

Indian Economy & Business Update — Economic Policies of the New government in India and Implications for Australia

Abstracts

Subsidies to the Agricultural Sector in India: Are there lessons from Australia and New Zealand?

Rashmi Umesh Arora

Abstract

Doha round is dead. Long live Doha! The failure of yet again another round of WTO negotiations in July 2008, the major agenda of which was reduction and streamlining of agricultural subsidies, brings several questions to the fore. Why do countries insist on providing subsidies to the agricultural sector irrespective of their level of development? What are the factors which deter them from reducing these subsidies?

As in many countries, in India also subsidies to the agricultural sector including both implicit and explicit subsidies are very high. How do they perform vis-à-vis the pre-reform period (before 1991)? How are these subsidies distributed across the states, regions, and groups? Are the subsidies justified and why do they continue to exist? Is the reduction in subsidies feasible and sustainable in a developing country like India, and will this have any effect on poverty and other well being outcomes, particularly environmental? This study seeks to explore these questions and examines agricultural subsidies in India. In this context, it is also useful and helpful to examine the experiences and strategies of Australia and New Zealand and explore their relevance in the current Indian context. Since the agricultural sector reforms in the eighties in these two countries, agriculture has been made market based and subsidies to the agricultural sector are very low.

Economic Growth, Law and Corruption: Evidence from India

Sambit Bhattacharyya and Raghbendra Jha

Abstract

Is corruption influenced by economic growth? Are legal institutions such as the 'Right to Information Act (RTI) 2005' in India effective in curbing corruption? Using a novel panel dataset covering 20 Indian states and the periods 2005 and 2008 we are able to estimate the causal effects of economic growth and law on corruption. To tackle endogeneity concerns we use forest share to total land area as instrument for economic growth. We notice that forest share is a positive predictor of growth. This is in line with the view that forestry contribute positively to economic growth. To capture the effect of law on corruption we are able to use the 'difference-in-difference' estimation method as the RTI came into effect after the completion of our 2005 corruption survey. Our results indicate that economic growth reduces overall corruption experience as well as corruption in banking, land administration, education, electricity, and hospitals. Growth however has little impact on corruption perception. In contrast the RTI negatively impacts both corruption experience and perception across the board. Our basic result holds after controlling for state fixed effects and various additional covariates. It is also robust to alternative instruments and outlier sensitivity tests.

Indian Economy: Current Challenges and why the best is yet to come

Mythili Bhusnurmath

Synopsis

The period since the 1990s when India embarked on economic reforms has seen a rapid transformation of the Indian economy. The rate of growth that had averaged between 3-4% until well into the 1970s rose to almost 9% in the four years up to 2007-08. Per capita income grew 7.3%, up from 0.6% in the 1970s, raising the prospect (for the first time) of India emerging, along with China, as a global economic power to reckon with.

The publication in 2003 of the Goldman Sachs report, *Dreaming with Brics: The path to 2050*, suggesting the BRIC economies (Brazil, Russia, India, China) could together become larger than the world's six most developed economies in less than 40 years coincided with the beginning of this rapid growth phase. It brought India onto the global arena in a way that was unimaginable just a few years ago. But with growth slowing down to 6.7% in 2008-09, some of that euphoria (irrational exuberance?) has disappeared. Nonetheless there is no gainsaying that India remains one of the fastest growing economies in the world. Better still, it continues to grow in a scenario where advanced economies, almost without exception, are either in recession or are just out of it. The question is, are the achievements of the past four years a flash in the pan? What will it take for India to return to 9% growth? What are the challenges — economic, political and social? And why, in my opinion, the best is yet to come!

His role in the Australia–India Strategic Research Fund

Jagadish Chennupati

In this talk, I will discuss my experiences in serving as a panel member of the Australia India Strategic Research Fund and how the projects funded by this program are benefiting researchers in both the countries. I will also share some of my personal views about possible research areas both countries can benefit from interactions in science and technology fields.

The government's role in the Australia–India strategic research fund

Jason Finley & Damir Ivkovic

Abstract

Although relatively recent in formal terms, the bilateral science and technology relationship with India is built on strong researcher-researcher links and some longstanding institutional relationships, most notably between Australia's CSIRO and India's CSIR. The establishment in 2006 of the Australia-India Strategic Research Fund provided impetus for deepening and diversifying these linkages. Building a successful science and research partnership with India is an important plank of the government's commitment to raise the status of the bilateral relationship to the front rank of our international relations.

Timing of Capture of Anti-Poverty Programs: Rural Public Works and Food for Work Programs in Rural India

Raghubendra Jha, Sambit Bhattacharyya, Raghav Gaiha

Abstract

Using National Sample Survey data for rural India we examine the incidence of capture in two workfare programs in rural India: the Rural Public Works and the Food for Work Programs for 1993-94 and 2004-05 respectively. We discover a high degree of program capture among the general population. Among the traditionally backward groups in Indian rural society— but with considerable variation in their living standards —there appears to be a higher degree of capture among SC than among ST. Targeting among SC worsened over time. There was an increase in capture by the fourth quintile (of household per capita expenditure) of SC, ST and landowners. This may be reflective of a varying degree of collusion between the elite and the program implementing agencies (e.g., village councils) over time. Thus potential benefits of workfare get undermined. We also provide evidence to suggest that income based targeting could outperform social group based targeting.

India — Africa Bilateral Trade and Investment Relations: Emergent Policy Perspectives for India

Anita Prakash

Abstract

India and Africa have long-standing economic, commercial and political relations, which has carried through the post independence era. In the liberalized regime of 1990s several initiatives were launched to engage Africa. Overall trade has grown exponentially after 2000-01. Increased presence of private Indian companies in Africa has also encouraged the Government to link its diplomacy more explicitly to its economic requirements.

India's current Africa policy continues to evolve against the backdrop of fierce competition for resources in Africa led aggressively by China and other developed economies of the West. But India's growing dependence on Africa for fossil fuels and natural resources has resulted in a negative trade balance. At policy level, there is recognition of the fact that higher penetration of Indian goods, expansion of trade basket and increase in trade volume is needed to reverse the negative trend of trade balance. Export of services and increased capital investments by India in Africa would expedite the change in balance of trade pattern. India has a comparative advantage in the fields of Information Technology, Telecommunications, Educational Services and Financial Services which can be enhanced through bilateral agreements on Trade in Services. India should also increase investments in Africa through strategic partnership in energy, minerals and IT sector. However, the forecast remains that trade with Africa will continue to remain skewed in terms of region, countries and commodities in the short term. This paper, with the help of existing trade data and India's developmental needs, draws conclusions regarding India's economic priorities in Africa and outlines the medium and long term direction for India's trade policy in Africa.

Indian Trade Policies in the Wake of the Global Financial and Economic Crisis

Garry Pursell

Abstract

By the end of 2007 the Indian economy was much more open and competitive than it had been in the past, largely because of many years of gradual trade and other policy reforms which opened up the manufacturing sector, and the rapid growth of the IT and outsourcing sector which effectively operated in a free trade environment. But since about early 2007 Indian policies have had to deal with a period of extreme global turbulence which has included a boom, collapse, and partial recovery of world commodity prices, and the repercussions of the world financial crisis. This paper discusses how Indian trade and trade-related policies have handled this difficult period and the likely implications for their future direction. It finds that the steady and eventually substantial Rupee devaluation which got under way in early 2008 has been important in allowing the economy to adjust without substantial reversals of earlier trade policy liberalization. This is especially the case in manufacturing where (with a few exceptions) tariffs remain low and uniform, subject to a caveat regarding the as yet unstudied incidence and effects of a marked increase in anti-dumping activity. However agricultural trade policies (mostly omitted from earlier general reforms) have continued to operate in a highly interventionist manner, and the experience of these turbulent years is likely to reinforce Indian resistance to liberalizing its policies as part of global initiatives to free up world agricultural trade. But the most difficult challenge for Indian policies which has been greatly exacerbated by the experience of the past few years, will be how to handle the longstanding problems of the oil and gas sector. Here increasing dependence on imported crude oil and gas combined with political pressures to keep down the prices of derived products — especially the prices of gasoline, diesel, kerosene and inputs for the fertilizer manufacturers—are creating major economic distortions and very large central government subsidies. Especially if future world crude oil prices remain at or go above the level of about \$US 70/barrel reached in July/August 2009, either large domestic discoveries, substantial increases in domestic refined product prices, or a combination of both will be needed to avoid serious negative repercussions for the current account balance, for the central government budget deficit, and for future overall economic growth

Parents and Children: Education Across Generations in India

Anurag Sharma

Abstract:

It has been argued that one of the reasons for the uneven distributional effects of the high rates of economic growth in India has been the lack of mobility of the Indian population. In this paper we use a nationally representative data set from India to examine one aspect of mobility — that of educational attainment across generations. We find that there has been a significant increase in educational attainment of individuals over the last 70 years, with women gaining the most in terms of increases in educational attainment. Restricting the analysis to adults (those more than 20 years old at the time of the survey), we find that when we account for the potential endogeneity of parental educational attainment, it is public investments in education that matters and not private investments. However when we restrict ourselves to the young adults (15–24 year olds at the time of the survey) we find that when we control for (1) potential endogeneity of parental education and (2) other individual and household characteristics that affect child schooling, father's educational attainment has a positive and statistically significant effect on the probability of continuing to post-secondary school/college. Private investment (driven primarily by father's education and hence income) continues to be crucial for young adults to benefit from the opportunities offered by the Indian growth process.

State of the Transport Infrastructure in India and Recent Policy Changes

Sanjay K. Singh

Abstract

The mobility of people and goods in India heavily relies on its rail and road network. Till recently, the railways played a leading role in carrying passengers and cargo across India's vast terrain. However, due to various reasons, the movement of passengers and freight is increasingly shifting from railways to roads. Now, roads have become the dominant mode of transportation in India. They carry almost 90 percent of the country's passenger traffic and 65 percent of its freight. Although, since the economic liberalization of the 1990s, India's transport infrastructure has progressed at a decent pace, the sector has not been able to keep pace with the rising demand and is proving to be a drag on the economy. More than a quarter of India's highways are congested and of poor quality, reducing the vehicle speeds to 30-40 kmph. Although the rural road network is extensive, some 40 percent of India's villages do not have access to all-weather roads and remain cut off during the monsoon season. Urban centres particularly large cities face deteriorating situation. Commuters in these cities are faced with acute road congestion, rising air pollution, and a high rate of accident risk. The Government of India has now realized that without overcoming the chronic under-investment in the sector, the situation cannot be improved. The government is planning massive investment in the sector either directly or through public private partnership. The Ministry of Road Transport and Highways has planned to build 12,000 kilometres of roads, including highways, at an estimated cost of Rs 100,000 crore in the current financial year. The Ministry is trying to attract private investment of over Rs 200,000 crore over the next five years. Through Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and other schemes, the Ministry of Urban Development is trying to improve the urban infrastructure including urban transportation. This presentation will provide detailed information about the state of the transport infrastructure in India and review the recent policy changes.