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Research Digest



Working Paper No. 211

(http://www.icrier.org/publication/working_papers_211.html)

What Constrains Indian Manufacturing?

28 March 2008

Poonam Gupta, Rana Hasan and Utsav Kumar

India has undertaken extensive reforms in its manufacturing sector in the last two decades. However, an acceleration of growth in manufacturing, and a concomitant increase in employment, has eluded India. What might be holding the sector back? Using Annual Survey of Industries data at the three-digit level and difference in estimates this paper finds that the post-reform performance of the manufacturing sector is heterogeneous across industries. In particular, industries dependent on infrastructure or external finance, and labour-intensive industries have not been able to reap the maximum benefits of reforms. The results point to the importance of infrastructure development and financial sector development for the manufacturing sector's growth to accelerate further. They also emphasize the need to clearly identify and address the factors inhibiting the growth of labour-intensive industries.

**Working Paper No. 210**

(http://www.icrier.org/publication/working_papers_210.html)

An Open Services Regime : Recipe for Jobless Growth?

17 March 2008

Suparna Karmakar

Development economists' disfavour with services as a viable engine of growth has been expressed both through theoretical and empirical analysis. One of the stylized facts of development economics is that share of services in employment increases only with the rise in per capita incomes. The skepticism emanates from the observed relatively jobless nature of service sector growth, in particular in the low- and middle-income developing countries. However, given that services have become the main source of growth in even the lowest-income developing countries, new empirical evaluation of this thesis has become crucial.

A second stylized fact openly acknowledges trade as a source of growth and development. International trade in services, particularly in the developing countries, has remained significantly lower in

comparison to its share in global output. Further, one of the notable trends in recent years has been the increasing importance of cross-border supply of services in economic activities of various countries. But is this a sustainable and viable model of development?

In view of the above, this paper reviews India's experience to understand how services sector liberalisation can generate (welfare) gains for developing countries, in particular vis-à-vis its employment generation potential. The analysis has been based on India's experience of an increasingly open service sector and reviews the different channels through which economic gains are garnered from openness to trade in services. But the lessons from this analysis extend far beyond India and are of interest to both developed and developing countries' policymakers concerned about sustaining the competitiveness of their domestic economy.

**Working Paper No. 209**

(http://www.icrier.org/publication/working_papers_209.html)

Demand-Supply Trends and Projections of Food in India

14 March 2008

Surabhi Mittal

The present paper presents the supply and demand trends of rice, wheat, total cereals, pulses, edible oil/oilseeds and sugar/sugarcane. It provides the demand and supply projections for food items during 2011, 2021 and 2026. These projections have been based on change in productivity levels, changes in price, growth of population and income growth. A comparison with projections provided by other scholars has also been made in the paper. Subsequently, the future supply-demand gap has been discussed in the light of policy requirements. It is concluded that an increase in total demand is mainly due to growth in population and per capita income. A diversification in consumption basket significantly away from cereals has been observed. On the supply side, production is constrained by low yield growth. This is more specific in context of total cereals and sugarcane.

While in the short and medium term, there might be surplus of cereals in the country, these prospects are likely to diminish in the years to come. This situation is even more alarming for edible oil, sugarcane and pulses. To meet the future food requirements, the country shall have to either

increase agricultural production, or depend on imports. In this light, the paper suggests that the policy focus needs to be laid, towards productivity enhancement in agriculture, through public investment in irrigation, development of roads, research and extension.



Working Paper No. 208

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Feasibility of an Asian Currency Unit

10 March 2008

Abhijit Sen Gupta & Amitendu Palit

In this paper we evaluate the feasibility of a common Asian Currency Unit (ACU) involving countries of East and South Asia. We analyze the various properties of an ACU and calculate its value using weighted averages of the values of Asian currencies. Looking at the movement of individual Asian currencies vis-à-vis the ACU, we find that there have been severe misalignments among the Asian currencies during the past seven years. We discuss the possibility of the Rupee figuring in the ACU and identify the major economic, political and historical impediments in the way of faster acceptance of ACU in the region. We point out the various strategies that could be employed to facilitate faster adoption of ACU. These include creating certain institutional safeguards as well as strengthening the existing ones. Finally, we highlight some ways to promote the use and acceptability of the ACU and also emphasize the importance of conceiving a larger framework of participating countries, including India.



Working Paper No. 207

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Mineral Policy Issues in the Context of Export and Domestic Use of Iron Ore in India

7 March 2008

A. S. Firoz

This study examines the utilization of iron ore in India. It takes into account the significant reserves of iron ore in India and allays fears that the country's steel industry will run out of iron ore resources if

exports continue at the current level. On the contrary, it says that exports are necessary to maintain a structural balance in the market between production and consumption of lumps and fines as nearly 80% of exported ores are fines which are not adequately used in India. This study also highlights the specific problems of the Goa/Radi region. It examines the bilateral agreements with countries like Japan and Korea as well.

The study says that the size of mineral resources is a dynamic concept and depends on exploratory efforts, which have not been enough in India due to lack of investments. It recommends on the basis of international experience that increased investment in the mineral sector, especially in exploration, will lead to new reserves and resources.



Working Paper No. 206

(http://www.icrier.org/publication/working_papers_206.html)

Cost of Holding Excess Reserves: The Indian Experience

1 March 2008

Abhijit Sen Gupta

Most of the existing literature has used single reserve adequacy measures to evaluate the volume of excess reserves. In this paper, we employ empirical methods to generate a comprehensive reserve adequacy measure, incorporating the various objectives of holding reserves, and compare the actual reserve accumulation experience of various emerging markets with the prediction of our empirical model. Using this comprehensive reserve adequacy measure, we calculate the cost of holding excess reserves for India by looking at three different alternative uses of resources. We find that India is foregoing as much as 2% of its GDP by accumulating reserves instead of employing resources in alternative uses.



Working Paper No. 205

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Rural Nonfarm Employment and Incomes in the Himalayas

25 February 2008

Maja Micevska and Dil Bahadur Rahut

Nonfarm activities generate on average about 60 percent of rural households' incomes in the Himalayas. This paper analyzes the determinants of

participation in nonfarm activities and of nonfarm incomes across rural households. A unique data set collected in the Himalayan region of India allows us to deal with the heterogeneity of rural nonfarm activities by using aggregations into categories that are useful both analytically and for policy purposes. We conduct an empirical inquiry that reveals that education plays a major role in accessing more remunerative nonfarm employment. Other household assets and characteristics such as land, social status, and geographical location also play a role.



Working Paper No. 204

(http://www.icrier.org/publication/working_papers_204.html)

Competition Clauses in Bilateral Trade Treaties: Analysing the Issues in the Context of India's Future Negotiating Strategy

22 February 2008

Sanghamitra Sahu and Neha Gupta

There is a recent trend towards trade agreements that include trade related competition provisions. However there are large differences across these trade agreements in terms of how the competition provisions are addressed. In this context, this research report tries to analyse the competition provisions in few selected FTAs and draw lessons for India, which is also following the path of entering into trade agreements. The analysis suggests that cooperation in implementing competition laws is immensely helpful. However, at this moment, India can follow the EU style of agreements with competition provisions such as cooperation, exchange of non-confidential information, technical assistance and consultation.



Working Paper No. 203

(http://www.icrier.org/publication/working_papers_203.html)

Towards A Competitive Manufacturing Sector

20 February 2008

Rajiv Kumar and Abhijit Sen Gupta

The Indian manufacturing sector has grown at an impressive average rate of 9.5 per cent annually since 2003-04. Its sustained growth is crucial for

generating employment opportunities needed to absorb the rapidly expanding workforce. In this context, this paper reviews the current state of the sector and focuses on determinants of its competitiveness. The paper finds that Indian manufacturing sector exhibits a great deal of regional variation and a marked dualism between the organized and the unorganized segments in terms of both productivity and wage levels. The level of labour absorption in the organized manufacturing sector has been weak as reflected in the declining labour intensity in this sector. This does not augur well for achieving inclusive growth. We also find that although there have been significant changes in the composition of exports in the last 20 years; India is still a very small player at the global level, especially in knowledge intensive and advanced technology products. Finally, the paper explores India's potential for transforming itself into a hub of mass manufacturing. We find that the main constraints in doing so have been the low level of R&D, relative lack of skilled personnel and relatively low FDI levels.



Working Paper No. 202

(http://www.icrier.org/publication/working_papers_202.html)

South Asian Integration Prospects and Lessons from East Asia

24 January 2008

Ramesh Chandra and Rajiv Kumar

In the context of the low levels of regional cooperation among South Asian countries when compared with the successful results from cooperation in East Asia (consisting of South East and East Asian countries), the objective of this paper is first to assess the prospects of cooperation among South Asian economies and then to draw lessons from East Asian regional experiments for South Asian regionalism for the betterment of these prospects. The main argument of the paper is that South Asia should adopt a twin-track approach: better integration within itself and better integration with rest of the world particularly East Asia. Both tracks would complement and supplement each other ensuring a greater chance of success.



Working Paper No. 201

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Determinants of Competitiveness of the Indian Auto Industry

18 January 2008

Badri Narayanan G. and Pankaj Vashisht

This paper analyses the determinants of competitiveness of auto industry in India, based on a field survey and a quantitative analysis of secondary data. It highlights that all segments of Indian auto sector are growing at a fairly high rates and their productivity as well as export intensity is on the rise. Domestic sales are rising, but they have declined in certain sub-segments of vehicles. However, the R&D expenditure has been scarce. Effective rate of protection of automobile assembly is far higher than that of auto-components manufacturing. Unorganised sector, which is quite significant in auto-component manufacturing, has grown more rapidly in the urban areas than in the rural areas. The econometric analysis suggests various measures that could be taken by the government, particularly, the credit facilitation for SMEs. A field survey comprising auto manufacturers in India underlines various constraints faced by the sector, such as the shortage of skilled manpower along with poor infrastructure, fluctuating steel prices and unavailability of land at reasonable price. This suggests that the government could facilitate the industry in becoming more competitive by taking steps such as structural fiscal reforms, cut in import duties of raw materials and capital goods, promotion of R&D and FDI, training facilities, research-backed negotiations of FTAs, roadmap for harmonising emission norms across the country and infrastructure improvement. Industry, on the other hand, should improve its R&D capabilities and market research.

Working Paper No. 200

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Trade Possibilities and Non-Tariff Barriers to Indo-Pak Trade

19 October 2007

Nisha Taneja

In an effort to promote trade and economic relations between India and Pakistan this paper focuses on identifying bilateral trade possibilities and identifying non-tariff barriers to Indo-Pak trade.

The study shows that there is large untapped trade

potential between the two countries of around US \$ 11 billion. However, very few items having export potential from India are on the positive list adopted by Pakistan. At the same time there are several items that India is importing from other countries but not from Pakistan. This indicates that there is a huge information gap on both sides on items that can be imported by India from Pakistan.

Even though the two countries have liberalized their import regimes, Pakistan continues to follow a positive list approach towards Indian imports. As a first step Pakistan should dismantle the positive approach, and trade with India on an MFN basis. However, within the context of this restricted bilateral trade, even though India applies non-tariff measures in a non-discriminatory manner across trading partners, Pakistan is affected more as the NTMs are applied by India happen to be in sectors that are of export interest to Pakistan.

The study also finds that due to a restrictive visa regime only selected traders have access to trade related information. Thus lack of transparency, market imperfections and information asymmetries on both sides raise transaction costs and restrict market access for several other aspiring traders.

*** Working Paper No. 199****Economy-wide Impact of Export Promotion Schemes: A Quantitative Assessment of SEZs, EOUs and STPI**

September 2007

Aradhna Aggarwal

** This paper will be available shortly*

Working Paper No. 198

(http://www.icrier.org/publication/working_papers_198.html)

Impact of Preventive Health Care on Indian Industry and Economy

12 September 2007

Alka Chadha, Ali Mehdi and Garima Malik

Preventive health care holds enormous promise for the competitiveness of Indian companies, and for the country's economy in the global arena. In an era when the service sector is gaining prominence, the value of the individual employee has increased more than ever before. In a highly competitive corporate environment, companies cannot afford

the absence of their employees due to sickness, caused by a sedentary lifestyle, etc., or a poor performance at the workplace due to poor health. And it is on their performance, productivity and profitability that India's growth potential and global competitiveness depends substantially. In this study, the authors attempt to examine the empirical evidence on the relationship between preventive health care and labour productivity and corporate profitability. Towards the end, based on their findings, they offer recommendations for policymakers and corporate management to promote preventive healthcare practice amongst their employees.



Working Paper No. 197

(http://www.icrier.org/publication/working_papers_197.html)

Can Horticulture Be a Success Story for India?

6 August 2007
Surabhi Mittal

Wide diversification in production, consumption and trade for horticulture has been a global pattern. Inspite of India being one of the largest producer of horticulture products, its comparative advantage and export competitiveness is low. In this light the paper tries to assess the economic feasibility of shift towards fruits and vegetable production. Though the results show that it is economically viable and beneficial to shift, but this diversification needs to be done in a planned manner. New marketing initiatives along with existing supply chain inefficiencies are highlighted in the paper to help formulate strategy and policy. This would help India to achieve the much desired second Green Revolution through horticulture growth.



Working Paper No. 196

(http://www.icrier.org/publication/working_papers_196.html)

Capital Adequacy Regime in India: An Overview

24 July 2007
Mandira Sarma and Yuko Nikaido

In this paper we present an analytical review of the capital adequacy regime and the present state of capital to risk-weighted asset ratio (CRAR) of the banking sector in India. In the current regime of Basel I, Indian banking system is performing

reasonably well, with an average CRAR of about 12 per cent, which is higher than the internationally accepted level of 8 per cent as well as India's own minimum regulatory requirement of 9 per cent. With the implementation of the revised capital adequacy norms, Basel II, from March 2008, several issues emerge. We examine these issues from the Indian perspective.



Working Paper No. 195

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OECD Agricultural Trade Reforms' Impact on India's Prices and Producers Welfare

4 July 2007
Surabhi Mittal

Rich countries use a combination of domestic market interventions and border protection or export subsidies as a part of their domestic policies.

The present paper emphasizes on the welfare of the agricultural producers with the main focus on small farmers. The analysis presented in the paper is an approximation of the general equilibrium analysis.

The results show that due to elimination of subsidies in OECD countries the world crop prices are expected to rise. It confirms that the depressed world prices can be corrected by removal of OECD subsidies, but the challenge for India remains as the price effect does not filter down to Indian farmers.



Working Paper No. 194

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Impact of Special Economic Zones on Employment, Poverty and Human Development

16 May 2007
Aradhna Aggarwal

This study aims at examining the impact of Special Economic Zones (SEZs) on human development and poverty reduction in India. It identifies three channels through which SEZs address these issues: employment generation, skill formation (human capital development), and technology and knowledge upgradation. It examines how the impact of SEZs is passed through each of these channels. The analysis reveals that 'employment

generation' has been the most important channel through which SEZs lend themselves to human development concerns, in India. Employment generated by zones is remunerative. Wage rates are not lower than those prevailing outside the zones. Besides, working conditions, non monetary benefits (such as transport, health and food facilities), incentive packages and social security systems are better than those prevailing outside the zones, in particular, in the small/informal sector. The role of SEZs in human capital formation and technology upgradation is found to be rather limited. The study argues that the zones' potential could not be exploited fully in India. This could primarily be attributed to the limited success of SEZs in attracting investment and promoting exports. The new SEZ policy gives a major thrust to SEZs. However the creation of SEZs alone does not ensure the realization of their potential. The government will need to play a more proactive role for effective realization of the full range of benefits from SEZs.



Working Paper No. 193

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Technological Capability as a Determinant of FDI Inflows: Evidence from Developing Asia & India

20 April 2007

Amitendu Palit and Shoungkie Nawani

This paper attempts to explain the country-wise variations in the pattern of FDI flows to developing Asian economies by empirically identifying location-specific features influencing such flows. The paper argues that some countries in the region, which have developed long term sources of comparative advantages in the form of superior technological capabilities and supporting infrastructure have consistently attracted greater volumes of export-oriented FDI. These attributes are also crucial for explaining the steady improvement in FDI flows to India. The paper finds that with production processes becoming increasingly complex and technology-intensive, developing countries like India, must devote greater attention to the development of R&D and frontier technologies, failing which, they might lose out in the race for FDI.



Working Paper No. 192

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Indo-U.S. FTA: Prospects for Audiovisual Services

20 February 2007

Arpita Mukherjee, Paramita Deb Gupta and Prerna Ahuja

Many WTO (World Trade Organization) member countries, including India, are defensive about opening up of the audiovisual sector in the Doha Round due to reasons of cultural sensitivity. On the other hand, the United States is pushing for liberalizing trade in this sector – both in the WTO and in its bilateral FTAs (Free Trade Agreements). With the slow progress of the Doha Round, India and the United States are exploring the possibilities of entering into FTAs with like-minded trading partners. In this context, the present paper discusses the prospects of liberalizing audiovisual services under a possible Indo-U.S. FTA.

The study found that India and the United States have significant trade complementarities in this sector which can be further enhanced under an FTA. It identifies areas such as co-production of films, digital content creation and broadband infrastructure in which companies from India and the United States can enter into mutually beneficial collaborations. It argues that India should enter into a media cooperation agreement with the U.S. to facilitate the inflow of technical know, finance and best management practices. It discusses regulatory and other reforms which would not only improve the productivity and global competitiveness of the Indian audiovisual sector but also enable it to gain from the FTA.



Working Paper No. 191

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Does Capital Account Openness Lower Inflation?

29 January 2007

Abhijit Sen Gupta

This paper investigates the relationship between capital account openness and inflation since the 1980s. It argues that widespread capital account liberalization during the last two decades appears to have contributed to the worldwide disinflation observed during the same period. The paper builds a theoretical model to motivate the presence of a

negative link between financial integration and inflation. It tests the prediction of the theoretical model by employing static and dynamic panel data procedures. Financial integration appears to discipline monetary authorities, or to help them convince the private sector that they will be more disciplined in the future.

Notes

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