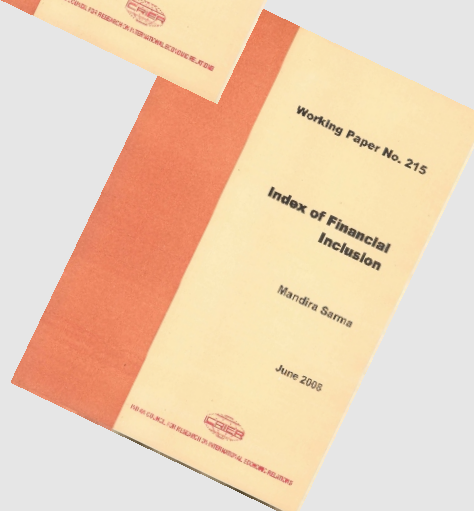
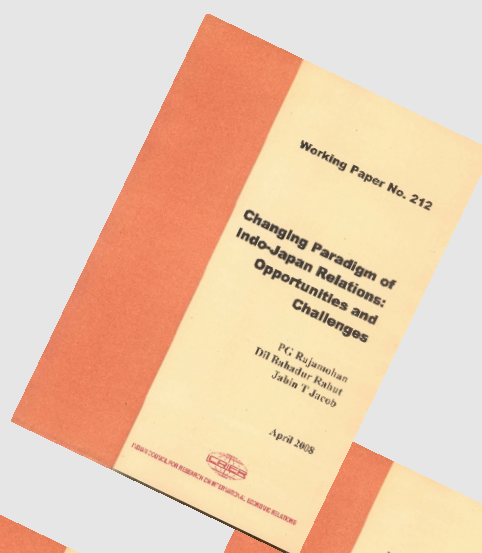




April - June 2008

Research Digest



Working Paper No. 215

(http://www.icrier.org/publication/working_papers_215.html)

Index of Financial Inclusion

26 June 2008

Mandira Sarma

The promotion of an inclusive financial system is a policy priority in many countries. While the importance of financial inclusion is widely recognized, the literature lacks a comprehensive measure which can be used to measure the extent of financial inclusion across economies. This paper attempts to fill this gap by proposing an index of financial inclusion (IFI). The IFI is a multi-dimensional index that captures information on various dimensions of financial inclusion in one single digit lying between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. The proposed index is easy to compute and is comparable across countries.

**Working Paper No. 214**

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Measuring Sustainability with Macro-economic Data for India

15 May 2008

Purnamita Dasgupta and Shikha Gupta

This paper investigates macro data on the Indian economy to draw inferences on the sustainability of the growth experienced over the last two decades. Interpreting sustainability in terms of the maintenance of different forms of capital to ensure that future consumption levels are at least as high as current levels, estimates of investment have been made using theoretically consistent models and data relevant to the Indian context. The paper then investigates the extent to which the investment over 30-year period (from 1976-77 to 2004-05) has

been aligned with the consumption path. Investment estimates are found to be reliable indicators of sustainability of the future consumption path, and average future consumption is likely to be higher than the current consumption. The findings reveal that while capital formation in manufactured assets has been fuelling wealth accumulation in the economy, there has been a rise in the degradation of natural capital stocks. However, considering the aggregate picture, taking note of investment in human capital, produced capital and the depreciation of natural capital, there has been net wealth accumulation in the economy. Per capita wealth has been rising over the period, with a sharp rise observed from the mid 1990s onwards.

**Working Paper No. 213**

(http://www.icrier.org/publication/working_papers_213.html)

Deepening Intraregional Trade and Investment in South Asia: The Case of the Textiles and Clothing Industry

7 April 2008

Meenu Tewari

This paper draws on recent field work within South Asia, and an extensive review of secondary data to examine the dynamics of cross border trade and investment in South Asia, exploring the potential for, and the obstacles to such trade through the lens of a sector that is salient throughout South Asia: Textiles and Clothing. Despite the growing competitiveness of this sector in the SAARC region, there is very little regional inter-linkage within South Asia's textiles and clothing industry. Currently less than 4% of SAARC's global T&C exports are traded within the region. There is growing evidence of widespread substitution of South Asia by East Asia as the sourcing hub of fabric and accessories by the region's major clothing exporters. Over 80% of the fabric needs of

Bangladesh and Sri Lanka, for example, come from outside the region, even though India and Pakistan are net exporters of textiles.

At one level, the history of external ties matters: the long standing role of East Asian suppliers and quota-hopping garment manufacturers in the origin of apparel exports in parts of South Asia, the institutional embedding or ‘bundling’ of sourcing practices and input supply, as well as the role of global buyers in designating or mandating preferred input and accessory suppliers, have all generated inertia in altering existing relationships. At another level, the burden of mistrusts embedded in the region’s own history, the structure of textiles industry (narrowly cotton-based, not very diverse and relatively high cost), high trade costs exacerbated by complicated rules of origin, frustrating layers of bureaucratic and administrative oversight, poor transportation, and a long list of non-tariff barriers have prevented the emergence of either a common market or regional production networks in the SAARC region.

Despite these barriers, there is growing evidence that with recent shifts in the nature of the textiles and clothing industry, especially post-MFA, as well as with changing intra-regional dynamics, there are emerging possibilities for cooperation and collective action in the region. The drivers of this potential lie in the growing importance of the domestic market and organized retail in South Asia, the rise of a new generation of younger entrepreneurs who are increasingly professional, globally aware, and schooled in a shared cultural worldview, the emergence of new knowledge networks and an interpenetrated regional labor market in skills in the South Asian garment industry, and in the possibility of leveraging strategic regulatory shifts and upcoming ‘demands for structural change’ post-2008 to foster greater regional cooperation.

The paper argues that SAARC members – along with civic organizations and private

sector industry associations – need to build upon and support the positive trends already underway. In addition, SAARC could enhance interregional integration in textiles and clothing by creating the conditions for greater cross-border investment within the SAARC region, first in textiles and accessories and then apparel, by expeditiously establishing a credible investment protocol in the region, while simultaneously pushing forward with trade facilitation reforms. India, in its current role as SAARC chair should take a leading role in facilitating these reforms.



Working Paper No. 212

(http://www.icrier.org/publication/working_papers_212.html)

Changing Paradigm of Indo-Japan Relations: Opportunities and Challenges

1 April 2008

P G Rajamohan, Dil Bahadur Rahut and Jabin T Jacob

India’s growing economic strength of recent years has seen it adapting its foreign policy to increase its global influence and status, and to meet the challenges of the 21st century. In the past few years, New Delhi has expanded its strategic vision, most noticeably in Asia, and has broadened the definition of its security interests. As a result, India-Japan relations have over the past several years undergone a paradigmatic shift which has seen the attempt to build a strategic and global partnership between them.

India and Japan share a special relationship as fellow democracies without hegemonic interests and with a similar propensity to seek peaceful resolution of conflicts and greater economic engagement within the Asian continent. This paper puts forward the argument that while there are certainly problems of communication and distance between the two countries, the changing international order – including most notably,

the rise of China – will see the two countries increasingly thrown together on a variety of issues, some of which have been identified in the present work. Current and future economic and population dynamics in both the countries mean that India-Japan relations will continue to improve, not just politically, but also in economic terms.



Notes



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