization saw many changes in the Indian society, urbanization was maturing at a faster phase, now the new trend was not to seek job but to create job through innovative ideas. The new India initiated this by focusing on the basic needs of the society and developing the core areas like necessities and infrastructure and improving the dilapidated sectors which mainly covered the agriculture sector. All these years, along with the visions and missions as envisioned by our leaders and visionaries we faced many challenges which we ourselves created or which were passed on by our colonial rulers. As a matter of fact what we want to achieve and were we reached

compel us to study why there was a deviation. The reasons may be many but if we want to understand the core of this failure we have to analyze ourselves. This paper tries to reason out the relation of start – up India with demonetization and purports the need for demonetization to achieve start – up concept a success.

OBJECTIVES OF THE STUDY

This study as the following objectives:

- To study the implication of start – up in India
- To study the concept of demonetization in India
- To study the concept of cash less economy through demonetization

LIMITATIONS OF THE STUDY

As the reports are mainly based on secondary data; the following limitations are expected to be part of the required study:

- As the concept of Start - up is newly evolved there is lack of availability of reliable data.
- As the demonetization drive was newly implemented the data are mainly based on secondary resources collected from various resources thus limiting its reliability.
- The analysis is based on current available data which can be varying due to demographic accessibility.
- As per the requirement of the study some data has been grouped and sub grouped.

THE IMPLICATION OF START – UP IN INDIA

A country can be self reliant and self-sufficient when its citizens become self reliant and self-sufficient. To understand this concept we have to understand the principles put forth by our father of Nation Mahatma Gandhi. He emphasized the terms, Patience, Perseverance, Principled, Peace lover and Pious. These terms indeed explain a lot but the gist is to understand the importance it plays in meliorating our lives. Liberalization followed but it also bought many evils with it. Black money, Hawala transactions, counterfeiting and many such activities although present before but these started to evolve and greatly affecting our trade and business. These elements also gave rise to terrorist activities and served to spread its tentacles from north to different parts of the country.

Start – up India concept was conceptualized in order to bring forth budding and promising entrepreneurs with new ideas and better solutions thus solving the problem of unemployment through job creation with the benefit of wealth creation. The government in order to encourage start – ups initiated many soaps which included self – certification, three – year exemption from inspections regarding labour laws, tax rebate, hassle free loan availability and special areas known start – up hubs with guidance of government funded institutions.

These sectors are directly linked to GDP growth as they cover the core areas where we have got enough potential in terms of resources including human resources which would increase our revenue as well as reserves. The concept of start – up India is a good initiative and its definitely going to the effect the social – economic growth of our country by providing employment opportunities and well balance industrial growth.

While India stands 7th in terms of nominal GDP, its rank is 131st a dismal in terms of per capita GDP. Employment will increase while reducing brain drain. Export – oriented growth model will improve India's Balance of Payments and would help in accumulating foreign exchange reserves.

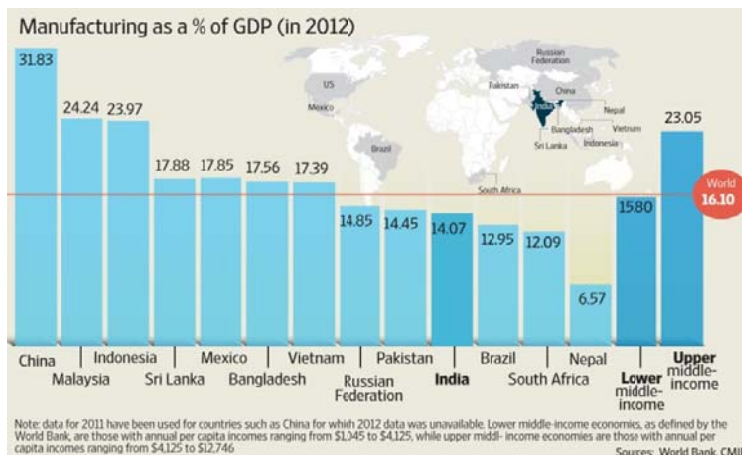


Fig 1.0 (Source: World Bank, CMIE)

Figure 1.0 indicates the manufacturing trend around the world which clearly indicates that even after having a vast availability of resources our GDP lags behind due to deficient use of our resources. The reason may be attributed to various factors like lack of proper planning, unavailability of strong infrastructure, unavailability of local vis-a-vis foreign players, lack of government support etc.

Start-up India campaign aims not only to create budding entrepreneurs but also to solve employment problems as the government alone cannot create so much of job opportunities. Not only job opportunities start-ups create many more micro jobs which in turn help the local areas. Start-ups also play a pivotal role in nation building. Although a nation's wealth depends on the mass production of resources mainly carried out by big business houses, the development of its citizens depends upon specific development. Specific development refers to the development of areas of mass interest where the big houses fail to reach.

Government also provides many initiatives and schemes in order to make people more interested in start-ups as it solves many problems that arise from answering the basic necessities in a unique way to the employment of local talent who are not able to cope with the stress of a dynamic business environment.

The country has moved up to 3rd position and has the fastest growing base of start-ups worldwide...

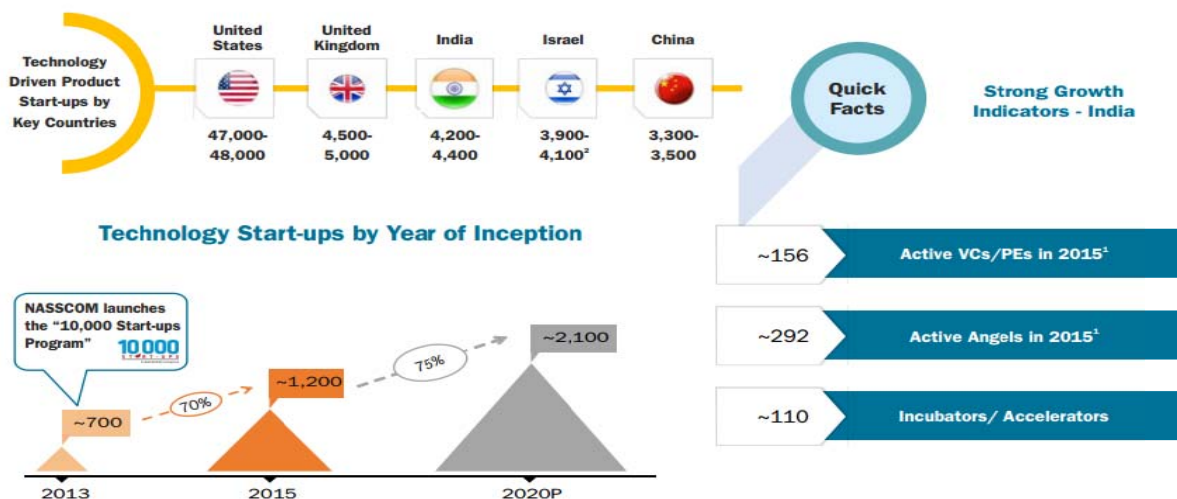


Fig 2.0 Source: Zinnov Research & Analysis, The Next Web, Leweb Blog

<https://www.gapjournals.org/>

The following figure shows Active (VCs/PEs) which would be taken as an investor who has made at least one investment in 2015. Presented numbers are from January to September 2015. Thus the following figures put a positive outlook in relation to the start –up initiation in India.

It's a welcome measure, but it needs to be implemented in a proper way. India is itself is a huge consumerbase; hence if the concept is properly implemented reliance on imports can be reduced thus taking some share of global manufacturing away from China.

As the majority of India's work force is below 35 years of age if properly trained then it can be big pool of talent and with right infrastructure and policies we can lay create a major manufacturing hub in the Asian continent. Start –up India concept thus should be taken as a constructive of opportunities rather than the literal meaning. Creating an environment where people can create new things with their ideas due to ease of business and availability of well connected channels, well developed infrastructure and a pool of skilled labours would literally favour the economy and reduce the burden of depending on foreign goods and services.

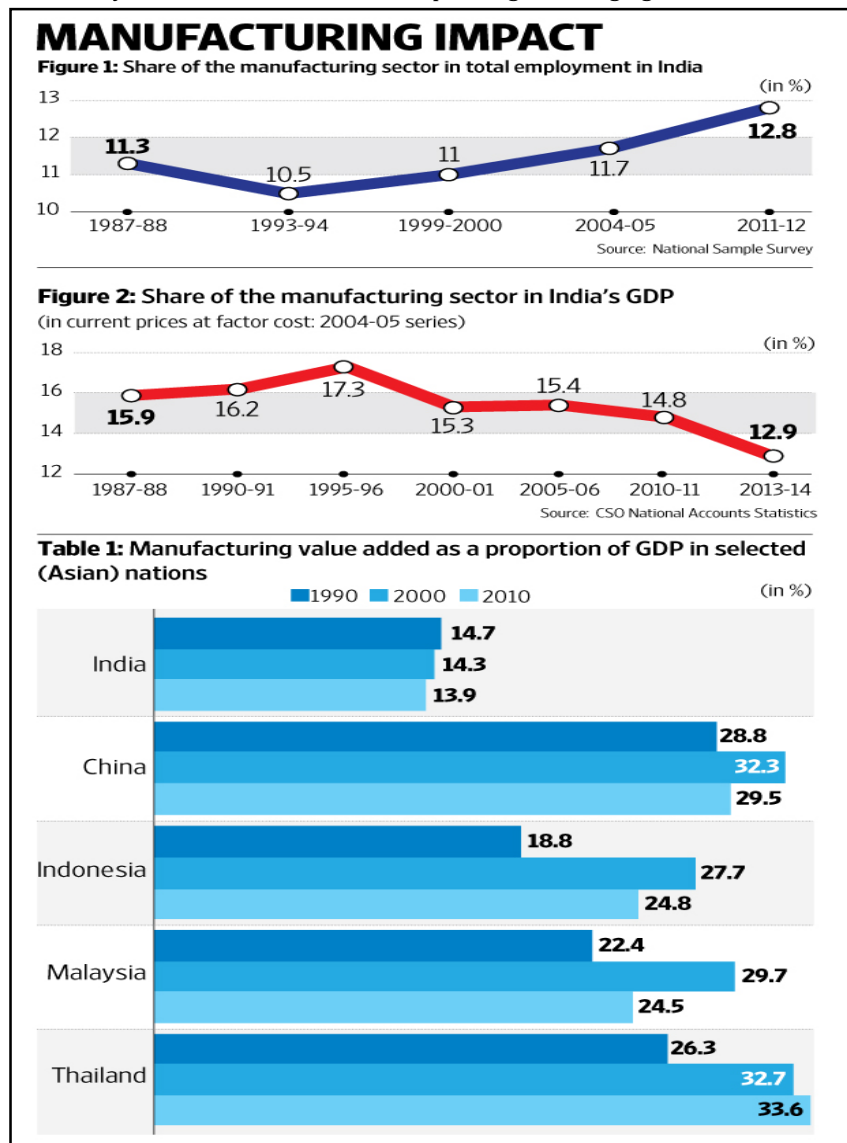


Fig 3.0 (Source : UNIDO and UN National Accounts Statistics)

Figure 3.0 indicates the manufacturing trend in India which clearly indicates the similar reasons why it differs from other Asian countries half its size. Although the employment sector have benefited but still its impact on the GDP is minimal.

THE DEMONETIZATION DRIVE

The demonetization drive initiated by the ruling government affected all sectors of the economy to various extents. Although the measures will pressure GDP growth, and thereby affect government revenues but in the longer run they would boost revenues and translate into higher capital growth. The drive clearly targeted:

- (a) Parallel economy which was a haven for counterfeit trading was stalled thus effecting cross border terrorism and fake currency circulation.
- (b) Real estate business crashed as the major chunk of the black money was channelized through these sector and converted into white stash.
- (c) Political nexus owing to vote capturing and political funding were asphyxiated.
- (d) Cash less transactions were encouraged.

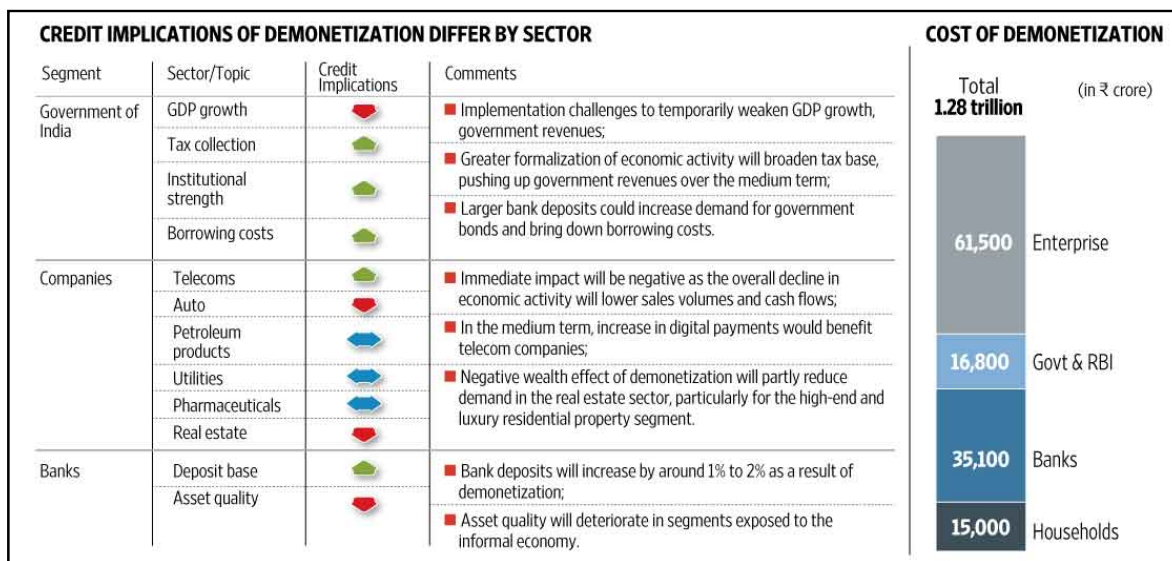


Fig 4.0 (Source: Live mint)

The figure 3.0 explains the effect of demonetization in various segments and its effect on the GDP. Although the economy may face temporary challenges due to weaken GDP, there might be greater accumulation of economic activities which may broaden the tax base thus pushing the government revenues. Bank deposits would increase as many would go for cash less transactions thus making bankshaving wider base and larger number of deposits demand for government bonds thus bringing down borrowing costs.

THE EVOLUTION OF CASH LESS TRANSACTION

By temporarily turning off the engines which drove the cash economy, the demonetization aimed that more people could be brought into the fold of using traceable and taxable digital financing vehicles like debit cards, net banking, e-wallets etc.

Demonetization has brought India in the middle of an all out movement to modernize the way things are paid for. Reducing Indian economy’s dependence on cash is desirable for a variety of reasons. India’s cash to gross domestic product ratio is one of the highest in the world. According to a 2014 study by Tufts University, *The Cost of Cash in India*, cash operations cost the Reserve Bank of India and other Commercial Banks about Rs. 21,000 crores annually. Also a shift away from cash will make it more difficult for tax evaders to hide their income as the new system would create a trail which was earlier missing and thus can be traced easily.

Moving towards a cashless economy provides many incentives:

- (a) Increased card penetration increases GDP
- (b) Greater acceptance of e – payments provides an on – ramp to financial inclusions.

- (c) When viewed in a wider spectrum it will facilitate inter – ministerial collaboration at the centre and engagement with the states to leverage existing programmes and platforms for example M-Kisan.
- (d) Help in designing programmes tailored to meet the needs of various types of underserved segments such as women and farmers.
- (e) Strengthening efforts to promote financial participation, working in collaboration with existing microfinance institutions in different states.
- (f) Crafting approaches to inculcate financial literacy programmes at the school level and in higher education, and as a part of public service education
- (g) Introducing certification standards and constructing innovative models for business correspondence.
- (h) Eradicating a nexus of agents and sub – agents in every sector whether it's a manufacturing sector or educational sector.
- (i) Eliminating the system of babudom from the Indian working system thus eliminating bribery and favours and creating a confidence amongst the citizens.

This can be shown through a chart. Fig 5.0

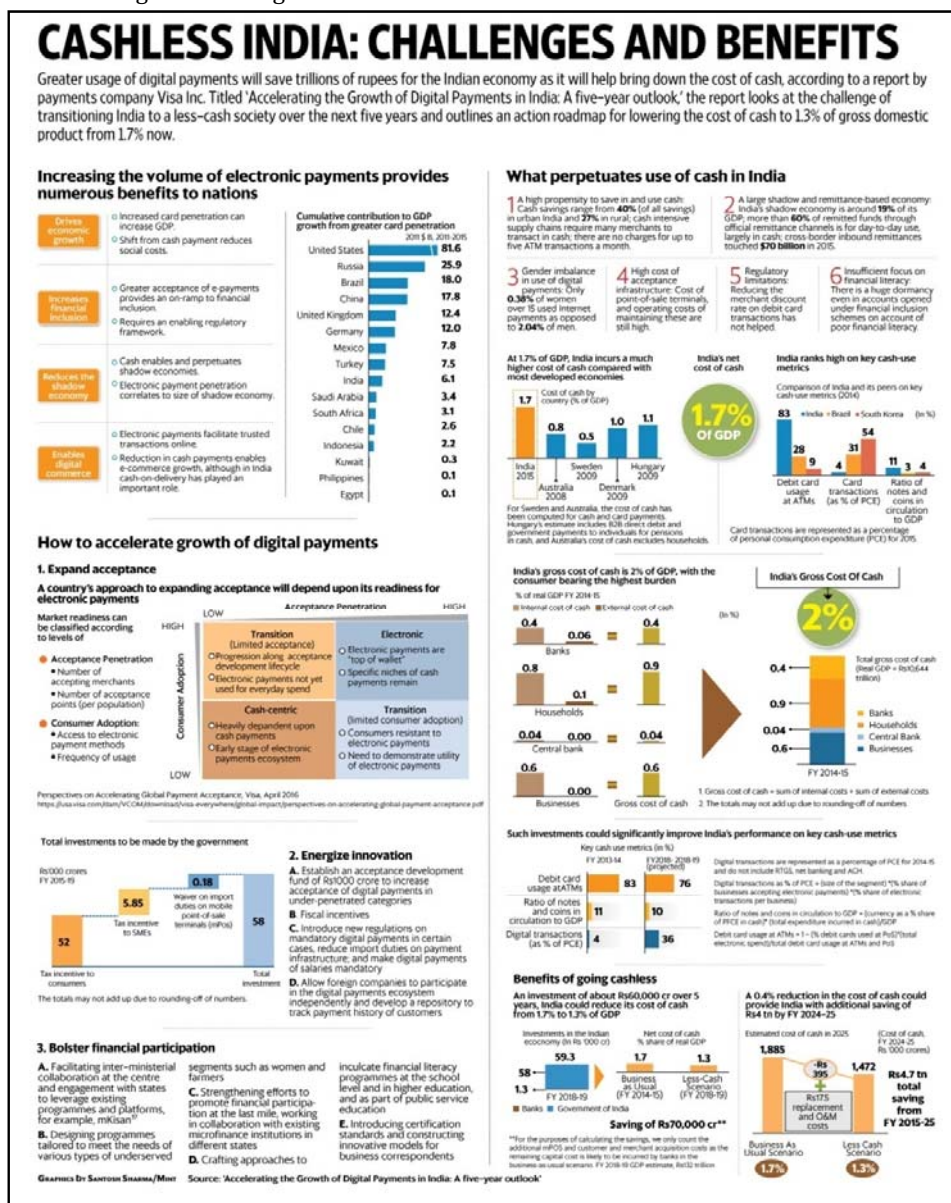


Fig 5.0 (Source Live mint)

CONCLUSIONS

Indian economy has the capacity to push the GDP to 25% in next few years. The government of India has taken a number of steps to further encourage investment and further improve business climate. Start – up India concept is one such long term initiative which the government has provided an arena through the demonetization drive to play and excel and to realize the dream of transforming India into a manufacturing hub. The demonetization drive should not be seen as an hindrance but a key to remove a parallel track which may affect the vision and mission so envisaged by our leaders. It should be seen as an aid to the Start – up India campaign. Start – up India concept thus should be taken as a constructive of opportunities rather than the literal meaning. Creating an environment where people can create new things with their ideas due to ease of business and availability of well-connected channels, well developed infrastructure and a pool of skilled labours would literally favour the economy and reduce the burden of depending on foreign goods and services.

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