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# Research Digest



**Working Paper No. 234**

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## **Indian Economic Outlook 2008-09 and 2009-10**

March 19, 2009

*Rajiv Kumar , Mathew Joseph , Dony Alex, Pankaj Vashisht and Debosree Banerjee*

This paper provides an outlook for the Indian economy in the light of the extraordinary global financial crisis, that started in the US, but which has now transformed into the worst economic downturn since the Great Depression. The Indian economy was slowing down even before the onset of global crisis and so the timing of this external shock could not have been worse. The analysis undertaken for this paper shows that the global crisis is likely to bring the Indian GDP growth rate down considerably. There is real downside risk that the growth rate could plummet to the pre-1980s levels if appropriate countercyclical measures are not taken immediately and are not urgently followed by necessary structural reforms. The paper provides a short-term forecast for GDP growth based on a model of leading economic indicators. Three scenarios are presented in the paper assuming differentiated impact of the external crisis. Finally the paper suggests a set of policy measures to get the Indian economy back on the path of sustained rapid and inclusive growth.

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## **Adverse Selection and Private Health Insurance Coverage in India: A Rational Behaviour Model of Insurance Agents under Asymmetric Information**

February 18, 2009

*Sukumar Vellakkal*

The paper analyzes the rational behaviour of an insurance agent facing a trade-off between selling 'health insurance' and 'other forms of insurance' subject to his limited time and efforts, and the implications of such behaviour on adverse selection and equity. It presents various pre-conditions affecting the rational behaviour of insurance agents and also discusses two new concepts—'insurance habit' and 'asymmetric information on health insurance schemes'. The theoretical proposition is empirically validated by applying a binary Probit model and the primary data collected by the author is used in this context. The study concludes that given the existing incentive systems in the Indian insurance market for promoting various forms of insurance, the low level of insurance awareness among the general public, coupled with the dominant role of insurance agents in the market results in a situation of: 1. Low level of health insurance coverage, 2. No adverse selection and 3. Inequity in health insurance coverage.



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## **India in the Global and Regional Trade: Determinants of Aggregate and Bilateral Trade Flows and Firms' Decision to Export**

February 10, 2009

*T.N. Srinivasan and Vani Archana*

This paper contributes to two strands of literature on empirical models of trade flows and trade policy. The first and the older strand is that of application of gravity model to analyze India's trade flows (exports and imports) with its trading partners around the world and to examine the impact of various PTAs in which India or its trading partner or both are members. Clearly this is of interest, since, from 1991 India has been aggressively negotiating and concluding PTAs of which South Asian preferential trade (and later free trade) agreement is the most prominent. We find that India is not well served by its pursuit of PTAs and should instead push for multilateral trade liberalization by contributing to conclusion of the Doha round of negotiations with an agreement beneficial to all WTO members.

The second and the more recent strand is the analysis of trade flows using data on exports of individual firms. It is well known that in all countries of the world relatively few firms participate in world trade, thus suggesting that characteristics of a firm (such as its size and productivity) are relevant besides country level barriers on trade for participation in world trade. This strand is rapidly growing. This is one of the very few attempts at modeling and estimating the decision of Indian firms on their participation in exports using firm level

data. The paper reports the preliminary results. The authors have also collected primary data from a sample survey of firms to explore this issue deeper. While these data are yet to be fully analyzed, some preliminary descriptive tables summarizing them are included in an Appendix.

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## **Trade in Energy Services: GATS and India**

January 28, 2009

*Arpita Mukherjee and Ramneet Goswami*

The paper examines India's opportunities and constraints to trade in energy services within the GATS framework. The study reveals that India has the capability of exporting high-skilled manpower at competitive prices but is facing various market access, discriminatory and regulatory barriers in markets of export interest. With the entry of energy-producing countries such as Saudi Arabia into the WTO, the Doha negotiations provide an important platform to aggressively push for liberalization in this sector. India needs foreign investment, technical know-how and international best practices in energy. The country has progressively liberalized this sector and there are no major entry barriers. However, India has not been successful in attracting large foreign investment and technology. This is due to various domestic barriers which make it difficult to set up a competitive operation. The study lists the reform measures which will help the sector become globally competitive, protect the interests

of consumers and meet the energy needs of society. Since this sector is sensitive and is closely monitored by governments across the world, government-to-government collaborations would ease the entry process for Indian companies in foreign markets, diversify our energy resource base and improve energy security.



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### The Missing Middle

January 22, 2009

Anne O. Krueger

Rapid growth of unskilled labor-intensive manufacturing combined with

growth of productivity in agriculture is necessary to enable inclusive growth that raises living standards in rural areas and in non-agricultural employment of relatively unskilled labor. India's comparative advantage in services does not preclude the need for a rapid development of manufacturing sector. The failure of manufacturing output and employment to grow more rapidly can be attributed to (1) regulations governing enterprises in the private sector and (2) regulations covering conditions of employment of labor. Reducing the barriers to entry and exit of unskilled labor into and from manufacturing and relaxing some of the most restrictive labor laws would increase prospects for even faster growth than current high rates.

## Notes



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