



**Masters International  
R&D Center**

**MIRDEC 2017**

MIRDEC-5th,  
International Academic Conference  
Social Science, Multidisciplinary and European  
Studies

**CONFERENCE PROCEEDINGS  
VIENNA, AUSTRIA**

Full Paper Series

Editors  
Kemal Cebeci  
Adam Pawlicz  
Mohamed Zniber

Holiday Inn Vienna City, Vienna, Austria  
12-14 September 2017

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**Finance:** Corporate, international, green finance, financial reporting, public finance, financial markets, financial services, financial instruments, capital movements, government budget, etc.

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**Management:** Human resources, cultural problems in labor mobilization, international human resource, mobility of human resource, business, cross cultural, corporate governance, financial resources, gender issues, technological resources, natural resources, knowledge, etc.

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*Risk Perception and its Impact on the Choice of the Tourist Destination”*  
*University Ibn Zohr/ Agadir, Morocco*

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*The Impact of the Moroccan Linguistic Situation on Educational Reforms*  
*University Ibn Zohr/ Agadir, Morocco*

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*VU University Amsterdam, Netherlands*

**Jacek Liwinski**

*University of Warsaw, Faculty of Economic Sciences, Poland*

**Aziz Sair**

*University Ibn Zohr/ Agadir, Morocco*

**Mohamed Zniber**

*University Ibn Zohr/ Agadir, Morocco*

We are very pleased to introduce the proceedings(**full paper series**) of the Masters International Research & Development Center, MIRDEC 5th, International Academic Conference on Social Science, Multidisciplinary and European Studies, 12-14 September 2017, Vienna, Austria. MIRDEC thanks to all our participants for their academic and social contributions.

**Mirdec-5th Vienna 2017 Conference Proceedings, Full Paper Series**

Masters International Danismanlik Arastirma Yayıncılık  
Masters International Consultancy Research and Publishing

**ISBN: 978-605-82290-3-7**

MIRDEC Publishing

**Editors:**

**Kemal Cebeci**

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**Publisher:** Masters International Danismanlik Arastirma Yayıncılık  
Masters International Consultancy Research and Publishing

**ISBN: 978-605-82290-3-7**

MIRDEC Publishing

Cinarlicesme sk. No: 21/13 PK: 34303 Kucukcekmece Istanbul Turkey

**Publisher certificate no: 35822**

**Publication date: 30 November 2017**

**www.mirdec.com**

**info@mirdec.com**

**Published at:** Form Baskı Teknolojileri Reklam ve Paz. Tic. Ltd. Şti, Şerifali Mah. Şehit Sokak, No:16/1 Umranıye / Istanbul, Turkey Tel: (+90)( 216) 337 37 96, Matbaa Sertifika No/Certificate no: 31613, www.formbaski.com.tr

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# **MASTERS INTERNATIONAL**

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## **VIENNA 2017**

ALEN HOST<sup>1</sup>, VINKO ZANINOVIĆ<sup>2</sup> AND NATALI BILANDŽIJA<sup>3</sup>

## THE IMPACT OF BREXIT ON THE POUND STERLING

### Abstract

The United Kingdom decision to leave the European Union, the so-called Brexit, caused a major economic shock for the U.K. This paper analyses the impact on the Pound, by looking at GBP/USD and GBP/EUR exchange rates. Both these exchange rates were in fact volatile post-Brexit, especially immediately after the referendum held on 23rd of June 2016. Since then however, the pound has become more stable. In the paper we use generalized autoregressive conditional heteroskedastic (GARCH) model for modelling monthly and daily returns and forecast volatility of the aforementioned currency pairs. We also descriptively analyse possible influences of exchange rate volatility on the trade of Great Britain with two most important trading partners – European Union and United States. As the process of Brexit develops in the next two years (until March 2019), the pound can be expected to fluctuate again, due to many other factors which are putting pressure on the pound sterling right now, both economic, like domestic and foreign demand, and political ones.

**Keywords:** Brexit, pound sterling, volatility, trade

**JEL Codes:** F31

### 1. Introduction

The vote to leave the European Union by the British electorate, commonly known as Brexit has created a huge amount of uncertainty for the United Kingdom. This uncertainty has come in the form of both political and economic struggles. This paper will analyse the effect this has had on the value of Sterling (Great British pound). In order to get the bigger picture, my analysis will include yearly data from 2000 to show the drastic effects this has had on the Pound. The main part of the analysis will focus on exchange rate values in the midst of the Brexit vote. This paper will show what events caused falls in the value of the pound, how big the impact was, did the pound recover, as well as try find reason why this happened. My trade analysis will try to see if the changes of the value of the Pound had any effect on trade of the UK with the rest of the world, looking at the imports, exports and trade balance.

The talks of a possible EU referendum started in 2012, when the Prime Minister Cameron rejected calls for the referendum, but suggested the possibility of a referendum in the future, as a way to gain voters' support for the future general election. As the idea of Brexit seemed to have gained more and more support, as well as the rise of Leave supporting political party UKIP, Cameron announced a Conservative government would hold the referendum, given they win the 2015 general election, before the end of 2017.

The narrow win of the Leave campaign was a surprise to many, and in the matter of hours after the result's announcement, a petition for the second referendum was made. People were also calling polling stations regretting their choice or not showing up to vote, and asking to change their vote. The petition which attracted over 4 million signatures was rejected by the Prime Minister and Government, as they said the decision made by the referendum must be respected. Even though a referendum is not binding in the UK, but can be seen as more of a mechanism for governments to find out public's opinion, the government will usually act according to referendum results.

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On 29th of March 2017 the UK invoked the Article 50 of the Treaty on European Union. Article 50 is a plan for any country that wishes to exit European Union, created as part of the Treaty of Lisbon. Once the article is triggered, the UK has 2 years to negotiate the terms of the withdrawal. Formal start of the negotiations has been delayed due to poor election results May has suffered recently (Hunt and Wheeler, 2017). This papers tests how the effects of Brexit on volatility of pound sterling vis-à-vis U.S. dollar and euro. In this paper we model the volatility of the aforementioned currency pairs and then monitor the changes in aggregate trade flows in order to see whether the above-normal volatility of currency pairs has any impact of trade flows between United Kingdom and its two most important trading partners – European Union and United States.

## **2. Theoretical background**

As mentioned before, for the purposes of this paper, we will observe the exchange rate of the Pound and two other world currencies, to show the impact of Brexit. World currencies are currencies that are transacted internationally, with no set borders. They include US Dollar, European Euro, British Pound, Japanese Yen and Chinese Renminbi. Most traded currencies in the foreign exchange markets are, in order: the dollar, the euro, the yen and the pound. The two currencies that will be used for the analysis are the US dollar and the euro. The reason for this is that they are the most traded world currencies, but another logical reason for choosing the euro is of course the issue of Brexit itself.

The United Kingdom has a floating exchange rate system, as the Bank of England does not actively intervene in the currency markets to achieve a desired exchange rate level. The Bank of England uses the forward guiding in monetary policy. It is a tool used to influence the market expectations of future levels of interest rates, using own predictions. By doing this, this popular policy is supposed to stimulate growth and reduce uncertainty in the markets, but recently it has received a lot of criticism.

The changes in exchange rate markets cause currency risks which many companies, banks and other institutions then face. In order to hedge themselves from these risks they might choose to buy certain financial instruments, the so-called derivatives. According to the type of the contract we can divide derivatives into:

- Forwards – agreement on buying and/or selling of currency on a specific date in the future at current, today's, price
- Swaps – the purchase of a given currency at today's exchange rate with simultaneous sale at the forward rate, and vice versa
- Options – call option is the option to purchase currency at the agreed price at the settlement date in the future; put option is the option to sell at the agreed price at the settlement date in the future
- Futures – like forwards, but there is a regulated futures markets where they are traded

Proliferation of these and more complex financial derivatives, i.e. potential financial hedging instruments from 1990s, reduced firms vulnerability to risks arising due volatility currency movements. While most business will use these instruments to hedge themselves from exchange rate risk, in a time of uncertainty such as Brexit, other individuals might use this as an opportunity for speculation and generating a profit. Speculating refers to taking either a long or short position, therefore gambling on the future value of the exchange rate (Nwazor, 2016).

## **3. Data and methodology**

Data was obtained from Forex Tester, from where we downloaded M1 GBP/USD and EUR/GBP exchange rates data spanning from January 2001 to August 31, 2017.

Since markets, especially financial markets, and foreign exchange market in particular, are subject to periods of unusual turbulences that are persistent during some time period, as opposed to standard or normal volatility, we needed to consider models that have heteroskedasticity assumption included, i.e., that are based on that assumption. General autoregressive conditional heteroskedastic (GARCH) models are usually used in financial econometrics as a standard tool for describing and forecasting time-varying volatility (Visser, 2010).

We estimate GARCH model:

$$X_t = \sigma_t \varepsilon_t \quad [1]$$

$$\sigma_t^2 = \alpha_0 + \sum_{i=1}^p \beta_i \sigma_{t-i}^2 + \sum_{j=1}^q \alpha_j X_{t-j}^2 \quad [2]$$

Equation [2] shows that estimate of today's variance is equal to weighted long run average variance, lagged variance and lagged squared return. The rest of the analysis includes simple graphs that show development of trade balance and exchange rate over observed period.

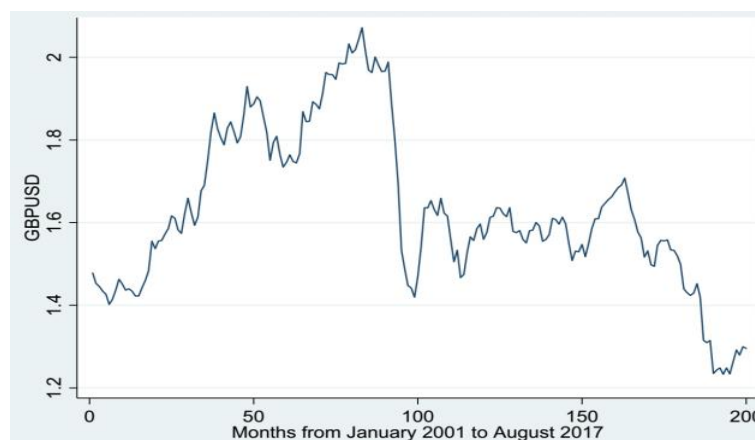
#### 4. Empirical analysis of the Post-Brexit Pound

The empirical analysis of the impact of Brexit on the pound sterling will have three parts. The first part will focus on the time series analysis of the value of the pound, when compared to the euro and dollar. Time series will include analysis of yearly data since 2000, as well as monthly and daily data from the beginning of 2001 until August 2017. The second part will look at trade fluctuations of the UK with EU and non-EU countries, focusing on the post-Brexit era. This way the paper will try to show how big was the impact, if any, of the change of the value of the pound on trade. Lastly, the paper will look at how FDI was affected by the pound post-Brexit.

##### 4.1. Time series analysis

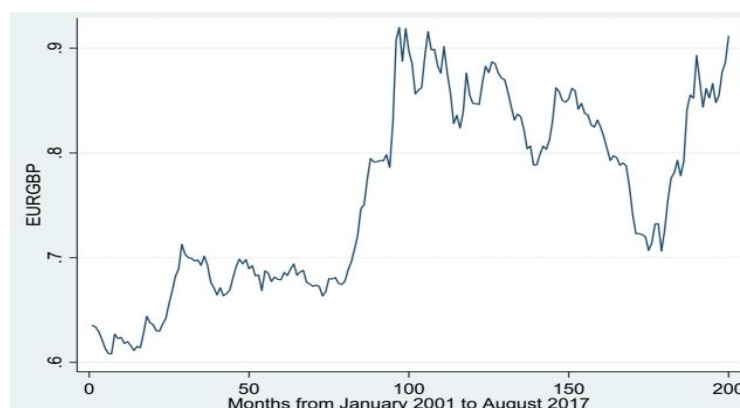
First, we show the GBP/USD and GBP/EUR exchange rates during period 2000-2016.

**Figure 1. GBP/USD monthly time series from January 2001 to August 2017**



Source: Authors' Calculations

**Figure 2. EUR/GBP monthly time series from January 2001 to August 2017**



Source: Authors' Calculations

The movements of the GBP/USD and EUR/GBP are quite similar though past 16 years, as is shown by the Figures 1 and 2 (considering that pound is quoted currency in EUR/GBP pair, so rise of exchange rate means that pound is depreciating against euro). The financial crisis hit the United States first, as that is where it also started, which explains the rise in GBP/USD because of the depreciation of the USD. However, soon after that the pound started to depreciate as the crisis spread.

This is best seen from the chain indexes calculated in Table 1. In 2007, GBP/USD rose by 8.64% while GBP/EUR (here we show GBP as base currency for easier comparison with the GBP/USD pair) fell by roughly half percent. In 2008, as the crisis hit the United Kingdom, GBP/US fell by 7.4% in 2008, and 15.52% in 2009. At the same time GBP/EUR exchange rate fell 13.9% in 2008, and 10.79% in 2009 (IMF, 2017).

**Table 1. Chain indices 2000-2016**

YEAR	GBP/USD	Chain Index	GBP/EUR	Chain Index
2000	1.5150	-	1.6419	-
2001	1.4400	95.05	1.6019	97.56
2002	1.5035	104.41	1.5911	99.33
2003	1.6349	108.74	1.4461	90.88
2004	1.8317	112.04	1.4740	101.93
2005	1.8191	99.31	1.4628	99.24
2006	1.8426	101.29	1.4672	100.30
2007	2.0018	108.64	1.4619	99.64
2008	1.8537	92.60	1.2587	86.10
2009	1.5661	84.48	1.1229	89.21
2010	1.5456	98.69	1.1662	103.86
2011	1.6039	103.77	1.1528	98.85
2012	1.5849	98.82	1.2339	107.04
2013	1.5637	98.66	1.1775	95.43
2014	1.6482	105.40	1.2410	105.39
2015	1.5291	92.77	1.3793	111.14
2016	1.3556	88.65	1.2240	88.74

Source: Authors' Calculations

Overall, we can consider the pound sterling to be a relatively stable currency. It was affected by the financial crisis, but other than that it has relatively stable exchange rates towards the dollar and the euro, fluctuating in the range 1.00-2.00 in the observed period. Even though the pound recovered from the financial crisis, as did the UK economy, the overall value of the pound in the observed period has decreased. In the time period from 2000 to 2016 the value of the pound fell by 10.52 % at the GBP/USD rate and 25.45% at the EUR/GBP exchange rate. However, in this time period observed we can also see the fall in the value of the pound caused by Brexit, which will be observed in more detail in daily and monthly exchange rate analysis.

The daily exchange rates that are showed in the Figures 5 and 6, can be found in the Appendix. From the abovementioned figures we can see that both GBP/USD and EUR/GBP exchange rates have overall decreased/increased since the beginning of 2016.

Leading up to the Brexit referendum, on 23<sup>rd</sup> of June, the pound was slowly appreciating. The reason behind is that many polls before the referendum showed the win of Remain, in favour of staying in the

EU (Nwazor, 2016). The pound fell sharply after the referendum results, after which it relatively stabilised for a time. On June 24<sup>th</sup>, the GBP/USD rate fell by 7.98% while GBP/EUR rate decreased by 5.3%. In the immediate aftermath of the Brexit result the depreciation was even bigger, but due to hedging instruments, options and forwards, the pound slightly recovered from the major fall. More importantly, companies were able to protect themselves from the foreign exchange risk. However, UK businesses are now facing issues as their FX protection purchased before the referendum is running out, and the cost of renewal has sky rocketed since Brexit (Khalique, 2016).

In the last quarter of 2016 the value of the pound has been falling again, due to two reasons. In early October, the pound hit the new 31-year low against the dollar in a “flash crash”, thought to be caused by rogue computer trading. The other issue which is causing pressure on the pound is May’s hard take on Brexit. As she set the March 2017 deadline for starting the formal Brexit process, she hinted that the government is willing to sacrifice UK’s access to EU single market in return for tighter immigration control. The “hard Brexit” has knocked confidence in the long-term economic prospects of the UK, which has in turn hit the pound (Allen and Scruton, 2016; Thompson, 2016).

On March 29<sup>th</sup> 2017, the Article 50 was triggered, starting the formal process of the UK leaving the EU. The pound remained relatively stable around this date, as the start of the process has been announced before and the markets were prepared for it.

Most recent event related to Brexit and UK politics, which affected the value of the pound, were the general elections. As the Tories lost the majority government, and the negotiations of Brexit likely to be delayed, the overall confidence has declined. This of course has been reflected in the decrease of the pound and increase in its volatility, both against the dollar and the euro (Allen and Scruton, 2016).

The monthly standard deviations in Table 1 show the volatility of both GBP/USD and EUR/GBP exchange rate. The standard deviations show how much on average were the exchange rates disperse from the mean rate of each month. Table clearly shows that GBP/USD exchange rate is more volatile than GBP/EUR exchange rate, as it had higher standard deviations. The exception was in January 2016, May 2016, August 2016, November 2016 and May 2017. This data shows that GBP/USD rate was more influenced by Brexit than GBP/EUR.

Another observation that can be made from the Table 2, is that the biggest influence of Brexit on the pound was in June 2016, when the referendum was held. Standard deviations are the highest for both GBP/USD and EUR/GBP rates in that month.

**Table 2. Monthly standard deviations of GBP/USD and EUR/GBP exchange rates**

MONTH	STANDARD DEVIATION	
	GBP/USD	EUR/GBP
Jan-16	0.0185	0.0203
Feb-16	0.0234	0.0173
Mar-16	0.0139	0.0113
Apr-16	0.0173	0.0165
May-16	0.0104	0.0206
Jun-16	0.0482	0.0326
Jul-16	0.0105	0.0092
Aug-16	0.0112	0.0117
Sep-16	0.0155	0.0133
Oct-16	0.0227	0.0121
Nov-16	0.0078	0.0231
Dec-16	0.0177	0.0089
Jan-17	0.0148	0.0123
Feb-17	0.0077	0.0065
Mar-17	0.0145	0.0070
Apr-17	0.0194	0.0093
May-17	0.0053	0.0146

Source: Authors' Calculations

When looking at the data from Figure 5 and Figure 6, there is no denying that Brexit caused a serious decrease in the value of the pound. Both GBP/USD and GBP/EUR rates move in the same direction in the wake of crucial Brexit moments, but GBP/USD rate seems to be more volatile.

The biggest changes in exchange rates, from the monthly data, are seen in July 2016 and October 2016. The causes of this falls of the pound are the same as when we observed the daily data. Reason why June 2016 is not included here is because the referendum was held at the end of the month, and leading up to it the pound was also appreciating, with polls predicting Remain win. This means that when the mean exchange rate is calculated, the low exchange rates after the referendum results in June 2016 are balanced by higher rates from the rest of the month.



For the GBP/EUR exchange rate as well as for EUR/GBP exchange rate we fitted a GARCH(1,1) model on daily data and obtained the following results:

$$\text{GBP/EUR: } \sigma_t^2 = 0.0000488 + 0.0733628X_{t-1}^2 + 0.9153244\sigma_{t-1}^2$$

$$\text{EUR/GBP: } \sigma_t^2 = 0.0000337 + 0.0611568X_{t-1}^2 + 0.9344545\sigma_{t-1}^2$$

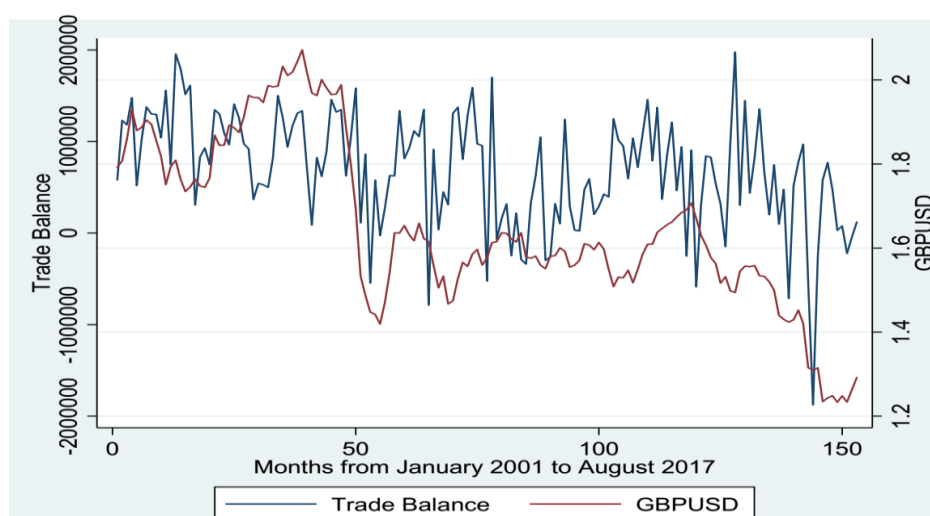
In postestimation test of the residuals we find no ARCH effects. Our results are comparable with the results of Dukich et al. (2010). Since sum of the coefficients in the estimated equations is less than one, mean reversion process after initial shock is expected. Moreover, estimated conditional variances (only shown for GBP/USD in Figure 7, Appendix), shows that the impact of Brexit had twice stronger impact of volatility of GBP/USD with respect to Financial Crisis. This was to be expected, since the results of referendum surprised most of the market players.

#### 4.2. Trade fluctuations analysis

In theory, a weaker pound should affect both imports and exports. As the currency, in this case the pound, depreciates, imports become more expensive which should in turn lower the volume of imports. On the other side, exports become cheaper which makes them more competitive on the world market, and this should increase the volume of exports. Whether devaluation of currency will lower or increase trade in total, depends whether a country has a trade surplus or deficit. The United Kingdom has a trade deficit with the rest of the world, meaning it imports more goods than it exports.

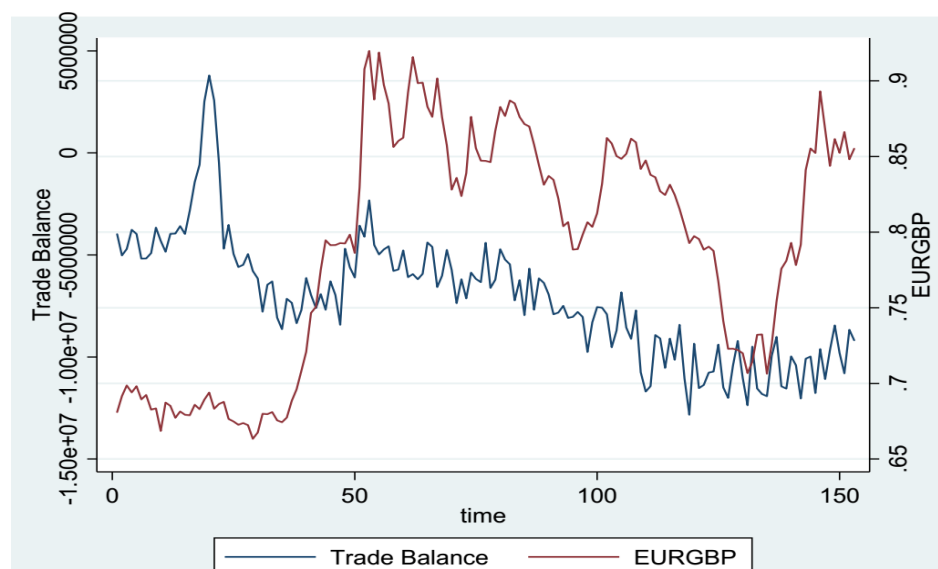
This however, happens with a time lag, as in short-term depreciation widens trade deficit. (Figure 1) Businesses are not able to react to exchange rate changes due to contracts with suppliers and other business, so volumes of imports remain the same while value of imports increases, as the pound depreciated. It is only in the medium to long-term that the UK can expect to see the effects of the cheap pound on narrowing the trade deficit. Another thing to take into account is that there are many other factors that affect imports and exports such as consumer and business confidence, GDP, trade agreements, etc (Pugel, 2015).

**Figure 3. UK-USA trade balance and exchange rate from January 2001 to August 2017**



Source: Authors' Calculations

**Figure 4. UK-EU trade balance and exchange rate from January 2001 to August 2017**



Source: Authors' Calculations

As the pound crashed after the Brexit vote, goods exports from the UK to EU and USA increased slightly. Exports to the EU rose 9.1%. This helped narrow UK's trade deficit, and was also biggest rise in EU exports since October 2010. The changes in trade in this month were aligned with experts' forecasts. However, as the Figure 4 shows not seasonally adjusted import and export price indices, we cannot contribute swings in exports and imports to cheaper pound. Exports continued to rise in August of 2016, but imports grew at a higher rate. This caused a widening of trade deficit, in contrast to what was expected. The trade deficit on goods with EU countries hit a record high of £8.4bn as imports from EU rose 5.1% and exports to it fell 0.6% (Allen and Scruton, 2016).

Even though experts were hoping the cheap pound would boost exports, trade deficit on goods continued to widen in September and October 2016. Both exports and imports have experienced growth in the past year, this trend continuing in 2017 as well, but there is little evidence that this is due to Brexit and the fall in the value of the pound. Taking into consideration the J Curve, not enough time has gone by since Brexit for the cheap pound to actually affect the trade balance. From Figures 3 and 4, we can see that most recently the trade deficit is decreasing, which means we could be starting to see the effects of depreciation on exports and imports. However, there are many other variables that affect trade balance, which have bigger consequences on trade in short-term than depreciation. An example of this is GDP, especially consumption. Domestic consumption affects imports, while foreign consumption will affect exports. Other factors might include the economic conditions in countries UK trades with, price sensitivity of UK exports and trade agreements UK is a part of which gives it access to markets across the world, as well as gives other countries access to UK market (Office for National Statistics, 2017).

#### 4. Conclusions

By comparing the pound with the dollar and the euro post-Brexit, this paper showed that Brexit really did have a big impact on the pound sterling. This is best seen in the fall of both exchange rates at the key dates and events of the Brexit process. With simple econometric tools, and need to go deep in the

econometric analysis, we showed how Brexit surprised the market players and created havoc in the short time span. However, due to traders on the FX markets and the political situation becoming more stable, the pound managed to recover from the major fall of June 23rd 2016 to some extent. Since then it has become more stable.

In the immediate aftermath of Brexit, trade deficit narrowed, but this was most likely due to other variables and not the cheap pound. In the not-so-near future, we can expect to see trade deficit narrowing, which might be partially due to depreciation, but other variables, like domestic and foreign demand, play a bigger influence. Therefore, changes in trade were not mainly caused by Brexit and the fall in the value of the pound, which was also confirmed by statisticians.

In the next 2 years of the Brexit process the pound will be under a lot of pressure, both from Brexit and other influences and events in the UK that might arise. As the other key events approach, such as EU Summit and Transitional Arrangements, the pound is very likely to become more volatile. However, the increase in FDI and other economic indicators which show the strength of the UK economy, reassure the investors and the public the pound will regain its strength. Most recently the big threat to the UK, as a country and an economy, are the recent terrorist attacks in London and Manchester. These horrible events create uncertainty and instability in both the political and economic systems, as well as security of the nation as a whole. Another threat in the political system is the possibility of another referendum for Scotland's independence. The Scottish National Party continues to discuss possibility of one, as Scotland voted for remaining in the EU. This is largely considered to be less likely to happen after the recent election, where the Scottish National Party lost a large amount of seats to Labour and the Conservatives. This loss in votes is perceived by many as the Scottish people not wanting another referendum on the issue. If the referendum was held and Scotland voted for its independence, it could prove to be a major shock to UK economy and the pound. However, only time will tell what will happen, and if we have learned anything from Brexit, it is to expect the unexpected.

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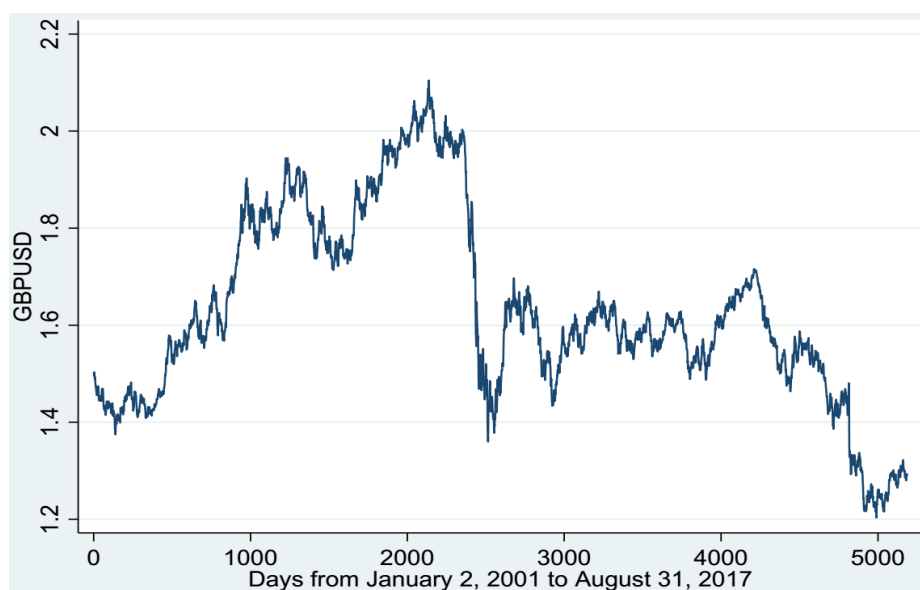
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## Appendix

**Figure 5. GBP/USD daily time series from January 2, 2001 to August 31, 2017**



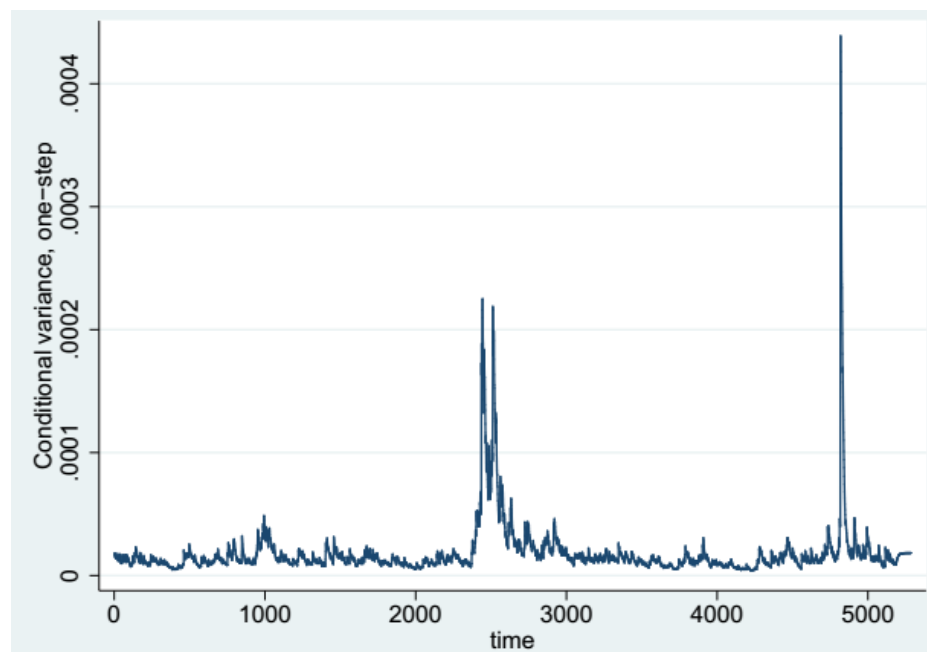
Source: Authors' Calculations

**Figure 6. EUR/GBP daily time series from January 2, 2001 to August 31, 2017**



Source: Authors' Calculations

**Figure 7. Estimated conditional variance, forecasted 100 time units (days) ahead**



Source: Authors' Calculations

ANTONIO FOCACCI<sup>1</sup>

## IS FINANCIALIZATION EFFECT DETECTABLE WITHIN INTERNATIONAL OIL MARKETS?

### Abstract

Over the past two decades increasing transformations involving the commodities pricing mechanisms jointly with relevant innovations introduced in financial markets spurred controversial issues both among policy-makers, practitioners and scholars about resulting overall effects on the economy. Common explanations advocated by experts are focused on two main features: increasing hypertrophic financialization of commodity markets and structural economic factors linked to traditional supply-demand imbalances. Oil markets have been an early example of this trend. In the present paper, with the aim to contribute to the discussion, a cross-correlation function (ccf) is applied to financial variables (Stock Exchange Indexes and main international quoted oil prices) to investigate the dynamic relationship depicting the potential existing mechanism. In order to propose a relevant analysis, data pertaining some industrialized Countries (Germany, United Kingdom and United States) as well as some important developing Countries (Brazil, China and India) are processed.

**Keywords:** Financialization, oil prices, cross-correlation function

**JEL Codes:** C01, G15, Q41

### 1. Introduction

Commodity markets witnessed two fundamental and influential changes during the past twenty-years. The first -generally labeled by the term “financialization”- has been the increasing marketization, financial deregulation and global economic liberalism leading to massive participation of newcomer institutional investors like for example Hedge Funds (HF), Commodity Index Funds (CIFs), Commodity Index Traders (CITs; long-only investors like pension funds and insurance companies) and Exchange Traded Funds (ETFs) (Büyüksahin and Robe, 2014). Remarkable expansion of the technological-financial infrastructure occurred in the first ten years of the 21<sup>st</sup> century prompted the possibility to invest in oil, for example, without having the costs and the constraints of storage. Such mechanisms were advocated to add endogenous dynamics also in oil (commodities) markets acting as exogenous (merely financial) speculative drivers through the massive inflows of capital attributable to a crowd of operators historically never engaged in futures markets (Tang and Xiong, 2012; Daskalaki and Skiadopoulos, 2011). From 2000 to 2010 it is estimated the number of CITs more than quadrupled (Cheng et al., 2015), and the number of US HFs more than tripled between 2004 and 2007 (Domansky and Heath, 2007). Overall capital inflow increased from US \$ 15 billions to US \$ 250 billions in 2009 (Irwin and Sanders, 2011).

The second relevant event is to ascribe to the boom of energy and raw material world demand resulting from the economic growth of Emerging / Developing Countries with Brazil, China and India as leading actors (Focacci, 2005 and 2007). Increasing demand originated from these highly-populated transition economies concurrently with geopolitical factors related to a general instability in the Middle East area (Hamilton, 2009) and to more relaxed diplomatic relations with producer Countries previously banned from international official markets, exerted an (unexpected) huge pressure on prices (even if such Countries played outstanding roles also within the supply-side as producers). According to explaining

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the rise of oil prices during the period 2003-2008 as a result of a shift in demand originating from global business cycle are Kilian and Murphy (2014).

On the financialization effects affecting commodity markets, scholars and practitioners do not agree on the general interpretation. Supporting the traditional stabilizing action of the speculation mechanisms by selling when prices are high and buying when prices are low (Friedman, 1953) are empirical works by Irwin et al. (2009), Stoll and Whaley (2010), Miffre and Brooks (2013). Opposite positions are presented in empirical papers outlining amplified and induced volatility as deriving from inherent herding behavior by speculators (Gabaix et al., 2006; Engle and Rangle, 2008; Gilbert, 2010; Henderson et al., 2015), and (generally) fewer restrictions new operators have to respect compared with traditional specialists (Rahi and Zigrand, 2009; Teo, 2009). Definitely, various explanations are pointed out by literature as potential determinants influencing commodity price levels and volatility experienced in the past years -with oil as one of the most dramatic- and an unanimous consensus has not been reached yet (Fantazzini, 2016).

Considering such premises, the main purpose of the present study is to investigate oil prices dynamics by exploring potential lead-lag effects transmitted from the traditional financial markets (in our case proxied by Stock Exchanges indexes) to oil quotations within the financialization context.

## 2. Methodology and data

To explore such an issue, briefly we have to introduce the mechanism hypothesized to igniting the process. More in detail, as well depicted by Adams and Glück (2015), *“to compensate for a decline in stock prices, investors may reduce their commodities position and invest the proceeds in stocks. A fall in stock prices therefore transmits to the commodity market by reducing commodity prices. Similarly, an increase in stock prices induces investors to sell part of their stock holdings to back their commodity position”*. Thus, the more sophisticated portfolio management strategies implemented by the multitude of operators within (highly) integrated markets should induce a dynamic relationship starting from the (lower or higher) level of stocks' prices transmitted to oil quotations (respectively pushing down or up prices) through a merely financial mechanism. With the aim to investigating the hypothesized mechanism and its sequence from stocks to commodities -in our case from stocks to oil- the lagged *ccf* of monthly quotations of stock indexes and oil prices is processed and analyzed. Resorting to this time-series analysis technique is not devoted to ascertain a causal relationship between variables (this kind of exercise is usually approached in econometrics by implementing a specific Granger causality test, even if cautions in proper interpretation issues must be observed), indeed a strictly causality validation is not proposed here. Nonetheless, taking these boundaries in mind, *ccf* has proven to be very effective in the detection of the ordinal sequence of events (Warner, 1998).

With the aim of addressing such an issue, the procedure is composed by two steps: an initial pre-whitening phase (implemented by an appropriate modeling of the time series), and a (subsequent) calculation of the *ccf* between the pair of the residuals obtained subtracting the original data from the fitted models of time series. To fit the original data in the pre-whitening step, we adopt the general ARIMA model usually formalized in mathematical symbolization for nonstationary processes as:

$$\Phi(B)(1-B)^d Y_t = \sigma + \Theta(B) \varepsilon_t$$

with:

- $\Phi(B)$  as the Autoregressive (AR) operator;
- $B$  as the backshift operator defined as  $B^d Y_t = Y_{t-d}$ ;
- $d$  as the order of differentiation;
- $\sigma$  as the constant term relating to the mean of the stochastic process;
- $\Theta(B)$  as the Moving Average (MA) operator.

Hence, after having obtained the resulting residuals of the series  $x$  and  $y$ , data are processed by computing the  $ccf$  at lag  $k$ , according to Box et al. (2016), defined as:

$$ccf(k) = \frac{c_{xy}}{\delta_x \delta_y} \quad \text{for } k = 0, \pm 1, \pm 2, \dots$$

where  $c_{xy}$  is the cross-covariance coefficient at lag  $k$  obtained as:

$$\frac{1}{T} \sum_{t=1}^{T-k} (x_t - \bar{x})(y_{t+k} - \bar{y}) \quad \text{for } k = 0, +1, +2, \dots$$

$$\frac{1}{T} \sum_{t=1}^{T+k} (y_t - \bar{y})(x_{t-k} - \bar{x}) \quad \text{for } k = 0, -1, -2, \dots$$

with  $\delta_x \delta_y$  representing standard deviations of the series  $x$  and  $y$  respectively.

It must be noted that  $ccf$  is not characterized by a symmetric behavior about 0, and inherent properties can be effectively exploited to detect whether the response variable  $y$  is “reacting” to the explanatory variable  $x$  after a (statistical significant) lag time ( $ccf$  values for  $k > 0$ ). Inversely, an anticipatory behavior could be explored for  $ccf$  values in  $k < 0$  side. Alternatively, to investigate anticipatory effects, it is always possible to invert  $x$  with  $y$  and considering  $ccf$  values for  $k > 0$  (Warner, 1998). In our research issue, stock exchange log-indexes are assumed as the explanatory variable ( $x$ ) while log-indexes of oil prices as the response variable ( $y$ ). Following this framework, only the  $k > 0$  side of the  $ccf$  positive values has to be considered to investigate a (potential) financialization influence transmitted from Stocks Indexes to oil cash prices.

As far as analyzed dataset is concerned, we consider three among core industrialized and financially advanced Countries (Germany, United Kingdom and United States) as proxies of well-established economies. At the same time, three main developing Countries (Brazil, China and India) are assumed for new growing ones. More in detail, the overall list of monthly quotations (transformed into logarithm form), coming from Datastream (2016), includes:

- Brazil Ibovespa stock index (IBOVES) from February 1992 to May 2016;
- China MSCI stock index (CHIMSCI) from December 2000 to May 2016;
- China Shanghai A stock index (CHISHA) from January 1992 to May 2016;
- Germany DAX 30 stock index (DAX30) from January 1990 to May 2016;
- India Bombay stock index (INDBOMB) from January 1990 to May 2016.
- United Kingdom FTSE 100 (FTSE 100) from January 1990 to May 2016;
- USA Dow Jones Industrials (DJ) and USA New York stock exchange index (NYSE) from January 1990 to May 2016.



For what concerns oil price series, it must be outlined that crude is substantially a fungible commodity considering all its different qualities/grades available in the market, and consumption from any source can induce mutual price shocks due to the high correlation existing among reference world-wide quotations (Brown and Huntington, 2015). Also in this case data are retrieved from Datastream (2016). Moreover, it must be pointed out that oil quotations are previously changed into index form, allowing homogeneous processing between stock indexes and oil quotations, as follows:

$$\text{Index}_t = I_{t-1} \times \left(1 + \frac{p_t - p_{t-1}}{p_{t-1}}\right)$$

assuming  $I_0 = 100$  as the starting value of the series to center the calculations.

As well as for Stock indexes, a log-transformation of the indexed-oil quotations is applied. Descriptive statistics concerning all the log-transformed series are reported within Table 1. Further points to highlight are:

-two main Stock Exchange Indexes are chosen both for China and USA; Chinese series appear as not cointegrated (unexpectedly), and including one together with the exception of the other could be considered as a “proper fit” of the elaboration. Indeed cointegration is present for the US Stock Exchange series, thus we process the DJ Industrials only, for brevity. Such cointegration exercises are resumed in Table 2.

-we present a cointegration test also for three international widespread log-indexed cash oil quotations (Arabian Light Dubai- AL, Brent –BR and West Texas Intermediate- WTI). Hence -considering that we are interested in their dynamic path, and also in this case for brevity reasons- only the log-index of Arabian Light price series is processed as a proxy of the whole oil sector (Table 2). Finally, time-series are coupled taking homogeneous data spans given that not all figures overlap the same periods.

### 3. Elaborations and findings

For the first step of pre-whitening, ARIMA best fitting models are estimated (and listed hereunder for the pair of the series) with the following parameters:

- BRA IBOVESPA (0,2,1)-AL (0,1,11),
- CHI MSCI (0,1,4) –AL (1,1,0),
- CHI SHA (0,1,0) – AL (0,1,11),
- DAX 30 (0,1,0) - AL (1,1,11),
- IND BOMB (0,1,1) - AL (1,1,11),
- FTSE 100 (0,1,0) - AL (1,1,11),
- US DJ (0,1,0) - AL (1,1,11).

ARIMA models elaborations are processed by IBM SPSS software.

For what concern AL ARIMA models specifically, it must be pointed out that parameters are different because time spans of the paired Stock Exchange Index series are not homogeneous as previously stated. Pre-whitened residuals (before *ccf* elaborations) correlograms reporting ACFs and PACFs for the various series are prior elaborated by GRETL (Fig. 1). The conventional two-standard error 95% upper and lower confidence statistical limits are depicted by horizontal solid lines.

**Table 1. Descriptive statistics for Stock Exchange index series and oil indexes (in their logarithm)**

	BRA Ibovespa Index	CHI MSCI Index	CHI Shanghai Index	GER Dax 30 Index
Mean	9.40	7.63	7.43	8.38
Median	10.00	7.71	7.45	8.53
Minimum	0.05	6.67	5.68	7.20
Maximum	11.18	8.55	8.71	9.39
Std dev	2.31	0.49	0.57	0.58
Skewness	-2.48	-0.17	-0.41	-0.40
Kurtosis	5.97	-1.02	0.00	-0.99
N	292	186	293	317
Frequency	Monthly	Monthly	Monthly	Monthly
Period	1992:02-2016:05	2000:12-2016:05	1992:01-2016:05	1990:01-2016:05
	IND Bombay S&P Index	UK FTSE 100 Index	USA DJ Industrial Index	USA NYSE All Index
Mean	7.51	8.44	9.02	8.63
Median	7.19	8.56	9.24	8.78
Minimum	5.40	7.60	7.82	7.47
Maximum	9.11	8.85	9.81	9.31
Std dev	0.96	0.33	0.55	0.51
Skewness	0.03	-0.84	-0.76	-0.70
Kurtosis	-1.13	-0.46	-0.61	-0.72
N	317	317	317	317
Frequency	Monthly	Monthly	Monthly	Monthly
Period	1990:01-2016:05	1990:01-2016:05	1990:01-2016:05	1990:01-2016:05
	Arabian Light Index	Brent Index	WTI Index	
Mean	4.62	4.62	4.62	
Median	4.62	4.62	4.62	
Minimum	4.60	4.60	4.60	
Maximum	4.64	4.64	4.63	
Std dev	0.01	0.01	0.01	
Skewness	0.15	0.11	0.18	
Kurtosis	-1.49	-1.53	-1.53	
N	317	317	317	
Frequency	Monthly	Monthly	Monthly	
Period	1990:01-2016:05	1990:01-2016:05	1990:01-2016:05	

Source: Personal elaborations on Datastream (2016) by GRET software.

**Table 2. Johansen test for log – indexes of oil quotations and the pairs of Stock Indexes**

		Trace test	pvalue	$\lambda$ max	Pvalue
AL_BRENT_WTI	rank 0	131.56	0.000	81.960	0.000
	rank 1	49.597	0.000*	46.951	0.000*
	rank 2	2.645	0.104	2.645	0.104
CHI MSCI_SHA	rank 0	10.041	0.283	8.814	0.309
	rank 1	1.227	0.268	1.227	0.268
US DJ_USNYSE	rank 0	92.039	0.000*	89.065	0.000*
	rank 1	2.973	0.085	2.973	0.085

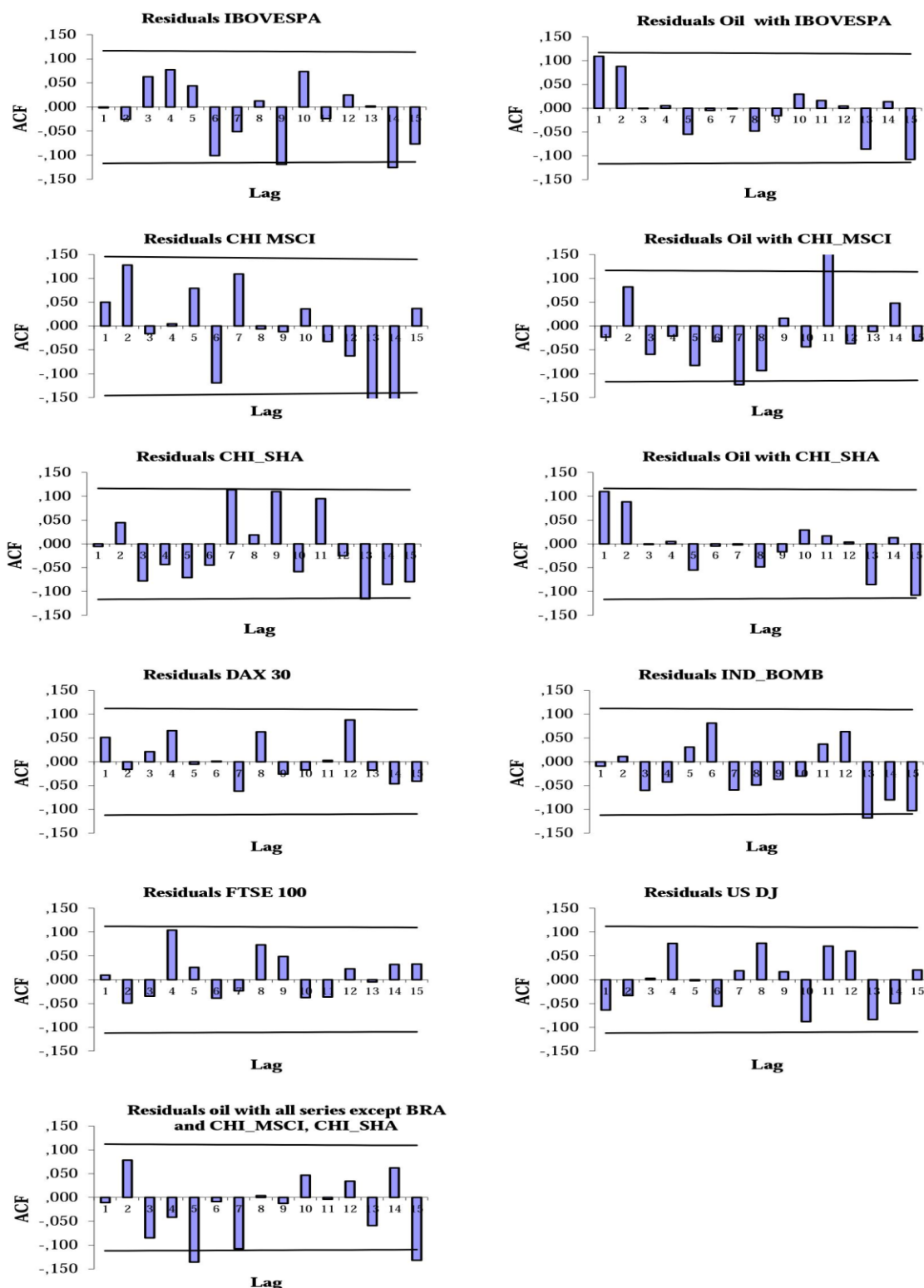
Source: Personal elaborations on Datastream (2016) by GRETTL software

\*Indicates cointegration at the 5% level

Source: Personal elaborations on Datastream (2016) by GRETTL software

\*Indicates cointegration at the 5% level

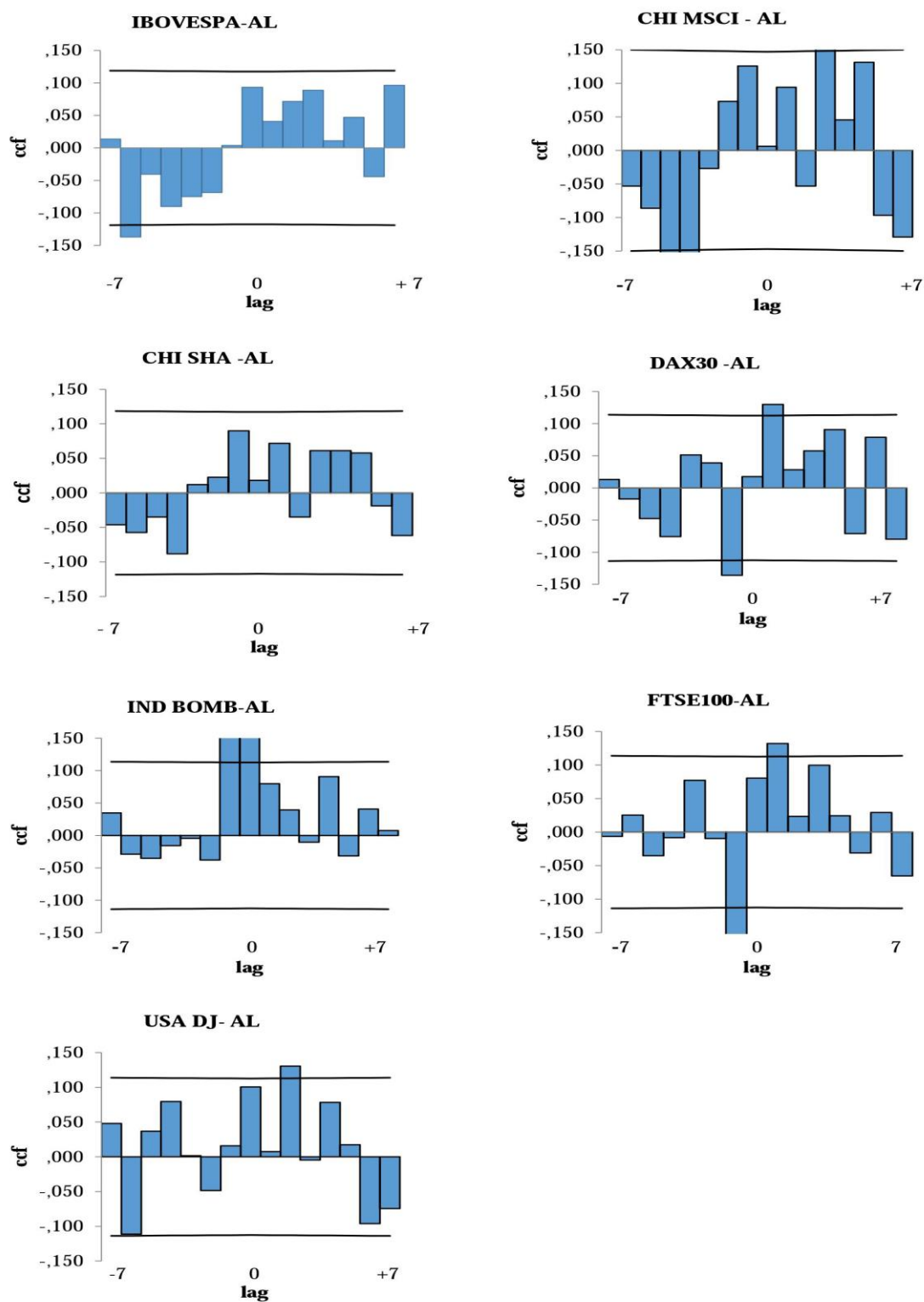
**Figure 1. Residual correlograms with 15 lags for the pre-whitened series**



Source: Personal elaboration on Datastream (2016)

As from Fig. 1 can be visual inspected, ARIMA models in the pre-whitening step produce very good fitting outcomes. The only issues could be advanced for residuals concerning: IBOVESPA, CHI\_MSCI and its paired oil series, IND\_BOMB, and oil in the case of the last diagram of Fig. 1. However, in such cases ACF values exceeding statistical upper-lower bounds are present in a very limited number (2 spikes in a couple of series). Hence, we can assume their random distribution and independence. Normality is not tested here because, this is not an inferential exercise. The subsequent second step regarding *ccf* elaborations is obtained by IBM SPSS. Time lag  $k$  for *ccf* is chosen at  $\pm 7$  months because reasonably considered as an appropriate time span to detect potential (sudden) movements transmitted from Stocks to Commodities as proposed by the mechanism depicted in the previously cited work of Adams and Glück (2015). Fig. 2 exhibits all the *ccf* for the various combinations. On the x-axis lag  $k$  is represented both for negative and positive values specifying, respectively, an anticipatory and a reacting behaviour. Also in this case, conventional two-standard error 95% upper and lower confidence statistical limits are marked by dedicated solid lines.

**Figure 2. Cross-correlation function with 7 lags for the various Stock Indexes-AL**



Source: Personal elaboration on Datastream (2016).

#### 4. Discussion and conclusions

From the above results, and following the interpretation of graphs previously showed with reference to *ccf* calculations, it is possible to resume that for growing Economies no significant outcomes have been evidenced. As a matter of fact, Brazil and (both) China log-Indexes vs log-indexed oil quotations have no *ccf* values outside the upper-lower statistical boundaries in the  $k > 0$  side. Hence, the only significant values are (- 6 lag for Brazil and -5 and -4 lag for CHI\_MSCI) not fostering the lead-lag (from Stocks to oil) relationship. India shows both a meaningful +1 and a -1 lag. Definitely, this is not a decisive result. Very similar to Indian outcome are findings involving both Germany and UK. Also in these cases, we have contemporary +1 and -1 lag statistical significant *ccf* values. Different is the USA outcome. As can be appreciated, the + 2 lag value exceeding the upper limit is meaningful and statistically relevant. Such a result is in line with the supposed financialization effect supported by some literature. This can be considered as an important and supporting fact deserving further attention. USA are (probably the most) advanced financial market, and (perhaps) more sophisticated results should be detectable within their market. On the other hand is in 2008 Michael Master's testimony to the US Senate, the first bubble oil prices excessive speculation discussion (Cheng and Xiong, 2014). However, this is the only remarkable one, and an overall picture of our findings presented in this (early) work on the topic does not seem fostering the financialization hypothesis (with just one case out of eight elaborations). Nevertheless, some drawbacks and further implementation steps could be claimed to refine and develop outcomes. For example, one issue could be pinpointed in the frequency of data. As a matter of fact, some technical (and critical) observers could argue that monthly quotations are not the right periodicities to investigate due to the inherent speed of the phenomenon. This is a good point to develop, nonetheless in this first approach, the main goal was to understand, and investigate, whether a "clear" financialization mechanism could be detected. The more the phenomenon is affecting the economy as a relevant factor, the more (related) effects should be observable. On the counterpart -as far the present choice to adopt monthly quotations instead of daily ones is concerned- it must be pointed out that lower frequencies are more suited to address a long-term framework. Considering that financialization effects should be well persistent within markets (due to the hypothesized systematic action of the increased presence of newcomer institutional investors as several observers advocate), it is hard to foster its consequences have involved quotations (and the price levels more in general) only in one specific period, and under well-defined (and so particular) circumstances. A related matter lies in the global short-termed volatility that could have been boosted by an increasing market participation of newcomer investors. Nevertheless, returns are directly originating from price movements. Such movements are artificially induced and spurred by financial portfolio strategies for some literature, hence price movements are objects of present analysis. If prices of financial assets (proxied by Stock Indexes) and physical oil quotations do not show correlated mutual dynamics, we hardly foster that volatility could find its roots in such causes. Another potential drawback could lie in the fact that not all commodities could be affected by financialization mechanisms at the same intensity and time. This aspect could be "easily" addressed in future research works by investigating further commodities. Moreover, unconvinced critics could not be persuaded for the number and the choice of the Countries analyzed and proposed. Also this point is easily afforded by replying that Germany, UK and USA are the more advanced Countries within international financial system (respective Stock exchanges and related financial industries are without doubt the more sophisticated around the World). For what concerns the Developing economies, Brazil, China and India exert an ever growing role in the worldwide oil markets for their demographic impact. Thus, if something is going on, it seems reasonable to monitor a (whatsoever) trace also within such markets. Another important factor to address lies in the mechanics of the financialization that -as depicted in the Section 2- should be ignited by a low level in share quotations subsequently transmitted to commodities (oil in our case). An interesting point lies in the

(presumed) dynamic of the movements. In fact, within supposed financialization framework financial management style, low levels in share quotations push down (and preceding) a (subsequent) downturn in commodities (oil for us) resulting from the rebalancing portfolio strategies implemented by institutional investors. The opposite would hold when stock prices are high. Without any pretension to be exhaustive or definitive, our results do not seem to detect remarkable evidences of such dynamics between stocks and oil prices. As previously pointed out, if oil (and/or its derivatives) is included in common (and systematical) financial management styles, relevant and coherent movements of quotations should be detectable within such a related-to-Stocks scheme. If this were not true, financialization would appear as a merely different (and probably more sophisticated) market framework contributing -but not determining in a decisive manner at the moment- to oil price dynamics. Nowadays, (truly speaking examined data in the present work end in May 2016, but the situation has not changed in July 2017 with a further elapsed year) we experience the Stock Exchange quotations at peaks (or at higher levels) and oil prices at lower levels. Is financialization effect detectable within international oil markets?

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## ENHANCING EU-INDIA ORGANIC FOOD TRADE: A SURVEY OF INDIAN COMPANIES

### Abstract

Globally, there is growing awareness on harmful impact of chemicals on the environment and human health, and a move towards sustainable agricultural practices and organic farming. Developed economies such as the European Union (EU) have adopted measures to lower chemical content in food products, and there is a growing demand for organic food in such markets. Since the EU is one of the key markets for Indian agriculture exports, Indian exporters have to adhere to the EU's food safety requirements and consumer needs. A number of them have started exporting organic food products to the EU. The organic food market in developing countries such as India is also growing and a number of EU companies are also keen to export to such markets.

Given this background, this paper examines the possibility of enhancing India-EU trade in organic food products. Since bilateral trade data is not available for organic food products, the paper is based on in-depth interviews with 55 companies (40 in India and 15 in the EU) which are engaged in organic food product trade. The paper found that the EU is a key market for a majority of Indian exporters, especially in product categories such as tea and rice, and there is enormous export potential. However, in order to further develop EU-India trade relations in organic, certain trade barriers have to be addressed and policy initiatives have to be taken by the Indian government on its own as well as by working together with EU stakeholders.

**Keywords:** Organic, India, EU, trade, regulation

**JEL Codes:** C83, Q01, Q17

### 1. Introduction

Globally, there has been growing awareness of the harmful impact of chemicals on the environment and the human health, and a move towards sustainable agricultural practices and organic farming. According to the Research Institute of Organic Agriculture (FiBL) and International Federation of Organic Agriculture Movements (IFOAM) survey of 2017, which covers over 170 countries, the total land under organic farming increased from 11 million hectares in 1999 to 50.9 million hectares in 2015, and the total number of organic producers increased from 200,000 producers in 1999 to 2.4 million producers in 2015 (FiBL & IFOAM, 2017). In the same year, the global organic food market was estimated at Euro (EUR) 75 billion, with Europe and North America together generating 90 per cent of the global organic food sales (YES BANK & Ingenus Strategy and Creative Research, 2016). A number of developed countries including the EU as well as developing countries such as India have taken measures to expand area under organic cultivation and organic production, and the consumer demand for organic food products is on the rise in these markets.

According to FiBL & IFOAM (2017), the total land under organic farming in the EU was 11.2 million hectares (with a share of 6.2 per cent) in 2015, and the member states with the largest organic agricultural areas were Spain (2 million hectares), Italy (1.5 million hectares) and France (1.4 million hectares). Spain was ranked fourth and Italy was ranked sixth among the top ten countries globally in terms of size of land under organic agriculture. In some EU member states in 2015, more than 10 per cent of

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agricultural land was under organic. These included Austria (21.3 per cent), Italy (11.7 per cent) and the Czech Republic (11.3 per cent). The same survey showed that in 2015, India was ranked ninth with approximately 1.2 million hectares of land under organic cultivation (including in-conversion areas). In India, only 0.7 per cent of the land is under organic cultivation but the country was ranked third highest in terms of increase in organic land, after Australia and the United States of America (US) (FiBL & IFOAM, 2017). This indicated that organic agriculture in India is small but growing at a fast pace.

Between 2005 and 2015, the total number of organic producers in the EU has grown by 57 per cent, with approximately 270,000 producers in 2015. In the same year, India had the largest number of producers, with 585,200 producers. However, the number of organic processors was much higher in EU member states compared to India. For example, Italy had 14,659 processors, the United Kingdom (UK) had 2,625 processors while India had only 699 processors. This is due to the reason that while EU member states have well-developed organic processing facilities, in India they are still developing.

In terms of market size, the EU was the second largest market for organic products (valued at EUR 27.1 billion), after the US, with a growth rate of 13 per cent between 2014 and 2015. By countries, Germany was the second largest organic food market in the world (valued at EUR 8.6 billion), followed by France (EUR 5.5 billion). Spain recorded the highest market growth in organic at 25 per cent. There are variations across different markets within the EU in terms of growth of organic products and demand for specific products (FiBL & IFOAM, 2017). For example, in Denmark, organic products comprise 7.6 per cent of its food and drink sales. Compared to this, organic products have a share of only 1.4 per cent in the food and drink market in the UK<sup>4</sup>. According TechSci Research (2015), the organic food market in the EU is predicted to grow at a compound annual growth rate (CAGR) of 7 per cent in the next five years. The same report pointed out that the Indian organic food market was estimated to be valued at EUR 440 million and is projected to grow at a CAGR of approximately 25 per cent.

Focusing on trade, the EU is a major player in global organic trade. Among the top 10 exporters of organic products in the world in 2015, Italy ranked second (22 per cent), the Netherlands ranked third (12.4 per cent) and Spain ranked fifth (10.4 per cent). India ranked eleventh with a share of 3.6 per cent. In the same year, China had the largest number of exporters (1,198), followed by Germany (775), India (669) and Italy (621). The top five countries importing organic products in 2015 were the US (30.4 per cent), France (22.3 per cent), Canada (14.2 per cent), Spain (13.4 per cent) and Denmark (10 per cent). The total number of organic importers was 4,097, with Germany (1,452), the Netherlands (314), Italy (310) and France (273) reporting large number of importers (FiBL & IFOAM, 2017). India has only a few importers and is not among the key importing countries.

The above data shows that the EU is large market for organic products and EU companies are actively engaged in organic trade. India is a growing producer of organic products but there are few organic processors and importers. India exports organic food products and the EU is one of the largest export markets for India for organic fresh and processed food along with other developed countries such as the US<sup>5</sup>.

There is a growing awareness among consumers in developed as well as developing countries about the quality of food consumed. Many countries are adopting risk analysis techniques, and are paying closer attention to food safety and health standards. Due to non-compliance with these standards, major Indian export food commodities such as mangoes, table grapes and several vegetables have faced product rejections and even bans in the key markets such as the EU in recent years (Goyal et al., 2017). Moving towards chemical free organic food exports will not only enable India to comply with the EU standards

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<sup>4</sup> [http://www.specialityandfinefoodfairs.co.uk/files/sfff\\_2354/Exhibitors/22660-FINAL%20PDF%20VERSION.pdf](http://www.specialityandfinefoodfairs.co.uk/files/sfff_2354/Exhibitors/22660-FINAL%20PDF%20VERSION.pdf) (accessed on 18 August 2017)

<sup>5</sup> [http://apeda.gov.in/apedawebsite/organic/Organic\\_Products.htm](http://apeda.gov.in/apedawebsite/organic/Organic_Products.htm) (accessed on 18 August 2017)

but also help the Indian exporters and farmers will get a premium price for their produce, since consumers are willing to pay a higher price for organic products vis a vis conventional products.

Given this background, this paper examines the possibility of enhancing EU-India trade in organic food products. The paper looks at current trade as well as future trade potential. Since trade in organic food products is governed by strict regulations, standards, certification and accreditation procedures, which can act as a barrier to trade, the paper discusses the organic regulations in India and the EU, the trade pattern, barriers to trade, and how to overcome such barriers through domestic reforms in India and through bilateral collaborations and recognition with the EU.

## **2. Organic regulation in the EU and in India**

The EU has come up with regulations such as the Council Regulation (EC) No 834/2007 which defines the European requirements for organic production detailing the aims, objectives and principles of organic farming and production; the Commission Regulation (EC) No 889/2008 which lays down the rules for organic production and labelling of organic products, and Commission Regulation (EC) No 1235/2008 which details the rules for arrangements for imports of organic products from third countries. All EU member states follow these regulations, and products labelled as organic and sold in the EU must be produced in accordance with these regulations.

The European Parliament and the Council are responsible for adopting regulations on organic farming which is applicable to all member states. EU member states are required to designate a competent authority responsible for ensuring compliance with EU organic rules. For example, in the UK, the Department for Environment, Food & Rural Affairs (Defra) is the government agency responsible for organic farming. Companies in the EU use the certification bodies' logo along with EU's green leaf logo as a mark of product authenticity. There is no system of self-certification and all products require a mandatory third-party certificate.

The EU rules stipulate that products can be labelled as "organic" only if no less than 95 per cent of their agricultural ingredients meet the required organic standards. It is important to mention the following on the label of the organic products: (i) name of the producer, processor or distributor who last handled the product, (ii) name or code number of the national certification organisation, and (iii) name or code number of the EU control authority/body which checked the operator. For producers of packaged organic foods within the EU, the law requires the use of the EU organic logo.

The EU has a control system with checks carried out at every stage of the organic chain; the farmer, processor, trader, importer or exporter are checked at least once a year, or more often on the basis of risk assessment. Penalties are prescribed by member states. For example, in Germany, violations of the Council Regulations governing organic farming are liable to a one-year imprisonment term or a fine of up to EUR 30,000<sup>6</sup>. The EU regulations are equally applicable to domestically produced organic products and imports. Therefore, with regard to trade, the Indian exporters exporting to the EU have to comply with the organic standards, labelling and packaging requirements imposed by the EU.

In India, the Agricultural and Processed Food Products Export Development Authority (APEDA), under the Ministry of Commerce and Industry, has developed the organic regulations meant for export of organic products from India, which are largely based on the EU organic regulation and policy, but customised to meet the requirements in India. The NPOP<sup>7</sup> developed by APEDA in early 2000<sup>8</sup> laid

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<sup>6</sup> [https://www.bmel.de/EN/Agriculture/SustainableLandUse/\\_Texte/OrganicFarmingInGermany.html](https://www.bmel.de/EN/Agriculture/SustainableLandUse/_Texte/OrganicFarmingInGermany.html) (accessed on 1 September 2017)

<sup>7</sup> For details on NPOP, see <http://www.apeda.gov.in/apedawebsite/organic/index.htm> (accessed on 1 September 2017)

<sup>8</sup> The first edition of the NPOP was released in May 2001

down standards, labelling process, logo, and mandatory third-party certification requirements, which helped India get recognition of its standards from its trading partners and sign unilateral equivalence arrangements<sup>9</sup> with key export markets such as the EU. In this context, it is important to note that a product exported from India can only be labelled as organic when it is certified by a third-party certification body<sup>10</sup>.

Subsequent to the development of export regulation under the NPOP, the Ministry of Agriculture & Farmer's Welfare came up with Participatory Guarantee System (PGS) for India (PGS-India) with the National Centre of Organic Farming (NCOF) as the nodal agency, which aims to encourage small and mid-sized farmers with low capital and finances to adopt organic farming and promote organic farming in the domestic market on a large scale. This scheme is based on self-certification and is considered an alternative to the third-party certification system.

The nodal authority responsible for regulating food safety and health standards for the domestic market and imports in India is the Food Safety and Standards Authority of India (FSSAI), which is under the Ministry of Health and Family Welfare. The FSSAI is in the process of framing organic regulation for the domestic market and imports. Thus, while India has export regulations in place, it is yet to have a regulation for the domestic market and imports which lays down the standards, labelling requirements and logo. Further, while the government subsidises PGS-India, it is a voluntary compliance system.

To facilitate exports of organic products from India, in 2006, the EU had given unilateral recognition or equivalence to fresh and processed organic products exported from India. However, in the year 2013, the EU withdrew the unilateral equivalence for processed food products for an unspecified period<sup>11</sup>. At present, EU's recognition to India is currently only for unprocessed plant products. The withdrawal of equivalence implies that Indian exporters have to now test the products in laboratories of the two countries, which increases their cost of export.

### 3. Data issues and primary survey methodology

The Eurostat database for the European Commission (EC) does not provide organic trade data by country and by products traded, although it does provides data on organic land and production. In India, APEDA provides data on export of organic food products for specific years. However, it does not provide bilateral trade data and there is no data on organic food product imports. Further, in India, data for trade is provided at up to 8-digit level under the Harmonized System (HS) classification. Organic classification for Harmonized System for products mostly starts at 10-digit level for countries such as the US. This makes it difficult to understand the bilateral trade pattern.

Given the lacuna in secondary data, in order to understand EU-India trade patterns, key products traded, growth prospects and trade barriers, in-depth interviews were conducted with 55 companies (40 in India and 15 in the EU) which are engaged in EU-India organic food trade. In India, the companies were selected from the list of Indian exporters in APEDA's database across different product categories such as tea, spices, herbs, medicinal plants, oilseeds, rice, and fruits and vegetables. Emails were then sent to

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<sup>9</sup> Equivalence means the recognition of standards in each other's countries. These could either be unilateral equivalence (non-reciprocal or only one party recognises the other's standards) or bilateral equivalence (reciprocal or both parties recognise each other's standards).

<sup>10</sup> Third-party certification is a quality assurance initiative based on well-laid out standards, labels and ethics as required by the organic regulations of the respective country to which the product is exported and is needed in order to prevent fraud and promote trade in organic food products. In India, as of date, there are 28 certification bodies accredited by the National Accreditation Body under NPOP for certifying organic products. For details, refer to [www.apeda.gov.in/apedawebsite/organic/npop\\_certification\\_bodies.doc](http://www.apeda.gov.in/apedawebsite/organic/npop_certification_bodies.doc) (accessed on 1 September 2017)

<sup>11</sup> Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:043:0001:0023:EN:PDF> (accessed on 4 September 2017)

around 50 companies requesting them for meetings and in total 40 companies gave interviews. The Indian companies gave details of their buyers in the EU and suppliers from the EU, which helped to identify the EU companies. These companies were emailed a set of questions and they were interviewed through video calling, emails and by telephone.

#### **4. The survey analysis**

The analysis in this section is based on in-depth interviews with 40 companies in India engaged in organic food trade and 15 companies in the EU sourcing organic products from India and/or exporting to India. Questions were asked about the companies' operations, procurement and export process, revenue, and growth projections. The products covered included tea, spices (for example, turmeric and cumin seeds), herbs (for example, curry leaves and coriander leaves), medicinal plants (for example, mint and sacred basil), oilseeds, rice, and fruits and vegetables.

##### **4.1. About the Indian companies**

Among the 40 companies, 18 became engaged in organic food product trade between 2006 and 2010 while 10 more entered since 2011. Only 4 companies have been involved in organic trade before 2006<sup>12</sup>. Further, there are 29 companies which started organic business in or before 2010 out of which 18 are involved in the trade of organic tea and five are involved in the trade of organic rice.

Twenty-seven companies in the sample are involved solely in the organic business (food as well as non-food), while the remaining 13 companies are involved in non-organic product business as well. The survey showed that 16 companies are solely exporters while the remaining 24 companies are involved in multiple activities across the supply chain, including farming (primarily through the ownership of farm or estate), importing, manufacturing/processing, wholesaling and retailing. All 24 companies are manufacturers and exporters, six companies are exporters, importers and retailers, eight companies which are exporters have their own estates and farmers, and there are ten exporting companies which are also domestic wholesalers and retailers.

When asked from where they procure the produce, 16 exporters responded that they procure from farmer associations, 8 have their own farms and farmers engaged in organic cultivation, 11 use co-operatives and five use other sources such as wholesalers and non-governmental organisations (NGOs) engaged in organic production. Companies in product categories such as tea are more likely to have their own tea estates and processing facilities. Some of them are engaged in exports of organic products since 1980s. Exporters majorly source spices from own farms and other organic processors. All organic products meant for export are sourced from third-party certified farmers.

Six companies are importers of organic products such as organic green tea, olive oil and herbs, along with exporters. They are organised retailers/retail chains, manufacturers and e-commerce companies which import either directly or through Indian importers.

In terms of the presence and operations of the companies across India (north, south, east, west, northeast, central), out of 40, 16 companies have pan-India presence and sourcing while 21 companies have presence in just one region, and three companies have presence and operations in more than two regions. India has varied agro-climatic conditions which supports the cultivation of a variety of crops. Presence of a company in a particular region depends on the product and its sourcing strategies. Figure 1 presents some of the states in India from which the selected organic products are sourced by survey participants

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<sup>12</sup> 8 companies did not answer this question.

**Figure 1. Selected states from which organic products are sourced**

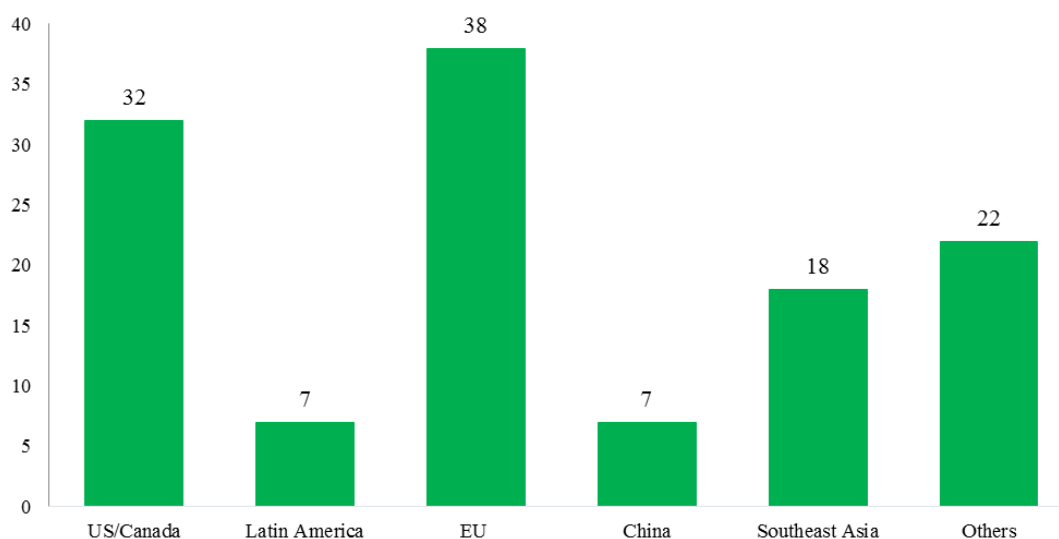
<i>Oilseeds</i>	• Odisha, Rajasthan, Maharashtra
<i>Rice</i>	• Uttarakhand, Haryana, Uttar Pradesh
<i>Tea</i>	• Assam, West Bengal, Tamil Nadu
<i>Spices</i>	• Rajasthan, Odisha
<i>Fruits and Vegetables</i>	• Haryana, Maharashtra, Punjab
<i>Medicinal Plants</i>	• Karnataka, Kerala, Madhya Pradesh
<i>Herbs</i>	• Karnataka, Kerala, Haryana

Source: Authors

#### 4.2. Export Market

The companies were asked about their export markets. Most of the companies export organic food products to more than one export market (See Figure 2).

**Figure 2. Export markets**



Source: Authors

Note: The category "others" includes Australia, Japan, Russia, Middle Eastern countries and Switzerland.

Majority of the companies (38 out of 40 companies) exports to the EU. Within the EU, the UK is a key export market, followed by Germany, the Netherlands and France. The second most popular export destination for organic food products are the US/Canada. Of late, there is a growing demand for organic products in Southeast Asia and other markets such as Japan.

In terms of product categories, 29 companies export tea, 14 companies export spices, 12 export rice, 7 export fruits and vegetables, 6 each export oilseeds and medicinal plants respectively, and another 5 companies export herbs. Twenty-five companies export only one product, out of which 21 are organic tea exporters, two are rice exporters, and one each is spice exporter and fruits and vegetables exporter. There are six companies which export across two product categories while the remaining nine deal with three or more product categories.

Five companies have reported that they have more than 100 varieties of organic products. Only two exporters reported that they have withdrawn products (only one tea variety withdrawn by each company) from the market in the last two years, and there are five exporters who have added new products in the last two years. They include different varieties of organic tea and organic spices, which were added due to the increased export demand.

In the sample, the percentage of revenue from exports of organic products for nine companies is less than 10 per cent while for another 11 companies, the percentage of revenue from exports of organic products is between 50-75 per cent. Four companies generate 75-90 per cent of their revenue from the export of organic products, while another 11 companies generate 90-100 per cent of their revenue from the export of organic products. Five companies did not report the percentage of their revenue that comes from the export of organic products. Of the 11 companies whose revenue from organic exports lay between 90-100 per cent, eight companies export tea, one each exports spices and rice, and the remaining one exports pulses.

In the case of organic tea exports, only 24 companies out of 29 reported changes (increase/decrease) in revenue from exports over the last two years. Of these, 22 companies experienced an increase in revenue from export of organic tea while two companies saw a decline in export revenues. Out of these 22, five registered an increase of less than 10 per cent in revenues while another 13 companies registered an increase in revenue in the range 10-20 per cent. Of the 12 companies exporting rice, nine registered an increase in export revenues while one registered a decline; the remaining 2 did not report any change. Of 14 companies exporting spices, only eight companies reported a change in revenue from exports, of which seven reported an increase, while one reported a decrease.

When asked about the organic certification the exporters have, all 40 exporters in the survey responded that they are NPOP-certified, which is mandatory for exporting to international markets. In addition to this, 38 are EU compliant, 32 companies have taken the National Organic Program (NOP) certification for exports to the US, and six companies have taken the Japanese Agricultural Standard (JAS) certification for exporting organic products to Japan. In some cases, companies use more than one certification body as their buyers may require them to be certified by a particular certification body. For example, buyers in the UK often require organic certification from Soil Association in the UK.

Companies were asked about the measures they took to ensure that the entire supply chain remained organic. Some companies responded that they follow the NPOP norms. However, NPOP does not have any mandatory requirements for certification of pack houses, storage units, transportation facilities, etc. Nevertheless, most companies involved in the organic business follow some common measures to ensure that the entire supply chain remains organic, such as using separate warehouses or a separate section in the same warehouse specifically for organic products, ensuring that the transportation of organic products is separate from that of conventional products and the carrier meets the requirements for organic transportation. They also carefully select the packaging material for organic products; for example, organic paper sacks are used, which lowers the chance of contamination, using multiple layers of packaging (for example, paper, aluminium, etc.) in order to maintain quality and eliminate fungal infestation (such as aflatoxin infestation in organic rice), among other measures. Moreover, under NPOP, a Transaction Certification (TC), which is a certificate issued by the accredited certification body

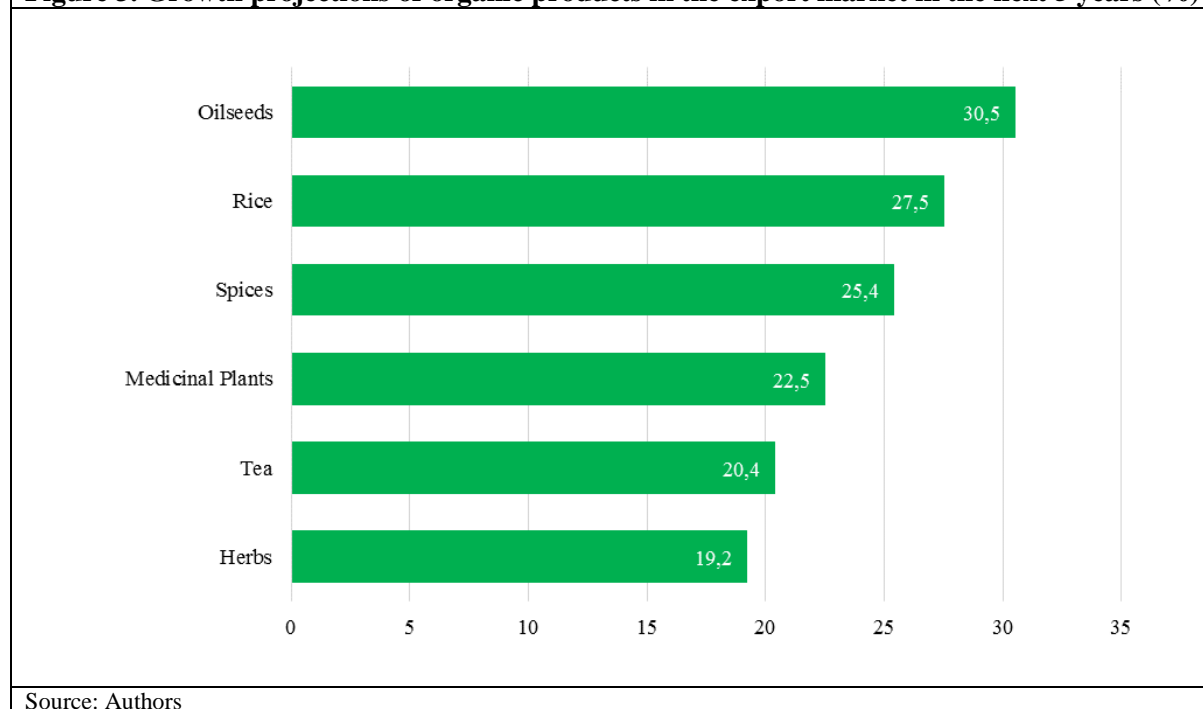


to an operator for every sale of his product to the buyer,<sup>13</sup> is issued with each product being sold from one certified operator to another. According to APEDA, a product will be allowed to be exported as an “organic product” only when accompanied by the TC<sup>14</sup>.

With regard to quality control processes, the companies responded that they do not have their own laboratories. APEDA has provided a list of 16 authorised laboratories (as on 12 July 2017) for sampling and analysis of organic products meant for exports<sup>15</sup> and all exporting companies use these laboratories for testing purposes. Sometimes, buyers in the international markets prefer specific laboratories which are internationally recognised and exporters and processors use these laboratories.

Almost all companies interviewed for the study projected double-digit growth of organic export market in India in the next five years (see Figure 3). This growth is predicted in almost all the product categories studied (projections for organic fruits and vegetables could not be calculated due to lack of sufficient observations). Overall, the exporters predicted an export market growth of approximately 24.25 per cent in the next five years.

**Figure 3. Growth projections of organic products in the export market in the next 5 years (%)**



Given that the companies responded positively to future organic export potential from India, they were asked whether they wish to expand their product portfolio and access to foreign markets. Fifteen companies responded to this question, out of which five said that they want to expand the organic product range to include products such as pulses and soyabeans, eight said that they wish to increase the number of exporting countries and two said that they would like to expand both the product range and the number of exporting countries.

<sup>13</sup> Source: [http://apeda.gov.in/apedawebsite/organic/organic\\_contents/Chapter\\_1.pdf](http://apeda.gov.in/apedawebsite/organic/organic_contents/Chapter_1.pdf) (accessed on 30 August 2017)

<sup>14</sup> See APEDA Trade Notice dated 21 November 2014. Available at

[http://apeda.gov.in/apedawebsite/organic/Trade\\_Notice\\_Organic.pdf](http://apeda.gov.in/apedawebsite/organic/Trade_Notice_Organic.pdf) (accessed on 30 August 2017)

<sup>15</sup> Source: <http://apeda.gov.in/apedawebsite/HACCP/xlistofauthorizedlaborganicproducts.pdf> (accessed on 31 August 2017)

### 4.3. The export process

Most exporters sell their produce to processors and/or buyers in developed country markets, who then process, package and label the products as per the country's requirements and then supply them to retail chains or directly to consumers. Some importers in the EU also sell the produce to consumers via e-retail. Recently, some exporters in India have started using non-store retail formats such as Amazon to directly reach foreign consumers. Organic food e-retail is one of the fastest growing modes of retail in the EU and Indian companies are trying to use this mode to cater to EU consumers.

Among the products selected for the study, some products, such as organic tea, organic spices and organic rice, have a high demand in the EU market, while for other products such as organic fruits and vegetables and organic herbs, the export demand is low. Multi-product companies sell a larger range of product sub-categories than single product companies. For example, the specialised organic tea companies (single product companies) may have a few product sub-categories, for example, black tea, green tea, white tea and oolong tea, while companies that have business in multiple organic products may have as many as 350 different sub-categories of products (multiple varieties of tea, rice, medicinal plants, etc.).

### 4.4. Buyers in the EU

Questionnaires were emailed and telephonic interviews were conducted with 15 organic food product buyers and/or processors in the EU to understand their procurement process in India. In the case of organic spices, the EU companies are sourcing from India and other countries such as Thailand and Sri Lanka. These spices already get processed in the countries from which they are sourced. In the case of organic rice, brown rice is sourced from India and the processing (milling in rice mills) is done in EU member states. This is because this variety of brown rice is exempted from import duty in the EU<sup>16</sup>. For other varieties of rice not exempted from import duty, the duty is set between EUR 30 per tonne and EUR 175 per tonne<sup>17</sup>.

In the case of organic tea, varieties of tea such as green tea, black tea, etc. are exported from India and these are processed in the EU to different forms such as ginger tea and lemon infused tea by companies such as "Herbal Infusions", which has a tea factory in Ooty (in the state of Tamil Nadu), and "Wessanen", which has tea estates in the Nilgiri Hills (in the state of Tamil Nadu).

All the 15 companies interviewed pointed out that they buy in bulk from India and then brand, package and label the product in the EU, and sell the branded product through different store and non-store retail formats. There is a growing market for Indian organic products such as spices, while the market for products such as organic tea has reached near saturation. The EU buyer survey found that major export items from India included tea, coffee, oilseeds, spices, rice, pulses and selected herbs. India has the potential to export organic products such as peanuts and specialised organic products like Alphonso mangoes but the country is yet to develop its organic cultivation for such products to cater to the EU market. It is worth mentioning that until recently, the exporters of conventional variety of products such as table grapes, Alphonso mangoes, rice and peanuts have been facing a number of export rejections and few product export bans in the EU due to several sanitary and phytosanitary (SPS) barriers including aflatoxin contamination, pest infestation and presence of higher than approved maximum residue limit (MRL) of chemicals such as chlormequat chloride, carbendazim, etc<sup>18</sup>.

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<sup>16</sup> See the EU Rice Regulatory Regime, page 7; available at

[https://ec.europa.eu/agriculture/sites/agriculture/files/cereals/factsheet-rice\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/cereals/factsheet-rice_en.pdf) (accessed on 6 September 2017)

<sup>17</sup> Source: [https://ec.europa.eu/agriculture/sites/agriculture/files/cereals/factsheet-rice\\_en.pdf](https://ec.europa.eu/agriculture/sites/agriculture/files/cereals/factsheet-rice_en.pdf) (accessed on 6 September 2017)

<sup>18</sup> For details, see RASFF - Food and Feed Safety Alerts portal, available at [https://ec.europa.eu/food/safety/rasff\\_en](https://ec.europa.eu/food/safety/rasff_en) (accessed on 9 October 2017)

The survey found that in the case of tea, there are some large Indian companies such as “Chamong Tee Exports Private Limited” and “Makaibari Tea Estates” with multiple estates which cater to EU buyers. For other products, some EU buyers have entered into partnerships/contract with the local companies in India which work with small to mid-sized farmers, manufacturers and processors, especially in the case of organic spices and rice. These buyers only source from companies which source from third-party certified farmers. The company in India has to maintain complete traceability and provide details of the entire supply chain and sourcing process to ensure transparency. The EU companies also send representatives to visit factories/processing units in India to ensure that all requirements are met, and food safety and health standards are followed. To identify potential suppliers and exporters from India, the procurement teams from EU companies attend business council meetings and trade shows. If there is a change in EU Directives or any other policy, they inform their Indian suppliers.

The survey shows that although the organic food market is expanding in the EU, consumer preferences for a particular type of organic food products are also changing. For example, there is a change in preference from traditional products such as organic Darjeeling (flavoured) tea to organic tea with herbal infusions, and from white Basmati rice to non-Basmati organic brown rice and ready-to-eat microwaveable flavoured rice. EU companies catering to these demands will source their products from countries where the market is able to adapt to and accommodate changing tastes of the consumers. Indian exporters, therefore, have to work closely with their buyers to understand the changes in taste patterns, and do product customisation.

#### **4.5. Import of organic products into India**

Only a few companies were found to import organic food products into India. In terms of products imported, three import organic tea. One tea company reported that it imported ingredients from China and Vietnam because of good quality. The remaining three companies each import juice concentrate from the US, olive oil from Italy and organic herbs from Germany.

A number of foreign companies are trying to sell products like herbal infused tea (such as organic Moringa tea) and vegan products (such as vegan chocolates) in India through established retail chains such as Godrej Nature’s Basket and HyperCity, and through online retailers. According to Indian importers and EU exporters, although the Indian market for organic product is expanding, it is largely concentrated in food products produced domestically, and in products such as fruits and vegetables imported from neighbouring countries like Bhutan. The EU companies are yet to thoroughly explore the Indian market for organic food products, and they have also not received much support from their governments in exporting organic food products to developing countries. The companies largely concentrate on intra-EU trade and trade with other developed markets. Further, organic is considered to be a premium product and consumers in developing countries such as India are price sensitive, which makes it difficult to design a price strategy for such markets.

#### **5. Barriers related to export and import of organic products**

The companies in the survey were asked to discuss the issues they faced in exporting organic products from India to the EU and importing organic products in India. These are discussed below.

- *Lack of a Nodal Agency and Comprehensive Policy:* Unlike in developed countries, where the agricultural ministry usually looks after all aspects of organic, in India, there are multiple agencies regulating organic practices. APEDA regulates exports, and the FSSAI regulates imports and domestic market. As of date, India does not have an organic regulation for domestic market and imports, and both APEDA and FSSAI do not have any jurisdiction over farmers, which is crucial for organic food products. Lack of an import policy makes it difficult for EU

exporters to export organic products into India. Without a nodal agency India is also not able to sign bilateral equivalence arrangements with the EU.

- *Issues in Adhering to Regulations:* It is difficult for a company catering to both the domestic and the export market to adhere to guidelines laid down by multiple government bodies, especially the guidelines related to standards, logos and labelling. Further, each government body makes the process complicated through piecemeal regulations. For example, in case of laboratory testing of organic products, FSSAI has identified around 112 laboratories which can test organic food products based on international norms. However, among those laboratories, APEDA has a specific list of 16 laboratories from which organic products meant for exports can be tested. Thus an exporter is mandated to use only 16 laboratories while importer can use 112 laboratories.
- *Labelling Issues:* The purpose of the label is to provide information to consumers concisely. Thus, a label should have details of ingredients, additives, allergens, the date of expiry, etc. In India, date of manufacturing has to be included in the label, and only a product with 65 per cent or more shelf life can enter the country. This is an issue as organic products have a short shelf life and it can take a month for product travel and customs clearances. Consumers look at the date of manufacturing and believe that the product is old without looking at the date of expiry. This makes it commercially risky.
- *Lack of Import Traceability in India:* The traceability system is underdeveloped and once the product reaches the Indian market, it is very difficult to ensure traceability. This makes it impossible to identify the source of malpractices.
- *Fraud and Malpractices:* In the absence of a domestic policy, there are incidences of malpractices and fraud in the organic business. The most serious occurrence of fraud faced by the companies is mixing of organic product with its conventional counterpart then selling the whole lot as organic with a premium price. Another issue related to fraud is mixing of third-party certified organic product with self-certified PGS product using NPOP logo and logo of the certification body for the whole lot. When such malpractices or non-compliances are identified under the NPOP, APEDA bans the exporters as well as the certification bodies for a certain period without conducting a root cause analysis to identify the actual source of the problem. Exporters may have picked the product from certified manufacturers who may have been engaged in fraudulence.
- *Withdrawal of Unilateral Equivalence for Processed Organic Products by the EU:* The EU has withdrawn the unilateral equivalence between India and the EU for processed organic food products which it gave to India in 2006. This non-recognition of standards acts as a barrier to trade and it leads to the product being certified and tested in India and again in the EU upon export. Due to the lack of equivalence, buyers tend to import fresh and semi-processed produce and do the processing in their home market. The survey participants further argued that organic produce generally has a lower shelf life than conventional produce and hence, it is easier to export processed rather than fresh/perishable produce. Unless processing is done in India, the country will not gain from value addition and the establishment of a manufacturing base in the country. Moreover, there is a question on how the issue of organic equivalence between India and the EU should be discussed in multilateral forums such as the World Trade Organization (WTO). For example, while India has been raising the issue of the EU's withdrawal of equivalence for processed organic products in the WTO's Committee on Sanitary and Phytosanitary Measures (the SPS Committee), the EU responded that

organic is not a food safety issue, but a labelling issue. Thus, accordingly to the EU, it should not be discussed in the SPS Committee but rather in the WTO Committee on Technical Barriers to Trade (the TBT Committee). Ideally, such issues should have been bilaterally resolved.

- *Presence of the Certification Body in the Exporting Country:* Unlike in countries such as the US and Canada, APEDA does not recognise certification bodies such as the Soil Association in the UK, which certifies more than 1,000 organic processors and retailers, as it does not have a physical presence in India. Therefore, an exporter from India has to first get a product approved and certified by a certification body approved by APEDA, and then by a body like Soil Association to export to the UK. This duplication of efforts can raise costs and delay export process.
- *Laboratory Related Issues:* Exporters of certain organic products have to get the testing done in multiple laboratories. For example, in the case of organic spices, the companies in the study pointed out that the product has to be tested in APEDA-approved laboratories and, for select spices, further testing and approval are required by the Spices Board India. Moreover, the clients in the importing nation may require appropriate testing to be conducted in a laboratory specified by them. In this case, a spice exported from India is tested by three different laboratories, which raises the cost imposed on the exporter.
- *Multiple Organisations Control Exports:* In India, there is lack of clarity on the role of various organisations involved in export control and quality check process. For example, the Export Inspection Council (EIC) of India and APEDA are the export control bodies for organic Basmati rice and black pepper while Spices Board India and APEDA are export control bodies for certain spices such as turmeric. If APEDA has already tested the products as organic under NPOP norms, the survey participants are not sure what the role of other export control bodies. Customs officers are also sometimes confused about the documents and clearances that the consignment should carry from various agencies. The lack of well-defined procedures creates delays at the border and reduces India's rank in ease of doing business and logistics indicators.
- *Supply Chain Related Issues:* In India, the supply chain is fragmented and underdeveloped. Often, organic products get mixed up with conventional products in the supply chain. Logistics cost is also very high due to delays in transport and clearances of consignments at ports. Delays in clearance lead to product spoilages. There are issues like aflatoxin contamination in the supply chain due to poor storage, which poses a risk to the quality of the produce being exported. One buyer in the EU gave the example of spices where he had to shift his sourcing from India to Sri Lanka since the consignment had aflatoxin contamination, which developed in transit. In the case of spices, one buyer in the UK said that spices such as chillis, nutmeg and coriander have been rejected in the UK market due to aflatoxin contamination, as well as mixing with adulterants such as sawdust and artificial colouring.
- *Lack of Compliance with Trading Standards of the Importing Country and that of the Private Retailers and Processors:* Many times, Indian exporters raise concerns about standards implemented by importing countries while exporters from competing countries such as Cambodia are able to meet the standards for products such as rice.
- *No Identified Organic Clusters or Organic Agricultural Export Zones:* Although India has organic clusters in tribal and hilly areas, limited steps have been taken by the government to isolate those clusters from conventional farms and mark them as "organic clusters", which could help buyers in the EU conduct field visits and select clusters for sourcing organic products.

Further, unlike developing countries such as Bhutan, the government of India does not have a vision plan for organic products, and hence, the strategy for organic promotion is not clear to international companies wanting to source from India.

- *Issues Related to Product Delivery and Quality:* In the global production network, exporters have to rapidly react to market demand. Further, they may commit on certain deliveries but later give reasons like crop failure and poor rains for sending less than the required volume, which affects sourcing strategies. Buyers in the EU who are sourcing products from developing countries such as India sometimes face issues related to consistency in quality. Further, multi-brand retailers in developed country markets constantly upgrade their private standards which all suppliers, whether domestic or foreign, have to adhere to. Sometimes, Indian suppliers find it tough to adhere to these standards but some other developing countries are quick to adapt to them, which causes the buyers to shift their sourcing from India to other developing countries.
- *High Tariff Rates:* The tariff rates in India are very high, which increases the prices of organic food products that are imported, making them non-competitive compared to domestic products. Moreover, in the EU, the import duties for certain products such as rice in the husked and milled format may be as high as EUR 175 per tonne, which causes EU importers to import unprocessed rice from India and mill it in the EU itself. In this case, India loses out on the value addition which it would have gained has the processing been done in India itself.
- *Weak Database in India for Organic Production and Trade:* The list of organic product exporters on APEDA's website is outdated – some do not export anymore, whereas some have started exporting recently but their names are not present on APEDA's database. At present, buyers in the EU find it difficult to locate a supplier, especially for specific products such as spices and herbs. Moreover, according to exporters in the EU, it is difficult to identify importers and distributors for organic products in India as there is no comprehensive database of organic traders, distributors, wholesalers, etc., by product categories.
- *Lack of Bilateral Organic Trade Data:* Unlike countries such as the US and Canada, both India and the EU do not release data on trade in organic food products by product categories and countries, which makes it difficult to examine the trade flows.
- *Underdeveloped Organic Market in India:* While developed countries are key importers of organic food products from India, there are limited incentives from countries such as the UK to push for exports of organic food products to India, since they perceive the Indian market to be small and price sensitive. Exporters in EU member states are keen to export specific organic products to India. However, according to them, the Indian organic market is still at a nascent stage and Indian consumers are less willing to pay a premium for specific products like vegan chocolates. The market has to be more mature for such products to fetch demand.

## 6. The way forward

The above discussion shows that there is potential to enhance India-EU bilateral trade in organic food product, if the existing barriers to trade can be addressed. Most of these can be addressed through domestic reforms in India and collaboration, cooperation, equivalence arrangements with the EU.

### 6.1. Domestic reforms to facilitate India-EU organic food trade

At present, India does not have a comprehensive organic policy encompassing the domestic market, imports and exports, which is creating an uncertain environment for the EU exporters. It is also making

it difficult for India to sign bilateral equivalence arrangements with the EU. India should, therefore, develop a comprehensive organic policy encompassing the domestic market and trade. Since the EU and other key markets, such as the US, have already approved the NPOP laid down by APEDA, these standards can be adopted by the FSSAI for domestic market and imports. Regulations have to be simple, and based on global best practices and what is acceptable to key markets such as the EU.

There is also a need to identify a nodal agency which will not only promote the holistic growth of organic food products, but will also be a single point of contact for India's trading partners. Multiple agencies controlling exports can not only result in piecemeal regulations and overlapping controls, it makes coordination for exporters' difficult, time consuming and expensive. It is, therefore, important to have a single agency monitoring exports. Ideally, in the case of organic produce there should be a single nodal agency for domestic market and trade. This will improve governance and ease of doing business. A comprehensive policy will help identify and punish the fraudulent players, and genuine players will be able to earn the premium price for organic food products. This will also make India an attractive market for the EU companies.

The organic policy should be based on an efficient traceability system from farm to the final consumer. If there is an incidence of product rejection or any other concerns related to the product, the product should be kept on hold and a root cause analysis should be done to identify how the product has been contaminated or whether there is any fraudulent practice. In this case, India can learn from experiences of countries such as the UK. This will help to identify the source of fraudulent practices.

As is done by countries such as the US and Canada, Indian government can allow foreign certification bodies to certify the organic products based on Indian standards even if they are not physical present in India. However, only certification bodies which are internationally recognised and accepted by key markets should be selected.

At a policy level, to support the Indian Prime Minister's "Make in India" campaign and other initiatives, India needs to focus on product quality and compliance with importing country standards. It is important to create state-of-the-art logistics facilities to facilitate trade. It will require investments in both physical and soft infrastructure. In this regard, India can learn from the experiences of the EU member states in setting up infrastructure which has helped them achieve high ranks in global ease of doing business and logistics indices.

It is easier for the exporters and buyers if there are identified organic clusters in India which comply with global standards. They can then directly source from such clusters. These specific clusters and agro export zones can be created through public private partnerships or through private initiatives. However, the subsidies and benefits given to attract private investments to such zones have to be carefully designed so that they are not actionable under the WTO's Agreement on Subsidies and Countervailing Measures (WTO's SCM Agreement)<sup>19</sup>.

Certain reforms such as allowing foreign direct investment in retail may encourage global retailers to directly source from India leading to more earning for organic farmers and processors. This will also allow them to establish presence in India which will, in turn, bring in foreign investment, and technology not only in retail but also in allied sectors such as logistics and food processing.

Export promotion councils such as APEDA should have a comprehensive database of organic producers, farmers and exporters which are third-party certified. This will help the EU buyers to locate them. Further, if data is segregated by other indicators such as farmers located in specific states for a particular

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<sup>19</sup> See [https://www.wto.org/english/docs\\_e/legal\\_e/24-scm.pdf](https://www.wto.org/english/docs_e/legal_e/24-scm.pdf) (accessed on 8 September 2017)

product category, it will help in sourcing and establishment of export supply chain. Apart from confidential information, information which helps in facilitating trade should be placed in public domain.

## **6.2. What India and EU should do**

The study showed that there is a lack of product-wise and market-wise trade data in India and EU for organic products. It is important to collect such data on a regular basis to help analyse bilateral trade flows, identify key products, examine changes in trade patterns and help in understanding future trade potential.

It is important for Indian farmers, exporters and processors to comply with the standards of the importing country/region for export. For this, there is need for collaboration and knowledge sharing with key trading partners such as the EU. India may use EU funded projects such as the European Commission funded EU-India Capacity-Building Initiative for Trade and Development project, which was launched in the year 2013, to provide a platform to build the capacity of various Indian stakeholders on how to address different trade related issues for increasing trade in organic food products. Such projects can be used for training of farmers, exporters and processors on how to comply with the standards of the importing markets.

The survey showed that there is need for cordial inter-government relationships as trade costs can be reduced through bilateral equivalence arrangements, and mutual recognition of standards and procedures. Once India implements a comprehensive policy encompassing the domestic market and trade, India and EU can work together to sign equivalence arrangements. An equivalence arrangement refers to the recognition of standards in each other's countries/markets. These could either be unilateral equivalence (non-reciprocal or only one party recognises the other's standards) or bilateral equivalence (reciprocal or both parties recognise each other's standards). Equivalence arrangements have a positive impact on international trade in organic produce by reducing the cost of complying with different standards, and by reducing the requirement for multiple laboratory testing and certification by different third-party certification bodies. To facilitate bilateral trade flows, it is suggested that the two economies may sign bilateral equivalence arrangements for both fresh and processed food products.

In the long run, it is important to negotiate and conclude bilateral trade agreements with the EU to ensure that the commitments are binding and not revoked. A trade agreement could provide more certainty to Indian exporters and processors compared to equivalence agreements as has been seen in the case of EU's withdrawal of equivalence to India for processed organic food products.

To conclude, organic products fetch a premium price in both India and the EU. Consumers in both markets are aware of the benefits of organic food and market for organic food products is going to rise in the future. There is significant potential to increase EU-India trade in this sector, which can be mutually beneficial to all stakeholders. Therefore, it is important for India to develop the comprehensive policy and work closely with the EU to remove barriers to bilateral trade flows.

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ALEVTINA VLADIMIROVA<sup>1</sup>

## TWEET TALK: SENTIMENT ANALYSIS IN TOURISM

### Abstract

One of the growing trends in social media analytics is sentiment analysis as Web crawling, computational linguistics, machine learning, big data analysis are developing very fast nowadays (Xiang et al., 2017). Sentiment analysis (SA) is a type of data mining that measures the inclination of people's opinions (Suardika, 2016). It is an analytical approach for making a conversion of unconstructed online data to constructed one and from which is possible to the extract information on emotional tone behind the text for understanding of person's attitude and opinion. In other word, sentiment analysis is applied for understanding of customer's opinions and attitudes expressed through review published (Misopoulos et al. 2014). This study was designed to apply sentiment analysis to evaluate the foreign tourists' satisfaction of Moscow, using Twitter data. Moscow was chosen for this study because of its rapid growth as tourist destination. As theoretical models for sentiment analysis of touristic destinations are rare the author proposed own theoretical model based on the performance only attributive approach. Five attributes were chosen for this study of tourist satisfaction while visiting Moscow namely: sightseeing, restaurants, night life, accommodation and transport. Totally through 5 attributes 676 tweets were gathered and the overall sentiment score was calculated. After sentiment analysis the tweets were manually read and the problems which the tourists face in Moscow during travelling were anticipated. The research carries a high level of scientific and practical significance and can be applied for strategic marketing planning of tourism development in destinations.

**Keywords:** Tourism, tourist satisfaction, sentiment analysis

**JEL Codes:** L83

### Introduction

Social media marketing has received increasing attention from both academia and practitioners because it can help businesses strengthen their relationships with customers and spread information on products, services and brands. Information diffusion through social networks like Twitter and Facebook has resulted in raising awareness of brands, helping customers form attitudes. (Xiang et al., 2017). In particular, the impact of social media in the hospitality industry is significant because customers are more likely to seek personal suggestions on social media and rely on messages posted by other customers on social media.

Considering the tremendous increase in social media users, social media analytics has become a new method for investigating trends and patterns. (Xiang et al., 2017) Twitter, a popular microblogging service, is used for social media analytics because of its popularity and because data collection is feasible. Launched in 2006 Twitter had an estimated 271 million active users in 2016. Given that customers provide honest opinions on products and service and that information via social media is highly valued by other customers social media analysis using Twitter is important to the hospitality industry. Despite the increasing importance of using social media analytics to predict current trends, few empirical studies analyzing tweets in the hospitality management have been conducted.

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This study is designed to apply sentiment analysis, the emerging research method, to evaluate the foreign tourists' satisfaction of Moscow, using Twitter data. Moscow was chosen for this study because of its rapid growth as tourist destination.

It is supposed that the results of the research will be useful for travel agencies for promoting Moscow as destination for foreign tourists and for those who is developing Moscow's tourist brand.

### **Theoretical background of the research**

Previous studies have shown the importance of Information and Communication Technologies (ICT) (Buhalis and Law, 2008; Law, Qi & Buhalis, 2010; Bieger and Laesser, 2004) and social media marketing (Luo and Zhong, 2015; Ryan, 2015). Most of the studies in tourism and hospitality investigate the users' behavior and fewer of researches use social media analysis (Park, Chang & Ok., 2016). This paper will review literature about social media analytics, focusing on sentiment analysis, Twitter research publications to clarify how social media analytics can be applicable for Twitter data. Moreover, the literature on tourists' destination perceptions will be analyzed to help to interpret opinions found in tweets.

### **Social media analytics and sentiment analysis in tourism**

The development of social media is one of the tendencies that made a huge impact on tourism and hospitality industry, the role and the use of it in tourists decision making process, hotel management and marketing, brand awareness, product or service promotion and as travelers' electronic word of mouth (eWOM) recommendations are widely discussed in tourism and hospitality researches (Jayawardena et al., 2013; Kwok and Yu, 2013; Nunkoo et al., 2013; Leung et al., 2013; Park et al., 2016). Previously hospitality and tourism studies applied user-generated content data in different manners (Park et al., 2016). For example, Ghani S. et al (2014) found out the top vacation spots for Saudi Arabians through geotagged Twitter posts. Xiang et al. (2015) investigated the satisfaction of hotel guests through online reviews. In this study the researchers came to the conclusion that the correlation between hotel experiences and ratings in Expedia.com is extremely high.

One of the growing trends in social media analytics is sentiment analysis as Web crawling, computational linguistics, machine learning, big data analysis are developing very fast nowadays (Xiang et al., 2017). Sentiment analysis (SA) is a type of data mining that measures the inclination of people's opinions (Suardika, 2016). With the help of sentiment analysis Suardika (2016) proved a hypothesis that the lower hotel rating in Tripadvisor is, the more negative sentiments in the reviews it contains. Kim et al. (2017) analyzed 19,835 online reviews on Paris, grouped them in categories and explained the reasons why tourists felt negatively about category "transportation".

### **Research on twitter analysis**

The social network site (SNS) Twitter was launched in 2006 and it has become one of the most famous microblogging services in the world. Microblogging could be defined as a form of blogging that allows users post brief texts (less than 200- characters) about their life on the go (Java, Song, Finin & Tseng, 2007). Despite tweet length restrictions, Twitter reached a peak of 319 million active users in the fourth quarter of 2016 with approximately 500 million tweets per day (Xiang, et al., 2017). The big amount of data in Twitter captured attention of researchers worldwide (Boyd et al., 2010; Williams et al., 2013; Park et al., 2016). Unfortunately, the publications on tourism, hospitality management are rare (Park et al., 2016).

Sentiment analysis of tweets on different topics could be an interesting method for assessing emotional satisfaction of users (Mattson, Johnson, Davidson & Fincham 2013; Moniz and de Jong, 2014; Ren and Quan, 2012; Park et al., 2016). It could provide favorable circumstances for predicting society, industry trends and find meaningful issues in Twitter communication (Luo and Zhong, 2015).

### **Travelers' satisfaction with tourist destinations**

Customer satisfaction is one of the most discussed topics in the field of tourism and hospitality investigations due to the fact that customer satisfaction has become much more important than ever (Perunjodi N., 2010).

There are a huge varieties of consumer satisfaction measurement, for instance, disconfirmation theory, the importance performance theory, the equity theory, the attribution theory, the value-percept theory and dissonance theory (Wang, 2016).

Travelers' satisfaction is one of the most discussed topics in the field of tourism and hospitality investigations (Perunjodi, Prabha & Jeynakshi, 2010). Customer satisfaction could be measured through two main approaches (Fallon, 2004). The first one, disconfirmation theory which states that tourist customer satisfaction is the general tourist opinion about the destination gained from comparison of destination expectation to destination performance (Pizam, 1978). However the evaluation of the perception could be problematic especially in tourism sector. Due to the fact that tourist product is intangible; the expectations are inevitably less concrete and less valuable for measurements (Petrick, 2004) especially through sentiment analysis of social networks.

The second, the performance only approach, examines tourist destination through attributes. (Kozak and Rimmington, 2000; Pizam and Milman, 1993). The tourist satisfaction of certain attributes results in overall satisfaction (Danaher, 1996; Hsu, 2003). Kozak (2003) concerns that tourist satisfaction could be measured by summing up the scores for each destination attribute. Due to the fact that from practical point of view destination attributes model is less complicated than disconfirmation model (Wang, 2006) and it predicts better the tourist satisfaction (Fallon, 2004), the author of this paper decided to use destination attributes model in present research.

While using attributes model it is important to choose destination attributes for satisfaction evaluation. Attributes models were presented by many researchers. Rodriguez- Diaz M. and Rodriguez- Espino T.F. (2008) consider that four main factors need to be taken into account: geographical, political, service, strategical.

Kozak (2001) considered that the most important destination attributes for different nationalities are hospitality, clients care, language, price level, local transport, hotel services, cleanliness, and facilities of the airport. Chi and Qu (2008) highlighted 7 most significant attributes of tourist destinations: accommodation, gastronomy, shopping, sites, festivals and events, environment and accessibility.

### **Methodology of the research**

The present study is going to implement sentiment analysis for evaluating foreign tourist satisfaction on Moscow as a destination for travellers on the basis of Twitter. The following paragraphs will discuss which theoretical model will be used, why only tweets from foreign tourists will be analyzed, why Moscow was chosen as destination and Twitter is the source of data.

First of all Twitter was chosen because several studies have already been based on this social network and the number of applications for tweets analyzes is sufficient. Moreover the format of tweets is

appropriate for sentiment analysis. Also the number of tweets is huge and they can be divided on tweets written Russians and from people from other countries.

For this study theoretical as well as empirical methods were used. While discussing theoretical model it is important to mention that these days the cross functional model of evaluating customer satisfaction through sentiment analysis does not exist. This is the reason why the author has decided to modify subsisting theoretical models of customer satisfaction evaluation for sentiment analysis.

Among disconfirmation, performance only approach, SERVQUAL and Kano's models for evaluation of tourist satisfaction on destination performance only approach was chosen. Firstly, because performance only approach implies evaluation through destination attributes. Data for attributes analysis could be easily found on Twitter with the help of hashtags.

Moreover from practical point of view destination attributes model is less complicated than disconfirmation model (Wang, 2006) and it predicts better the tourist satisfaction (Fallon, 2004). While using attributes model it is important to choose destination attributes for satisfaction evaluation. In the previous chapter several set of attributes were discussed (Rodriguez- Diaz M. and Rodriguez- Espino T.F. model, Kozak's model, Chi et Qu's model), however all of these models were designed for questionnaires not for machine analysis of tweets this is the reason why the author has decided to propose own set of attributes based on the existing models.

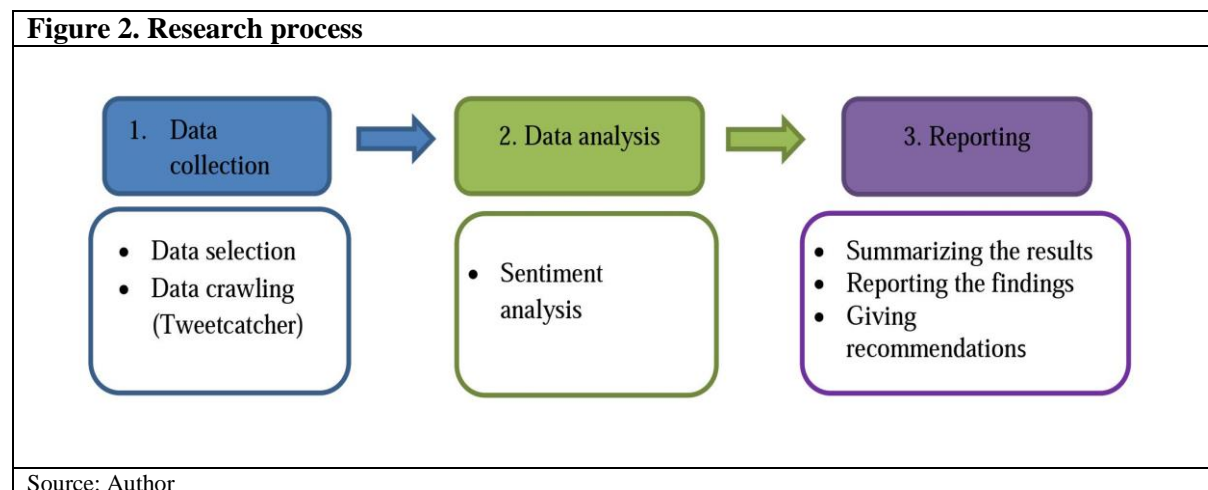
Originally the author was going to analyze overall satisfaction through attributes presented in the paper of Kim et al (2017): sights, overview, restaurants, things to do, transportation, shopping, warnings and danger, tourist traps, what to pack, off the beaten path, transportation, sporting and outdoors, night life, favorites. However for many attributes from this list were found too small number of tweets, so they were deleted from the final list version. This can be easily explained by noting that Kim et al looked for data in online platform not Twitter. Therefore the probation data mining for identifying the most mentioned attributes in Twitter was run:

**Figure 1. Number of tweets posted online 01.03-10.03 using the following key words including tweets of Russian users. Probation check for destination attributes.**

Period: 01.03 - 10.03		
Sightseeing	1979 tweets	#RedSquare, #stbasilicathedral, #bolshoi theatre, #bolshoimoscw, #gorkypark, #moscowcathedral, #cathedralmoscow, #christsaviorscathedral, #stalinskyscraper, #arbatstreet, #Kremlin, #Moscowsights, #tverskastreet, #victorypark, #sightseeinginmoscow #moscowsightseeing
Restaurants	268 tweets	#moscowrestaurant #moscowrestaurants #moscowcafe #tryingrussianfoosinmoscow #russianffodinmoscow #cafepoushkin #drzhivago #restaurantwhiterabbit #moscowpancakes #moscowborsh #moscowfood #breakfastinmoscow #dinnerinmoscow
Transport	150 tweets	#Moscowtraffic #Moscowmetro #Moscowtrafficjams #Moscowtransport #moscowtaxi #Moscowbus #moscowtram #moscowbusstop
Accomodation	123 tweets	#moscowhotel #moscowairbnb #moscowapartment #moscowflat #moscowhilton #moscowmarriot #moscowhayatt #moscowfourseasons #hotelinmoscow #apartmentinmoscow
Night life	80 tweets	#moscowclub #clubinmoscow #moscownightout #moscowbar #barinmoscow #moscowgipsy #moscowicon #moscowclubs

Source: Author

Consequently, practical performance only analysis will be run on the basis of 5 following attributes: sightseeing, restaurants, transport, accommodation, nightlife. The overall tourist satisfaction will be calculated as a universe mean between this attributes. The empirical research process can be presented as Fig.2.



### Data collection and analysis

Using the application Tweetcatcher1.3. this study will collect travellers' opinions about their experience in Moscow from social network Twitter. The author consider that Tweetcatcher is an appropriate application for this research as it not only download tweets containing requested words and phrases but also monitors the country of the permanent residency of the tweet's author. This is quite important for setting aside tweets about Moscow but written by Moscow residents. The author selected Moscow for this study because of the large volume of tweets written about the city and also because of its rapid growth as tourist destination for foreign travellers.

Nowadays sentiment analysis is quite widespread tool for analyzing big amounts of data as sentiments are one of crucial indicators of consumer behavior. In recent time several computer algorithms for sentiment analysis were developed. In this study the deep-learning based on the MonkeyLearn sentiment analysis was used as latest and appropriate algorithm.

The pull for the sentiment analysis was created by saving tweets connected with 5 destination attributes (sights, transport, restaurants, night life, accommodation). 676 tweets were collected and analyzed by the MonkeyLearn sentiment analysis tool based on JAVA 1.7.0\_65 with the scores from 0 to 1 (0- very negative, 0,5- neutral, 1- very positive).

### Findings

The present chapter will be structured as follows: first of all, each attribute results will be discussed then the overall satisfaction from the destination will be calculated. Totally 676 tweets were analyzed, but the number for each attribute was different.

The biggest amount of data was gathered for attribute "sightseeing" with the number of 313 from 01/03 to 30/04. The tweets were selected from the pull of content on the basis of following word combinations: Red Square, St Basil Cathedral, Bolshoi Theatre, Bolshoi Moscow, Gorky Park, Soviet Park, VDNKh, Moscow cathedral, Arbat Street and others. Moreover only tweets written by not Russians were taken into the account.

**Figure 3. Sentiment analysis for attribute “sights”**

306	Friday Mai	Visting Re	86238346	siena	Germany	/positive/	positive	0.416
307	Friday Mai	Amazing e	86238324	petejohn	usa	/positive/	positive	0.788
308	Friday Mai	Kremlin w	86238375	Pete Moss	Mexico	/neutral/	neutral	0.601
309	Friday Mai	souvenirs	86238327	Mike LeBl	Saudi Arab	/negative/	negative	0.572
310	Friday Mai	Soviet Par	86238328	Jack	Germany	/positive/	positive	0.52
311	Friday Mai	I'd love to	86238321	Summer	Canada	/positive/	positive	0.887
312	Friday Mai	This is the	86238323	Lisa Pers	Italy	/negative/	negative	0.355
313	Friday Mai	Sunny and	86238322	Yossaria	India	/positive/	positive	0.843
314								
315	Overall satisfaction for attribute "sights"							0,764

Source: Author

In comparison to other attributes overall mean score for the attribute “sights” reaches the peak of 0,764, meaning that the sentiment of tweets posted is more positive than negative. The minimum score was 0,279 and the highest 0,954.

For the second attribute “Restaurants” was possible to gather 150 tweets selected on the key words: restaurant in Moscow, Café in Moscow, trying Russian food, Moscow food and other. Also the names of the famous among foreign tourists cafes and restaurants were testified like Dr. Zhivago, café Pushkin, Turandot and others. The universe mean for this attribute is 0,712 with minimum score at 0,312 and the highest 0,965.

The third attribute “Transport” was analyzed through 101 tweet and gained the lowest mean score among other attributes. The key words Moscow traffic, Moscow metro, Moscow transport and others were used for distinguishing tweets about this attribute. The mean score was 0,403 which is more negative than positive. The maximum score was 0,876 and the minimum 0,167.

**Figure 4. Overall sentiment score for attribute “Transport”**

94	Friday Ap	Moscow r	86238332	barbara f	USA	/positive/	positive	0.577
95	Friday Ap	look how	86238367	lucas	Germany	/positive/	positive	0.844
96	Friday Ap	moscow t	86238215	Niko Rivie	Columbia	/negative/	negative	0.576
97	Friday Ap	taxi drive	86238300	Adam	france	/negative/	negative	0.395
98	Friday Ap	Bus stop	86238313	Syan Kim	South Kor	/neutral/	neutral	0.521
99	Friday Ap	Taxi drive	86238343	Ali	Marocco	/negative/	negative	0.357
100	Friday Ap	Standing	86238398	Pablo	Spain	/neutral/	neutral	0.401
101	Friday Ap	don't use	86238377	Ana Sand	Brazil	/negative/	negative	0.494
102								
103	Overall sentiment score for attribute "transport"							0,403

Source: Author

For the attribute “accommodation” tweets were found under following key words: hotel in Moscow, apartment in Moscow, AIRBNB in Moscow and others. Also famous brand like Moscow Marriot, Moscow Hilton, Moscow Hyatt, Moscow Four Seasons and others were mentioned. 80 tweets were analyzed and positive mean sentiment score 0,689 was received. The maximum score in this category was 0,847 and the minimum 0,396.



And for the last but not the least attribute “Night life” 65 opinions in Twitter were gathered. They were found under key words: Moscow clubs, clubbing in Moscow, Moscow night out, bar in Moscow and others. The overall mean score is positive 0,647. The maximum score for this attribute was 0, 847 and the lowest 0,456.

Totally through 5 attributes 676 tweets were gathered and the overall sentiment score among all attributes (Sights- 0,764 Transport- 0,403; Accommodation- 0,689; Night Life- 0,647) is 0,643 which means that tourists are generally satisfied with Moscow as a destination for tourists.

After sentiment analysis the tweets were manually read by other and the following problems were anticipated. First of all in several tweets the problem of written Russian language which is of current interest throughout Russia was mentioned. As Russian has a Cyrillic alphabet and most of the European languages use Latin one it is highly complicated for tourists, who do not know the reading Russian rules, to navigate in streets and Moscow metro. Moreover Moscow government has not yet developed a unified standard transliteration, there is no consistency about writing street names uppercase or lowercase letters, translation of the classifier (street, avenue, lane) which accompanies the name of the street, and it's not the only problem in Moscow.

Moreover under attribute “transport” the following problems were recognized: Moscow drivers are impolite and do not respect uniform traffic Code. Frequently taxi drivers do not have counters and ask for higher price at the destination point. As for metro, except transliteration, the fact that speaker does not announce stations in English also cause dissatisfaction.

Moreover under hashtag #touristinmoscow was determined that the tourists were dissatisfied with visa procedure. One of the most relevant tourism issues, not only in Moscow but also in Russia and other countries is the problem of visa restrictions, which have been the subject of several articles of Chinese researchers: Li and Song ( 2013); Liu and McKercher (2016) where the authors concluded that the liberalization of visa requirements leads to an increase in the number of travels.

## Conclusions

Though a lot of attention is paid nowadays on machine analyses in different research fields, the number of such studies based on it in hospitality and tourism falls behind. Taking into account the science knowledge gap, this study explored the travel experience tweets of foreign tourists in Moscow through sentiment analysis. This is a tool which uses artificial intelligence for analyzing opinions of tourists on destination tourism without avoiding time consuming method of gathering information in the field through surveys and interviews.

As theoretical models for sentiment analysis of touristic destinations are rare and mostly could be applied for specific researches the author proposed own theoretical model based on the performance only attributive approach. Five attributes were chosen for this study of tourist satisfaction while visiting Moscow namely: sightseeing, restaurants, night life, accommodation and transport. These attributes were chosen on the basis of number of tweets according to key words.

The sentiment analysis of the attributes showed the result that tourists who visit Moscow are positive about 4 attributes (sightseeing, restaurants, night life, accommodation) except transport. The total score was calculated from 676 tweets is 0,643 out of 1 (positive). The highest score is for attribute sightseeing that might be explained by tourist Internet behavior, especially by their comment on the photo posted. The lowest score of 0,403 which is negative belongs to the attribute “transport”. For identifying the reasons manual analysis was run by the author which released that the tourist are dissatisfied with lack of English language in metro and the work of taxis.



The research carries a high level of scientific and practical significance and is interesting for further research. In particular, the machine analysis of online platforms like Tripadvisor, Booking could be run for identifying not only satisfaction but also the reason for the sentiments of online reviews.

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## **THE IMPACT OF SOCIAL MEDIA ON E-COMMERCE**

### **Abstract**

Social commerce has quickly emerged as a new area of inquiry for both practitioners and researchers, suggesting the potential impacts of social media and social networking technologies and services in shaping commercial channels on and off the Internet. Social commerce continues to evolve rapidly in response to business practice, IT advances, changing consumer demand, and the insights gained from user-generated content. Also, social media has drawn a wide attention in the industry. Much remains to be done to achieve best practices in social commerce and to improve returns on social commerce technology investments by converting site visits to purchases on social platforms. It was not long when web became the ultimate business necessity. If one doesn't have an online presence, it is not worthy to stay in this hardcore competitive market. Therefore, there is always the need of social media optimization company to create a huge impact on the e-commerce ground. There's no better way to increase awareness of a product or service than social media, allowing businesses to not only advertise products but participate in one-on-one customer service by interacting with customers. Surprisingly enough, however, sales often show little impact from social media. Although sites like Facebook and Pinterest have little direct impact on sales, they are used to build brand awareness. That awareness can indirectly affect sales, keeping their products top of mind for customers. Social media impacts almost every aspect of e-commerce, including warehousing and order fulfillment. If you have launched a social media campaign that involves a contest prize or samples, then you need a warehouse and fulfillment service that is prepared to handle the results rapidly and accurately. Campaigns that go viral on social media—especially on fast-paced, news-breaking Twitter—may require a much quicker and higher volume of product shipping than had been initially expected or planned. With the changing Google algorithms and norms, there are some changes in the way social media impacts e-commerce and e-market. This paper presents the impact of social media on e-commerce.

**Keywords:** Social commerce, social shopping, social networking

**JEL Codes:** L81, M37

### **Introduction**

Social media is a phenomenon that has transformed the interaction and communication of individuals throughout the world. Especially, social networking websites are very popular and have become daily practice in a lot of people's lives. These sites have made significant impact on the individual's life. However, social media is not only a communication tool for amusement, but it is also an important part of marketing strategies in business life. There is a constant rise in social networking and therefore impact of social networks is becoming stronger every day, into each kind of business. Social media are often used as a source of information and spread of knowledge changing people's views and opinions. They belong among very important business marketing tactics and help to create new business opportunities, develop a stronger market position or modify consumer's behavior. Therefore, in developed countries, social media are gaining popularity and are increasingly used in regular operations of many companies, including start-ups, small, medium-sized, and large organizations. Over the last few years, the number of adults using social media has skyrocketed worldwide. Facebook recently reported that it had more than 1.2 billion monthly active users on the site in 2013, according to Reuters. More than 70 million

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people use Pinterest, while Twitter had more than 200 million active users in 2013. In 2016, Albanians spends the average of 18 hours on internet per week and Facebook is on top of the list for social sites accessed by Albanians. Although many people use these and other social media platforms just to stay in touch with their friends and family, they have a profound impact on many aspects of business and e-commerce.

The companies that embraced the existence of social media are now generating roughly \$2.4 million every minute through e-commerce. A large chunk of this revenue comes directly from social media, with Facebook, Instagram, Pinterest and Twitter helping to generate more than \$40,000 every 60 seconds.

**How Social Media Influences Consumer Shopping:** The most obvious explanation behind this phenomenon is that social media is a free marketing tool that allows companies to engage with the customers from all over the world. TV ads, radio spots and print media still play their roles in modern advertising, but nothing beats free.

However, cost only represents the tip of the iceberg. Unlike its predecessors, social media marketing operates on two-way communication. When delivering your message via television or radio, you might have to wait months to see if your campaign works. Social media allows for instantaneous input from users. Equally important, that input is highly segmented by geography, demography and interest. Fading are the days of generic advertisements on broadcast television. It is now possible to A/B test highly individualized messages for equally individualized audiences.

Social media also benefits from a multiplier effect. With a click of the mouse, users can resend the original “message” to thousands of friends or followers. One might have to spend millions of dollars to create a memorable radio jingle, but a low-cost social media campaign can go viral overnight. Since the referral is coming from friends and contacts, the message benefits from a level of social proof that few corporate advertisements ever enjoy in the world of traditional print media. Social media influencers play their roles too for instance the rising popular instagrammer with thousands followers give impact to the companies who endorse popular singers and celebrities. When they start to wear something, everyone will follow them and make them a role model. That’s how affective is the influences on social media. Moving on, shoppers embrace the internet for a variety of reasons — convenience, price, selection — and over the last few years, one of the major developments in the e-commerce arena is social media shopping. Social media shopping refers to the use of virtual social networks, peer reviews and other online social tools in the purchasing process. Today’s consumer is heavily influenced by the choices of his or her peers, which is further reflected in the way brands are using social media to capture attention.

**Facebook and beyond:** Facebook has been a primary vehicle for brands in not only the promotion of products but also in online transactions. One of the reasons is that Facebook allows consumers to share and talk about the products and services they like, which influences the purchasing decisions of their virtual friends. According to a report from Sociable Labs, 62 percent of online shoppers have read product-related comments from their Facebook friends, 75 percent of them have clicked on the product link to visit the retailer’s site, and 53 percent of those who clicked go even further and buy the product. Twitter is another social media tool in which brands are using to engage customers and encourage purchases, and it’s evident from the numbers that Twitter users don’t mind being pursued by brands — according to a study by Social Media Quickstarter, 64 percent of Twitter users survey claimed to follow certain brands in order to receive exclusive product promotions and discounts. Shoppers spend a tremendous amount of time surfing the Web — both on computers and increasingly on mobile devices. Obviously, having an online presence is essential if one wants to attract this traffic, but given the sheer number of hours that these very users spend on social media, it would be a mistake not to invest in

popular platforms like Facebook, Twitter or Google Plus. Getting started may seem daunting, but one should keep in mind that the largest cost is time — not money. Social media is a free and effective tool that can help you connect with millions of potential customers all over the world. If you need help accepting payments in your e-commerce or brick-and-mortar store. Online commerce and payments have grown significantly since their beginnings, and they are continuously advancing as technological developments take leaps forward. The history of ecommerce began as we know it in 1991 when the Internet first opened for commercial use. Online store websites launched and initially accepted payments performed through EFT (Electronic Funds Transfer) and credit card transactions. In 1998, PayPal began the era of e-wallets, which was followed much later by Bitcoin, a decentralized virtual currency that allows peer-to-peer transactions without intermediaries. And without a doubt, mobile payment solutions have increasingly become some of the most popular payment methods, especially in Albania.

In parallel to the growth and development of the ecommerce and payments arenas, social media usage and popularity have been growing exponentially. Social networks have quickly become an integral part of many people's lives, and as such, it is only natural that the three worlds meet to create an ideal environment for merchants to sell their products and services. This is precisely what is happening, now. Merchants, can leverage social media to their advantage, taking into consideration several aspects.

**Social Storefronts and Payments:** Social media networks, specifically Facebook, present a unique opportunity for customers. How? By enabling to operate storefronts directly from the company page and allowing customers to purchase without the need to leave the platform. Shopify's ecommerce shopping cart software is a good option to get the store up and running on Facebook. Twitter and Pinterest also present merchants with a unique opportunity to sell directly through a tweet or a pin with embedded "Buy Now" and "Buy It" buttons.

**Purchase Decisions:** Purchase decisions are largely influenced by what consumers see on social media, as opposed to the company website and search engines, as it was in past years. Consumers are continuously giving more importance to the actions of brands, as well as to customer testimonials, reviews and comments on social media sites.

Many people access social media through their mobile phones. And you know what they say about mobile users, right? They are, well...mobile! They are constantly on-the-go. As such, when consumers are presented with a product or advertisement that interests them via mobile, their purchase decision is very quick and they act fast, especially if the ability to buy is so accessible, like with the social network "Buy" buttons. You can capitalize on the quick purchase decisions of your potential customers by making it simple and seamless to buy – this can be done by enabling, simple, one-click mobile payments from within your social media storefront.

**Data Insights:** Social media networks have amassed an extensive amount of data regarding their users, ranging from age, gender and location, to interests, "Likes" and purchase history. Facebook, for example, has more users than the major credit card companies; As such, they have extensive data analytics on their users, allowing merchants to target audiences based on past actions.

This information can help develop content and marketing strategies to specifically target main audiences within social media networks.

Social media networks should be utilized to run targeted campaigns with a clear CTA (call to action) and an easily-accessible buying button. In addition to producing content to attract new customers, content should also be created to target existing followers, which will increase the chance of repeat purchases. It will also raise the probability that existing customers will share the content amongst their peers and social circles, resulting in new fans and leads.

Mobile Usage and Mobile Payments: Usage of mobile devices to browse social networks (and websites in general) is at a sharp incline and expected to continue to rise. Facebook recently reported that 40% of their users now access Facebook exclusively through the mobile app. In Albania, also, many people use their mobile phones to access websites and social networks, and mobile payment solutions are increasingly popular, with 90% of adults having a mobile payments account.

As most Albanians are already using at least one mobile payment platform, they are growing increasingly comfortable with making purchases through their mobile devices. As such, their trust will extend to social network payments, as well, as the two are virtually the same concept when the payments are done via the social media mobile app.

## Conclusions

Over the last decade, social networks have changed communications, shifting the way we consume, produce and interact with information, based on explosive migration to the web. Social media websites like Facebook (FB), Twitter etc. have created huge impetus on the communication platform with the end customers of different products and services that was lacking in the traditional medium. Social networking sites are used as marketing tool by marketers in creating brand relationship. Huge growth of customer base enables marketers to explore social media networking sites as new medium of promoting products and services and resulting in reduction in clutter of traditional medium advertising of reaching the mass customers and not realizing the actual ROI. Social networking sites are more collaborative and interactive in comparison to traditional media followed by marketers. The steep rise in social media usage for ecommerce, coupled with the huge acceptance of mobile phones and mobile payment platforms, give Albanian merchants a unique and new way to reach their target audience and convert them into active customers. By opening social media stores, using “Buy” buttons, and utilizing mobile payment systems, you can tap into a very large potential user base that can, very quickly, increase your sales and grow your business.

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Twitter website [www.twitter.com](http://www.twitter.com).

Social Bakers website [www.socialbakers.com](http://www.socialbakers.com).

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**RAFIDA NAWAZ<sup>1</sup>**

**LIBERAL GOVERNMENTALITY AND IT'S IMPACTS IN SHAPING WORLD ORDERS:  
FROM AGE OF COLONIALISM TO NEO-LIBERAL GLOBALIZATION<sup>2</sup>**

**Abstract**

Liberalism is considered to be an ideology of freedom, with its emphasis on limited government, human rights, individualism, democracy and consumerism. But according to Mitchel Dean the idea on contrary is not a contractual bond between individual and state for promotion of human rights and spirit of wellbeing inherent in commercial pursuits of happiness. According to Foucault Liberalism have a love-hate relation with freedom. Although it believes in limited intervention of state in private sphere of activity, to Foucault it is a bio-power. With its individualizing techniques it breaks human bonds from collectivity. But its procedures are totalizing in nature as it not only regulates the domain of conscious but also sub-conscious converting humans into utilitarian wealth producing beings. The inherent flaws in liberalism as identified by Marx as well as Foucault are its capacity to operate on limited scale. Since its inception in age of Enlightenment, liberalism creates global milieus of economic circulation. To him, liberalism is a form of bio-power relying on individualizing techniques that transform humans into wealth producing utilitarian beings, and totalizing procedures creating an integrated world order transforming the multitude of societies into a singularity of consumer global society. The prime supposition of study is that liberalism is a form of Governmentality that creates world orders. It has passed through different phases since age of colonialism, when using the strategy of lebensraum and physical annexation first global milieu was crafted and multitude of spaces operated as singularity. Employing the Foucauldian tool of “genealogy as diagnostic of present”, paper aims to evaluate the diverse impacts of liberal Governmentality on different spaces. It will also employ Foucault various concepts like Power/knowledge to understand the working of liberal discourses.

The paper will is based not only on Foucauldian method but also taking Foucauldian narrative of working of liberal governmentality from classical era of Adam Smith that created interdependent world order in age of colonialism to neo liberalism of von Moses and Hayek responsible for present day globalization; in his classical works, i.e. “Security, Territory, Population”, and Birth of Bio-Politics.

**Keywords:** Liberalism, bio-power, governmentality, Genealogy, world-order, colonialism, globalization

**JEL Codes:** B13, B52, B53, N12, N14

**Introduction**

Globalization is normally conceived as an era that heralds the end of history, triumph of capitalism as a global ideology and declares that nation-state as form of organization is now obsolete and redundant. State as form of human organization with its internal mechanism of policing, welfare and warfare, came of age with during modern period that starts in long sixteenth century according to Wallerstein. (Wallerstein, Vo. 28. No 4, 2005)

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<sup>2</sup> Earlier version of this paper presented at MIRDEC Madrid 2017 Conference and earlier version of abstract was published in MIRDEC Madrid 2017 Conference Proceedings(Book of Abstracts).

## **Supposition and argument of study**

The prime supposition of this study is that state and capitalism are twin concepts sustaining each other; declaring the victory of one and death is a mask concealing the end game of globalization; liberal ideology and capitalism owe much to bio-politics of state and cannot survive without each other.

## **Foucauldian methods of Archaeology and Genealogy**

Analysis is based on Michel Foucault Diagnostic of present, i.e. Archaeology and Genealogy. (Dean, 2010) The methodology of this research is essentially Foucauldian, and I have also employed Foucauldian narrations about the history of governmentality, rather Liberal Governmentality from his Lectures at College De France Security, Territory, Population (Foucault, 2007) and Birth of Bio-Power (Foucault, Birth of Biopolitics Lecture at College de France (1978-79), 2008) during two consecutive years (1977-78) and (1978-79). Foucault believes that Capitalism is a form of bio-power that normalize human behavior in accord to its requirement through individualizing techniques in form of discipline that is omnipresent in modern societies, i.e. in school, in factories, in homes etc, and aim of that individualizing techniques is to cut the cord of individual with totality and make him/her individuals, the so called bearer of rights with freedoms, and a wealth producing utilitarian being, the consumer of goods as well as consumer of freedoms including the political one. This system of liberty is not possible without the bio-politics of state and sovereignty, where the prime responsibility of sovereign was to be the architect of a territory and organizer of a milieu was to ensure circulation, i.e. circulation of goods and services, circulation of humans, and circulation of ideas. History of Liberalism is hence the history of governmentality, that started in Europe and ended in making world an ordered whole, a milieu on a global scale. If liberalism is bio-power, it cannot be sustained without the bio-politics of state, and state contributed a lot in triumph of liberalism.

## **Scheme of study**

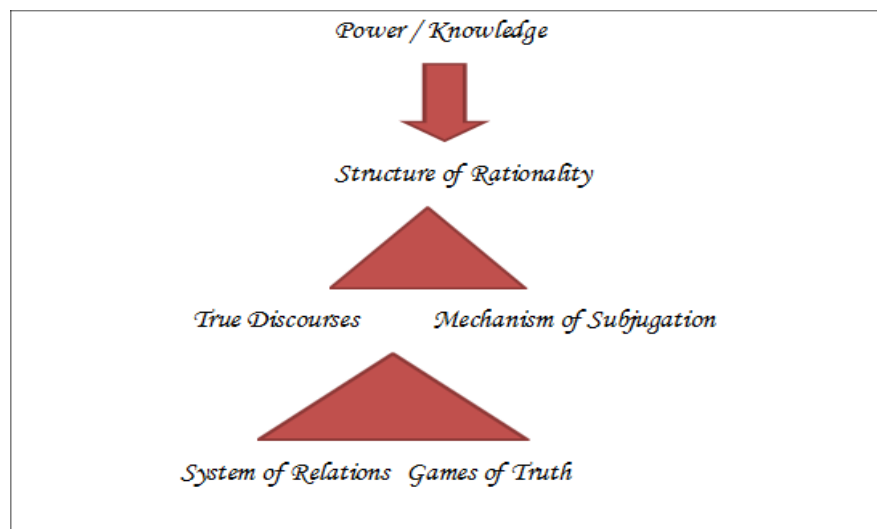
The paper is divided in following segments

- Note on Foucauldian Method
- Concept of Governmentality
- Liberal Governmentality in Europe and its Relation with Colonialism
- Pax American Liberal Order, Doctrines of Reconstruction and Development
- Washington Consensus, Globalization and Changing Role of State

## **Note on foucauldian method**

Foucault employed a tool kit to diagnose the present. I have tried to establish a relation between various concepts employed by Foucault for sake of analysis. Foucault sees an intrinsic relation between Knowledge and Power. Hence ideas and discursive formations are at base making Marxist theory to stand on its head. More similar to Hegel. Hence the discursive structure gives rise to the structure of rationality. And generate true discourses as an effect. Foucault is not a believer of transcendental truth and believes in a date of birth of a true discourse. These true discourse employ the mechanism to subjugate. Even Individualism, liberty and freedoms to Foucault are mechanism of subjugation and generates a system of relation sustained by games of truth in form of knowledge contents, ideologies etc.

**Figure 1. Methodological framework**



Source: (Nawaz, 2012))

### Concept of governmentality

Governmentality according to Foucault is “conduct of Conduct”. Conduct can be analysed on multiple levels, i.e. first is the level of self, i.e. how to govern oneself, and then comes the relation of self with the authority, how I want to be governed, what limitation I would probably bear on myself, and to whom I am authorizing to govern myself, and my collectivity, what will be the duties and what will be my rights and freedoms. And in a way I limit the authority of governors by employing the discourses of good and bad governance. Demands and interest of populace and responses of governors created the Governmentality. Responses make the sovereign architect of a territory and regulator of a milieu (the concept taken from Lamarckian biology), a domain where circulation can be carried out. Governmentality, hence involves a right disposition of things, Things Foucault means are not only resources and wealth but also, men in their relation with, customs, habits and ways of acting and thinking. Hence sovereign responsibility is to order men and things. Hence Governmentality is an inclusive term, that includes sovereign power to discipline like father and shepherd, development of apparatus and knowledge content as the population is prime target of governmentality

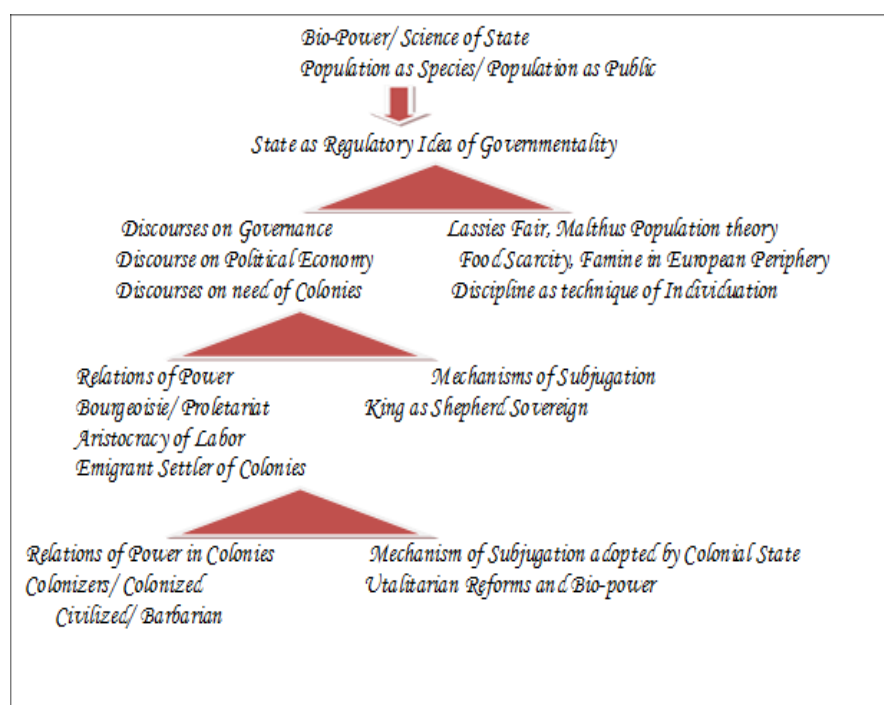
### Liberal governmentality in Europe and its relation with Colonialism

Liberalism according to Foucault was a rupture in mercantilist doctrine. Mercantilism according to Foucault was a system of prohibitions with a series of controls on price, hoarding cultivation and export of Grain. Foucault is perhaps the first theorist who talks in terms of human security and food security as responsibility of state. Liberalism according to him arised around 1689 with the legislation in Englang that provided freedom for free circulation of grain, even with the freedom to export grain in periods of plenty, allowed hoarding and even allowed import of grain in period of scarcity. The worst impact of this policy was that food became a commodity that was previously supposed to be a human need. It led to famine in European peripheries like Ireland, and also it broke the structure of subsistence non European economies leading to situation of famine. Migration to colonies as aristocracy of labour was another result.

Comes famous liberal trade theories of Adam Smith and David Ricardo. Adam Smith assured that with freedom of market a mechanism of mutual enrichment will be induced. To Foucault as it was no more a zero sum game hence the it was a correlative enrichment, i.e. enrichment of Europe as a block, either whole Europe will be rich or the whole will be poor. As there was no longer any cake to divide, it was a reciprocal enrichment through competitive game ensuring state survival. Idea of European progress is fundamental theme in liberalism, the game was in Europe and stake was in world. A global milieu of circulation was created

There was a corresponding shift in ideas of International politics as well, i.e. from Balance of power to Kantian notion of perpetual peace, and concept of international organizations like concert of Europe.

**Figure 2. Discourses of power leading to colonization of world by European power**



Source: (Nawaz, 2012))

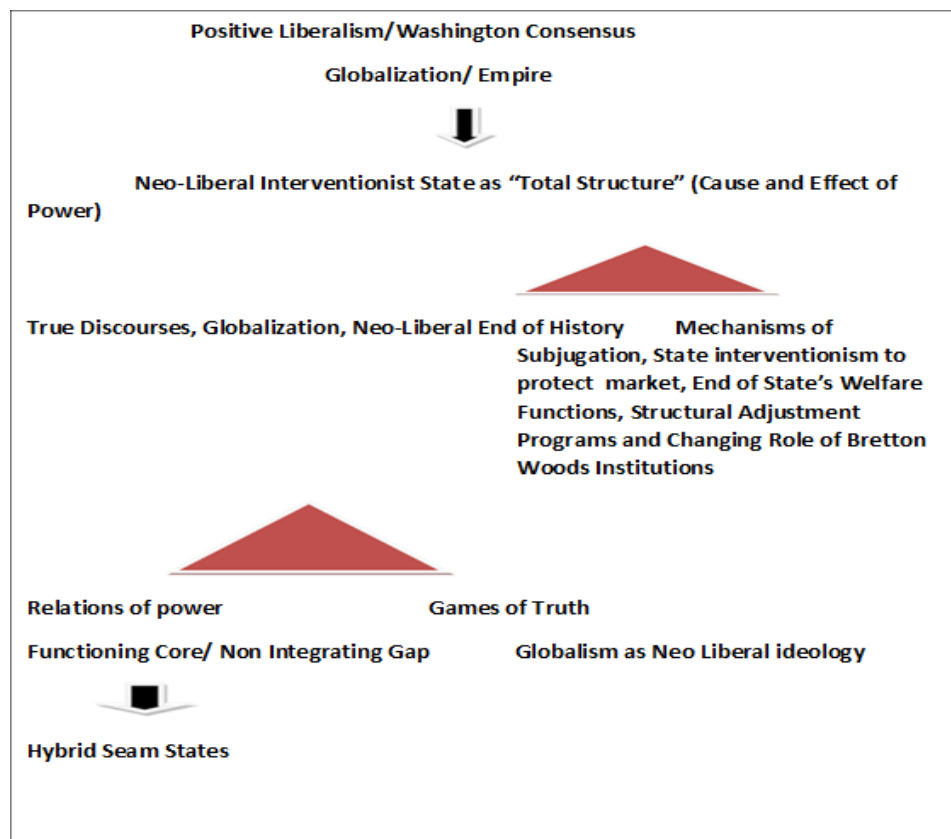
## Pax American world order

Isiah bowman concept of economic lebensraum was the idea that gave birth to structure of rationality in form of Pax American world order. Reconstruction of Japan, the Germany, and Europe through Martial Plan and doctrine of development for the postcolonial world was introduced. Cold war alliance system and doctrines of national security, were the flip side of the coin of liberal internationalism and interventionism. The collaborator state in third world emerged, and doctrine of development produced ethnicity and redefinition of identity leading to legitimacy crisis in post imperial state.

## End of Cold War

A decade prior to end of Cold War there emerged the doctrine of Washington Consensus declaring the end of welfare function of state in Reagan Thatcher era. The welfare state according to Foucault was constructed to meet the crisis of demand in post Great War era. Positive Liberal ideology produced legitimacy for states like Germany that started from scratch in that time. In a restructured world there was no such need and crisis of demand. The worst victim of state welfare function were the postcolonial states with cuts in health and education services for masses. These states still in transition are declared by Thomas Barnett as Seam States with a functioning core and a non-integrating gap, that will threaten the global network of cities.

**Figure 3. Discourses of power in age of liberal Globalization**



Source: (Nawaz, 2012))

## Conclusions

Liberalism has an ambivalent Relation with Freedom. It produces freedom to consume freedom, i.e. freedom to buy and sell, free exercise of property rights, freedom of discourse and expression. It manages freedom with limitations, coercion, obligation and relying on threats. It is paradoxical set of rules that protect collective interests of capitalism at stake of individual, ensures freedom of enterprise at cost of worker rights and even involves itself in war to protect finance capitalism

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**KAZUKO DENO<sup>1</sup>**

**BUILDING RELATIONSHIP WITH YOUR CUSTOMER THROUGH COACHING BASED INTERACTION: ANALYSIS OF THE COACHING RELATIONSHIPS BY SOCIAL STYLE THEORY**

**Abstract**

Although many researches have recognized the importance of relationship marketing the necessary elements to build the relationships with customers are not yet completely identified till now. The author thinks that it is possible to find a framework of relationship building by analyzing coaching approach used by coaches during their session with clients. The author analyzed the contents of dialogue and the coach involvement phases in coaching from a perspective of the social style theory. First, the author assessed the contents of appropriate conversations and behavior between coach and client explained in coaching textbooks based on social style theory. Next, after identifying social style of every coach, the author examined how they have adapted their original social style flexibly during the session. As a result, the author found how coaching trainings evoke transformation of coaches. The result of this research could serve as a clue to construct an effective theoretical and practical model for salespeople.

**Keywords:** Coaching, social style, sales, relationship

**JEL Codes:** M31

**Introduction**

There has been a great discussion about relationship marketing since Berry introduced the term “relationship marketing” to the services marketing literature (Berry 1983). As the concern over relationship quality in selling has risen, the study about the role of salespeople in service context of a long-term relationship has been increased. Several studies have proved some important elements in raising relationship quality such as similarity and expertise (Crosby et al, 1990). However, little agreement has been reached about actual process of relationship development because of its complex antecedent factors. Therefore, it should be urgently discussed how salespeople improve their ability to build relationship.

In this paper, the author discusses the actual process of relationship building through the idea to combine the Social Style and coaching theory for finding clues for effective personal interaction. From her coaching experience, the author thought that although coaches have their original Social Styles, they adapt their behavior according to their client’s needs. Flexibility is considered as the key factor of success for every Social Style. Therefore, the author focuses on the process of coaches’ training to find how they improved their flexibility by examining the difficulties and the changes through their coaching session.

The purpose of this study is identifying the necessary elements to build relationships with customers by analyzing coaching approach. After that, the author finds the clues for effective personal interaction in creating trust and satisfaction using established frameworks (Social Style and Coaching Models).

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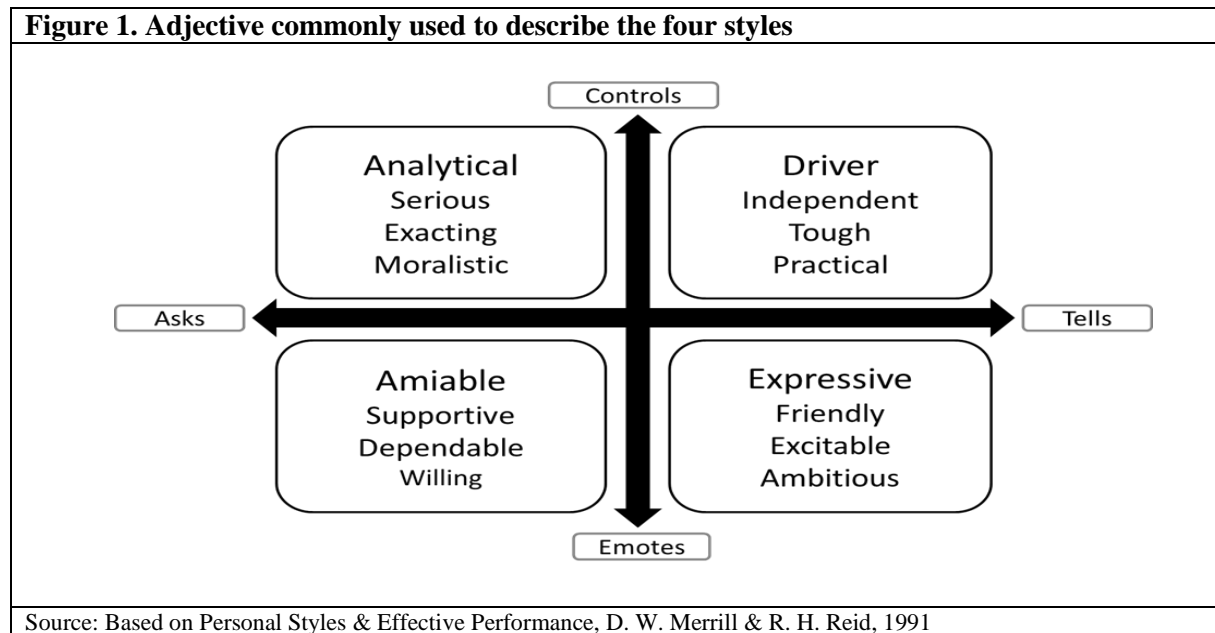
## Research question

Little study has been done to find out the key elements of customer-salesperson bond. On the other hand, there have been many studies about the effects of coaching on salespeople's performance (Onyemah, 2008). Moreover, coaching and relationship marketing have much in common in the development process of theory (Deno, 2016). In the same way, Social Style Theory is considered to be useful in sales context (Merrill et al, 1991). Since both two theories are related to sales and have psychological backgrounds, it seems possible to adopt these theories into relationship marketing.

## Theoretical framework

### 1. Social style

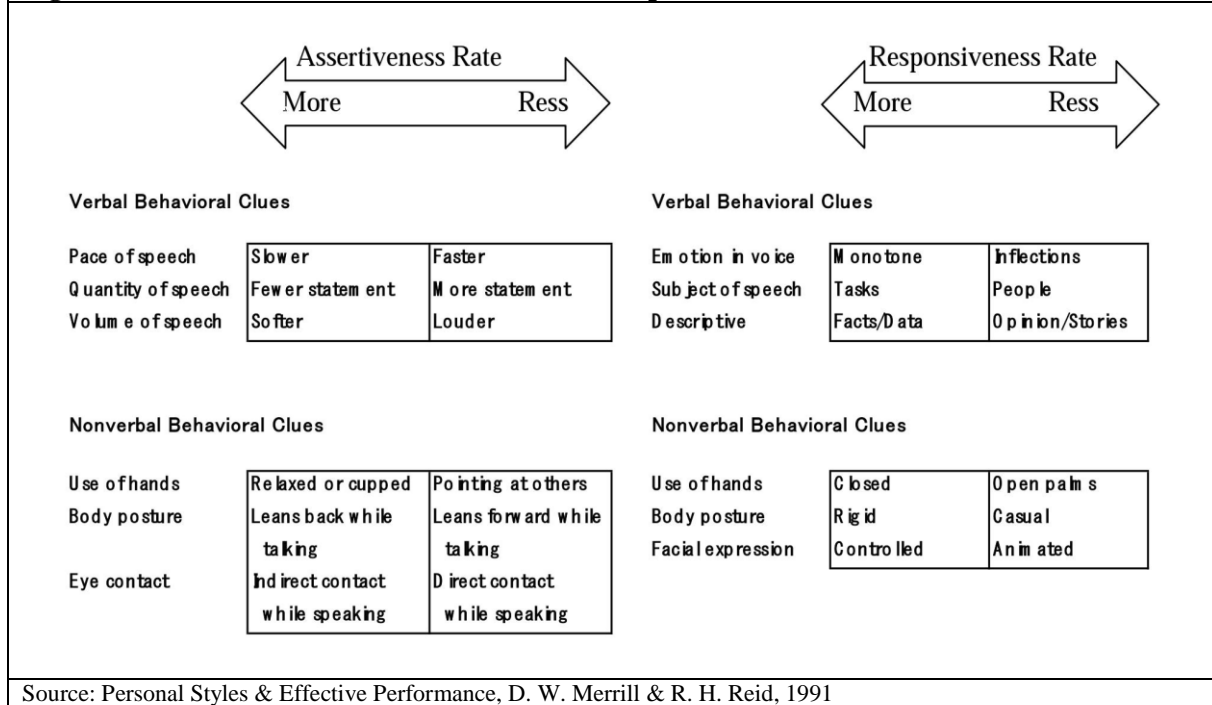
The Social Style is the patterns of somebody's behavior seen by people around. Founder of Social Style were two industrial psychologists, Dr. David W. Merrill and Roger H. Reid. The model is shown by 4 types.



The social style is measured through three dimensions of human behavior:

- \* Assertiveness
- \* Responsiveness
- \* Versatility (The extra concept of Social Style, key factor for success)

**Figure 2. Behavioral clues to assertiveness and responsiveness**

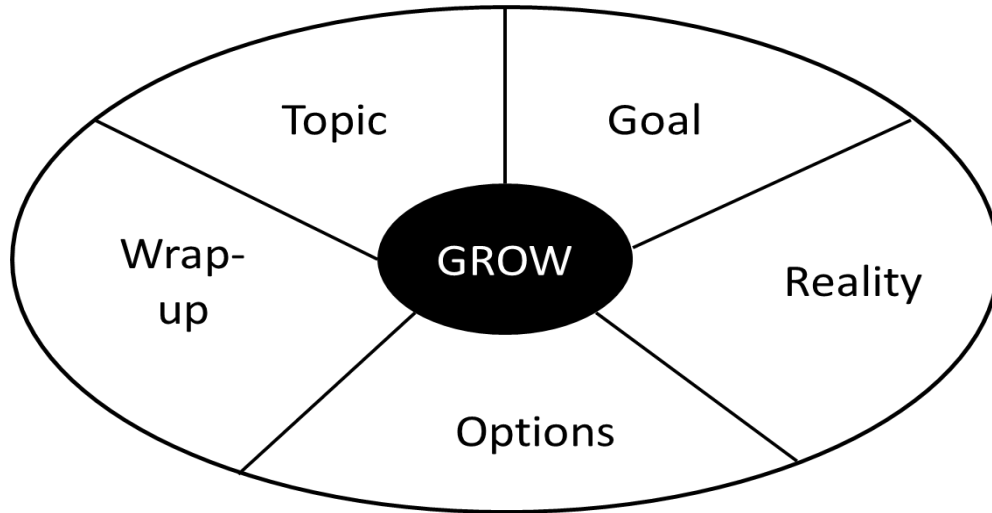


## 2. Coaching

Coaching was developed in the area of sports in 1960s, transferred to business throughout the 1970s and 1980s. It is accepted as the widely used resource for personal development. Many styles of coaching methods are used according to the client's or client's needs. The author would like to mention two important and famous models here. One of these model is the "GROW-model", which is the most well-known framework developed in 1980s from senior executive coaching by Sir John and his associates (Alexander and Renshaw, 2005). In this model, the coaching session starts by defining what it is that the client wants to achieve. The coach asks questions which hold the client focuses in the present, for example: "What is happening now?" "What could you do?" "What do you want?" This model is widely used in business coaching.

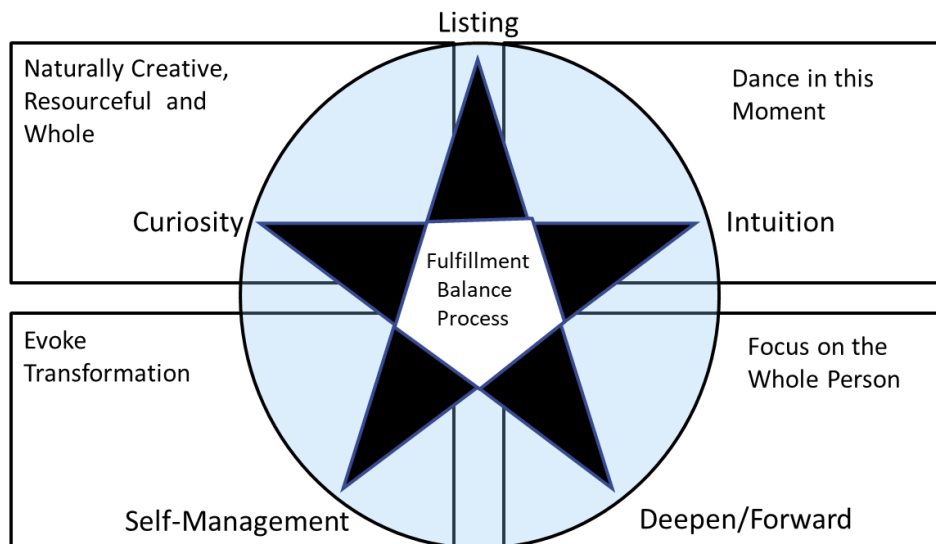
On the other hand, the "Co-Active model" was created by the founders of the Coaching Training Institute (CTI), which is supporting people to make life-giving and life-changing choices. In this model, coaching conversation might address such issues as life purpose or mission, values, principles, or personal beliefs (Kimsey-House et al, 2011).

**Figure 3. GROW model**



Source: Excellence in Coaching, third edition, J. Passmore, 2016

**Figure 4. Co-active model**



Source: Co-Active Coaching, third edition, H. Kimsey-House et al, 2011

## Method

First, the author assessed the contents of appropriate conversations and behavior between coach and client explained in each coaching textbooks by self-assessment scale of social style theory. The questionnaire to assess social styles consists of 15 Assertiveness Ratings and 15 Responsiveness Ratings, for example: “Going along (1) – Taking charge (4)” “Quiet (1)-Talkative (4)” “Open (4)-Reserved (1)” The combination of each average score indicates social style of coach.

Next, the author gathered the same questionnaire from coaches, asking them to assess their past social styles if they felt to have changed their styles through coaching training. Then, the author examined how they have adapted their original social style flexibly through coaching training program by asking these questions on depth interview.

1. Why did you learn coaching as profession?
2. What made you uneasy during the session?
3. How did you solve the difficulty?

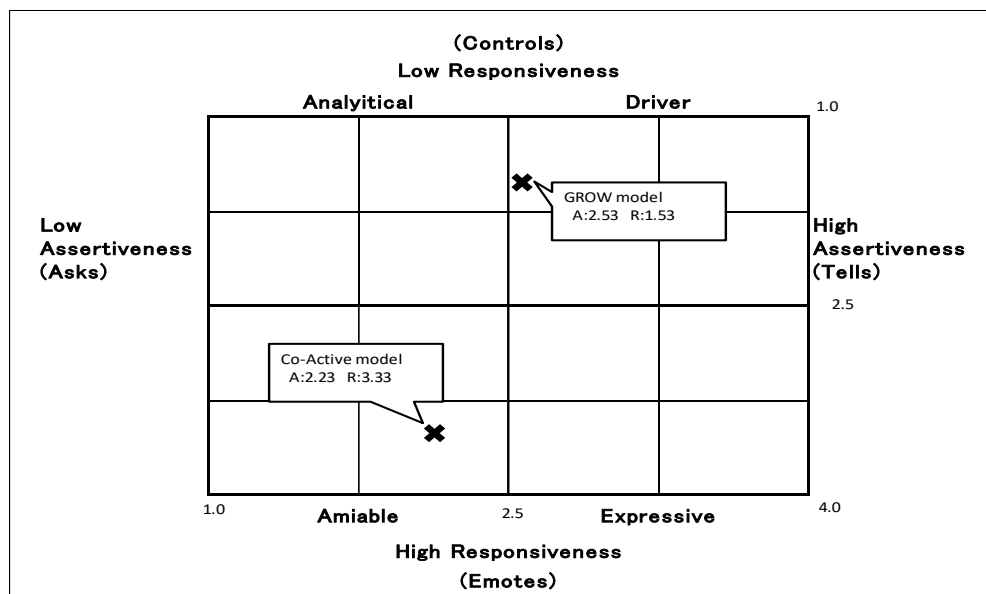
## Hypothesis

- Although coaches have their original Social Styles, they adapt their behavior according to their client’s need.
- Some coaches have changed their original style during coaching training.
- The key factor of their flexibility will be found by examining the difficulties and the changes during their coaching sessions.

## Results

### 1. The GROW model and the Co-active model

**Figure 5. Behavioral difference between GROW model and Co-active model**



Source: Author

It is evident from the analysis of the two coaching models that the GROW model and the Co-Active model are quite different in assertiveness and responsiveness. In the GROW model, the coach seems to have Driver style. The GROW model offers an excellent and comprehensible approach that does not require a psychologist's training or a background in psychotherapy. On the contrary, the Co-Active coach seems to behave Amiable in the beginning of the session because listing, which is not passive, is one of the most important skills in Co-Active coaching. Moreover, the topic of the coaching conversation includes client's whole life. Coach should be acceptable to the various kinds of topics because the purpose of the coaching is to evoke transformation. In social style theory, persons with amiable style are called "Relationship Specialist". Considering these assumptions, the author decided to focus on the Co-Active coach in this research.

## 2. Social style of the coaches

**Figure 6. Social style of Co-active coaches**

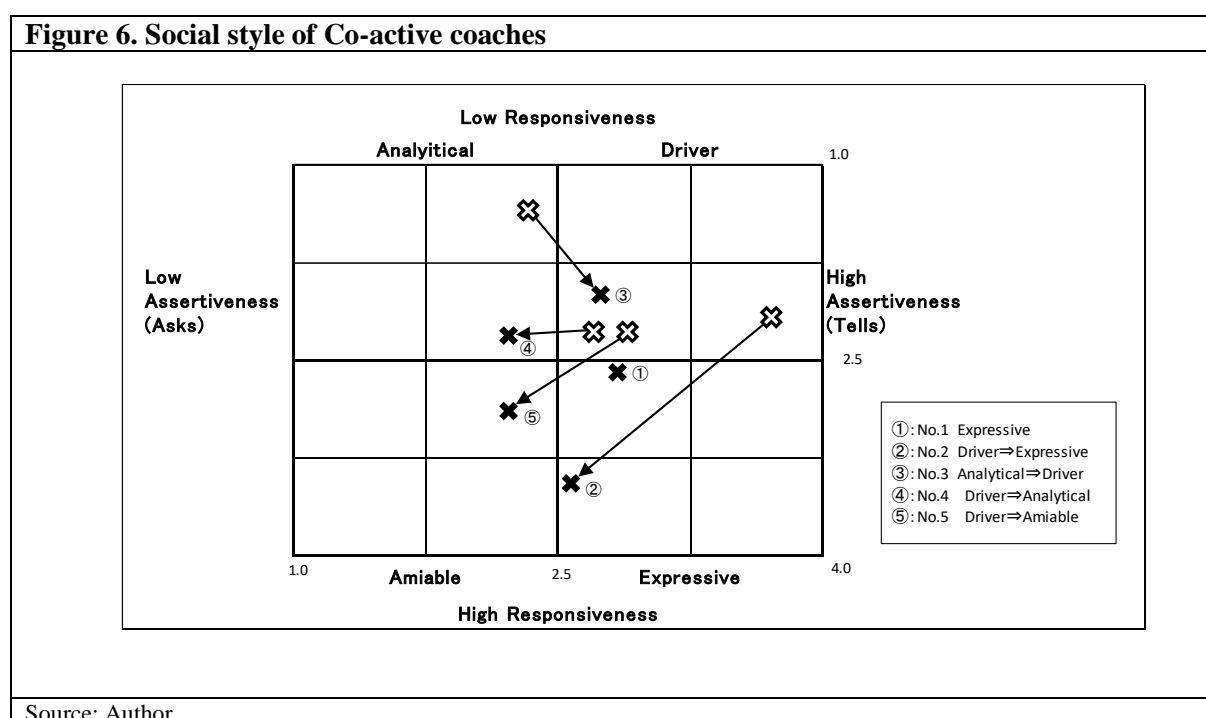


Figure 6 shows the social style of five Co-Active coaches. Four of them have changed their styles after their coaching training. Four of them have changed their job after their training.

Although this result does not seem to reflect the analysis of Co-Active model, it is understandable that they have adjusted their social styles according to their job.

Here are summary of their interview.

No.1: Expressive

Occupation: Company manager ⇒ Professional coach

1. Internal training and counseling. The internal coach was trustful.
2. First I thought that coaching was just a skill. I was afraid to fail, avoided to ask powerful question.
3. I realized that coaching is not skill but being itself, when my coaching starts to change. I did not give up learning coaching.  
I have tried to keep relationships with client after their session.

No.2: Driver⇒Expressive

Occupation: Company employee ⇒ Temporary staff & Yoga instructor

1. Internal training. I wanted to make better relationship.
2. Coaching is still difficult. I tend to focus on the results. (effects)  
I failed when I tried to control the session.
3. When I release the intension to provide value.  
It is important to continue to practice coaching.

No.3: Analytical⇒Driver

Occupation: Company executive

1. When I became a young executive, I met a professional a coach and asked him to become my personal coach.  
His personality attracted me, so I started to learn coaching to change myself.
2. Interruption and silence were difficult for me. I have tried to find the “right” answer.
3. I tried to have interest in what is happening in the client.  
Then I came to have honest feeling for even disliked people.

No.4: Driver⇒Analytical

Occupation: Company employee ⇒ NPO staff & Entrepreneur

1. Internal training. I wanted to learn coaching skill.  
Attended some lectures, I found Co-Active was best for me.
2. I felt uncomfortable to be paid. Still it is not my policy. “Forward and Deepen” part was also difficult. I preferred to be as it is.
3. Coaching practice with the classmates trained me. Through coaching training, I realized what I wanted to do.

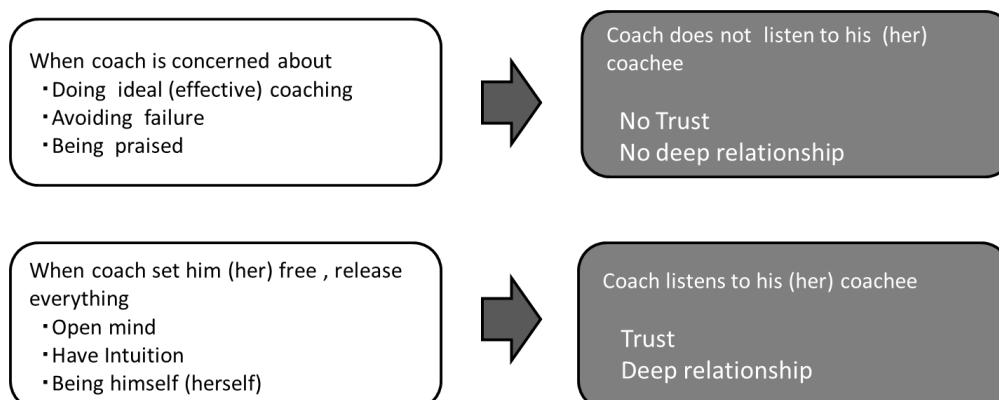
No.5: Driver⇒Amiable

Occupation: Company manager⇒ Seconded to human resource company

1. Internal training. I wanted to change myself.
2. I could not be a good coach with an eccentric client. I wanted to control the session by using appropriate skills or principles. As a result, I failed to go along with the client.
3. I understood “release”, “believe” and “NCRW” (people are naturally creative, resourceful and whole) by feedback from the trainer.  
Then I accepted myself and feel free.

## Findings

From their answers, the coaches have been attempting to control their sessions when they started to learn coaching. After they have changed their minds to focus on empowering clients, their sessions became real coaching. The author rightly presumed that coaches have changed when they realized what they have been concerned. They seem to have learned not only coaching principles but also versatility or flexibility through coaching training and practice. Coaches (trainees) get trust when they focus on the on clients, not what they should say.



According to the interviews with the coaches, their processes to solve the difficulties include the four steps of improving versatility (Merrill et al, 1991).

1. Know yourself  
They knew themselves by feedback and self-awareness
2. Control yourself:  
They have controlled themselves by learning self-management
3. Know others  
They knew their client by deep listening
4. Do something for others  
They supported their clients by coaching conversation

If coaches know themselves and have insights about their clients, they can make adjustment to the clients. Then if coaches make effort to adjust their individuals, their versatility will become greater. This result shows us that coaching training is effective to improve one's versatility.

## Conclusions

The aim of coaching is to empower people by facilitating self-direct learning, personal growth and improved performance. Besides, coaching practices bring improvement of the coaches. In this point of view, coaching practices can be applied to development of salespeople.

Several studies have proved that coaching to salespeople positively work for their performance. Salespeople showing more customer orientation will adapt their behaviors and try to help customer decisions that will better satisfy their needs (Saxe and Weitz, 1982). Coaching can increase customer orientation and reduce sales orientation that leads to a more stable customer base (Pousa and Mathieu, 2014). In service contexts characterized by continuous exchange activity and considerable purchase uncertainty, the long-term interests of the customer may best served by initiating and maintaining enduring relationships with salespeople (Crosby et al, 1990). However, these studies recommend salespeople just to be coached. Taking versatility into account, the author concluded that experience to be a coach brings greater improvement to salespeople.

## Limitations

This study has some limitations. First, since samples of five Co-Active coaches were gathered for this research, other coaching models have not examined. Secondly, the interviewee's answers have not reached theoretical saturation. As a result, the findings reported are only suggestive.

### **Suggestion for further research**

Further research should be designed to compare the improvement of versatility in different groups of coaches. Perhaps there could be difference among various coaching models. As the style of communication affect sales achievement (Pettijhon et al, 2011), coaching training program for salespeople should be carefully designed after compering the result.

Considering previous study and this research, the author recommends training for salesperson as follows:

- Adapt social style theory into sales
- Having a coach (Being a client)
- Learning coaching skills and principles

These training can be classified into Growth-related KSAs-knowledge, skills, and abilities- that are considered relevant for sales effectiveness (Cron et al, 2005). To verify the effect of the training, 3 to 6 months will be needed because the terms of coaching session are usually 3 to 6 months (Doyle et al, 1992).

By means of the findings presented in this paper, salespeople will find it much easier to develop relationship with clients.

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**TENZIN YESHI<sup>1</sup> AND DIVYA PRADEEP<sup>2</sup>**

**LIVELIHOOD OF TIBETIAN WINTER ITINERANT SWEATER TRADERS IN MADHYA PRADESH**

**Abstract**

The paper discusses the Livelihood of the Tibetan Winter Itinerant sweater traders in Madhya Pradesh. Madhya Pradesh is the Second largest state by area and Sixth largest state by the population as per the Census 2011 of India. The main objective of the paper is to examine whether Tibetan sweater sellers are satisfied with the winter sweater selling business and to find out whether Tibetan sweater sellers want to shift to any other occupation. It also pays attention to livelihood patterns of the sweater traders. The other important objective is to identify the various challenges faced by the Tibetan Itinerant sweater traders as the economic stability of the Tibetan community in India depends on the success of itinerant sweater business which covers around 70% of the exile population in India (CTA).

The data has been collected from the 14 different regions of Madhya Pradesh namely Ujjain, Indore, Gwalior, Sagar, Damoh, Katni, Satna, Rewa, Bhopal, Jabalpur, Seoni, Balaghat, Shahdol and Neemuch. Data analysis has been done through SPSS and MS Excel. The analysis reveals that Tibetan itinerant sweater traders are quite satisfied with the business but they don't want to continue with the same traditional business in the near future which raises the question whether those traders are prepared for the future or not. The analysis also shows that the weather plays a key role in their earning from the business but due to the global warming around the world, weather condition doesn't seem to be in favor of Tibetan winter sweater traders as it has been predicted that the weather will not be as cold as before in the coming years which can cause a serious damage in the winter sweater business. It also shows that a location for running the business is the major problem in every sweater selling region where the majority of the sweater traders are doing the business based on the experience alone. Most of them are illiterate and haven't received any business training. This lack of knowledge about the business is also reflected in the fact that not a single sweater seller has insurance on their stocks which will eventually make them vulnerable to potential losses and during unforeseen contingencies. Thus, it is utmost important to educate the sweater traders on running the business, adopting new techniques in doing the business and to make them aware of the current business issues so as to prepare them for the uncertain hindrances that are part of their business.

**Keywords:** Livelihood, winter itinerant sweater traders, CTA, Madhya Pradesh, global warming, Tibetan settlements in India

**JEL Codes:** A10, A13, A14

**Introduction**

In 1959, Tibetan has sought refugees in India, Nepal, and Bhutan. His Holiness the Dalai Lama along with 80,000 Tibetans came to India as an exile (Bhatia, 2002). The first prime minister of India Jawaharlal Nehru welcomed His holiness in India and gave Tibetans a new hope of life by accepting Tibetans in India. Now Tibetans have to survive with the new environment along with preserving the Tibetan rich culture, tradition, heritage, etc. They have faced a lot of physical problems such as language barriers, hygiene, weather, etc. and emotionally it's a cultural shock for them due to the loss of their own motherland. The Tibetans first started their livelihood as a road laborer in the northern states of

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India and Tibetans in south India started their life by engaging in agriculture which became a primary source of occupation.

### Winter itinerant sweater business

The winter Itinerant Sweater Business was initially started back in the 1960s when few of the Tibetan males started as a street vendors outside Indian villages, shops during cold winter months and Tibetan females used to make the sweater's with handloom through their bare hands as some of the Tibetans used to make the handloom products in Tibet (Personal Interview) and my grandmother was one of them. As selling of sweater in the winter proved to be lucrative, it spread in the Tibetan refugee community. From its small starts of few Tibetan people selling sweater during the winter in the 1960s, the winter itinerant sweater business has evolved into the main economic activity of Tibetans in India by the late 1980s (Lau, 2008).

**Table 1. Economic activity of the main and marginal workers**

Country	Cultivator	Sweater seller	Teacher	CTA/Alike services	NGO service	Household industry	Health services	Others	Unknown	Total
INDIA	2,337	4,714	2,018	2,993	757	872	1,534	9,603	3,870	28,698
NEPAL	103	35	329	177	121	338	141	1,812	736	3,792
BHUTAN	233	13	5	3	4	75	5	137	100	575
Total	2,673	4,762	2,352	3,173	882	1,285	1,680	11,552	4,706	33,065
Percent	8.1	14.4	7.1	9.6	2.7	3.9	5.1	34.9	14.2	100.0

Source: (Planning Commission, CTA, 2009)

### Research objectives

- ❖ To examine the livelihood patterns of the winter sweater traders
- ❖ To assess the problems faced by the traders in the sweater selling business.
- ❖ To analyze the determinants of the preferences of the sweater traders in continuing the sweater selling tradition.

### Research methodology

The survey of the research is a descriptive study and the data is collected through primary data which includes Both Questionnaire and Direct Interview, also from secondary data. The Geographical coverage of this survey is based on the Tibetan Itinerant sweater traders in Madhya Pradesh, as it is the

second largest state in India and it tries to cover all the Tibetan traders who are doing this particular business in the State of Madhya Pradesh.

In this survey, the entire population of the winter itinerant sweater traders is classified into 14 different regions in Madhya Pradesh. The sampling size is 224 respondents, one sweater traders from each household. The data were analyzed using IBM SPSS Statistics. Descriptive statistics were used to see the demographics of the study. The Pearson's correlation and a Chi-Square test were used to test the hypothesis and to determine whether there is a significant association between two variables. Graphs and tables were used to observe the further trends in the livelihood of the Tibetan winter itinerant sweater traders. One sample t-test was used to test the sample mean. Factor analysis has been used for data reduction method which helps in identifying the most important factors from the loading in the questionnaire.

### Data analysis

Data analysis has been classified into four stages based on the research objective which is stated as below:

1. Demographic Profile
2. Objective 1: To examine the livelihood concerns of the winter sweater traders.
3. Objective 2: To assess the problems faced by the traders in the sweater selling business
4. Objective 3: To analyze the determinants of the preferences of the sweater traders in continuing the sweater selling tradition.

### 1. Demographic profile:

**Table 2. Gender profile**

Gender	N	Percent	Cumulative Percent
Male	112	50	50
Female	112	50	100
Total	224	100	

Source: Primary data

Table 2 shows the Age profile of the respondents where 50% of the respondents are male and 50% of the respondents are female as well. Thus, it clearly shows that there is no gender disparity in this business and Tibetan women's also take equal parts of the business.

**Table 3. Education qualification**

Education	N	Percent	Cumulative Percent
Illiterate	24	10.7	10.7
Primary School	51	22.8	33.5
Upper Primary School	72	32.1	65.6
Secondary School	36	16.1	81.7
Higher Secondary School	24	10.7	92.4
Graduate	14	6.3	98.7
Post graduate and above	3	1.3	100.0
Total	224	100.0	

Source: Primary data

Table 3 shows education qualification of the population. Thus, the majority of the respondents that is 32.1% of them went schooling until Upper primary school which is class 6-8 followed by 22.8% of them did their schooling till primary school which is class 1-5. Thus, it reveals that most of the traders are not educated that may be the reason of still following the same traditional business as before. The participation of educated traders is not much in numbers as they are not much interested in doing the sweater business which may affect the business in the long term.

**Table 4. Experience in the winter sweater business**

Years of experience	N	Percent	Cumulative Percent
Below 5	17	7.6	7.6
6-15	66	29.5	37.1
16-30	113	50.4	87.5
31-45	26	11.6	99.1
Above 46	2	.9	100.0
Total	224	100.0	

Source: Primary data

Table 4 shows the experience of the respondents in winter sweater business. Half of the population have experience between 16-30 years in the sweater business that is 50.4% followed by 29.5% which has an experience of 6-15 years in the sweater business. Here it shows that majority of the traders have experience of more than 16 years in the business and they are still following the same traditional method. Thus it is extremely important to educate them with regards to the modern business comprehension.

## 2. Objective 1: To examine the livelihood concerns of the winter sweater traders

**Table 5. Winter sweater business, main source of family income**

Source	N	Percent	Cumulative Percent
Yes	208	92.9	92.9
No	16	7.1	100.0
Total	224	100.0	

Source: Primary data

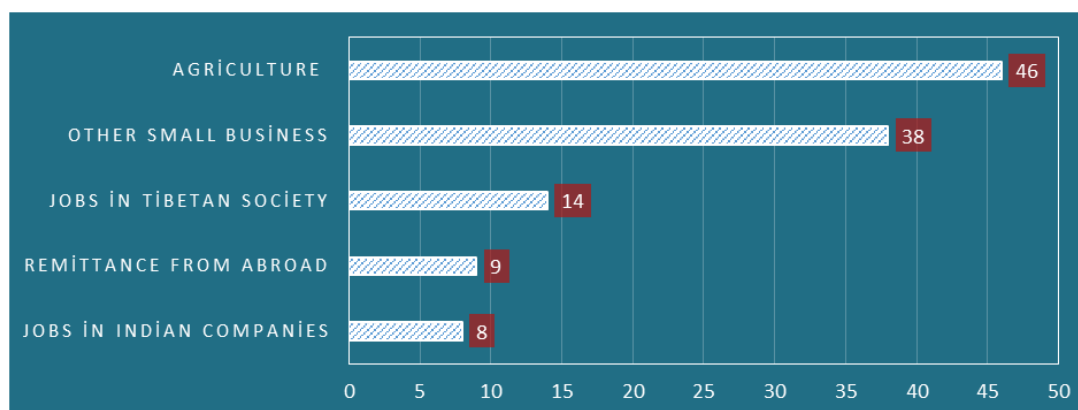
Table 5 shows the main source of family income of the respondents, 93% of the respondents consider winter sweater business as their main source of family income and only 7% doesn't consider winter sweater business as their main source of family income. Here it reflects that Winter sweater business is the main source of family income nearly to all the traders in Madhya Pradesh, thus it is essential to understand and study the market so that market functions effectively and efficiently.

**Table 6. Alternative source of income**

Alternative Sources	N	Percent	Cumulative Percent
Yes	115	51.3	51.3
No	109	48.7	100.0
Total	224	100.0	

Source: Primary data

**Figure 1. Alternative source of income**



Source: Primary data

Table 6 shows the alternative source of income of the respondents, where out of 224 respondents 115 of them have an alternative source of income and 109 of them doesn't have an alternative source of income and purely depends on winter sweater business.

Figure 1 shows the alternative source of income of the respondents as 46 of the respondents earned their alternative income from agriculture followed by 38 of the respondents earned their alternative income from other small business which includes owning restaurants, hotels, Street shops, Landlords, etc. therefore it reflects that even though there is a switch from agriculture to business sector, the traders still depends on the agriculture as an alternative source of income for the family after winter sweater business as most of the traders in Madhya Pradesh are from agriculture-based settlements in India.

**Table 7. Cross tabulation between net profit over the years and satisfaction of income from winter itinerant sweater business**

Net Profit over the years	Satisfaction of income from winter sweater business				Total
	Definitely yes	Probably yes	Probably no	Definitely no	
Decreased	6	18	18	3	45
Remained same	11	92	26	6	135
Increase	10	25	4	5	44
Total	27	135	48	14	224

Source: Primary data

Table 7 shows the cross-tabulation between net profit over the years and satisfaction from winter itinerant sweater business. It shows that almost 60% of the respondent feels that their net profit remains same over the years (135 respondents). Out of 135 respondents, 92 of them are probably satisfied with the income they earn from the business, 26 of them are probably not satisfied, 11 of them strongly satisfied with the income they earned from the business and 6 of them are strongly not satisfied with the income they earned from the business.

### Factor analysis results

An exploratory factor analysis was conducted using various methods to purify the data. Factor analysis was also used to identify underlying factors or dimensional composition of the data. The 224 respondents for the main reason of engaging in winter sweater business were analyzed using principal component factor analysis. Only those factors having Eigenvalue more than 1 were included in the final solution. Factor loading is a correlation between the factors and the variables and it shows which variable belongs to which factors. This judgment can be done by using rotated factor matrix.

**Table 8. Communalities for engaging in winter sweater business**

	Initial	Extraction
Family hierarchy	1.000	.578
Not aware of other business	1.000	.469
More profit	1.000	.588
Many Tibetans are doing the same	1.000	.573
Easiest way to earn	1.000	.538
Family depends on this business	1.000	.658
Work is much less	1.000	.463
No other option	1.000	.665
Feel happy doing this business	1.000	.554
Not suitable for any other occupation	1.000	.664
Extraction Method: Principal Component Analysis.		

Source: Primary data analysis (SPSS)

Extraction refers to the proportion of each variable's variance which can be explained by retained factors. Variables with high values indicate well represented in the common factor space while variable with low values is not well represented.

It was seen from the total variance explained table that only three factors were loaded with Eigenvalues more than 1. Table 9 Total Variance Explained for engaging in Itinerant Winter Sweater Business shows factors, Eigenvalues, total % of the variance, cumulative %, the sum of squared loadings and rotation sum of squared loadings.



**Table 9. Total variance explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.196	31.964	31.964	3.196	31.964	31.964	2.800	27.996	27.996
2	1.480	14.798	46.761	1.480	14.798	46.761	1.662	16.622	44.618
3	1.076	10.759	57.520	1.076	10.759	57.520	1.290	12.902	57.520
4	.899	8.993	66.514						
5	.817	8.172	74.686						
6	.655	6.548	81.234						
7	.588	5.883	87.117						
8	.513	5.127	92.244						
9	.413	4.125	96.369						
10	.363	3.631	100.000						
Extraction Method: Principal Component Analysis.									

Source: Primary data analysis (SPSS)

- Factor-** The initial number of factors is the same as the number of factors used in the factor analysis. However, only 3 factors will be retained out of 10 factors.
- Initial Eigenvalues-** Eigenvalues are the variances of the factors.
- Cumulative %-** This column contains the cumulative percentage of variance. A cumulative variance of 57.520% indicated that a most of the factor analysis has been conducted.
- Extraction sums of squared loadings-** The number of rows in this table in correlation with the numbers of factors retained.
- Rotation sums of squared loadings-** The values represented in this table notify the distribution of the variance after the varimax rotation. Varimax rotation tries to maximize the variance of each of the factors in which the total amount of variance accounted for is redistributed over the three extracted factors.

**Table 10. Rotated component matrix**

Rotated Component Matrix			
	Component		
	1	2	3
Not suitable for any other occupation	.798		
No other option	.710		
Not aware of other business	.683		
Work is much less	.662		
Many Tibetans are doing the same	.601		
Family hierarchy		.731	
Family depends on this business		.691	
More profit		.648	
Feel happy doing this business			.722
Easiest way to earn			.629
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			

Source: Primary data analysis (SPSS)

When the first solution does not reveal the hypothesized structure of the loadings, it is necessary to apply rotation in an effort to find another set of loadings. Varimax rotated matrix maximize the variance of the squared loadings for each factor. The aim of this varimax rotation is to make loadings as large as possible. This method also encourages the detection of factors each of which is related to few variables. It discourages the detection of factors influencing all variables.

**Table 11. Interpretation of output from the factor analysis**

Name of the component	Total Variance Explained (TVE)	List of Factors	Rotated Component Matrix (RCMV)
Lack of awareness	3.196	Not suitable for any other business	.798
		No other option	.710
		Not aware of other business	.683
		Work is much less	.662
		Many Tibetans are doing the same business	.601
Main source of Income	1.480	Family Hierarchy	.731
		Family depends on this business	.691
		More profit	.648
Satisfaction and ease of doing the business	1.076	Feel happy doing this business	.722
		Easiest way to earn	.629

Source: Primary data analysis (SPSS)

From the analysis, it was found that there are ten factors which contribute to the main reason for engaging in itinerant winter sweater business.

**Component 1:** Lack of awareness of the other occupation is the major constraint for the winter itinerant sweater traders in Madhya Pradesh, they are also not prepared to take up other occupation as risk is the predominant factor and they want to follow the same path even though their profit margin is not constant. One main reason is also the reliability towards other Tibetan traders since it involved a large number of Tibetan in this particular business, so engaging in winter sweater business sounds stable to most of them.

**Component 2:** The Main source of income is also the main reason for engaging in the winter sweater business since, over a long period of time, the annual income of the family depends strongly on this business and it's not easy for them to adopt other occupation. Also, the income they earn from the four-month business is much profitable than the other occupation they engage in the remaining eight months. Thus, it's profitable.

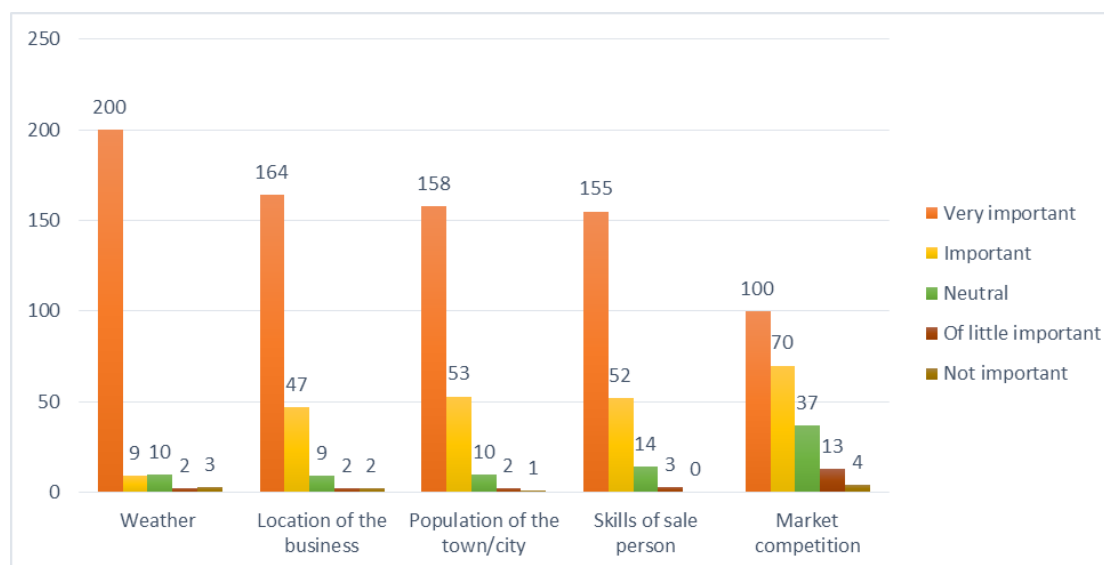
**Component 3:** Winter itinerant sweater traders in Madhya Pradesh are satisfied with the income they have been earning till now and they feel that winter sweater business is the easiest way to earn income for the family as it generates more income in a short period of time than engaging in other occupation for a longer period and also earning less than the winter sweater business.

**Table 12. Conducive factors for the growth of winter itinerant sweater business**

Factors	Very Important	Important	Neutral	Of little Important	Not Important	Mean	Standard Deviation
Weather	200 (89.3)	9 (4.0)	10 (4.5)	2 (.9)	3 (1.3)	1.21	.687
Location of the market	164 (73.2)	47 (21.0)	9 (4.0)	2 (.9)	2 (.9)	1.35	.687
Population of the town/city	158 (70.5)	53 (23.7)	10 (4.5)	2 (.9)	1 (.4)	1.37	.657
Skills of sale person	155 (69.2)	52 (23.2)	14 (6.3)	3 (1.3)		1.40	.668
Market competition	100 (44.6)	70 (31.3)	37 (16.5)	13 (5.8)	4 (1.8)	1.89	.998

Source: Primary data

**Figure 2. Conducive factors for the growth of winter itinerant sweater business**



Source: Primary data

Table 12 and the Figure 2 shows the different factors that leads to earn more profit in the winter sweater business and as per the respondents all the factors that were listed are considered as very important and most important being the weather where 89.3% feels its very important for the business to earn more profit followed by Location of the market that is 73.2%, Population of the town/city which is 70.5%, Skills of sale person 69.2% and market competition which is 44.6%. Thus, the most important factor is the weather condition during the sales period of winter sweater business.

Therefore, it clearly shows that weather being the crucial factor for the growth of their business which is beyond the control of the trader's, also it is the sole reason for the slow growth of business in the past few years due to winter weather not being that cold in almost all the regions in Madhya Pradesh and also in other states of India which directly affects the livelihood of the family of winter itinerant sweater traders. Thus, winter itinerant sweater business is strongly depended on the winter weather. The colder it gets; more the profit they earn. Location of the market and population size of the town or the city plays also plays an important role in the growth of the business where it can enhance good sales if the location of the market is within or hub of the town/city (Personal interview).

### 3. Objective 2: To assess the problems faced by the traders in the sweater selling business

**Table 13. Basic statistics**

Problems	N	Mean	Std. Deviation	Std. Error Mean
Location of the market	224	2.22	.734	.049
Transportation of the stocks	224	2.36	1.103	.074
Finance and Loans	224	2.77	1.269	.085
Human Resource	224	2.29	1.108	.074
Competition from Indian traders	224	2.48	1.288	.086
Relationship with Wholesaler	224	3.53	1.349	.090
Legal issues	224	3.04	1.258	.084
Local community	224	3.09	1.348	.090

Source: Primary data analysis (SPSS)

Table 13 shows the mean value of the problem faced through the location of the market. It is found that mean value is equal to 2.22, which is below the mid value of 3 on the scale of 5-1. Therefore, we can say that winter sweater traders face problem in the location of the market.

It also shows the mean value of 2.36 for the problem faced through stock transportation, which is below the mid value of 3 on the scale of 5-1. Therefore, we can say that winter sweater traders face problem in the transportation of the stocks.

Table 13 shows the mean value of 2.77 for the problem faced through Finance and Loans, which is below the mid value of 3 on the scale of 5-1. Therefore, we can say that winter sweater traders face problem in finance and loans.

Table 13 also shows the mean value of the problem face from human resource. It is found that mean value is equal to 2.29, which is below the mid value of 3 on the scale of 5-1. Therefore, we can say that winter sweater traders face problem from human resource.

Table 13 shows the mean value of the problem faces the competition from Indian traders. It is found that mean value is equal to 2.48, which is below the mid value of 3 on the scale of 5-1. Therefore, we can say that winter sweater traders face problem through the competition from Indian traders.

Table 13 shows the mean value of the problem face through the relationship with the wholesaler. It is found that mean value is equal to 3.53, which is above the mid value of 3 from the scale of 5-1.

Therefore, we can say that winter sweater traders do not face problem through a relationship with the wholesaler.

Table 13 shows the mean value of the problem face from legal issues. It is found that mean value is equal to 3.04, which is above the mid value of 3 from the scale of 5-1. Therefore, we can say that winter sweater traders do not face problem from legal issues.

It finally shows the mean value of the problem face from the local community. It is found that mean value is equal to 3.09, which is above the mid value of 3 from the scale of 5-1. Therefore, we can say that winter sweater traders do not face problem from the local community.

**Table 14. One sample t-test**

Problems	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Location of the market	45.215	223	.000	2.219	2.12	2.32
Transportation of the stocks	31.977	223	.000	2.357	2.21	2.50
Finance and loans	32.684	223	.000	2.772	2.61	2.94
Human resource	30.878	223	.000	2.286	2.14	2.43
Competition from Indian traders	28.793	223	.000	2.478	2.31	2.65
Relationship with wholesaler	39.180	223	.000	3.531	3.35	3.71
Legal issues	36.184	223	.000	3.040	2.87	3.21
Local community	34.357	223	.000	3.094	2.92	3.27

Source: Primary data analysis (SPSS)

## 1. Market location

H<sub>0</sub>: Winter Sweater traders does not face problem in location of the market

H<sub>1</sub>: Winter Sweater traders face problem in location of the market

Table 14 shows that t=45.215 (df=223, P=0.000). Since P value is less than 0.5, it rejects the null hypothesis that means winter sweater traders do not face problem in the location of the market and it accepts the alternative hypothesis that winter sweater traders face problem in the location of the market. Thus, we conclude that getting a location of the market is one of the problems faced by the winter sweater traders.

## 2. Stock transportation

H<sub>0</sub>: Winter sweater traders do not face problem in transportation of the stocks

H<sub>1</sub>: Winter sweater traders face problem in transportation of the stocks

Table 14 shows that  $t=31.977$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders do not face problem in the transportation of the stocks and accepts the alternative hypothesis that winter sweater traders face problem in the transportation of the stocks. Thus, we conclude that transportation of the stocks to their respective region is one of the problems faced by the winter sweater traders.

### **3. Finance and loans**

$H_0$ : Winter sweater traders do not face problem in Finance and loans

$H_1$ : Winter sweater traders face problem in Finance and loans

Table 14 shows that  $t=32.684$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders do not face problem from finance and loans and accepts alternative hypothesis that winter sweater traders face problem from finance and loans. Thus, we can conclude that winter sweater traders face problem in getting finance and loans.

### **4. Human resource**

$H_0$ : Winter sweater traders do not face problem in human resource

$H_1$ : Winter sweater traders face problem in human resource

Table 14 shows that  $t=30.878$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders do not face problem from human resource and accepts alternative hypothesis that winter sweater traders face problem from human resources.

### **5. Competition from Indian traders**

$H_0$ : Winter sweater traders do not face problem of competition from Indian traders

$H_1$ : Winter sweater traders face problem of competition from Indian traders

Table 14 shows that  $t=28.793$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders do not face problem through the competition from Indian traders and accepts alternative hypothesis that winter sweater traders face problem through the competition from Indian traders.

### **6. Wholesaler relationship**

$H_0$ : Winter sweater traders face problem of relationship with wholesaler

$H_1$ : Winter sweater traders do not face problem of relationship with wholesaler

Table 14 shows that  $t=39.180$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders face a problem of relationship with wholesaler and accepts alternative hypothesis that winter sweater traders do not face a problem of relationship with a wholesaler.

### **7. Legal issues**

$H_0$ : Winter sweater traders face problem of legal issues

$H_1$ : Winter sweater traders do not face problem of legal issues

Table 14 shows that  $t=36.184$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders face a problem of legal issues and accepts alternative hypothesis that winter sweater traders do not face the problem of legal issues.

### **8. Local community**

$H_0$ : Winter sweater traders face problem from local community

H<sub>1</sub>: Winter sweater traders do not face problem from local community

Table 14 shows that  $t=34.357$  ( $df=223$ ,  $P=0.000$ ). Since  $P$  value is less than .05, it rejects the null hypothesis that winter sweater traders face problem from the local community and accepts alternative hypothesis that winter sweater traders do not face problem local community.

#### 4. Objective 3: To analyze the determinants of the preferences of the sweater traders in continuing the sweater selling tradition.

**Table 15. Satisfaction and continuation of the business through different winter itinerant sweater regions in Madhya Pradesh**

Winter sweater region	Satisfaction		Total	Continuation		Total
	Yes	No		Yes	No	
Balaghat	4	2	6	3	3	6
Bhopal	31	24	55	7	48	55
Damoh	3	1	4	1	3	4
Gwalior	17	6	23	2	21	23
Indore	40	2	42	8	34	42
Jabalpur	17	4	21	2	19	21
Katni	8	0	8	5	3	8
Neemuch	4	6	10	1	9	10
Rewa	8	1	9	1	8	9
Saugor	10	1	11	2	9	11
Satna	7	1	8	1	7	8
Seoni	4	0	4	2	2	4
Shadol	5	0	5	1	4	5
Ujjain	4	14	18	6	12	18
Total	162	62	224	42	182	224

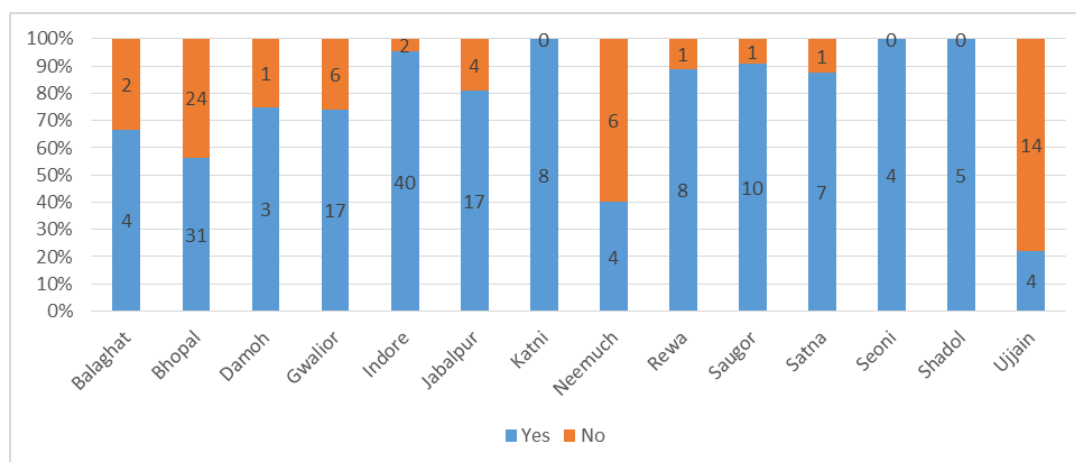
Source: Primary data

Table and Figure below shows that Satisfaction and continuation of the business by different winter itinerant sweater regions in Madhya Pradesh, as we can see that most satisfied regions based on their satisfaction level are from Katni, Seoni and Shahdol where all the respondents said they are quite satisfied with the winter sweater business and the regions which are least satisfied with the business is Ujjain where out of 18 respondents, 14 of the respondents are unsatisfied and only 4 of them are satisfied followed by Neemuch and Bhopal. The region which mostly wants to continue with the same business is katni where out of 8 respondents, 5 of them still wants to continue and 3 of them don't want to continue with the same business followed by Seoni and balaghat. The region who mostly don't want to continue with the business is Neemuch, Rewa, Satna, Damoh and Shahdol where only 1 respondent wants to continue with the same business from those 5 regions.

Thus, from the 14 different regions. It shows that traders are somehow satisfied with the income they earn from the business but they don't want to continue with the same business. The reason they are satisfied is because they at least get enough income to make a living for their family for a year and the reason which they don't want to continue is because the winter sweater business is volatile in a way that there is so much risk involves in the business which they just can't predict and also the business not secure interns of uncertainties and business shocks.



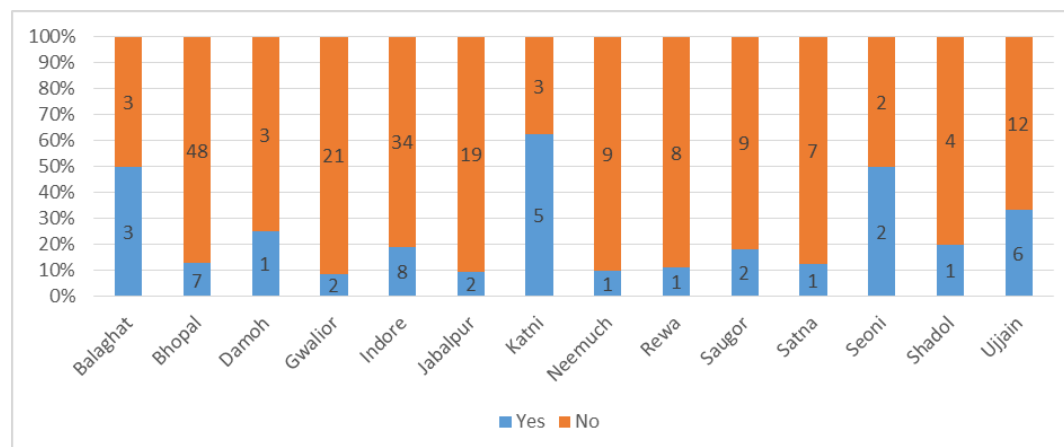
**Figure 3. Satisfaction of income from the business**



Source: Primary data

Figure 3 shows that the region which is most satisfied with the winter sweater business is Katni, Seoni and Shadoli where all the respondents are quite satisfied with the business which has been doing till now. The least satisfied region is Ujjain where out of 18 respondents, 14 of the respondents are unsatisfied and only 4 of them are satisfied followed by Neemuch and Bhopal.

**Figure 4. Continuation of the business**



Source: Primary data

The region which mostly wants to continue with the same business is katni where out of 8 respondents, 5 of them still wants to continue and 3 of them doesn't want to continue with the same business followed by Seoni and balaghat. The region which mostly don't want to continue with the business is Neemuch, Rewa, Satna, Damoh and Shadoli where only 1 respondent wants to continue with the same business from those 5 regions.

## Findings

1. The data has been collected from 224 respondents of each head of the family. There is same number of 112 male and female respondents in the study.
2. It is found that majority of the traders are not well educated as most of the respondents did their schooling till Upper primary school (32.1%) followed by Primary school (22.8%).
3. It has also found that almost half (50.4) of the respondents have experience in the winter sweater business of around 16-30 years.
4. Winter sweater business is the main source of family income for about 92.9% of the respondents.
5. The alternative source of income for most of the respondents is from agriculture sector during the offseason of the winter sweater business.
6. Weather (89.3%) is the preeminent factor for the growth of winter sweater business.
7. It shows that almost 60% of the respondent feels that their net profit remains same over the years.
8. It is found that the main reasons for engaging in winter sweater business by the Tibetan traders lie with three key reasons:
  - Lack of awareness of alternative ways of earning income
  - Main source of income from winter sweater business
  - Satisfaction and ease of doing business
9. In a nutshell, the study concludes that the sweater selling business which is a dominant economic activity for the Tibetan people in India is not sustainable in the long run because of three main reasons:
  - The present sweater traders don't want to continue with the same business
  - Younger generation are not interested in the sweater business
  - Weather which is the imminent factor for the growth of the winter sweater business doesn't seem to be favorable to the traders according to the NOAA data.

## Conclusions

Tibetan refugees have been staying in India since 1959 with the massive support from the Government of India. The early arrivals of refugees mostly engaged in agriculture and presently the economic conditions of Tibetan refugees have drastically improved over the last few decades, which is now shifted more towards the business sector from agriculture sector especially in winter sweater business.

From the study conducted on the "livelihood of winter itinerant sweater traders in Madhya Pradesh" it can bring to a conclusion that for the time being traders are satisfied with the business but they are not willing to take up the same business in the long run which will disrupt the economic prosperity of the Tibetan community in India if they don't find a stable occupation in near future whereas of now winter sweater business is the dominant economic mainstay of about 70% of the exile population in India. To retain in the sweater business, one must emphasis on securing the business as there is no business security such as insurance, proper knowledge of business, etc. So, the traders need business training either short or long term so as to modernize their traditional business and to develop their market in the long run for the stability of their livelihood.

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**M. VEYSEL KAYA<sup>1</sup>, MUHAMMED MERT ÖZTÜRK<sup>2</sup> AND AHMET ÇOBAN<sup>3</sup>**

## **STRUCTURE OF FEMALE ENTREPRENEURSHIP: LATVIA EXAMPLE**

### **Abstract**

This article creates a main frame of entrepreneurship and how important is the taking women workers into the business life as entrepreneurs on the economic and social way. After general view of women entrepreneurship, the analysis continues for Latvia that it has 2 importance which it's one of the transition economy and has highly women population in working age. On the end of analysis there are also some comparisons in working areas by gender and between EU countries and Latvia.

**Keywords:** Female employment, female entrepreneurship, structure of female entrepreneurship in Latvia, importance of female employment and entrepreneurship

**JEL Codes:** L26, J16

### **Introduction**

Entrepreneurial are very important in order to create and increase employment opportunities and pushing to economic growth. For this reason, the issue of men and women entrepreneurship taking more attention recently around the world. Distribution of entrepreneurs by gender is mostly men weighted. That means women are having less part in the working and business life. In order to more strongly economic growth, all the societies need to gain more women power in working life.

As a one of the transition economy Latvia, has an important share of women population. Half of them are in working age. On the other hand half of the entrepreneurs in Latvia also female. Most of the women entrepreneurs are aged among 30-45 and some quantity of them are divorced.

In this study, firstly we mentioned about how women are included to working life by the history then we pointed on the women entrepreneurship. Then we characterised the economic and social utility of female entrepreneurship. Next, we explain that how is the population and working life structure in Latvia. Also effects of being in a transition process and its positive social roles in the Latvian society. After that, we made some analysis about owning of a business and female business preference in the different working areas comparing with their men opponents and also comparing with the average of EU countries. Finally, we have reached some results and completed this study about female entrepreneurship in Latvia.

### **The history of female employment**

Since the beginning of human being, women have employed with their husbands. Firstly they started to help their husband like an assistance which was working as artisans. By the time people are started to fight each other and after death of the artisan who was leading the job as husband, father, brother or son then women had to be involved to working life. During the history countries started to have bigger war that contains most of the world like first and second world wars. By those world wars, there was so many man power lost however, countries started to develop fastly to reduce the negative effects of the wars. For this reason, middle of the 1900's labor market needed to have some extra employees (Hunter, 2004).

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This evolution of labor market has continued by the woman movement revolution in the middle of 20th century. Day after day, women workers were increasing their workforce in labor market as much as male workers. Those days women workers were having less income than their male counterparts (Jones & George, 2003).

This unequal income distribution was involving all the professions. Although having same amount of working hours, wage for woman was lower than their male counterparts. Also female workers were not able to work as executive positions like manager, director, administrator or supervisor (Moore, 2000). Instead, they have concentrated such as retail or personal services (Hunter, 2004).

Working on some job areas leads to woman workers to gain some professions. With the gained golden bracelet by the female workers who was having less salary than male workers, guide them to create their own business and became an entrepreneur. Also their desires to having higher positions can help us to explain increased number of women entrepreneurship around the world.

While women entrepreneurs were choosing very familiar areas like personal services to lead their business, but with the 1990's, they have started to have a place in nontraditional areas like construction, finance and manufacturing (Moore & Buttner, 1997). In the beginning of the women entrepreneurship movement, they have stayed away from nontraditional areas because of those areas needed high start-up capital support and some technical expertise. But by the time surprisingly women are changed their mind and embarked on those areas as well (Scott, 1983).

### **Overview of female entrepreneurship**

Entrepreneurship has a very important role in all the world economies and societies (Smallbone and Welter, 2001). With the new enterprises the economy will have new employment fields and those new fields causes to increased productivity and expanded services which will be resulted by increased Gross Domestic Product (GDP) level. On the other hand, welfare level of the society will be affected positively.

After socialism collapsed, for the female workers creating their own business was a great chance to continue their working life. Because during the transition process from socialist economy style to market economy, woman workers were the ones who will be effected mostly. In that term, it was clearly visible that they will lose their job faster than male workers. This situation explains importance of becoming an entrepreneur for women workers in 1990's (Welter& Kolb, 2006).

Women entrepreneurship is having different characteristic structure around the world. For example, while it was only option for women workers to earn some money in the Northeastern Europe during transition, in the Western Europe it was just for gaining more money and earning social independence for women. But the common feature of entrepreneurship around the world was same: Male entrepreneurs were numerically above female entrepreneurs (Carter, 2000).

### **Economic importance of female entrepreneurship**

For the economical development, production has a great importance. In order to increase production level, new industries must be created by government or private sectors. If the country has socialist economy system then creating new industries and new job areas will be task for government. But if the country has market economy system at that case this task will be accepted by the private sectors.

In market economies, entrepreneurship has a pivotal role to increase productivity. New industries will be new job offers for unemployed people in the economy. Due to increased productivity and solved unemployment problem the economic growth will be faster and stronger. As a result, with the new entrepreneurs, 2 important problem of economy which are productivity and unemployment solved and also economic growth will be fulfillment.

Everybody has different abilities and features. While male workers are choosing traditionally heavy works as manufacturing, producing, constructing and works on metal industry...etc, female workers are spending their effort on smaller and easier jobs like services and more personally works. Of course choosing smaller and easier jobs were having advantages and disadvantages for the economy and the business owners. If we contain that economy is entire of all the business activities then it is easy to say women entrepreneurs has importance as much as their male counterparts. Without female entrepreneurs, institutional infrastructure remains poor. Thus, in order to take economic and social advantages during the transition process, countries in Eastern Europe used potential contribution of women entrepreneurs (Welter& Kolb, 2006).

### **Social importance of female entrepreneurship**

In the communities, since the beginning of the history man has obliged to care about his woman and children. Accordingly this idea during the long time, women took easiest jobs. But lately this idea started to change and women became part of business life with their own businesses. So, social structure about woman working life started to change.

After women are became entrepreneur, they started to support other women by hiring them. While they were earning for themselves, also they were helping to other women who wants to work and gain their life. Thus, female business owners promoted social inclusion by the time. On the other hand, developing women entrepreneurship had some positive roles during transformation term (Welter& Kolb, 2006).

Consequently, women entrepreneurship has some positive social affects. The most important one is creating new job opportunities in the economy. Also another main importance is employing female workers. So that, income distribution affects positively because before men were gaining more salary then women workers, with the women entrepreneurs this situation changed positively for female workers.

### **Entrepreneurship in Latvia**

#### **Overview of working life structure in Latvia**

Table 1 indicates distribution of population in Latvia in 2014. Accordingly the table, total population is 2,165,165 and 54 percent of the all population are women. Working age is accepting as between 15-65 in most of the countries. So that, in Latvia 1,485,022 people are in the range of working age which is %68.6 of the all population and only 759,707 of them women. It means 51 percent of working age is female and 49 percent is male in Latvia.

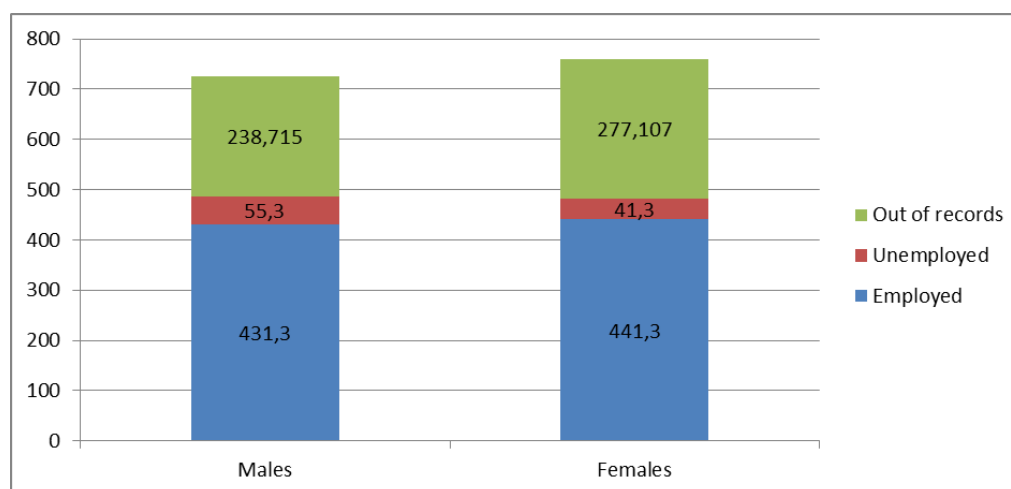
**Table 1. Distribution of population in Latvia (2014)**

Age Structure	Male	Female	Totals
<b>0-14</b>	156,851	150,074	<b>306,925</b>
<b>15-24</b>	121,435	116,602	<b>238,037</b>
<b>25-54</b>	481,336	487,991	<b>969,327</b>
<b>55-64</b>	122,544	155,114	<b>277,658</b>
<b>65+</b>	121,668	251,550	<b>373,218</b>
<b>Total</b>	<b>1,003,834</b>	<b>1,161,331</b>	<b>2,165,165</b>

Source: Index Mundi, 2014.

Figure 1 indicates number of employed and unemployed males and females among working age in Latvia in 2015. Accordingly Figure 1, in 2015 there were 431k male and 441k female in working life. Female workers amount is 10k more than number of male workers. About unemployment we can say the same, unemployed women are less than unemployed men. In 2004, 54k women were unemployed in Latvia (Welter& Kolb, 2006). During last decade amount of unemployed women in Latvia 10k decreased. It shows that recently women are more active than men in working life in Latvia. Because there is not so big difference between working age of women and men in Latvia accordingly Table 1.

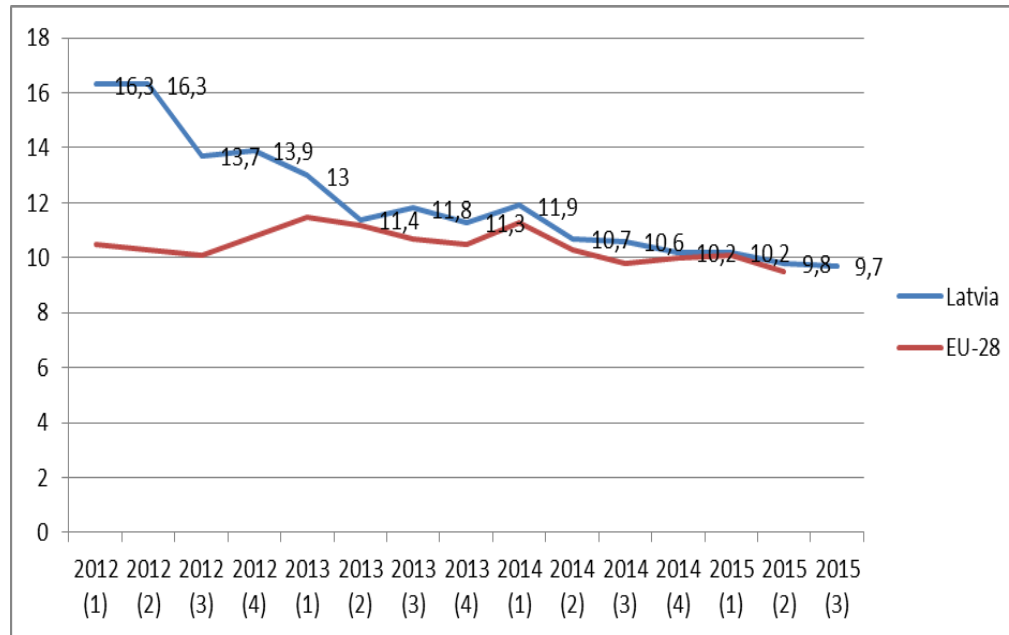
**Figure 1. Employment and unemployment in Latvia (2015)**



Source: Central Statistical Bureau of Latvia, 2015.

In Figure 1, also indicated some society as “out of records”. This society counted as difference between active population record of Central Statistical Bureau of Latvia and the working age population. Accordingly Table 1, Latvia has in total 1,485,022 working age people. But the official sources show active population as almost a million. So the difference between 2 records as indicated as out of records in Figure 1.

**Figure 2. Unemployment rate in Latvia and average in the EU (2012-2015)**



Source: Central Statistical Bureau of Latvia, 2015 (B)

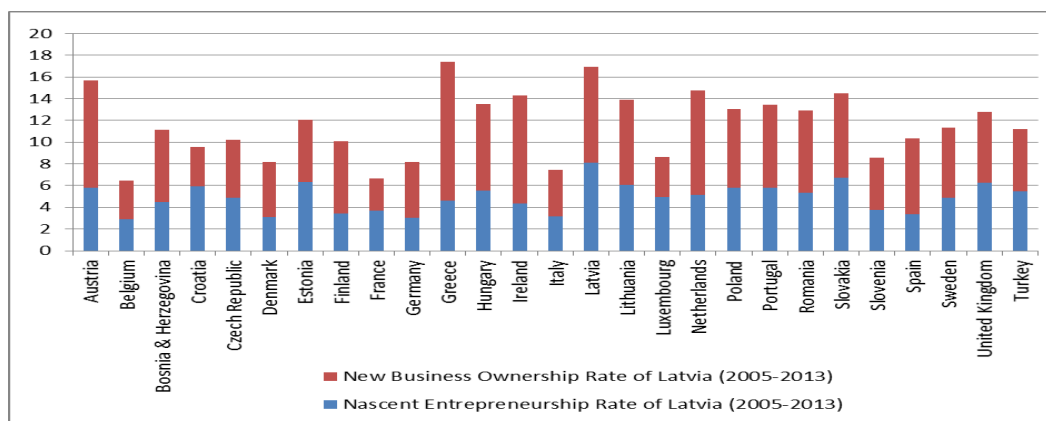
Figure 2 indicates unemployment rate in Latvia and average of 28 EU countries. Accordingly Figure 2, Latvia has high unemployment rate during 2012's 1st and 2nd quarters. Since 3rd quarter of 2012, unemployment rate is decreasing fastly and by the 1st quarter of 2015, Latvia catches up average unemployment rate of EU-28 (%10.2). In 2nd quarter of 2015 Latvia slightly exceeded EU average indicator.

In the 3rd quarter of 2015, 15-24 aged number of unemployed person was almost 13k or 13.2 percent of total number of the unemployed. In same term, long-term unemployed persons (minimum 12 months without work) were 50.6 percent of the total number of the unemployed (Central Statistical Bureau of Latvia, 2015 (B)).

Figure 3 indicates new business ownership and nascent entrepreneurship rate by countries in Europe in 2014. Greece has the first class between European countries with the highest new business ownership rate, Ireland and Austria is following Greece with 2nd and 3rd degree. Latvia has 5th degree in this analysis between selected countries. About having the highest nascent entrepreneurship rate, Latvia has the first stage between those 27 countries. Slovakia, Estonia and United Kingdom are following Latvia with an order.



**Figure 3. New business ownership and Nascent entrepreneurship rates in Europe by countries (% of adult population, 2014)**

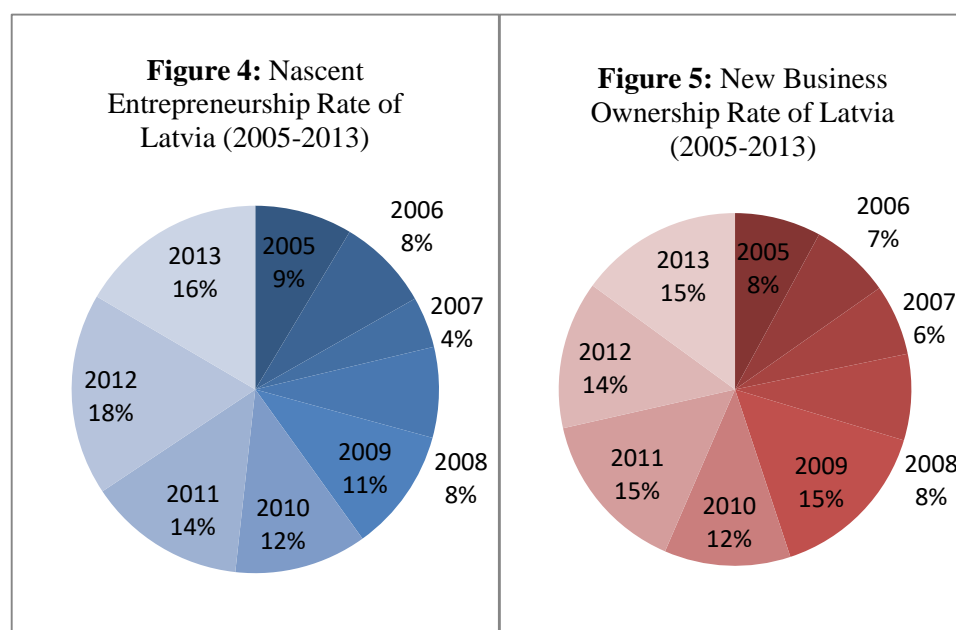


Source: GEM Adult Population Survey Measures, 2015.

\*for Czech Republic, Latvia and Turkey recent year data's used.

Figure 4 and 5 respectively indicates nascent entrepreneurship and new business ownership rate of Latvia between 2005 and 2013. Nascent Entrepreneurship rate is lowest in 2007 with 4 percent and highest in 2012 with 18 percent of adult population in Latvia. It has enlarged every year between 2007-2012 and by the 2013 it lose 2 percentages and became %16. In Figure 4, new business ownership is less than 10 percent until 2009. After global financial crises became losing its negative effects, as in the most of the countries in Latvia also new business are started to be created. As it is indicated in Figure 2, Latvia has a degree in the list of first 5 countries of high level of new business ownership rate.

**Figure 4. and Figure 5.**



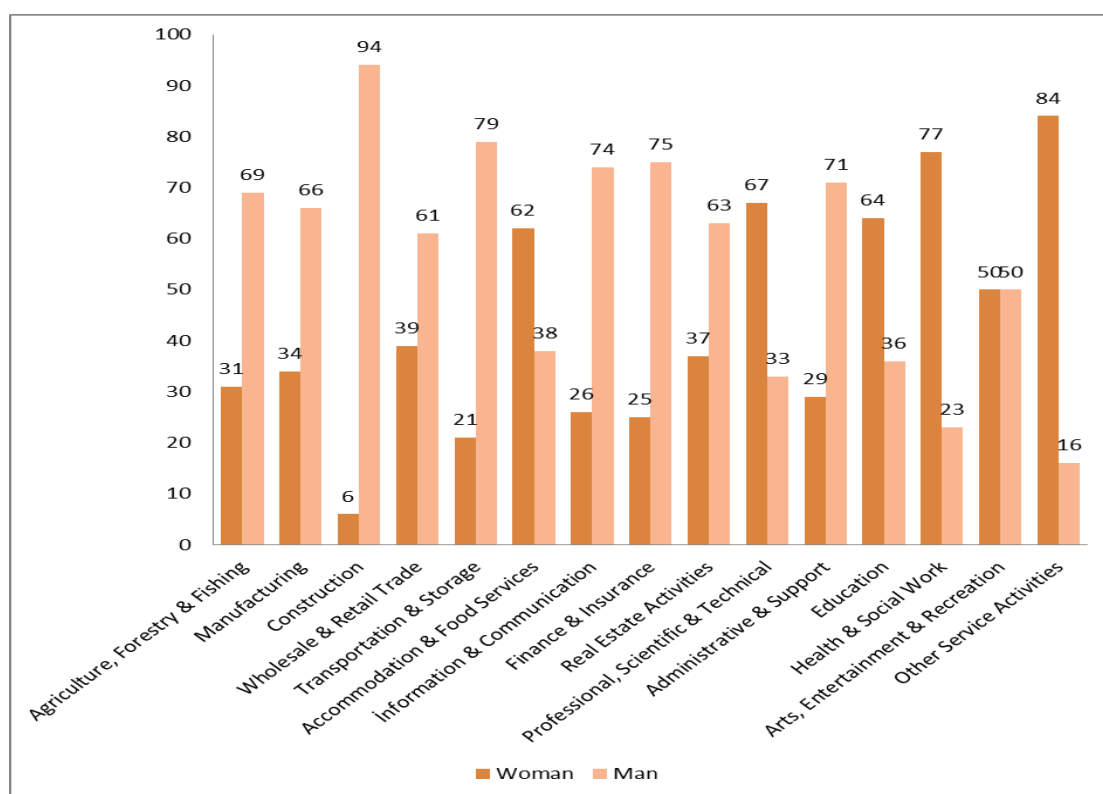
Source: GEM Adult Population Survey Measures, 2015.

## Female entrepreneurship in Latvia

Latvia is one of the Baltic and Transition countries. Until 1992's there was a closed socialist economy system in Latvia as the other Soviet Union Members. After socialism collapsed, like all the transition countries, Latvia started to build new economy system to adopt the market economy.

This transition process was not so easy even after more than 20 years we still call those countries as transition economies. Thus, all the economic system needed to be changed in those economies. Those changes also offered some new chances for private sectors. As one of the transition country Latvia, has high woman population and most of them were in working age. Women were already taking a part of working life in Latvia during Soviet Union. It was a great chance for women workers to create their own business in those days. Because the economy system was changing from the close socialist system to open market system. So that, women entrepreneurship started in Latvia with that great advantage.

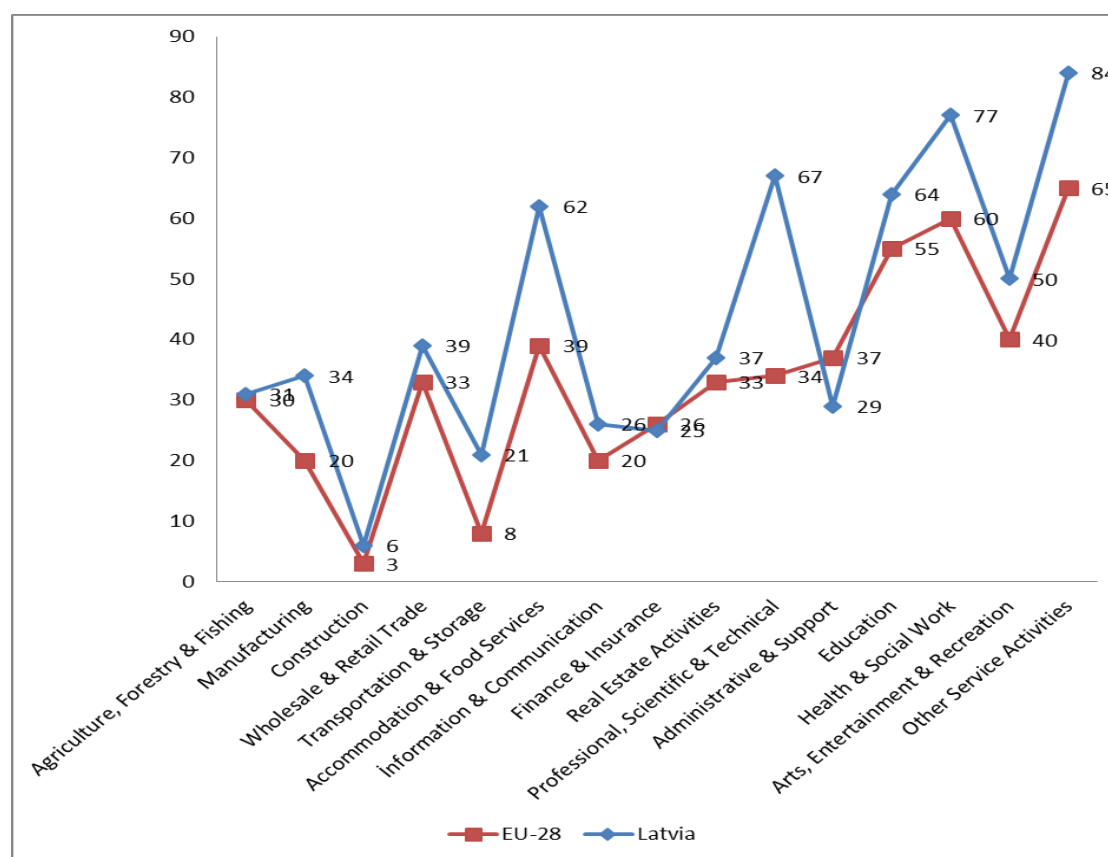
**Figure 6. Women entrepreneurs in Latvia by sectors (2012)**



Source: Statistical Data on Women Entrepreneurs in Europe, 2014

Figure 6 indicates share of women and men entrepreneurs by sectors in Latvia. Around the world women entrepreneurs usually starts a business which is not necessary to invest big amount of capital and men are wise. Agriculture, forestry, fishing, manufacturing, construction, wholesale and retail trade, transportation, storage, information and communication, finance and insurance, real estate activities, administrative and support areas are highly men powered business areas in Latvia. Accommodation and food services, professional, scientific and technical support, education, health and social work areas are highly held by women entrepreneurs. The structure of female entrepreneurship has little bit different in Latvia comparing with other countries. To understand it more, let's see the Figure 7 on below.

**Figure 7. Women entrepreneurs in Latvia and in EU-28 by sectors (2012)**



Source: Statistical Data on Women Entrepreneurs in Europe, 2014

Figure 7 indicates women entrepreneurs in Latvia and in 28 EU countries by sectors. Female entrepreneurs of Latvia are more active in all the sectors comparing with the average of EU countries. In Latvia woman entrepreneurs are leading their business highly on accommodation and food services, professional, scientific and technical activities, health and social work areas. They are highly over the range of EU countries. That shows, women are more active in all the business areas in Latvia. Especially health and social work area, 77 percent of business owners are female in Latvia.

On the other hand, in construction, transportation and storage areas usually not preferred by women entrepreneurs to create their business around the world. Its directly proportional with this idea in EU countries as Figure 7 shows that women entrepreneurs in EU countries has power on construction area only %3, on transportation and storage areas %8 . But it is little bit different in Latvia and women are having %6 share on construction area and on the transportation and storage area %21 of the all amount. This is quite much comparing with the other European countries.

## Conclusions

Women have a great importance in the working life. Little time ago there was a huge gender discrimination around the world between women and men. But recently this discrimination has lost its importance and women workers are started to have same rights with male workers. In this process, female entrepreneurs has a very important role. Firstly they changed public attitudes towards women in public, secondly they employed women workers and they create collaboration between women

entrepreneurs and workers. Thus, women started to have more active role in business life. Also there was a wage difference between male and female workers. Male workers were earning more salary than their female co-workers. But with the increasing female entrepreneurship, this income inequality started to get closer and by the time it turned over an equality.

On the other hand, having more entrepreneurs and more business in the economy will leads to economical growth by producing more goods and services. Also the economy will be more competitive, more stronger, more bigger. Moreover with the increased amount of entrepreneurs, companies will need more workers and unemployment will be decreased. Not only this but also there will be other social improvements will be show up with the growing business areas.

Big amount of Latvian population is woman (%54 of the all population). For this reason female population has a great importance for Latvian society. After socialism collapsed, women had to earn their life with the new condition of the economic system. Such that, those women workers forced into entrepreneurship by their knowledge, features, education and economic power to create their business. That's why in the beginning all the women entrepreneurs has lead their business in the areas which is not necessary to start with big amount of capital. By the time especially in Latvia this situation changed. While in the other countries women entrepreneurs are continue to choosing more simple areas to create their business, in Latvia women entrepreneurs started to have a role in all the work areas. Also as it is indicated Figure 7, almost in all the sectors Latvian female entrepreneurs have a great importance. Even in all the sectors they are over EU average. This shows that women are very active in business life in Latvia.

As a consequence, female entrepreneurs in Latvia are more active towards EU countries. This situation has several reasons as being a part of Soviet Union and after that having the independence suddenly while the country and the society was not ready for this. This situation forced the people find a way to stay alive because everything happened suddenly in those days. The society needed to catch up the new economic system (open market economy) around the world. Such that, accordingly their capital and abilities, people started to create their business to survive. This is the biggest chance for the women to became entrepreneur. With the first women entrepreneurs, view of the Latvian society towards women business owners has changed on the positive way and today women entrepreneurs are actively working in all the economy areas even in the non-traditional areas for woman like construction, manufacturing, transportation and storing.

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**SOCIAL INEQUALITY AND SOCIAL JUSTICE IN INDIA: A SOCIOLOGICAL PERSPECTIVE**

**Abstract**

An egalitarian society is a Utopia. Utopia of egalitarianism was based on the ideal of equality. Equality as a principle of value or social organization became popular only after the French Revolution. In almost all societies present and past, there were inequalities in every sphere of life. In the 19th and 20th century, there were certain feelings, firstly, it was thought that 'inequality' is not natural but is a social creation, which has gained wide acceptance around the world. Secondly, it was felt that social inequality is not universal in nature, which meant that in the past, there were certain social conditions, which treated people according to their profession or occupation. Thirdly, 'private property' was the cause of social inequality. Finally, social inequality is anti-human and antisocial and a form of human rights abuse.

After independence, The First Backward Classes Commission was set up on 29th January 1953 and submitted its report on 30th March 1955. The Second Backward Class Commission was appointed to identify the socially and educationally backward classes, which is popularly known as Mandal Commission. The Commission identified 3,743 castes as Other Backward Classes and 2,108 as Depressed Backward Classes that are inadequately represented in Government services. The Mandal Commission estimated that 52 percent of total population of India as Other Backward Classes. The Commission recommended 52 per cent reservation for OBCs in proportion to their population. In August 1990, The Prime Minister Sri Vishwanath Pratap Singh implemented the proposals of Mandal Commission. There was protest against the implementations of Mandal commission recommendation in government jobs. The Supreme Court gave the verdict in the favor of implementation and reservations for OBCs in government jobs. It insured the 27 percent reservations for Other Backward Classes (OBCs) in Government jobs.

In 2006, the UPA Government and Human Resource Development (HRD) Minister implemented 27 percent reservation for OBCs in Higher Educational Institutions funded by central government. The Government decided to reserve 27 percent seats for OBCs in Educational Institutions. There was a huge protest against it but Supreme Court of India gave the verdict in the favor of reservations for OBCs and instructs the Government to exclude the 'creamy layer' so that only poor among the OBCs could get the benefits from the reservation policy.

**Keywords:** Social justice, Supreme Court of India, reservation policy, political parties, backward classes, government jobs, educational institutions, social inequality, caste system, religion, poverty, deprivation

**JEL Codes:** D63

An egalitarian society is a Utopia. Utopia of egalitarianism was based on the ideal of equality. Equality as a principle of value or social organization became popular only after the French Revolution. In almost all societies present and past, there were inequalities in every sphere of life. This is natural and functional as well. In the 19th and 20th century, there were certain feelings, firstly, it was thought that 'inequality' is not natural but is a social creation, which has gained wide acceptance around the world. Secondly, it was felt that social inequality is not universal in nature, which meant that in the past, there were certain social conditions, which treated people according to their profession or occupation. Thirdly, 'private

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property' was the cause of social inequality. Finally, social inequality is anti-human and anti-social and a form of human rights abuse.

Most of the inequalities in a society are socially structured. It is governed by laws and norms. The concept of reservation is based on the theory of social justice. The social justice in India is the product of social injustice in the hierarchy caste system which led to injustice. A caste system is based on Varanashrama Dharma and it is the negation of social justice. The social justice in India seeks to remove inequalities in society. The concept of equal justice provided under Article 14 in the constitution of India. It seeks to implement equality of status and equality of opportunities to all citizens irrespective of caste, creed or community. The concept of social justice has a dynamic concept with an inherent to bring equality in a society. The three basic foundations of social justice are (1) Equality of Opportunity, (2) Equality of Treatment and (3) Equality of Results.

Thus social justice has a great social value. It is providing a stable society and securing the unity of the country. The social justice defined as the right of the weak, aged, destitute, poor, woman, children and other underprivileged section of the society. It is the balancing wheel between 'haves' and 'have-nots'. The social justice is based on equality of rights for all peoples and the possibility for all human beings without discrimination, to benefit from economic and social progress everywhere. The social justice deserves equal economic, political and social rights and opportunities.

In the later 20th century, social justice was made central to the philosophy of the social contract, primarily by John Rawls in *A Theory of Justice* (1971). In 1993, the Vienna Declaration and Programme of Action treat social justice as a purpose of the human rights education. International Labour Organization has pursued in its historic support for democracy and justice in the world. In 2007, the United Nations General Assembly established 20th February as the annual World Day of Social Justice. The resolution on the Day recognized the need to further consolidate the efforts of the international community in poverty eradication and in promoting full employment and decent work, gender equality and access to social well-being and justice for all.

The Vienna Declaration and Program of Action affirm that "Human rights education should include peace, democracy, development and social justice, as set forth in international and regional human rights instruments, in order to achieve common understanding and awareness with a view to strengthening universal commitment to human rights.

In pre-colonial India, the constituent assembly was set to make a viable constitution which could provide the social justice, equality among the people, equal law for every citizen and could be a resemblance of the welfare state in nature. After the independence, the Constitution of India was adopted by the Constituent Assembly on 26th November 1949. It came into full effect from 26th January 1950. India became a Sovereign, Socialist, Secular, Democratic, Republic. The constitution of India spoke of "we, the people of India" and makes a solemn resolve to constitute India into a "Sovereign, Socialist, Secular, Democratic, Republic" securing for all its citizens' Justice, Liberty and Equality which means equality of status and of opportunity.

### **Historical background**

Indian Society began taking shape when the area of interaction between the Indo-Aryans and earlier inhabitants widened. The Indo-Aryans were divided into three categories – the Rajanya (warriors) and the aristocracy, the Brahman (priests) and the Vaishya (cultivators). The Rajanyas later came to be known as Kshatriyas. The Brahmin claimed the right to bestow divinity on the king. The Vaishya look after trade and commerce. They were Dwija (twice-born), The Shudras were the fourth Varna, and they were from outside the Indo-Aryan group and were perhaps the progeny of unions between the Indo-

Aryan and Dasa (the Pre-Aryan inhabitants of the land). They emerged as cultivators but not allowed the status of twice-born. There was the fifth group called Avarna or the Pancham, which were prohibited with any physical contact to twice-born, and the Shudra. The Brahmins were said to have been born from the head or mouth of Brahma (God of the creator), the Kshatriya from the arms, the Vaishya from the thighs and the Shudra from the feet. This is a symbolic representation of the rank and functions of the four varnas. The head, the arms, the thighs and the feet are ranked in descending order. The Brahmin enjoyed the highest position while acquiring and disseminating knowledge and performing sacrifices. Next rank is of the Kshatriya, for defence and war, administration and government. Third, rank went to the Vaishya, for trade, commerce and agriculture and finally, the Shudra-ranked the lowest, served the others through craft and labour.

As Surajit Sinha wrote, "Social reformers and political leaders in India tend to regard the caste system as a major stumbling block to national integration, economic development and the moral regeneration of the nation." In the society, human beings are either in Hindu or outside of it.

Edmund Leach observes, they are either twice-born, if they are religious or secular specialists; if they are secular, they are either warrior-rulers or merchants. If they are ordinary persons (Shudra), they are either "clean" or "unclean" as can accept water from their hands or have similar inter-change with them. The division of society in four varnas – Brahmin, Kshatriya, Vaishya and Shudra- was based on the division of labour.

No such lower or higher Varna existed in the Vedic period. One could change the membership from one to other Varna. From Vedic period (4000-1000 B.C) to the Brahmin period (230 B.C. to 700A.D.), the four Varnas came to be arranged hierarchically with Brahmin at the top and Shudra at the bottom.

After independence, the Government of India set up two commissions to identify the Other Backward Classes (OBCs). The Kaka Kalelkar Commission set up in 1951 and it submitted its report in 1953. The Second Backward Class Commission, which is known as Mandal Commission, was set-up in 1979 to identify the OBCs and it submitted its report in 1980.

The First Backward Classes Commission was set up by a Presidential Order under Article 340 of the constitution of India on 29th January 1953 and submitted its report on 30th March 1955. There were eleven members along with Kaka Kalelkar as the Chairman of the Commission. The members of the commission were as follows:

The committee used four criteria to identify the Other Backward Classes in India, which are as follows:

- (i) Low social position in the traditional caste hierarchy;
- (ii) Lack of general educational advancement among the major section of a caste or community;
- (iii) Inadequate or no representation in government services;
- (iv) Inadequate representation in the field of trade, commerce and industry.

The Commission identified 2,399 castes or communities as backward and among them 837 as 'most backward' castes. The recommendations of Commission for the betterment of backward classes were wide and comprehensive. Some recommendations like land reforms, reorganization of village economy, bhoodan movement, development of rural and cottage Industries, rural housing, public health and rural water supply, adult literacy, university education, representation of backward classes in government services, etc. The commission recommended the reservation for the Other Backward Classes (OBCs) in government services which is 25 percent in Class I, 33.3 percent in Class II, and 40 percent in Class III and IV. The Parliament rejected the Kaka Kalelkar Commission report and its recommendations in 1961.



The Second Backward Class Commission was appointed to identify the socially and educationally backward classes, which is popularly known as Mandal Commission. The Janata Party headed by Prime Minister, Morarji Desai appointed B.P. Mandal as the Chairman of second Backward Classes Commission in 1979, to identify the socially and educationally Backward Classes of the society.

Some criteria (indicators) adopted by the Mandal Commission to identify the Other Backward Classes. The indicators were grouped under three broad heads, i.e., Social, Educational and Economic. They were as follows:

### **Social criteria**

- I. Castes/Classes considered as socially backward by others.
- II. Castes/ Classes which mainly depend on manual labour for their livelihood.
- III. Castes/ Classes where at least 25 per cent females and 10 per cent males above the State average get married at an age below 17 years in rural areas and at least 10 per cent females and 5 per cent males do so in urban areas.
- IV. Castes/Classes where participation of females in work is at least 25 per cent above the State average.

### **Educational criteria**

- V. Castes/Classes where the number of children in the age group 5-15 years who never attended school is at least 25 per cent above the State average.
- VI. Castes/Classes where the rates of student drop out in the age group 5-15 years are at least 25 per cent above the State average.
- VII. Castes/Classes amongst whom the proportion of matriculates is at least 25 per cent below the State average.

### **Economic criteria**

- VIII. Castes/Classes where the average value of family assets is at least 25 per cent below the State average.
- IX. Castes/Classes where the number of families living in Kuccha houses is at least 25 per cent above the State average.
- X. Castes/ Classes where the source of drinking water is beyond half a kilometer for more than 50 per cent of households.
- XI. Castes/ Classes where the number of households having taken consumption loan is at least 25 per cent above the State average.
- XII. The above three groups don't have equal importance. All the Social indicators were given a weightage of three points each, Educational indicators a weightage of two points each and economic indicators a weightage of one point each. Economic, in addition to Social and Educational indicators, were considered important as they directly flowed from social and educational backwardness. It highlighted the facts that those who are socially and educationally backward classes are economically backward also.

**Table 1. Percentage distribution of the Indian population by caste and religious groups**

Sl No.	Caste and Religious Groups	Percentage
1.	Scheduled Castes	15.05
2.	Scheduled Tribes	07.51
3.	Non-Hindu Communities, Religious Groups etc.	16.16
4.	Forward Hindu Castes and Communities	17.58
5(a)	Backward Hindu Castes and Communities	43.70
(b)	(Of which) Depressed Backward Classes	20.56
(c)	(Add) Backward non Hindu Communities (52 per cent of non-Hindus)	8.40
	<b>Total OBC's (5a plus 5c)</b>	<b>52.00</b>

Source: Government of India (1980), Report of the Backward Classes Commission, First part, Vol. I & II.

The above data shows the distribution of Indian population in percentage according to caste and religious groups as identified by Mandal Commission. It indicated that 15.05 per cent castes belonged to SCs, 07.51 per cent STs, 16.16 per cent non Hindu religious groups, 17.58 per cent forward Hindu Castes and Communities, 43.70 per cent Backward Hindu Castes and Communities, 20.56 per cent Depressed Backward Classes, 8.40 per cent belonged to Backward non-Hindu Communities. Mandal Commission estimated OBCs are 52 per cent of total population. Mandal Commission suggested 52 per cent reservation of seats for OBCs in Government jobs and Educational Institutions.

The Mandal Commission identified 3,743 castes as Other Backward Classes (OBCs) and 2,108 castes as Depressed Backward Classes (DBC). The Commission identified highest number of OBCs and DBCs in Karanataka which were 333 castes and 204 castes respectively. The second highest number of OBCs identified in Andhra Pradesh which were 292 castes as it was followed by some States like Tamilnadu (288), Madhya Pradesh (279), Maharashtra (272), Orissa (224), Kerala (208), West Bengal (177), Bihar (168), Rajasthan (140), Tripura (136), Assam (135), Uttar Pradesh (116) Gujarat (105) etc.

**Table 2. Number of State-wise Backward Classes as per Mandal Commission Report 1980**

Sl. No.	State	OBCs	DBCs	Percentage of reservation for OBC
1.	Andhra Pradesh	292	155	25
2.	Assam	135	96	-
3.	Bihar	168	97	20-24
4.	Gujarat	105	61	10
5.	Haryana	76	40	10
6.	Himanchal Pradesh	57	35	5
7.	Jammu & Kashmir	63	40	42
8.	Karnataka	333	204	48
9.	Kerala	208	128	25-40
10.	Madhya Pradesh	279	160	-
11.	Maharastra	272	164	14
12.	Manipur	49	35	-
13.	Meghalaya	37	13	-
14.	Nagaland	NI	NI	-
15.	Orissa	224	181	12
16.	Punjab	83	34	5
17.	Rajasthan	140	85	-
18.	Sikkim	10	10	-
19.	Tamil Nadu	288	171	50
20.	Tripura	136	76	-
21.	Uttar Pradesh	116	67	15
22.	West Bengal	177	113	05
23.	Union Territories	495	143	-
	<b>Total</b>	<b>3,743</b>	<b>2,108</b>	-

Source: Report of Backward Class Commission, 2 parts, 7 Volumes, Delhi: Government of India Press. also in Chalam, K.S. (2007), Caste-based Reservations and Human Development in India, New Delhi: Sage Publication.p.55.  
Note: DBC =Depressed Backward Classes.

The above data indicate the State wise OBCs, DBCs and percentage of reservation by the State governments for OBCs in Government jobs. (See table-4.2).

The Commission formulated its indicators to identify the Other Backward Classes (OBCs) among Hindus. The Commission identified 3,743 castes as Other Backward Classes (OBCs)<sup>13</sup> and 2,108 as Depressed Backward Classes (DBC) that is inadequately represented in Government services and posts in connection with the affairs of the Union or any State. The Commission submitted its report on December 1980s. The Commission estimated that 52 per cent of total population of India, came under Other Backward Classes (OBCs), The Commission recommended 52 per cent reservation for OBCs in proportion to their population. In 1990, the Prime Minister Mr Vishwanath Pratap Singh announced to implement the Mandal Commission Report, which recommended reservation to Other Backward Classes in government jobs as per recommendations of Mandal Commission. It opened the golden threshold for Other Backward Classes (OBCs) in Government jobs. The Mandal Commission recommended “reservation in Government jobs, the Public Sectors, Nationalised Banks, all Universities and affiliated Colleges and all private sectors undertakings which received financial assistance from the government in one form or another a large and vitally important segment of the society. The Mandal Commission also recommended “the educational and other concessions and such measures as a separate network of financial and technical institutions to foster business and industrial enterprise among OBCs. Rajni Kothari said that if you want to bring caste to an end, provide more reservations for the backwards. Moreover, Kothari extends this argument by asserting that Mandalism is part of “a great secular upsurge”. The OBC group brings together not only all the lower caste but the poor or ‘backward’ of other religions, while at the same time it prevents Hindus from acting as a solid bloc.

The concept of reservation is based on the theory of Social Justice. The concept of Social Justice cannot override the effect of equal justice, concerned in the Constitution. The concept of equal justice provided under Article 14 in our constitution. The Social Justice in India is the product of social injustice in our caste system. The social structure is the fountain-head for social injustice. Caste system based on Varanashrama Dharma is the negation of social justice. Social Justice in India seeks to remove inequalities in society based on a hierarchical caste system. It seeks to implement equality of status and equality of opportunities to all citizens irrespective of caste, creed or community. The concept of Social Justice has a dynamic concept with an inherent to bring equality in a society. Today social justice improves the quality of life of the depressed classes in our society and it ensures the equality of status, equality of opportunity for all.

The three basic foundations of Social Justice are:

- (1) Equality of Opportunity,
- (2) Equality of Treatment and
- (3) Equality of Results.

Thus Social Justice has a great social value. It is providing a stable society and securing the unity of the country. The social justice defined as the right of the weak, aged, destitute, poor, woman, children and other under-privileged section of the society. It is the balancing wheel between ‘haves’ and ‘have-nots’. Social Justice in other countries of the world consists in removing inequality of income and wealth and ensuring distribution of economic wealth and power.

### **Mandal commission and judiciary**

Some recommendations of Mandal Commission were challenged in Supreme Court of India on 1st October, 1990. The Court directed the Union Government to differ till further orders the implementation of the recommendations of Mandal Commission on reservation to backward classes, and permitted the government to continue with the process of identifying the castes. On 21st September 1990 the Supreme Court referred this case to a five Judge Constitutional Bench and judges said that government decision to implement some recommendations of Mandal Commission report was a political decision and the Court would not interfere in such matters. Attorney General Soli Sorabjee told that if the Court accepted

the arguments of the petitioner seeking stay on the government decision to implement some recommendations of Mandal Commission. It is self immolation of this court. He said that it was not a question of prestige at all. The President of the Supreme Court Bar Association, K.K Venugopal pressed his stay application on the ground. He said that Mandal Commission Report suffered from constitutional infirmities. Since it was based on the 1931 census identify 3,943 castes as Other Backward Classes (OBCs) and there was inclusion of the population of Pakistan too.

Article 16(4) used the term “Backward Classes” as compared with the words socially and educationally backward classes of citizens or the Scheduled Castes and Scheduled Tribes used—Article 15(4).

There are two questions can be raised:

1. Article 16(4) cover Scheduled Castes and Scheduled Tribes or not.
2. Whether the term backward classes is to be understood in the same sense as in Article 15(4), i.e., socially and educationally backward classes.

First time, in the case of *Railway V. Rangachar*, the Supreme Court of India used the term Backward Classes under Article 16(4) cover Scheduled Castes, Scheduled Tribes and also the term is identical with any socially and educationally backward classes, i.e. there is no difference between Article 15(4) and 16(4) as far as the definition of backward classes are concerned.

The Court emphasized that the two factors which created the reservation for the backward classes:

- 1) The State is not adequately represented in the services and
- 2) any reservation made in their favour does not materially affected administration efficiency. The Job reservation policy is linked with Article 15(4) and 16 of the Constitution, which both promise same guarantees to citizen as Fundamental Rights, which the Supreme Court has to protect in terms of Article 32. The Judicial Review of the reservation policy is therefore, implied. The Supreme Court has already linked several cases with reservations under Articles 15(4) and 33 with Article 16 of the Constitution. Not even in one case the court’s power was ever questioned by the Central and State Governments.

The Supreme Court in the *Trilokinath* case stated that test based solely on caste, community, race, religion, sex, descent place of birth or residence can not be criterion for backwardness. The expression Backward Class is not synonymous with backward caste or backward community. In the final order, the Court stated that the order made by the court did not present the State for demising a proper scheme. In another case of *K.C. Vasanth Kumar vs. Karnataka*, the Supreme Court considered in 1985 the subject of protective discrimination and laid down certain guidelines to be followed in matter of reservation for SCs and STs. A five judge’s bench of the Court gave the certain guidelines:

- 1) So far as Other Backward Classes are concerned, two tests should be applied;
  - A) They should be comparable to the SCs and STs in the matter of their backwardness; and
  - B) They should satisfy the means test such as the State government may lay down, in the context of prevailing economic conditions.
- 2) The reservation policy: employment, education and legislative institutions should be reviewed every five years or so. This will afford an opportunity to the State to rectify distortions arising out of particular aspect of the reservation policy, and for the people, both backward and none backward, to put forth their views in a public debate on the practical impact of the reservation policy.

The court did not regard caste as a criterion for the backwardness.

The Mandal Commission report identified class with caste. However, to justify its classification, it used the social, educational and economic criteria to determine these castes.

## **Supreme court judgement**

There are three major issues appear before the court:

Whether reservation of appointments and posts in Government services under Article 16(4) of the Constitution can be based on caste because the constitution in this particular “context, does not speak of caste”, but rather speaks of “backward classes” who are not adequately represented in services under the State.

Whether the criterion for determining backwardness should be caste based on economic condition or various classes or should focus on social and educational backwardness. Whether the quantum of reservation is subjects to any maximum.

The majority view is that having regard to the historical background in India and to certain discussions in the Constituent Assembly, caste be taken as a ‘Class’ for the purpose of reservation under Article 16 (4) of the Constitution.

## **Percentage of reservation**

Justice Sawant Judgment, the courts during the past few years related the percentage of reservation. In the Balaji case (1963), the Supreme Court decided that the objective of reservation was to serve the interest of the entire society by improving the access of the members of backward classes to position of authority. This being so, reservations in excess of 50 per cent were clearly beyond ‘reasonable limits’. This approach has been confirmed by the judgment of the Supreme Court. The reservation should not exceed 50 per cent under Article 16(4).

In Minor P. Rajendra (Supra), Wanchoo, C.J. speaking for the Constitution Bench has stated a caste is also a ‘class of citizens’ and that reservation can be made in such a case provided if that caste as a whole is socially and educationally backward within the meaning of Article 15 (4).

## **Creamy layer criteria**

After tenth Lok Sabha election in May 1991 the Congress (I) formed the government at the Center and Supreme Court asked government to clarify its stand on Mandal Commission Report. The Government decided to implement the memorandum of August 13, 1990 with certain modification with issuing another memorandum on Sept.25, 1991.

- i) Introducing the economic criteria in grant of reservation by giving preference to the poorer sections of Socially and Educationally Backward Classes (SEBCs) in the 27 per cent quota and
- ii) Reserving another 10 per cent of the vacancies in the Civil Services for other economically backward section or the poorest amongst the higher castes and other religion also.

This order has raised the quota of jobs reservation to 59.9 per cent of the vacancies. There are two questions before the court.

The validity of classification of backward classes and:

- I) The constitutional validity of the Government’s order to raise the total reservations more than 50 per cent.

The nine judges bench rejected the other memorandum of the Government (25th September 1991) to the economic criteria in job reservation for upper castes as unconstitutional. The bench found reservation for OBCs as constitutional, but asked for the exclusion of creamy layer from its benefit.

The Supreme Court in its judgment on 16th Nov. 1992 provided 27 percent reservation for SEBCs in central civil services and posts, and exclusion of creamy layer or socially advanced persons/sections from Other Backward Classes (OBCs). After the Supreme Court decision regarding the exclusion of creamy layer, the Government of India set-up a committee under justice R. N. Prasad (retired) and three other members comprising a social scientist and two officers with wide administrative experience. The committee submitted its report on 10th March, 1993 and the Government accepted it. The Prasad Committee defined creamy layer as when a person has been able to shed off the attributes of social and educational backwardness and has secured employment or has engaged himself in some trade/profession of high status at that stage he is normally no longer in need of reservation for himself.

The Prasad Committee formulated seven guidelines to identify the creamy layer, which are as follows:

1. Person relating constitutional privileges such as the president, vice president, Judges of the Supreme Court and the High court, Chairman and member of U.P.S.S and State P.S.Cs, chief Election Commissioner, and controller and Audit-General of India.
2. Class I officers of all India, Central and State Services,
3. Families of class II officers, if both the parents are in the job category.
4. All non-governmental professionals and people in trade and business would be excluded from the purview of benefits on the basis of income tax and wealth tax assessment.
5. Officers, corresponding to class I and class II categories in Government institution such as public center under takings, banks, insurance organizations and Universities and equivalent or comparable posts under private employment.
6. Officers in the position of colonel and above in the Army and equivalent posts in the Navy, the Air force and the paramilitary forces. For those belonging to a family, which holds irrigated land, the exclusion limit is on the basis of the land owned by family. The family is excluded if it has irrigated land equal to or more than 65 per cent of the statutory ceiling area. There is some exclusion for class I officer from the “creamy layer category”, if one parent belongs to this group and if he or she dies, if then the members of the family are entitled to have reservation. The Supreme Court had pointed out that the basis of the exclusion should not merely be economic, unless of course, the economic advancement is so high that it necessarily means social advancement.” A fresh reservation order was issued on Sept 8 1993 the 27% reservation for OBCs because of the recommendation of Mandal Commission Report after the Supreme Court’s judgment.

### **Mandal commission second phase in 2006**

New Political Regime led by United Progressive Alliance (UPA) 2004 to April 2014:

The United Progressive Alliance (UPA) is a coalition of centre-left political parties in India formed after the 2004 general election. The hitherto ruling Bharatiya Janata Party-led National Democratic Alliance (NDA) had won 169 seats in the 543-member and the UPA had 222 seats in 14th Lok Sabha seats.<sup>1</sup> It was enough to form a democratic government in India. The Indian National Congress took the initiatives to form United Progressive Alliance Government at the centre. The UPA Government came into power and Dr Manmohan Singh became the Prime Minister of India.

In 2006, the UPA Government and Human Resource Development (HRD) Minister implemented 27 percent reservation of seats for OBCs in Higher Education (Twenty Central Universities, the IITs, IIMs and AIIMS).

In April 2006, the Human Resource Development (HRD) Minister Arjun Singh announced 27 percent reservation for Other Backward Classes (OBCs) in all premier Institutions such as All India Institute of Medical Sciences (AIIMS), Indian Institute of Management (IIMs), Indian Institute of Technology

(IITs) and all Central Universities. This recommendation was the part of the Mandal Commission Report, which suggested the reservation of seats for OBCs in government jobs and all educational Institutions. After the passage of 93rd Constitutional Amendment Act, which was essentially an enabling provision, the supporters of the reservation for OBCs demanded the implemented of affirmative action in publicly funded institutions of higher education. Once the demand for reservations gathered momentum, the Central government had to implement the provisions of Article 15 (5) in all institutions and universities.

The Government decided to implement 27 percent seats for OBCs in Educational Institutions. It also decided to increase the intake 54 percent in these institutions. The government decided to give the 80 crores to Indian Institute of Management (IIMs) to improve their infrastructure for the year 2007-08 and IIMs had to increase 157 seats. At the same time, it decided to give a package of Rs. 988 crores (126540898 Euro) to Indian Institute of Technology (IITs) and 576 crores (73772831 Euro) package to Central Universities for the same year. The Supreme Court did not allow the government proposal to implement the reservation policy for OBCs in all Central Universities and Institutions in current session 2007-08. It also questioned the Government about the non-exclusion of 'creamy layer' while implementing the reservations for them.

### **Youth For Equality (YFE)**

After Government's decision to reserve 27 percent seats for OBCs in educational Institutions, there was massive protest sparked from the student communities particularly from IITs, AIIMS and IIMs in India. The Students formed an organization (NGO) called "Youth for Equality" (YFE) and demanded the withdrawal of government decision for reservation to OBCs from all Central Universities and Institutions. Nearly 150 students went on hunger strike in AIIMS (Delhi). Within the next few days, students from all IITs joined the protest march. The student protesters were beaten-up brutally in Mumbai and Delhi. The residential Doctors from all over India joined the protests march against the reservation policy of Government. The Government took a hard decision against the protesting Doctors, gave them suspension letters, and asked them to vacate the hostels. Some states invoked the Essential Services Maintenance Act (ESMA) and gave notices to the Doctors to return to a job within 24 hours failing which legal action could be had taken against them. The Government had put on alert 6,000 men from Rapid Action Force (RAF) to take care of any unwanted incident. However, in most places, the protesters remained defiant against ESMA. Few students from IIT Delhi wrote letters to the President of India to allow them for committing suicide if the proposed reservation is implemented. The striking protesters have demanded to set up an expert committee of non-political organizations review the existing reservation policy and find out whether reservation for OBCs is required or not. They also demanded the government to issue the white paper regarding their stand on the reservation.

### **National Knowledge Commission on Reservation Policy:**

The National Knowledge Commission (NKC) requested the government to maintain the status-quo on the reservation. The HRD Minister Arjun Singh criticized the Knowledge Commission for its stand on the reservation. The two members of the Commission, Pratap Bhanu Mehta and Andre Bétaille resigned on 22 May 2006. At same time, the media has reported that IIT Delhi, an elite institution is half-hearted about reservation policy; it denied the admission for the top ranking Scheduled Castes students in its post-graduate program.

### **Group of Ministers (GOM) on Reservation Policy:**

The Group of Ministers (GOM) held a meeting on Saturday and forwarded its report to the Prime Minister's office, a source said. The report favoured implementation of the quota for OBCs as soon as possible. However, it was also recommended increasing the number of seats in educational institutions in a phased manner so that general category seats could not reduce. The government announced for the



setting up of new AIIMS-like institutions across the country that would result in more seats for the general category.

The Group of Ministers had worked out a formula to increase the number of seats as well as institutions to ensure that the general category remained unaffected while implementing the quota.

### **Supreme court verdict and reservation policy for backward class**

On March 29, 2007, the Supreme Court of India, in interim measures, stayed the law providing for 27 percent reservation for Other Backward Classes (OBCs) in educational institutions like IITs, AIIMS, IIMs and all Central Universities. This was implemented in response to Public Interest Litigation (PIL) by Ashoka Kumar Thakur vs. The Union of India. The Court held that according to 1931 census of India, it could not be a determinative factor for identifying the OBCs for the reservations. The Supreme Court also observed, "Reservation cannot be permanent and appear to perpetuate backwardness."

The Supreme Court reserves its verdict in Other Backward Classes quota in Central Institutions of higher learning passed by Parliament in December last year. A five-judge Constitution Bench, headed by Chief Justice of India, Sri K.G. Balakrishnan reserved the pronouncement of the judgement after a gruelling 25 days hearing in different phases stretching nearly three months. The Supreme Court bench headed by Balakrishnan and four other judges Arijit Pasayat, C.K.Thakker, R.V. Raveendran and Dalveer Bhandari took the new OBCs reservation Act, 2006 as priority basis as requested by Union Government. The Government team led by 80 years old former Attorney General K. Parasaran, Solicitor General G.V. Vahanvati, Ram Jethmalani, Gopal Subramaniam, and some legal experts, like Fali Nariman, Harish Salve, Mukul Rohtagi, K.K. Venugopal, Rajeev Dhawan and P.P. Rao argued for anti-reservationists as requested by Prime Minister Dr. Manmohan Singh to bail the government out of the quota imbroglio. The petitioners' counsel raised contentious issues like lack of valid data of caste based census and the exclusion of "creamy layer" from the reservation benefit in Central Institutions like IITs, IIMs, AIIMS and Post Graduate Institutes.<sup>8</sup> But the government lawyers tried to defend its policy of reservation for OBCs in all Central Institutions.

The government lawyers argued that apex court in the Mandal Commission judgement had upheld the validity of 27 percent reservation for OBCs in government jobs. So there is no need of fresh figure of their population for reservation in educational institutions. On "creamy layer", the government lawyers contended that reservation in government services and admission to the central educational institution could not be put together as both are different issues. It is a part of "affirmative action" to achieve the goal of social equality and equal opportunity for oppressed classes, which are suffered from centuries. But the petitioners' counsel said that government policy was fraught with the danger of economically advanced among the OBCs.

On the question of 'creamy layer,' the Supreme Court said that without excluding the 'creamy layer' it would not allow the disadvantageous class to come up and may lead to "clash in the society". "Will the creamy layer ever allow the disadvantageous class to come up? They are enjoying the cream. In brief, the creamy layer is like the higher caste who will not allow the really backward to come up," a five-judge Constitution Bench headed by Chief Justice of India Sri K.G. Balakrishnan observed. This will lead to the clash in the society. That is not the intent of reservation. This (reservation) is meant to bring up the most disadvantageous, 10 the Bench which examines the 27 percent reservation to OBCs in Central Educational Institutions. The court gave the verdict in the case filed by (PMK) Pattali Makkal Katchi to reserve the seat without exclusion of creamy layer in all central universities.

On 10 April 2008, the Supreme Court of India upheld the government's initiative of 27 percent OBC quotas in government-funded institutions. The Court has categorically reiterated its prior stand that those considered part of the "Creamy layer" should be excluded by government-funded institutions and by

private institutions from the scope of the reservation policy. There was a mixed reaction to supporting and opposing parties.

There are some criteria to identify the 'creamy layers' among the other backward classes to exclude from reservations in educational institution, which are as follows:

1. Children of those with family income reconsidered in different period. Earlier the family income above Rs. 250,000 (3259 Euro) a year was considered as 'creamy layer', and these OBCs group cannot claim the reservation in government jobs. Later it increased by Rs. 450,000 (5867 Euro) family income in a year from October 2008, after that that it was increased by Rs. 600,000 (7822 Euro) family income in a year cannot claim quota in government jobs and admission in educational institutions. In 2017, the Government of India increased the family income Rs. 800,000 (10430 Euro) per year, cannot claim for reservations in government jobs and educational institutions through quota system. They will be treated as general candidate.
2. Children of doctors, engineers, chartered accountants, actors, consultants, media professionals, writers, bureaucrats, defence officers of colonel and equivalent rank or higher, high court and Supreme Court judges, all central and state government Class A and B officials should be excluded.
3. The Court has requested Parliament to exclude the children of Member of Parliament and Member of Legislative Assembly as well. The court had put sharp questions to the government on its education policy with planning Rs. 36,000 crores (469,568,688 Euro) for creating infrastructure in institutions of higher learning to implement the reservation, but the vast majority of children in the country doesn't access to primary and elementary education.

A Division Bench of the apex court in its interim order passed in March had stayed the implementation of reservation for OBCs in all Central Universities or institute of high learning and rejected its review petition. This verdict was not only the setback for the government officials but the students those were looking for entering into golden threshold in premier institutions to achieve the academic excellence. On 26th June 2008, a major step was taken by United Progressive Alliance I cabinet. It decided to fill-up 28,000 vacant seats in government jobs for other backward classes. It will cross the 50 percent earlier which was restricted by Supreme Court. In 1997, the Supreme Court ordered that the reserve seats should not cross 50 percent while recruiting the backlog position for the backward class in government jobs. After the cabinet decision, it was cleared the hurdle of recruiting the other backward classes (OBCs) more than 50 percent in Government jobs.

The Human Resource Development (HRD) minister, Arjun Singh said there is still scope for change in the bill that allows reservation in posts for SCs and STs only at the entry level—assistant professor, earlier called lecturer—in IITs, IIMs and other institutions of national importance. If the change takes place, it would mean reservation in posts of readers and professors also. He said that the Bill-SCs and STs (Reservation in posts and Services) Bill, 2008—was passed in a hurry in Rajya Sabha In the last session of Parliament and there is scope for change in the Bill. Mr Arjun Singh was interested to pursue the social justice among the Backward Classes and Minorities in India, and reservations was one of the tools to implement such initiatives were 16 percent, Scheduled Tribes 12 percent, and backward Classes 21 percent. Now the total reservation in the state was reached 68 percent.

**Table 3. Estimated population of backward classes in India**

Distribution of population of each religion by caste categories religion/caste

	Scheduled Castes (%)	Scheduled Tribes (%)	Other Backward Classes (%)	General (%)
Hinduism	22.2	9	42.8	26
Islam	9	32.8	24.8	33.3
Sikhism	30.7	0.9	22.4	46.1
Jainism	0.0	2.6	3	94.3
Buddhism	89.5	7.4	0.4	2.7
Zoroastrianism	0	15.9	13.7	70.4
Others	2.6	82.5	6.25	8.7
Total	<b>19.7%</b>	<b>8.5%</b>	<b>41.1%</b>	<b>30.8%</b>

Source: Census 2011, Government of India

The above data shows that the total population of OBCs of 41.1 percent, the Scheduled Castes 19.7 percent, Scheduled Tribes 8.5 percent and General category 30.8 percent. Still OBCs are highest in the percentage of population in India.

### Special recruitment drive for backward classes in central government services

The Special Recruitment Drive was launched in November, In order to provide Constitutional safeguards to the persons belonging to Scheduled Castes and Scheduled Tribes, it was decided in 2008 to fill up the backlog reserved vacancies of SCs, STs and OBCs which was concluded on 31.3.2012. As per information received from the Ministries/Departments, there were a total of 75,522 backlog reserved vacancies as on 1st November 2008 of which 47,727 have been filled up by the end of March, 2012.26 It is also surprising that government authorities claimed that they had a special drive to fill the backlog seats for Scheduled Castes, Scheduled Tribes and Other Backward Classes. One can observe that it is only eyewash on the part of the government. All the programs and policies were proofed as the paperwork only and there were no serious efforts were taken to implement such special drives in due date.

As per data, there is no such increase in the number of Scheduled Castes employees. The Schedule Castes employees were 9744 on 1st January 2004 and total numbers of employees were remaining 7890 on 1st January 2013. In case of Scheduled Tribes, there were total 3311 employees in group A central government services on 1st January 2004 and it reached 3324 employees in 1st January 2013.

The government officials prefer to recruit in Group B and Group C central Government services for Scheduled Castes and Scheduled Tribe candidates instead of Group A services which itself shows the discriminatory nature of top officials against SCs and STs. candidates.

**Table 4. Representation of SCs, STs and OBCs in the central government Group A Services**

Year	Total	SCs	Percent	STs	Percent	OBCs	Percent
<b>1.1.2004</b>	80011	9744	<b>12.2</b>	3311	<b>4.1</b>	3090	<b>3.9</b>
<b>1.1.2005</b>	80589	9551	<b>11.9</b>	3448	<b>4.3</b>	3791	<b>4.7</b>
<b>1.1.2006</b>	110560	14345	<b>13.0</b>	4189	<b>3.8</b>	5940	<b>5.4</b>
<b>1.1.2008</b>	91881	11446	<b>12.5</b>	4419	<b>4.8</b>	5031	<b>5.5</b>
<b>1.1.2010</b>	88896	10315	<b>11.6</b>	3998	<b>4.5</b>	7505	<b>8.4</b>
<b>1.1.2011</b>	77455	8922	<b>11.5</b>	3732	<b>4.8</b>	5357	<b>6.9</b>
<b>1.1.2013</b>	65414	7890	<b>12.06</b>	3324	<b>5.08</b>	5477	<b>8.37</b>

Source: Ministry of Personnel, Public Grievance and Training, Government of India, Annual Report from 2004-05 to 2013-14. There is no record of representation of SCs, STs, OBCs in 2007, 2009, 2012.

The above data reveal that the representation of Scheduled Castes, Scheduled Tribes and Other Backward Classes in Group A central government services. They are very important positions and they play important role in decision-making process in our country. Between the year 2004 to 2013, it is important to know that Schedules Castes employees were highest in 2006 numbering 14,345. It stood 13 percent at that time. But later on, it decreased by 11,446, 10315, 8922 and 7890 in 2008, 2010, 2011 and 2013 respectively. There were lowest in a number of representation of Scheduled Castes employees in 2013 with total 7890 employees in Group A services. It was far from the actual quota of 15 percent. It is very serious matter because day by day numbers of SCs employees are decreasing.

As per the data Scheduled Castes educated unemployed candidates are highest than other castes. So decreasing the number of employees in especially in Group A services is a violation the basic rules of the recruitment process and it is against the constitutional provisions which provide an especial safeguard to people belong to Scheduled Castes and Scheduled Tribes communities. It is a serious discrimination against SCs by the higher official authorities. The government should take special measure to protect them and secure their jobs with full strength.

At the same time, we find that the representation of Scheduled Tribes in Group A central government services was 4.1 percent in 2004, it was reached 5.8 percent in 2013. It increased approximate 1.7 percent in overall one decade. But still, it was far away from the 7.5 percent actual quota. The total STs were in Group A services were 3311, 3448, 4189, 4419, 3998, 3732, and 3324 in 2004, 2005, 2006, 2008, 2010, 2011, 2013 respectively.

On the other hand, we find that representation of Other Backward Classes in Group A services. In Group A services, it was only 3.9 percent in 2004 and increased almost 5 percent and reached 8.37 percent in 2013. The total OBCs employees in Group A services were 3090, 3791, 5940, 5031, 7505, 5357, 5477 in 2004, 2005, 2006, 2008, 2010, 2011, 2013 respectively.

No explanation has been provided by the government authorities regarding the vacant posts and its implications. The reservation policy for backward classes are important constitutional provisions but the negligence of implementations of reservation policy shows the violation of constitutional rights towards the deprived section of the society. It is also the violation of democratic rights as well as the violation of the basic human rights of the citizens of this country.

After 70 years of independence (15th August 2017), the deprived sections are still deprived and casteist mindset is still working in the appointment of the backward classes in the government institutions. The deprived section of the society is still fighting for social equality, dignified life, fundamental rights, the basic human rights to achieve the social justice.

**Table 5. Representation of SCs, STs and OBCs in the central government Group B services**

Year	Total	SCs	Percent	STs	Percent	OBCs	Percent
<b>1.1.2004</b>	135409	19602	14.5	6274	4.6	3123	2.3
<b>1.1.2005</b>	139958	19194	13.7	6230	4.5	3252	2.3
<b>1.1.2006</b>	135747	19655	14.5	7092	5.2	5713	4.2
<b>1.1.2008</b>	137272	20481	14.9	7900	5.8	5420	3.9
<b>1.1.2010</b>	173493	26495	15.3	9923	5.7	10648	6.1
<b>1.1.2011</b>	190134	28403	14.9	11357	6.0	13897	7.3
<b>1.1.2013</b>	141305	22233	15.73	8475	5.99	14156	10.01

Source: Ministry of Personnel, Public Grievance and Training, Government of India, Annual Report from 2004-05 to 2013-14. Note: There is no record of representation of SCs, STs, OBCs in 2007, 2009, 2012.

The above data reveal the representation of Scheduled Castes, Scheduled Tribes and Other Backward Classes in Group B central government services from 2004 to 2013. It shows that Scheduled Castes representation in Group B central government services was 14.5 percent with 19602 employees in 1st January 2004. It reached only 15.73 with total 22,233 employees on 1st January 2013. It increased a little of 1.23 percent in one decade. It was showing a very low increase in Group B services if we compare with the educated unemployed candidates over the period.

The representation of the Scheduled Tribes in Group B central government services was 4.6 percent with 6,274 employees on 1st January 2004 and it reached 5.99 percent with total 8,475 employees. It increased 1.39 percent in one decade; it is also a very low increase in one decade if we compare with educated unemployed candidates over the period.

The representations of Other Backward Classes in Group B central government services were 2.3 percent with total employees 3123 in 2004. It was showing the gradual increase over the years. We can see that the representations of Other Backward Classes reached 10.01 percent with a total employee of 14156 in 2013. It increased by 8 percent in one decade. It is showing positive response towards OBCs in central government services.

**Table 6. Representation of SCs, STs and OBCs in the central government Group C services**

Year	Total	SCs	Percent	STs	Percent	OBCs	Percent
<b>1.1.2004</b>	2040970	344865	16.9	136630	6.7	106309	5.2
<b>1.1.2005</b>	2036103	333708	16.4	131678	6.5	119968	5.9
<b>1.1.2006</b>	2030923	332604	16.4	139711	6.9	129867	6.4
<b>1.1.2008</b>	1810141	284925	15.7	127074	7.0	145819	8.1
<b>1.1.2010</b>	2070666	330167	15.9	153844	7.4	306176	14.8
<b>1.1.2011</b>	2744629	481072	17.5	207353	7.6	427901	15.6
<b>1.1.2013</b>	2423194	424949	17.53	187898	7.75	435704	17.98

Source: Ministry of Personnel, Public Grievance and Training, Government of India, Annual Report from 2004-05 to 2013-14. Note: There is no record of representation of SCs, STs, OBCs in 2007, 2009, 2012.

The above data reveal the representation of Scheduled Castes, Scheduled Tribes and Other Backward Classes in Group C central government services from 2004 to 2013. It shows that Scheduled Castes representation in Group C central government services were 16.9 percent with 3,44,865 employees in 2004 and 17.53 percent with 4,24,949 employees in 2013. It increased even less than 1 percent in one decade.

The representation of the Scheduled Tribes in Group C central government services was 6.7 percent with 1,36,630 employees in 2004 and it reached 7.75 with 187,898 employees. It increased only 1 percent in one decade.

The representations of Other Backward Classes in Group C central government services were 5.2 percent with 1,06,309 employees in 2004. It was showing the gradual increase over the years. We can see that the representations of Other Backward Classes were reached 17.98 percent with total employees with 4,35,704 in 2013. It increased 12 percent in one decade. It is showing positive response towards OBCs in central government Group C services. But still, they are far behind the actual quota of 27 percent. As we discussed earlier that reservations for OBCs started in central government service after Supreme Court verdict from 1993-94 onwards.

**Table 7. Representation of SCs, STs and OBCs in the central government Group D services (excluding Sweepers)**

Year	Total	SCs	Percent	STs	Percent	OBCs	Percent
1.1.2004	802116	147212	18.4	53776	6.7	26158	3.3
1.1.2005	767224	140469	18.3	53032	6.9	32973	4.3
1.1.2006	805059	147269	18.3	56554	7.0	41364	5.1
1.1.2008	696891	134907	19.4	48133	6.9	34528	5.0
1.1.2010	665739	123780	18.6	47702	7.2	101114	15.2

Source: Ministry of Personnel, Public Grievance and Training, Government of India, Annual Report from 2004-05 to 2013-14. Note: There is no record of representation of SCs, STs, OBCs in 2007, 2009, 2011, 2012. 2013 in Group D services.

The above data reveal the representation of Scheduled Castes, Scheduled Tribes and Other Backward Classes in Group D central government services from 2004 to 2010. The Later government of India merged the Group D services with Group C services. So there is no data for Group D services available from 2011 onwards.

The above data reveal that Scheduled Castes representation in Group D central government services was 18.4 percent with 1,47,212 employees in 2004 and 18.6 percent with 1,23,780 employees in 2010. The employees of SCs did not increase in last 7 years.

The representation of the Scheduled Tribes in Group D central government services was 6.7 percent (53,776 employees) in 2004 and it reached by 7.2 with 47,702 employees. It increased by less than 1 percent in 7 years, but it is an interesting fact that number of STs employees decreased by over the years.

The representations of Other Backward Classes in Group D central government services were 3.3 percent with total employees 26,158 in 2004. It was showing the gradual increase over the years. We can see that the representations of Other Backward Classes were reached 15.2 percent with total employees with 101,114 in 2013. It was increased by 12 percent in 6 years. It is showing positive increase towards OBCs in central government Group D services. But still, they are far from 27 percent proposed reservations in jobs.

**Reservations in Promotion, Supreme Court Judgements and Remedial Action by Government:**

In Clause (4) of Article 16 of the Constitution of India enables the State to make provision for the reservation of appointments or posts in favour of any backward class of citizens which, in the opinion of the State, is not adequately represented in the services under the State. Clause (4A) of the same Article enables the State to provide reservation for the members of the Scheduled Castes and Scheduled Tribes in the matter of promotion. Article 335 provides that the claims of the members of the

Scheduled Castes and the Scheduled Tribes shall be taken into consideration, consistently with the maintenance of efficiency of administration in the making of appointments to services and posts in connection with the affairs of the Union or of a State. The Article empowers the State to make any provision in favour of the members of the Scheduled Castes and Scheduled Tribes for relaxation in

qualifying marks in any examination or lowering the standards of evaluation, for reservation in matters of promotion to any class or classes of services or posts in connection with the affairs of the Union or of a State.

Reservation to SCs, STs and OBCs, in case of direct recruitment, is available in all groups of posts. When direct recruitment is made on all India basis by open competition, reservation for SCs, STs and OBCs is respectively 15, 7.5 and 27 percent; and when direct recruitment is made on all India basis otherwise than by open competition it is 16.66, 7.5 and 25.84 percent respectively.

In case of direct recruitment to Groups 'C' and 'D' posts normally attracting candidates from a locality or a region, percentage of reservation for SCs and STs is generally fixed in proportion to the population of SCs and STs in the respective States/Union Territories and reservation for OBCs fixed 27 percent and total reservation for SCs, STs and OBCs could not exceed the limit of 50 percent.

Reservation in promotion by non-selection method is available to SCs and STs in all groups of services at the rate of 15 percent and 7.5 percent respectively. In case of promotion, there is no provision of reservation for OBCs.

The Supreme Court in the case of M. Nagaraj vs. Union of India & Others has observed that the state has to show in case the existence of the compelling reasons, namely backwardness, the inadequacy of representation and overall administrative efficiency before making provision for reservation. The impugned provision is an enabling provision. The state is not bound to make a reservation for Scheduled Castes/ Scheduled Tribes in a matter of promotions. If they wish to exercise their discretion and make such provision, the state has to collect quantifiable data showing the backwardness of the class in public employment in addition to compliance with Article 335.

Earlier the Hon'ble Supreme Court in the matter of Rajesh Kumar vs. Uttar Pradesh Power Cooperation Limited has struck down reservation in promotion in services of the State of Uttar Pradesh for the reason that the conditions laid down in M.Nagaraj's case were not complied with. In another case, Surajbhan Meena vs the State of Rajasthan had quashed the provision of reservation in promotion in the state of Rajasthan.

As per the earlier decision, The Government of India introduced "the Constitution (One Hundred and Seventeenth Amendment) Bill, 2012" in the Rajya Sabha on 17.12.2012 and transferred to Lok Sabha for consideration.

It surprises to know that after appointing such offers in each Ministry and Department the reservation policy for OBCs could not be followed or seems to be ignored by government official itself. This shows that how the government is a failure to implement the reservation policy for different backward classes. It could be possible that instead of recruiting the direct recruitment, they applied another method for appointment in a different important post like ad-hoc basis or on deputation basis to avoid the direct recruitment in a different post in Ministry/ Department. We cannot ignore the corruption and nepotism, which is spread like cancer in our bureaucratic set-up in our country. So it is natural to get a better position and appointment in the good department on the basis of nepotism or spending money for that post and position.

The policy of liberalization and globalization could not help them to achieve the good posts in government jobs. Probably they are involved in many unorganized sectors and working for their life without any future security for their family. It shows the lack of government policy for the betterment of the people particularly deprived sections of the society. The government institutions could not create more jobs, but the shrinking in jobs is the failure of the policymakers of this country, which is highly dominated by so-called upper castes of our society. It puts the question marks on their calibre, attitudes,



efficiency and their commitment towards poor or deprived sections of the society. It also put the question marks on our Institutional officials, selection procedures who are recruiting such inefficient or inadequate people for the important posts of this country. It seems to be fully biased while selecting the candidates for important posts or it may be nepotism, corruption or favouritism, which played an important role for this kind of scandals. It will harm not only people but the country as a whole.

Summary, in 2005, based on the recommendations of an independent panel, UPA government proposed to implement the quota for other backward classes at IITs, AIIMS and IIMs. In April 2006, the Human Resource Development (HRD) Minister Arjun Singh announced 27 percent reservation for Other Backward Classes (OBCs) in all premier Institutions such as All India Institute of Medical Sciences (AIIMS), Indian Institute of Management (IIMs), Indian Institute of Technology (IITs) and all Central Universities. The Central government had to implement the provisions of Article 15 (5) in all institutions and universities.

After Government's decision to reserve 27 percent seats for OBCs in educational Institutions, there was massive protest sparked from the students' communities particularly from IITs, AIIMS and IIMs in India. The Students formed an organization (NGO) called "Youth for Equality" (YFE).

In 2007, the Supreme Court of India, in interim measures, stayed the law providing for 27 percent reservation for Other Backward Classes (OBCs) in educational institutions like IITs, AIIMS, IIMs and all Central Universities. This caste-based in response to Public Interest Litigation (PIL) by Ashoka Kumar Thakur vs. The Union of India.

In April 2008, the Supreme Court of India upheld the government's initiative of 27 percent OBC quotas in government-funded institutions. The Court has categorically reiterated its prior stand that those considered part of the "Creamy layer" should be excluded by government-funded institutions and by private from the scope of the reservation policy. There was a mixed reaction to supporting and opposing parties.

There is an initiative taken by government department and in July 2008 took a decision to treat the backlog reserved vacancies and launched a Special Recruitment Drive (SRD) in November 2008 to fill up the backlog reserved vacancies for Scheduled Castes, Scheduled Tribes and Other Backward Classes. As per information from 73 Ministries/ Departments, there were a total of 77,383 backlogs reserved vacancies on 1st November 2010 and only 33,550 had been filled up by January 2012.

But data reveal that there is no such development in the representation of Scheduled Castes and Scheduled Tribes, but only a representation of OBCs increased. It is also surprised to know that the numbers of Scheduled Castes employees are decreased, they were 9,744 in January 2004 which was decreased by 7890 in January 2013. It is also surprised to know that it was showing a representation of SCs in Group A services 12.2 percent of total employees 9744, but after reducing by 1854 employees also it was showing the 12.06 percent the representation of Scheduled Castes employees. It shows that the quotas of SCs were abolished during that period and manage to show the high figure 12 percent after reduction of 1854 employees. It shows that high level of conspiracy to exclude the SCs in central government jobs in India. It is also showing the discriminatory nature of people who are holding higher positions in governance.

The Scheduled Tribes representation is also stagnant in group-A central government services. In 2004, there were total 3311 STs employees were in a job with 4.1 percent of total employees which was 3324. It increased by only 13 employees and reached 3324 employees in 2013. But it was showing the total STs employees increased by 1.7 percent and reached 5.08 percent, which is totally decisive in nature. It is also important to know that after 67 years independence oppressed are not getting justice and

oppressor are enjoying the power, prestige and positions in the society. The oppressors are imposing the inequality in the society and discriminating them from public institution and government is showing the helplessness to act against them. It is also the fact that government is more interested to take the vote from these oppressed classes so that they could rule for a longer period. It is also the fact that government is almost controlled by oppressed classes and these classes do not interested to give the position to lower castes. Even reservations could not provide the justice to backward classes which is one of the important constitutional rights of the lower strata of the people in our society. The future of backward classes is not very bright in the present scenario. They have to struggle more for getting their rights. It is important for the government to fix the accountability to the higher authority and if he is unable to implement the policies then there should be the provision of hard punishment for such officials. It may be a matter of caste hatred which leads to discrimination, exploitation and anti-social justice approach as against the human rights violation towards its fellow citizens. The government could remove such officials to hold such important position in governance.

There are certainly important measures which are important to make the Indian society as a casteless society and provide justice to all who deserve it. Before implementation of these policies, the Central Government and State Government must fill-up all the reserved seats in group A services, group-B and group-C services and group-D services (if any). Some important measures are as follows:

### ***1. Caste should be converted into class:***

The government should take the initiative to convert all castes into three classes:

1. Golden Class (G),
2. Silver Class (S) and
3. Bronze Class (B).

The three classes must be based on

1. Income from the family members as well as assets of the family members,
2. Education of the person and
3. Consumption level of the family members.
4. The person (family members) who has a high income, high education and high consumption will come into Golden Class (resemble by G). They may have 20 percent seats reserved for the government jobs and educational institutions.
5. The person who has medium income (taxpayers), high education and medium consumption will come into Silver Class (resemble by S). They may have 30 percent reservation in government jobs and educational institutions.
6. The person who has low income, low education (even illiterate) and lowest consumption will come into Bronze Class (resemble by B). It may get 50 percent reservation in government jobs, educational institutions, and legislature and in Panchayat. Because a large section of the society will come under the category of Bronze Class (B) in India. Distribution of Class Certificates: The Government should distribute the class certificate instead of caste certificate every ten years. Every ten years, the government of India conducts a survey of the population (called a census). At that time, it should conduct the survey of people on the basis of income, education and consumption to identify the class of the people. Later, the government should distribute the Certificate to the people on the basis of their class as Golden (G), Silver(S) or Bronze (B). The census should not be based on caste identity. So it will weaken the importance of caste hegemony.

### ***2. De-recognition of caste identity:***

The identification of a surname should be removed. The government should take the initiatives to make the criminal offence law against the caste identification. A person should be restricted to publish their caste in public places such as different institutions, newspapers, magazines or through any other media.

If someone uses his or her caste identity, it will come under criminal offence according to the new law. It will help to weaken the caste identity of the people. The government should appreciate the class marriage and discourage caste marriage. Such initiatives will reduce or eliminate many problems of our country such as;

1. It will reduce the caste conflict in our country. There are caste-based conflicts between youth for equality (upper caste) and backward castes in India; Mala and Madiga (both Scheduled Castes) in Andhra Pradesh, the conflict between Gujjar and Meena in Rajasthan for their shares in government jobs.
2. There will be no discrimination on the basis of caste in our society due to non-recognition of caste by the state.
3. It will reduce the corruption and improve the quality of life. The bureaucrats will work for every citizen of the country without any caste stigma. They will focus on welfare work on the basis of class identification instead of caste identity of the people.
4. It will reduce the nepotism, corruption and favouritism from the government institutions as well as non-governmental institutions.
5. The government could focus on the overall development of the Bronze Class (B). The government can expand more of its budget for their welfare. The government can launch various schemes for their development such as free schooling and food, job guarantees for skilled and unskilled labourers, career counseling centres in all government schools, training centres, and placement cells so that after the schooling education, the students could get the proper jobs at that time. The government should provide them with agricultural land, bank loans, shops for business and shelter at nominal charges.
6. It will encourage the ideological debate in politics and it will end the casteist politics in India.

Centralization of all recruitment process:

1. University Grant Commission; The function of the university grant commission (UGC) should be extended. There should be recruitment board in UGC. The University Grant Commission (UGC) should come directly under the Chairmanship of Prime Minister of India.
2. The recruitment process of all universities and Colleges in India must be conducted by University Grant Commission (UGC). The board must work under the Prime Minister of India as Chairperson. The UGC head can play a role as Vice Chairperson of the recruitment board. In recruitment board, there should be four renowned Professors/ Academicians from their respective discipline from four categories (Scheduled Castes, Scheduled Tribes, Other Backward Classes and General category).
3. Four renowned Professors or academicians may be appointed from United States of America, United Kingdom, Germany or Australia with specialization of India or South Asia in case of Social Science discipline. In four academicians, two academicians must be a person of Indian Origin with specialization in South Asia or India in case of Social Science discipline.
4. Union Public Service Commission: UPSC should conduct Group-A and Group-B services examinations. The minimum educational criteria should be increased Master degree instead of graduation to reduce the number of candidates for the job. The UPSC should bring under the Ministry of Labour and Employment. The autonomy status of UPSC should be abolished immediately.
5. Staff Section Commission: It should take all the Group-C and Group-D services.
6. The government should select experts for a proper functioning of the government or protest sparked good governance. It could be academicians from a university or expert from a percent or any other field. The government can recruit them as a rant of cabinet secretary for five years for the smooth functioning of the government.

These were some aspects of the proper function of the governance, reducing the discrimination or corrupt practices from the government institutions and proper implementation of government policy and particularly reservation policies in public sector jobs in India. There are some other measures, too, to improve the proper function of the government and implementation of its policies.

So the reservation should continue for the weaker sections of the society. It will automatically disappear after the abolition of caste itself. So long as the caste or caste system exists in our society, the reservation will remain. Caste is cause and reservation is its effect. We have to fight to eradicate the cause itself, then only can we reduce the effect as well. The government should think seriously about removal the caste identity as soon as possible. It will help the weaker sections to live with dignity and self-respect in the society. The government should avoid the “vote bank politics” in the name of caste forever. According to me, reservation is not only the sharing of some seats with a deprived section of the society but an important tool to identify how our government institutions commit to rights and justice of the people, particularly the oppressed, who have suffered for centuries. Moreover, it helps us identify whether government institutions are following the democratic values of this country; if the answer is no, then there is no difference between foreign rule (British rule) or Indian rule. The people have to fight hard for justice since they are not getting justice from their own government.

Max Weber considered caste as a system of status groups based on the otherworldly doctrine of Hinduism. He said that status honour need not necessarily be linked with a class situation. Nor is the social status need always determined by class status. This is quite true in the Indian context, where a lower caste person becomes a millionaire although his class status may change Ministry but his social status would remain the same for his entire life. So the concept of reservation policy for deprived sections is relevant here.

The deprived sections could get the social justice; if they will get the proper representation in governance. Martin Luther King, Jr. once pertinently said, “Injustice anywhere is a threat to justice everywhere.” The dream of Mahatma Gandhi and Dr Ambedkar would be fulfilled, if the weaker sections of the society become a part of the governance and all citizen of this country will get equal opportunity. The proper representation in governance will provide social justice to the oppressed ones in our country. The people should fight against the caste itself. The eradication of caste itself will provide the equality among the people. The government should immediately fill-up all reserve seats for backward classes and provide more reservation than an actual quota in government jobs and educational institutions and take the further initiative to derecognize the caste for any official use then it would be revolutionary steps towards the casteless society further. It will help to a dignified life for all without any exploitation and discrimination in public life. It will also lead the vision of social justice and will strengthen the human rights issues in India as well as around the world.

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**TIKIRI NIMAL HERATH<sup>1</sup>**

## **IMPACT OF POPULATION AGEING IN ASIA: ISSUES, FEATURES AND SOLUTIONS<sup>2</sup>**

### **Abstract**

Population ageing is a complex problem in a number of economies today. It is an outcome of economic growth which is treated as a means to reach higher standard of living. However, it creates negative effects on growth (the solution). Growth increases the proportion of the old-age population which contributes to the increase in public spending on health which results in the expansion of the public sector. In the analysis of the population ageing, there are some important aspects that one needs to be familiar with. This paper examines and highlights some of such striking features of the population ageing by reviewing literature and examining relationships between variables in the light of secondary data. To avoid the expansion of the public sector, the paper proposes imposing a payment on children so that their old-age parents could lead better lives. Also, the paper recognizes the population ageing as a cost of growth and emphasizes the analytical tools to be used for countries where direct approach to welfare is adopted. Finally the study highlights a greater volatility in economic growth than in life expectancy as another issue and lower levels of labour force in developing Asian countries than in developed economies in the region which may create rigorous problems for these developing nations once their income increases in the future.

**Keywords:** Payment on children, population ageing, volatility in growth

**JEL Code:** J1

### **Introduction**

The Asian region includes close to 50 countries. As shown by UNDP (2016), Singapore, Hong Kong, South Korea, Israel, Japan, Brunei Darussalam, Cyprus, Qatar, Saudi Arabia, UAE, Bahrain and Kuwait demonstrates high levels of human development and many other states are developing at different speeds. Despite these statistics, it is well known fact that Asia is still a place for the poor. As such, growth is required for developing countries especially for the alleviation of poverty, upliftment of the standard of living and for the promotion of other human standards such as life expectancy. Thus, growth is known as a panacea for many economic ills. However, although growth alleviates poverty, and promotes the standard of living and life expectancy, it brings about many other problems within these economies. Increase in proportion of old-age people is one such example. It creates more problems such as increase in public expenditure on health and demotion of growth etc. Therefore, solving the problem of the increase in old-age population is multifaceted and gives rise to extensive public health expenditure which leads to the expansion of the public sector. Given this background, this paper is to review some important features of the increasing in old-age population, to analyze the extent of its impact on the public sector. Finally the paper proposes a solution to avoid the expansion of the public sector as a result of the increase in public health expenditure. These objectives are achieved by reviewing literature and examination of relationships between variables related to population ageing in the light of secondary data. The paper firstly discusses related issues of old-age population, secondly proposes a solution to avoid expansion of the public sector and finally presents the conclusions arrived in the study.

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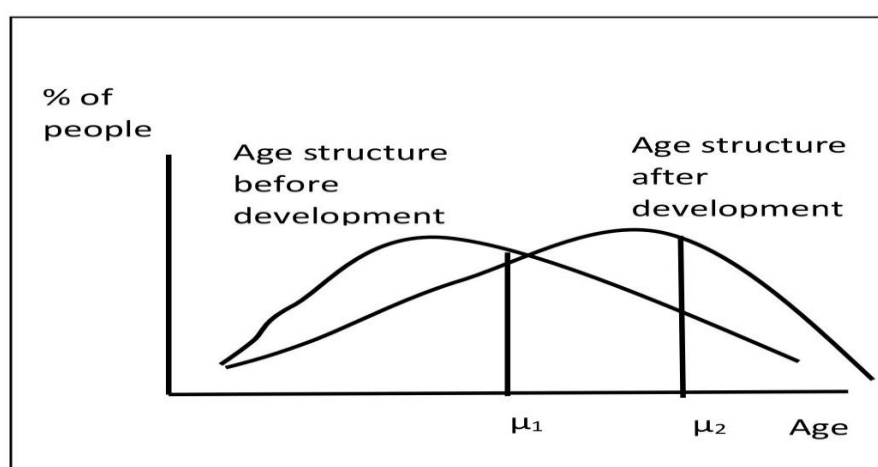
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<sup>2</sup> Earlier version of this paper was published in the conference proceedings of Mirdec Budapest 2017.

## Change in age structure of population and related issues

There are some crucial properties and features of the population ageing. Understanding of these features is useful for further research and to find solutions for rise in the old-age population. During the early stages of development, in a country, mean lifetime of people is low ( $\mu_1 < \mu_2$ ) and the proportion of the old-age population (64 years old or more) is less than that of young people. However, when development is acquired by a country the age structure of the population gradually changes; average lifetime of people goes up and the proportion of old-age people increases (Figure 1).

**Figure 1. The changing way of age structure of people during and after development**



Source: Author

This change in age structure is a result of increase in life expectancy which is a partial outcome of growth. An increase in old-age population discourages savings and has negative effects on growth. In that sense, escalation of the old-age population is a cost of growth. In other words, solution for one problem creates another problem/s or decreases the strength of the effects of the solution. Economic growth which was recognized as a solution for higher standards of living but later increases old-age population which creates negative bubbles on growth itself. Moreover, increase in the proportion of old-age population leads to increase in public health expenditure (Tosun, 2003; Elmeskov, 2004; Appendix 1) and hence it finally expands the size of the public sector too.

When global development experience is reviewed, many countries acquired growth and reached higher development levels such as literacy, life expectancy, education etc by adopting indirect approach of promoting welfare. Consequently, their proportion of old-age population gradually increased. Japan and Korea are the best examples from Asia. However, some other Asian countries sometimes adhered (some may still adhere) to the direct approach of promoting welfare. For instance, Sri Lanka reached higher development levels without growth. (Bhalla and Glewwe 1986). China can also be included in the same category. Robert Barro's (1996) analysis which argues that increase in life expectancy leads to higher levels of growth is supportive of the above development model which is based on the direct approach. However, current ideas on the population ageing is mainly based on the indirect approach to development.

When the relationship between economic growth and the proportion of old-age population is analyzed, understanding of the nature of economic variables is thus an important issue. Growth is highly fluctuating than life expectancy. In other words, growth is more volatile than life expectancy. This is

due to characteristics of determinants of these variables. Economic growth mainly depends on highly contingent variables such as natural disasters (tsunami, earthquakes, cyclones), wars (peace), change in government policies and economic situations and policies of other countries to which the country's economy is linked. However, life expectancy is a function of less volatile variables such as education and provision of health facilities. Therefore, in the analysis of the population ageing, how to make growth less volatile is the problem.

Next important issue is the decrease in the labour force as a result of the old-age population. Studies have shown that when the proportion of aged population goes up, labour force goes down (Carone et al 2005). However, in Asia when empirical data are examined, from 2011 to 2014 in developing countries labour force is much less than that in developed countries. For example, in Singapore, Japan, Israel and South Korea labour force participation rate is significantly greater than in India, Malaysia, and Sri Lanka (Table 1). Under the *ceteris paribus* assumption, once these three countries reach higher status of development levels, decrease in labour force participation may be lower than the present levels.

**Table 1. Asia: Labour force participation rate in selected countries (% of total population ages 15-64) (Modeled ILO estimate)**

Country	2011	2014
Bahrain	72.1	71.6
Bangladesh	73.4	73.6
Bhutan	74.0	75.2
China	76.7	77.6
India	57.0	56.5
Indonesia	70.0	69.9
Iran, Islamic Rep.	46.5	47.5
Israel	64.9	71.0
Japan	73.9	75.1
Jordan	43.9	43.9
Korea, Dem. People's Rep.	82.7	82.7
Korea, Rep.	65.4	66.1
Kuwait	69.5	70.4
Lebanon	51.0	51.9
Malaysia	62.0	62.7
Myanmar	81.9	82.0
Nepal	85.8	85.7
Pakistan	56.1	56.6
Philippines	67.0	67.1
Qatar	87.3	87.2
Saudi Arabia	53.5	56.9
Singapore	73.0	73.7
Sri Lanka	59.2	59.5
Thailand	78.1	78.3

Source: <http://data.worldbank.org/indicator/SL.TLF.ACTI.ZS/countries>

Taxation is known as the major source of income of a government. Rise in the old-age population decreases government tax revenue and increases government expenditure especially on health, pension payments and other old-age related payments (Tosun, 2003; Elmeskov, 2004). Increase in old-age population declines the size of the work force as older generations are replaced by less number of younger cohorts (Carone et al 2005). However, Bloom et al. (2010) show that the increase in the retiring age and immigration will help to overcome the decrease in the labour force. Other authors argue that countries can sustain economic growth despite the population ageing problem. Elgin and Tumen (2010) show that even in the presence of the decline in human capital, an economy can switch from traditional production (which uses young workers) to new human capital oriented production (which uses old-age workers). As such, old-aged population will not affect either the production or the growth. Moreover, Elgin and Tumen (2010) argue that modern economies rely more on machines than labour force. Therefore, a contraction in the labour force will have no effect on productivity. Labour can be replaced by machines. This situation can further be explained in terms of production function too. Simply, in the case of Cobb-Douglas production function, in the current year, if labour force has decreased by 20% than the previous year the function can be stated as,

$$Q = AK^{\beta}0.8L^{\alpha}$$

Where Q is output levels, K is capital, L is labour, A is technology and  $\beta$  and  $\alpha$  are contribution of capital and labour. However, if technology or capital increases by 25% (or it becomes 1.25) in the current year, decrease in the labour input will be cancelled out. In such a situation, a decrease in the young working group does not make any effect on economic growth.

As stated earlier, increase in the old-age population increases government spending on health too. This is very clear in the case of Japan (Appendix 1). In such circumstances, if other expenditure items do not decrease expansion of size of the public sector is unavoidable (Appendix 2). In many developed countries from 1995 to 2014 public health spending has increased. In Japan, it is the highest out of the selected countries (Table 2). During two decades, in Japan, health expenditure alone has increased by three percent in its GDP (Figure 2). It is a significant contribution to government spending.

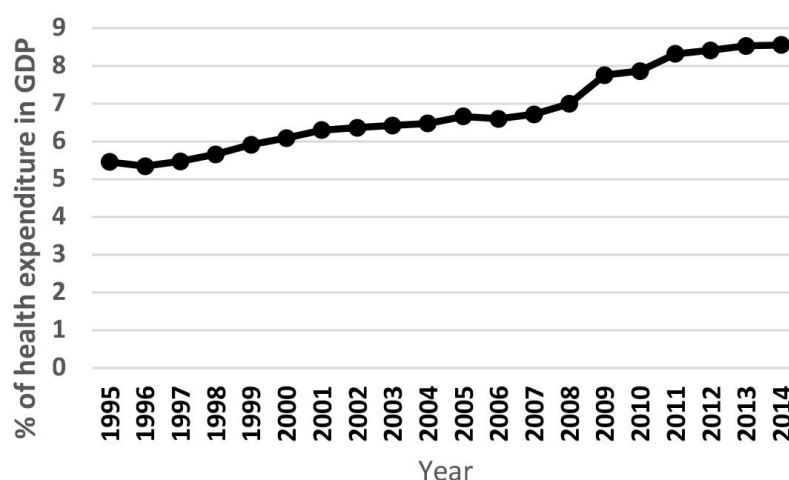
Enlargement of the public sector is known as harmful for an economy. Many studies show that the relationship between public expenditure (or performance of government) and economic growth is negative. (Landau 1983; Gwartney et al. 1998; Karras 1997; Pevcin 2004; Cooray 2008). Many other studies propose that government spending needs to be less than 30 percent of GDP (Chobanov and Mladenova 2009). However, in many developed economies when size of the public sector is measured as a proportion of public expenditure in GDP, it is clear that the public sector is growing especially in developed economies. Austria, Belgium, Finland, France, Greece, Italy, Latvia, Slovenia, Denmark, Japan, and Sweden are striking examples of which government expenditure is greater than 50% of GDP in 2013. In the case of tax income, it's proportion in GDP is greater than 30% (the threshold level proposed by Chobanov and Mladenova in 2009) in Belgium, Finland, Italy, Denmark, Iceland, New Zealand, Norway, and Sweden in the same year (IMF 2015).

**Table 2. Changing pattern of public health expenditure as a percentage of GDP in selected countries, 1995 and 2014**

Country	1995	2014	Change
Australia	4.8	6.3	1.5
Austria	7.1	8.7	1.6
Canada	6.3	7.4	1.1
Denmark	6.7	9.2	2.5
Finland	5.6	7.3	1.7
Italy	5.0	7.0	2.0
Japan	5.5	8.6	3.1
China	1.8	3.1	1.3
India	1.1	1.4	0.3
High income countries	5.9	7.7	1.2
World	5.3	6.0	0.7

Source: <http://data.worldbank.org/indicator/SH.XPD.PUBL.ZS>

**Figure 2. Japan: proportion of public health expenditure in GDP, 1995-2014**



Source: Basic data - <http://data.worldbank.org/indicator/SH.XPD.PUBL.ZS> , downloaded 07.07.2016

### Solutions for population ageing

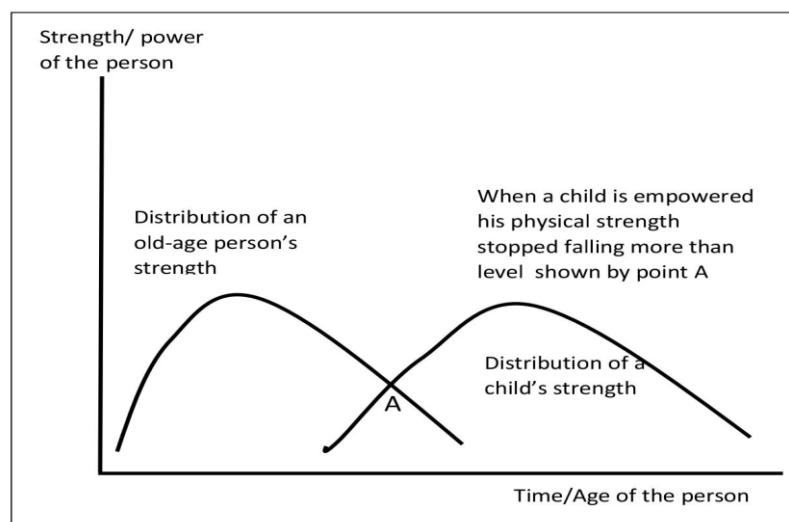
Pensions, insurance, savings like through provident fund are some existing solutions for the problem of the old-age population. These three measures can be implemented by both public and private sectors. Rise in old-age population increases public health expenditure. Therefore, such policies for population ageing implemented by the public sector expands the size of the public sector. However, intervention of the public sector is not an ideal and perfect solution because it leads to increase in taxes on the one hand and expands the size of the public sector which is harmful for economic performance, on the other. Therefore, policy makers have to look for alternative feasible solutions. Fixing a payment by the government for children of the old-age parents is one such solution.

Human life starts as a child and later the child reaches adulthood and again becomes just like a child in his/her old age. It is just like many other natural phenomena. In statistical terms, life is just like a normal distribution. Many variables such as bodyweight and physical strength related to human life are positive but very low in their values during one's childhood. In the process of time values of those variables increase and reach a maxima at a certain age of a person and after that decrease during the old-age of people. In the case of economic variables related to human life also follow a similar pattern. Income and consumption and hence savings are such good examples. Labour income is zero during the very young age of a person. Later it gradually increases and reaches a maxima, and during the old-age it decreases by degrees. This is common and a major characteristic for many things. For example, let's take the volume of fruit borne in a tree during its lifetime. When the tree is a plant the volume of fruit borne is zero. Sometime later fruit production starts but at the beginning number of fruit or gross weight of fruits once borne in a tree is low. In the course of time, it increases and reaches to a maximum. After that it decreases by degrees.

Without parents, almost all children cannot think of maximization of their utility. Since the very beginning of a mother's conceiving, parents provide many things for their children. During the expecting period a mother has to undergo a lot of pains and there is an opportunity cost of conceiving. After the child birth, food, security, health facilities, clothing, and housing are provided for the child by his/her parents. Later education is also provided at least up to 18th year of the child and sometimes up to a later age. If parents calculate the money they spend on a child for the whole period from his/her mother's conceiving to 18th year of the baby, and if these monies are saved by parents in a bank, by the time of retirement of parents, initial savings will be accumulated to a big amount. Parents can use this saved money after their retirement.

Moreover, parents endow the next generation to the society for its existence. It is a great service extended to the society of which people are interdependent. As such, it is the society's duty to protect old parents. At least in lieu of money spent by parents on their children they need to be paid something. People talk about empowerment of children because children are fragile (deficient in physical and other strengths). Children are empowered by their parents. If physical strength of the human being is taken, it is very low during the childhood. That is a reason to empower children. When they are empowered, they are given strength and they can lead fine lives. Their strength is kept at a higher level without falling. This situation is explained by the point A in Figure 3. Similarly old-age people also need to be empowered. However, empowerment of old-age people for their safety lives has been given less attention. If an old-age person is empowered, his/her strength is also kept at point A without falling (Figure 3). There is another argument. Taxes are raised by the government to provide collectively consumed goods such as defense for people. However, in the case of old parents they do not get anything from their children even if parents spend a lot of money on the activities of their children whom will be active members of the society.

**Figure 3. Diagrammatic representation of empowering a child and an old-age fellow**



Source: Author

Natural theory is not valid for the human being who is interdependent. According to natural theory, an animal (or brute) does not look after its parents (or mother). A female bird lays and hatches eggs and feeds the baby bird/s until the baby bird/s can fly. When it is time for the baby birds to fly, they go away. But the same theory cannot be applied for the societies, because the human being is interdependent and if children do not respond to their parents, adult people may tend not to deliver babies since in absence of children, they can save money expected to spend on children for their old-age life. Parents are doing a good job and extending a good service to the society. They offer members to the society who can take over the future of the same. Only then can the continuity of the society be kept uninterrupted. This situation can further be explained in terms of ideas taught in religions like Buddhism. In Mangala Sutta Buddha has stated that looking after one's parents is also necessary like providing protection for children. Thus, as a solution for increasing old-age population, an old-age protection payment needs to be introduced and it shall be paid by children of the parents in question. Every income earning individual whose parents are living has to make this payment once his/her parents are retired. This payment can be used to provide protection for his/her parents.

If children contribute the living expenses of their old parents, then government does not need to spend on the same and it controls the expansion of the public sector. If income of kids is higher, only fixed amount to meet parents expenses is sufficient. In the case of taxes, there is a tax namely negative income tax. It means when the income of a citizen is too low that citizen gets a payment from the government. When income is higher, the same person has to pay a tax to the government. Like that if a payer's income is too low he can be exempted from the payment, but when his income is too high he still can pay a fixed payment which is sufficient to meet living expenses of his/her parents.

## Conclusions

Economic growth promotes life expectancy which increases the proportion of the old-age population. Finally, population ageing makes negative effects on growth. As such, increase in the old-age population is a cost of growth. By increasing public health expenditure population ageing expands the public sector. Japan is a good example. In the future this may happen in fast developing countries like China. To avoid that, a payment on children of old-age parents can be imposed. This proposal is helpful to Japan also. In Japan, public debt is escalating according to its GDP. Hence it needs to decrease public spending.



Research on old-age population poses other problems. One is if a country adopts a direct approach to welfare, then how can we analyze ageing problem? Moreover, economic growth is more volatile than life expectancy. How to make growth less volatile is another problem. In Asia, at present, labour force in developing economies is lower than in developed countries. In such a situation, with development these economies may face serious problems in the future because with population ageing labour force may decrease further. It cannot be stated how far advancement of technology can resolve this problem.

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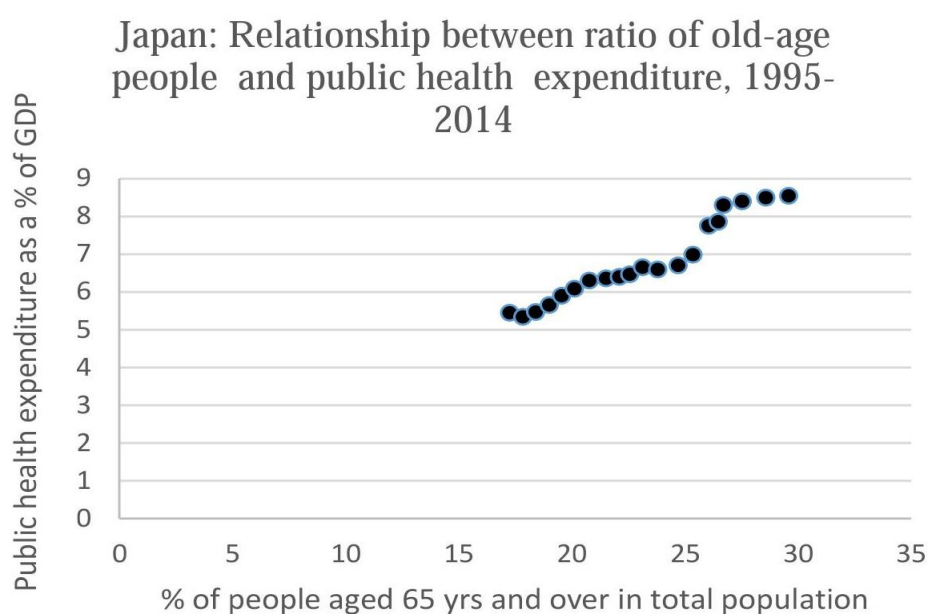
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**Appendix 1. Japan: relationship between ratio of old-age people and public health expenditure, 1995-2014**



Source: Basic data sources: <http://data.worldbank.org/indicator/SH.XPD.PUBL.ZS> and <http://www.stat.go.jp/english/data/roudou/lnindex.htm>.

**Appendix 2. Japan: changing pattern of old-age population (65 years or more) ratio and public spending**

Year	Old age population (%)	Public expenditure (as a % of GDP)
2003	22.1	37.56
2004	22.5	36.94
2005	23.1	38.19
2006	23.8	36.08
2007	24.7	N.A
2008	25.3	N.A
2009	26.0	42.26
2010	26.5	N.A
2011	26.7	56.73
2012	27.5	56.84
2013	28.6	57.20

Source: Basic data sources: <http://data.worldbank.org/indicator/SH.XPD.PUBL.ZS> and IMF (Government Financial Statistics, Issues from 2004-2014).

**RAVI KUMAR<sup>1</sup> AND RAFIDA NAWAZ<sup>2</sup>**

**ALTERNATIVES TO STATE-CENTRISM: VOICES FROM MARGINS (PERIPHERAL REALISM: AND SUBALTERN REALISM)<sup>3</sup>**

**Abstract**

Eurocenter has occupied hegemonic position in theoretical discourses of International Relations. Hence International Relations theory always represented the interest of powerful states that translate all the problems by only one mean and one end, i.e. Power. Power politics remained a prerogative of state and all the more, the powerful states. The prime argument of this study is that mainstream state-centric approach to International Relations is biased and reflects only on one facet of reality. The hegemonic International relations discourses with the Eurocentric biases have marginalized the voices emerging from subalterns of the system living in peripheral states comprising World-System. It is the reason that despite claims of problem solving, the state centric paradigm has left many issues and concerns of peripheral states and subaltern subjects living in these states un-heard.

The non-responsive behavior of mainstream International Relations towards problems of South is contested by two powerful voices in IR theory. Taking inspiration from ECLA-Prebisch School (Dependencia) of Latin America and Subaltern History paradigm of South Asia, Carlos Escudé and Mohammed Ayoob has casted reflection on poverty of Realism (State Centrism) as explanatory problem solving theory. Peripheral Realism by Carlos Escudé and Subaltern Realism by Mohammed Ayoob are two critical perspectives rooted in realities of global South. Whereas the Ayoob emphasizes the internal dynamics of state, Escudé focusing on global hierarchy of states discuss the issues of Rouge/Pariah states, who refuse to accept hierarchy and compromise the living standards of their population for prestige and glory.

**Keywords:** State-Centrism, Subaltern Realism, Periperal Realism (Realismo Periférico (RP))

**JEL Codes:** N40, N45, N46, Y80

**Introduction**

The central stage in International Relations theoretical debates is occupied by two Meta-Narratives i.e. Realism & Liberalism claim to have the Midas touch of problem-solving. Robert Cox has revealed the biases inherent in International Relations theory by denouncing the claims of problem solving. His famous dictum that “theory is Always for someone and for some Purpose” reflects on hidden intrests masked in lofty principles. (Burchill, 1996). The world can be divided in the binaries of powerful and powerless. Hence we all experience different realities living in hierarchical World with Binaries, i.e. Core-Periphery, Powerful-Subaltern. Broadly speaking International Relations theory can also be categorized in theoretical Binary i.e. Problem Solving-Critical Emancipatory Theory. Interests protected by two versions of IR theory are incommensurable. The reality of peripheral world and subaltern subject is presented in two Voices of Dissent on Margins of Mainstream Realism, i.e. Peripherico Realismo and Subaltern Realism by Carlos Escudé and Mohammed Ayoob. Paper while reflecting on flaws of mainstream theory aims to focus on issues and concerns represented by Escudé and Ayoob.

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## **Scheme of study**

1. Realism, State-Centrism and Problems of an Anarchic World
2. Post-Colonial State and Dialectics of State Making and Self-Determination (Subaltern Realism)
3. Alignment as Strategy of Survival (Peripheral Realism)

## **Realism, state-centrism and problems of an anarchic world**

Post-cold war era is heralded as triumph of “Liberalism” over its “other”, i.e. “state-centrism” (Realism). The authenticity of problem solving claims of “Realist” paradigm was already contested by the critical theory, i.e. Postmodernism, Feminism, Critical Theory, Post colonialism etc). (Jim George & David Campbell, Vol 34, No. 3 Sep 1990) The challenges induced acclaimed Realists to revisit the priori assumptions of Realist Paradigm and make it complicit the reality. (Booth K. , 2011) Realism became a synonym of guilt associated with war. But soon the naissance value of Realism became apparent due to non-state militancy, revival of religion, absolutism, populist regimes and rising nationalist rhetoric. (Booth K. , 2007)

## **Internal dissent in state centric approach**

The dissent remains a part of ongoing debate in Realism. Even, the classical Realists, i.e. E.H.Carr, Hans. J. Morgenthau, and John, J. Herz raised questions about priori assumptions of Realist paradigm. The classical Realist E.H.Carr, while denouncing the liberal ideals as “utopian” in his seminal work “Twenty Years of Crisis” declared Nation-state as dysfunctional entity, and emphasized the need of enhancing community collaboration, centralized planning for an integrated world through International organization. Hans. J. Morgenthau also revisited his beliefs expressed in Politics Among Nations: Struggle for Survival and Peace , in face of nuclear threat and believed that only an International Organization with Law enforcing powers can save the world from nuclear menace. JohnJ.Herz calculated the aftermath of armament and nuclear Arms race in form of environmental threats and migration. (Booth K. , Security and the Self: Reflections of a Fallen Realist, 1997) Present day discourse is between two schools of Realist thought, i.e. Defensive & Offensive Realism. Both schools of state centrism are agreed on the means but differ on end. Both believe in armament and self help mechanism. But whereas power is a means to create balance and deterrence for Waltzians; the protagonists of Offense consider pre-emptive strike to counter emerging threats. (Booth K. , Realism Redux: Contexts, Concepts, Contests, 2011)

Despite internal reflections state-centrism is enigma for states of South in initial stages of state making, fighting internal anarchy, and compromising the wants of PEOPLE for sake of survival and glory, making difficult choices between guns and butter. The state-centrism is both the cause and effect of adopting state-centric approach in foreign policy making. The paradox of subaltern-peripheral state is concern of two voices emerging from margins. The coming segments are dedicated for these voices of dissent reflecting on fallacies of Realist paradigm.

## **Post-colonial state and dialectics of state making and self-determination (Subaltern Realism)**

Standpoint Reality of Post-Imperial States emerging after Second Great War is essentially different from the reality of Eurocentric world of global North. Subaltern Realism as Theory is in line of Classical Philosophers of Power-politics i.e. Machiavelli & Hobbes. It is Machiavellian or Hobbesian in the sense that it wants to address the internal anarchy and in-cohesion prior to dealing with inter-state relations. It focuses on state-making and suppressing internal chaos by use of coercion. Ayoob believes that Cold

War was not an Era of Relative Peace due to Balance of power between poles of power. (Ayoob, Third World Security Predicament, 1995) Same era is declared by Historian Tariq Ali as “Street Fighting Years” as third world became the battle ground for two ideologies. Furthermore, these state were involved in ethnic wars and Wars of National (in)cohesion.

To Ayoob, the real problem for post-colonial state lies in international norm of Self-Determination and Recognition of Secessionist State by other state actors. Contrary to Booth, Ayoob considers emancipation as malleable idea leading to Internal Anarchy within Post-Colonial State. Legitimacy of State is contested due to demands of economic redistribution beyond capacity of state (Ayoob, Third World Security Predicament, 1995).

External problematic of security arise when neighboring states contest each other to consolidate their control over a given territory or population, leading to irredentist intervention in name of nationalism in disputed areas. India-Pakistan, Vietnam- Cambodia, Ethiopia - Somalia, Serbia- Croatia, Armenia- Azerbaijan, are classical examples quoted by Ayoob to explain the logic (Ayoob, Subaltern Realism: International Relations Theory meets the Third World, 1998).

### **Alignment as strategy of survival (Realismo Periferico)**

Carlos Escudé contests the claims of scientism by state-centric approach. Discussing the nature of theory Escudé believes that International Relations Theory is either Philosophy; normative in content; addressing the question of “what ought to be”, or Ideology masking a repugnant interest. (Escudé, 1997) He also validates Cox view of standpoint reality and believes that Peripheral Realism outlined in Foreign Policy Theory in Menem’s Argentina, is rooted in Argentine’s Reality and its policy to exhibit state sovereignty. But to Escudé is the policy was not without consequences for Argentina. As other countries of American South like Brazil were bandwagoning with USA and western block, Argentina was adopting state-centrism and concept of sovereignty in letter and spirit. In 1942, it faced a silent embargo from Great Britain and USA as price of remaining isolated in World War II. Under false perception of its economic development, it remained non-aligned during the years of alignment (Escudé L. S., 2016).

Negating Waltzian Notion that all states are Alike and Consider the Premise of rationality adopting their Foreign Policy options. Domestic Traits are responsible for State hostile behavior. Domestic Traits of Argentina lead to hostility towards North America since 1889 and Falkland/Malvin Adventure. It was a developed economy during the period 1880-1940 with expectation to attain a power status in world political hierarchy, ignoring the fact that its economy was closely tied to Great Britain during the period. To Escudé, Isolated geography augmented the inflated ideas of its development and power. Furthermore the contents of its educational system encouraged perception of country’s past splendor and future possibilities. It embarked on its quest to become Regional hegemon and defined National interest in terms of prestige and power. (Escudé C. , Peripheral Realism: An Argentine Theory Building Experience, 2009) The views about Argentine educational ideology is also corroborated by British geographer Klaus Dodds, who believes that since independence from Spanish Empire in 1810, patriotic education was considered to be an essential element of state survival. The patriotic education helped in making state a nation unlike other states of Latin America, i.e. Peru and Bolivia. The reference of “Lost Little sisters for Falkland/Malvin islands led to misadventure with Great Britain in 1982 (Dodds, 2000).

To Escudé, it provided the rationale of foreign policy of state, in peripheral status, having no credible security threats from the neighbors, opting for armament and power building. To Escudé, the first priority for such a state is to serve its citizens by facilitating the socio-economic development”. Butter must get preference over guns (Escudé L. S., 2016).

Escudé divides world in a proto hierarchy of Rule Makers, Rule Takers and pariah/Rogue states (defying the rules defined by the powerful state actors). The peripheral Realism in Escudé ieuw was the policy opted by both East and West Germany during Cold War, Japan and even great powers like United Kingdom who preferred economic development on military might. (Escudé C. , Reflections on Cultural Superiority and Just War: A Neo Modern Imperative, 2005) Though, these states in Mearshimer view learnt hard lessons through bitter experience of exercising power and defeat in WWII. To Escudé peripheral Realism is initial phase of creating Leviathen on global scale.

## Conclusions

Realism remained a policy guide for Westphalian stae system since 1648. However it was considered and adopted as necessary evil. Power-politics has never gained currency on moral front and event contested by its greatest protagonists like E.H.Carr and Morgenthau. A world state beyond difference is a utopia advocated not only by Liberals like Kant but also the Realists like Morgenthau. Voices emerging from the margins donot denounce the moral preposition of Eurocentric IR theory. The point of contest is to overcome anarchy both internally and externally. Whereas, Ayoob's concern is internal anarchy, the level of Analysis for Escudé is International anarchy. Ayoob wants to build Leviathen on nation-state level, while Escudé wants to establish world empire and global Leviathen, sovereign in all respects, implementing a moral order on the multitude of states.

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