



Vol : 8, No : 1

Journal of Economic Policy and Research

Oct 2012 – March 2013

Listed in  
Cabell, Ulrich  
&  
EBSCO

# Journal of Economic Policy and Research

(ISSN 0975 - 8577)

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# Demographic Diversity and Economic Development in India : Theory and Empirics

Gargi Bhattacharya\* & Sushil Kr. Haldar\*\*

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*There are three theories so far developed in connection with the interaction between population and development—these are Demographic Transition, Household Economic Theory of Fertility and Social Theory of Fertility. We have examined all the three theories in India. Demographic transition examined at the disaggregate level, with rural-urban break up in each of the 15 major states provides us contrasting results; mortality transition measured by crude death rate has been observed in most of the major states except Bihar, Madhya Pradesh, Odisha and Uttar Pradesh; fertility transition measured by crude birth rate in these states is under way; but the pace of decline of urban fertility is found to be higher than that of rural in almost all the states except Punjab. The trend of the natural growth rate curve depicts the fact that few states are moving towards the end of demographic transition in the near future at a very faster rate but a contrasting picture is also observed in some few states like Bihar, Uttar Pradesh, Madhya Pradesh, Odisha and Rajasthan which are due to differential social, cultural and economic factors. This is explained in the economic and social theories of fertility models. Using National Family Health Survey-I, II and III data, the present study examines the empirical validity of the household and social theory of fertility and it is observed that the social theory of fertility is much stronger than the economic theory of fertility. Path analysis is employed to find out the direct and indirect effects of each explanatory variable in the fertility model. Path analysis has some importance towards formulation of policies aiming to reduce fertility at the disaggregate level in India.*

**Keywords :** Demographic Transition, Household Economic Theory of Fertility, Simultaneous Equation, Poverty, Son Preference.

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## Introduction

India is the 2<sup>nd</sup> largest populous country possessing about 2.4 per cent of the total land area of the world but she has to support about 17 per cent of the global population; global disease burden is also disproportionately high—it is quite alarming to note that 36 per cent of the world's poor and 30 per cent

of world's tuberculosis patients live in India [WDR 2007]. Future demographic dividend which is expected to be enjoyed during 2025 largely depends on the (a) quality of the future human

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# Trade Creation and Trade Diversion in the India-Sri Lanka Free Trade Agreement : A Sector Specific Analysis

Sonam Choudhry\*, Murali Kallummal\*\* & Poornima Varma\*\*\*

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*The present study attempts to analyze the trade creation and trade diversion effects of the India-Sri Lanka Free Trade Agreements (ISFTA) at the sectoral level. The major sectors identified for the study are textiles, base metal and machinery equipments. The sector specific analysis is a departure from the existing studies that analyses the trade creation and trade diversion effects of the ISFTA. The methods that have been relied upon in identifying the sectors are the indices such as Revealed Comparative Advantage (RCA), Vertical Intra Industry Trade (VIIT) Finger-Kreinin (FK) and the unit values of exports and imports (taken as a proxy for export and import prices) and the trends in trade flows. After identifying the sectors that requires a close empirical scrutiny we use a partial equilibrium modeling approach (SMART model) to simulate the likely trade creation and trade diversion effects under the proposed tariff reduction scenarios. Overall, the results suggest that ISFTA will cause significant trade creation between the member countries than trade diversion among the non-member countries. The results from VIIT, FK and unit value analysis have also indicated that the ISFTA has paved the way for considerable product diversification as well as the quality upgradation. Thus the analysis reflects that the industries like metal products, electronic equipment, chemical, machinery and equipment seems to be benefited from the Agreement.*

**Keywords :** Free Trade Agreement, Tariffs, Trade Creation, Trade Diversion.

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## Section-1

### Introduction

Over the past few decades an important addition to international trade arrangements between countries has been a significant expansion of Regional Trade Agreements (RTAs) across the global economy. As of 15 January 2012, there were around 319 RTAs in

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*The authors wish to express their sincere gratitude to faculty members of TERI University for their valuable comments and suggestions during the presentations of earlier versions of this paper. They also express their profound gratitude to the Head and Professor of Centre for WTO Studies, IIFT, Mr.Abhijit Das who has been a source of constant encouragement and support at all stages in the preparation of this paper.*

# Doha Negotiations and Domestic Support to Agriculture Sector in USA

Sachin Kumar Sharma\*

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*This study has critically examined the domestic support policies of the United States of America (USA) to the agricultural sector. Though the trade distorting subsidies are within the final bound Aggregate Measurement of Support (AMS), but it is mainly concentrated on few crops like dairy, corn, cotton, rice, wheat, soyabean and sugar and these products accounted for more than 90 per cent of calculated AMS. The USA is enjoying artificial comparative advantage in agricultural trade on the basis of huge domestic support. It also led to the downward trend of international prices of agricultural commodities and adversely affected the welfare of millions of resourceless and low income farmers. Due to these concerns, Doha negotiations related to agriculture aim at substantial reductions in trade-distorting domestic support by setting new limits and defining new constraints. As per the revised modalities, it seems that the USA has to undertake 70 and 60 per cent reduction commitments in Overall Trade-Distorting Domestic Support and final bound AMS respectively. However, USA seeks special provisions to make new reduction commitments redundant so that it continues with trade distorting subsidies to agricultural sector in the future.*

**Keywords :** Domestic Support, Agriculture Negotiations, Counters Cyclical Payments, Box Shifting.

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## Section-1

### Introduction

The members of World Trade Organisation (WTO) agreed to launch a new round of multi-lateral trade negotiations, known as Doha development round. It is the ninth round of multi-lateral trade negotiations after the establishment of General Agreement on Trade and Tariff (GATT) and the first round organized by the WTO. The crucial difference between the Doha round and the previous eight rounds is the importance given to development issues. In the previous rounds of trade

negotiations, the concerns of developing world have not been given sufficient consideration. Development issues cannot be ignored because trade policy is an important tool to economic policy that can help or obstruct economic development, depending on how it is used. Doha ministerial conference in 2001 recognizes the need for special and differential treatment for the developing and the least developing countries. However, the negotiations in the Doha round have reached a stalemate due to

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# Analysis of Some Wealth Components in Post-Liberalized Indian Economy

Ganesh Kawadia\* & Vishakha Kutumbale\*\*

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*In the year 1991, India entered the era of Liberalization, Privatization, Globalization (LPG policy of the government). The effective management of monetary policy by all the Reserve Bank of India governors towards maintaining economic stability and the government's impetus to bolster growth through the LPG policies is making an affirmative change in the economic environment of the country. This paper is an attempt to assess the impact of these policy changes on some of the wealth components of the Indian economy. The paper analyzes the impact of financial liberalization on savings and capital formation by the households of the economy. It gives an econometric analysis of the performance of Indian economy during the past two decades of financial liberalization. The study period has been from 1991-2010. The analysis tries to focus first on the aggregate change in household wealth (i.e., the increase in capital assets during liberalization period). Secondly, the study attempts to check whether liberalization has helped people consume out of illiquid assets. Thirdly, the paper examines the impact of changes in interest rates on aggregate consumption expenditure. This paper attempts to assess the impact of policies pursued as part of the LPG approach. It is useful in assessing the impact of various policy measures on important components of wealth in the Indian economy.*

**Keywords :** Liberalization, Privatization, Globalization, Financial Liberalization, Capital Formation.

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## Introduction

India came close to its first sovereign default in 1990 and had witnessed a period of stagflation just prior to this embarrassing event. Hence, the political leadership decided to undertake a paradigm shift in the way the economy was managed and as a result, we have a distinct milestone in the year 1990-91 which marks the beginning of liberalization in India. Many developing countries had started the process well before it became a political necessity in India. Irrespective of political changes at

the central level or government changes in the state, our journey on the path of liberalization has steadily progressed for the last twenty-two years. The effective management of monetary policy by all the Reserve Bank of India (RBI) governors towards maintaining economic stability and the government's impetus

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# FDI Policy and its Impact on Indian Industrial Sector

Aditi Sawant\*

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*The influx of Foreign Direct Investment (FDI) since 1990 has changed the dimension of Indian economy. FDI has both positive and negative effects on the economy if not framed properly. In this paper, an attempt has been made to evaluate India's FDI policy with special reference to industrial sector and its sub-components viz., mining, manufacturing and power. A further attempt has been made to check compatibility between India's FDI policy and new industrial policy. The impact of India's FDI policy on various factors such as wage rate, profits, employment and export has also been analyzed along with crowding-in and crowding-out impact of FDI on India's domestic investment in Industrial sector. A brief comparative analysis has been done between India and China with respect to their FDI policy and its impact on growth of industries and exports. For econometric analysis, appropriate econometric tests have been run viz., multiple regression, co-integration, granger causality test, panel unit root test in E-Views.*

**Keywords :** Foreign Direct Investment, Industrial Policy, Crowding-in, Crowding-out, Exports.

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## Introduction

Promotion of Foreign Direct Investment (FDI) forms an integral part of the industrial policy of India. FDI helps in accelerating economic growth by means of infusion of capital, technology and modern management practices. Government has put in place a liberal and transparent foreign investment regime, wherein FDI, up to 100 per cent is allowed, under the automatic route, in most sectors and activities.

FDI means investment by non-resident entity or person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange

Management (transfer or issue of security by a person residing outside India) Regulations 2000.

New industrial policy of India mainly focuses on deregulation, freedom and flexibility in responding to market forces and providing a policy regime that facilitates and fosters growth of Indian industry.

## Industrial Policy Measures

Some of the important policy measures announced and procedural simplifications undertaken to pursue the above focus areas are as follows.

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# Trend and Pattern of Rural Fiscal Decentralization in India

Soumyadip Chattopadhyay\*

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*Effective fiscal decentralization requires that local sources of revenue should be matched as closely as possible to local expenditure responsibilities and this, in turn, promotes efficiency and accountability in the provision of services at the local level. In India, the 73<sup>rd</sup> Constitutional Amendment Act (CAA) (1992) has attempted to facilitate a meaningful rural fiscal decentralization through provisions for functional and financial empowerment of panchayats. Against this background, the paper, with the help of available secondary data seeks to evaluate the trend and pattern of rural fiscal decentralization in India. This paper shows that, even after fifteen years of decentralized governance, revenue mobilization by the rural local bodies is grossly inadequate and, therefore, there is an imperative need to improve the fiscal health of them. The paper argues that measures related to proper assessment and collection of property tax; provision of power to panchayats to levy and administer non-tax revenue like water tax; use of newer revenue handles like local business tax; incentivizing competition among panchayats for internal revenue generation etc., have the potential to augment revenue collection of these bodies in the near future. Given the Panchayati Raj Institutions (PRIs) current dependence on transfer from higher levels of government, criteria reflecting the PRIs' progress towards implementation of provisions of decentralized governance in general should also be given their due priorities for inter se distribution of local grants.*

**Keywords :** Decentralization, Constitutional Amendment, Per capita Expenditure, Revenue Autonomy Ratio, Financial Autonomy.

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## Introduction

Decentralization, i.e., the assignment of fiscal, political and administrative powers to local levels of government has been occurring in almost all the countries for a variety of reasons. The traditional framework of fiscal federalism provides some strong support for the decentralization process by laying out a general normative framework for the assignment of functions to different levels of government and the appropriate fiscal instruments for carrying out these functions. According to this

framework, given the comparative advantage of higher levels of governments in raising revenue and borrowing, the central government should have the basic responsibility for the macroeconomic stabilization function and for income redistribution in the form of assistance to the poor. On the other hand, local governments, being close to the people and thus gathering greater information regarding customer's

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# Determinants of Corporate Fixed Investment : Panel Data Evidence from India

Inder Sekhar Yadav\*, Phanindra Goyari\*\* & Naresh Kumar Sharma\*\*\*

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*The present study examines the economic determinants of fixed investment for a panel of non-government non-financial public limited firms drawn from 16 industries in manufacturing, processing and construction sectors of India for the period 1979-80 to 2005-06. The analysis is done both at the aggregated and disaggregated levels. The study uses panel data techniques of fixed effect and random effect models which were estimated using the GLS method. Hausman specification test is used to select the appropriate model. The analysis of investment pattern of the selected firms showed that the level of inventories recorded a sharp decline and bulk of gross fixed capital formation was observed to be in plant and machinery. Econometric results showed that the role of accelerator, capital intensity, uncertainty and financial factors such as profits and liquidity of firms were among the significant determinants of fixed capital investment behaviour of the selected industries. It was also confirmed that the investment in inventory is suppressing the fixed investment. The lagged value of fixed investment is also found significant by indicating a movement towards the desired level of capital stock. However, the investment pattern and the estimated results remain industry specific.*

**Keywords :** Fixed Investment, Inventory Investment, Corporate Firm, Panel Data.

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## Background

Ever since India adopted economic and financial sector reforms, the development plans of India have been redefined. In the changed economic environment, a lead role has been accorded to the Indian corporate sector within industrial sector in the overall growth process of the economy. Thus investment activity of the corporate sector is central to the economic growth and performance of the Indian economy.

One of the most important economic activities that business, consumers and governments can undertake is the investment activity and it is regarded as central to the promotion of economic

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