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Research Digest



Working Paper No. 223

(http://www.icrier.org/publication/working_papers_223.html)

Pollution Across Chinese Provinces

16 September 2008

*Catherine Yap Co, Fanying Kong and
Shuanglin Lin*

The authors revisit the environmental Kuznets curve (EKC) hypothesis using 1987-1995 data for Chinese provinces. A comparison of off-sample (1996-2004) predictions to actual emissions indicates that more stringent rules are still needed to fight industrial (waste water and dust) pollution. Auxiliary regressions show that conditional on income, northern provinces have lower industrial waste water pollution; non-coastal and provinces with smaller secondary industry shares have lower industrial (waste water, COD, and dust) pollution; provinces with smaller state-owned enterprises share have lower industrial COD pollution; and the commitment to control industrial dust pollution is correlated with local governments' budget balance

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Impact of Organized Retailing on the Unorganized Sector

1 September 2008

*Mathew Joseph, Nirupama Soundararajan,
Manisha Gupta and Sanghamitra Sahu*

The retail business in India is estimated to grow at 13 per cent per annum from US\$ 322 billion in 2006-07 to US\$ 590 billion in 2011-12. The unorganized retail sector is expected to grow at about 10 per cent per annum from US\$ 309 billion 2006-07 to US\$ 496 billion in 2011-12. Organized retail which constituted a small four per cent of retail sector in 2006-07 is likely to grow at 45-50 per cent per annum and quadruple its share of total retail trade to 16 per cent by

2011-12. The study, which was based on the largest-ever survey of all segments of the economy that could be affected by the entry of large corporates in the retail business, has found that unorganized retailers in the vicinity of organized retailers experienced a decline in sales and profit in the initial years of the entry of organized retailers. The adverse impact, however, weakens over time. The study has indicated how consumers and farmers benefit from organized retailers. The study has also examined the impact on intermediaries and manufacturers. The results are indicative of the mega-and-mini- metro cities around a limited number of organized retail outlets. Based on the results of surveys, the study has made a number of specific policy recommendations for regulating the interaction of large retailers with small suppliers and for strengthening the competitive response of the unorganized retailers.

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China and India: A Tale of Two Trade Integration Approaches

4 August 2008

Przemyslaw Kowalski

The comparison of the key features of trade integration processes and the economic outcomes in China and India reveals that while much has already been achieved in both these economies, the Chinese reforms, especially with respect to manufacturing trade, have gone further and are one of the key determinants of better economic performance of China. Still, China's integration process remains characterized by a certain duality. On the one hand, the opening up of trade and FDI in manufactured goods has spurred the emergence of a largely private sector. On the other hand, high level public ownership and

important regulatory barriers continue to dominate the services sectors. India has gone a long way in reducing its tariffs on non-agricultural products as well as selected non-tariff barriers but moderate protection still persists which adds to the hurdles faced by the Indian manufacturing sector. India has revealed a comparative advantage in certain segments of the services sector but its services trade policy is still very restrictive, even as compared to China. More generally, the extent of liberalization achieved so far in India and the outcomes it brought about suggest that the remaining goods and services trade barrier is one item on the list of reforms that India needs to tackle in order to promote trade-led expansion of more labour-intensive activities.



Working Paper No. 220

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Trading with Asia's Giants

1 August 2008

Barry Bosworth, Susan M. Collins and Aaron Flaaen

The United States' large and sustained trade deficit with Asia raises concerns in the United States about its competitiveness in the region. This paper examines the patterns of U.S. trade relationships with China and India, and the factors that are influencing their evolution. In contrast to the current public policy debate, the discussion addresses how these two economies compare as markets for U.S. exporters. This paper begins by noting that U.S. exports to both countries do appear low relative to the performance of Japan and the EU-15. It examines potential explanations for the weak exports from three different perspectives. First, the composition of U.S. exports to these economies, and how this mix of products compares to the one which appears to be competitive in exporting to rest

of the world. Second, the role of multinational corporations in facilitating the trade flows between the U.S and these two economies. Finally, it uses "gravity equations" to examine bilateral trade patterns while controlling for a variety of country specific characteristics, such as distance. The paper also analyzes the pattern of trade in services.



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Informal Values and Formal Policies: A study of Japanese Technology Policy and Significance for India

31 July 2008

Saradindu Bhaduri and Janashruti Chandra

This paper analyzes some aspects of Japanese policy in the post World War-II period to understand how the various informal institutions (shared mental models) have influenced key dimensions of technology strategy with regard to the nature and trajectory of activities it sought to promote. Previous studies have mainly focused on industrial policy on the basis of the White Papers published by the Ministry of International Trade and Industry (MITI). This study, in contrast, focuses exclusively on technology policies by examining the White Papers on Science and Technology (Kagakugijutsu Hakusho) published by the Ministry of Education, Culture, Sports, Science and Technology (MEXT). It seeks to understand the significance of these findings for policy making in India. However, the limited scope of this undertaking makes the results indicative in nature.

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Regional Economic Integration and FDI in South Asia : Prospects and Problems

30 July 2008

Aradhna Aggarwal

The slow progress and modest achievements of regional integration in South Asia have generated skepticism about its role as an effective strategy of growth. This study, however, argues that there is need to forge deeper integration within the region. It examines the prospects and problems of serious fiscal consolidation within the area. Essentially, it looks at the effect of deepened regionalism on investment flows. It argues that regional integration has the potential to promote intra and extra regional FDI flows and economic development in individual countries of the region. This will pave the way for the most efficient use of the region's resources through additional economies of scale, value addition, employment and diffusion of technology. A number of challenges remain. Structural weaknesses, institutional bottlenecks, political movements, narrow nationalism and mutual mistrust are some of the factors that explain the failure of the region to exploit possibilities. Paradoxically, the problems themselves provide strong motivation for strengthening cooperation. It is only through more intensive collaboration that these complexities can be addressed and resolved.

**Working Paper No. 217**

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Development Strategy for the Hill Districts of Uttarakhand

30 July 2008

Surabhi Mittal, Gaurav Tripathi and Deepti Sethi

Uttarakhand, in spite of being a small state, has certain key features that make it distinct

from other states of the country and highlight its potential for development. However, development has predominantly been in the plains, and the hill districts have been left behind. All the hill districts have subsistence farming as their main economic activity. Due to subsistence livelihood, migration and a remittance economy operate in the hill districts. They are isolated, with huge distances between the markets and resources. Because of these constraints, traditional agriculture cannot be the lead sector for development. Thus the state faces the challenge of promoting sustainable livelihoods through local employment and income generation to minimize migration, and of enhancing the quality of life of people living in villages.

The positive features of these hill districts are that they have enormous potential for tourism, a suitable climate for high-value agriculture, and a pleasant environment due to 60 percent forest cover. These have to be harnessed for a development strategy. The development strategy for Uttarakhand hills should be based on developing brand equity under the name of **Organic Green State** and an Uttarakhand Brand Equity Fund should be set up. This can be achieved by infrastructure development, tourism promotion, agriculture diversification, poultry and wool-based livelihoods, and by SMEs based on the above that capture linkages with industry and tourism.

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Impact of Proposed Commodity Transaction Tax on Futures Trading in India

28 July 2008

Pravakar Sahoo and Rajiv Kumar

Trading in commodity derivatives on exchange platforms is an instrument to

achieve price discovery, better price risk management, besides helping the macro-economy with better resource allocation. Since the inception (2003) of national online trading on multi-commodity exchange platforms, the trade volumes have grown exponentially. In the union budget 2008-09, the government has proposed to impose a commodity transaction tax (CTT) of 0.017%. Though the stated rationale for imposing higher taxes is to contain price rise and volatility, to generate revenue, and to increase transparency, these arguments are debatable and not much supported by the available literature. In this context, we examine the relationship between trading activity, volatility and transaction cost using a three-equation structural model for five top selected commodities namely Gold, Copper, Petroleum Crude, Soya Oil and Chana

(Chickpea). The results suggest that there exists a negative relationship between transaction cost and liquidity, and a positive relationship between transaction cost and volatility. Therefore, if the government imposes CTT, it would lead to higher volatility and lower trading activity affecting market efficiency and liquidity. However, agricultural commodities such as refined Soya oil and Chana are least affected in terms of volume and volatility in response to the imposition of transaction tax. Increased volatility may lead to more speculative activity and fail to achieve the price discovery and resource allocation objectives of the commodity markets. Further, the Granger causality results reveal the efficiency of futures markets but do not provide any conclusive evidence about the nexus between price rise and futures trading.

Notes

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