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ABSTRACTS

Substitution and Complementary Effect of FDI on Domestic Investment: Empirical Evidence from Sectoral Data in Pakistan

Syed Zia Abbas Rizvi * and Mohammad Nishat **

Abstract

It is being argued that foreign direct investment (FDI) brings lots of opportunities particularly for developing countries. In contrast, FDI may behave like substitute of domestic investment in the presence of domestic firms. However, FDI can become complement for domestic investment in those sectors where domestic investors don't want to invest due to underdevelopment of that particular area. This study focuses the impact of foreign direct investment (FDI) across various sectors of the Pakistan economy and works on balanced panel data which comprises of seven sectors¹. For empirical work, the seemingly unrelated regression (SUR) test is applied on non-stationary panel data. The study found that FDI crowded out the domestic investment in all seven sectors¹. This study suggests that Pakistan needs to go more steps forward towards open economy if it wants to enjoy the true benefit of foreign direct investment. The Study recommends that Pakistan needs to consider the importance of diversification of FDI across sectors as well as the role of Green Field investment for generating employment opportunities.

**Measurement and Elucidation of Resource Competence:
An Economic Analysis for the Selected States of India**

Supran Kumar Sharma* and Shravani**

Abstract

The present study is an attempt in the direction to assess the degree of resource utilization and performance of selected Indian states using cross-sectional data for 15 Indian states. To achieve the research objectives, a single stage output oriented DEA methodology has been applied to assess the resource efficiency of respective Indian states and then with the help of Tobit regression analysis the relationship between efficiency estimates and external factors has been calculated. The study suggested decreasing returns to scale as a predominant form of scale inefficiencies in the sampled states. Moreover, the present study assesses the robustness and sensitivity of DEA based efficiency measurement against stochastic frontier analysis methodology. On the whole, the study suggests an ample scope for improvement in the performance of inefficient states by selecting a correct input-output mix and selecting appropriate scale size.

India's Intra-Industry Trade for Determinants of Aggregate and Flows of Firms Decision to Export and Import : Growth of Global and Regional Trade

Pravin Kumar* and Priti Verma**

Abstract

In this research paper shows that growth and India's Intra-industry trade (IIT) flows and trade policy contributes to two strands of literature on empirical models. The first and major strand of the bilateral intra-industry trade flow model to analyze the severity and its recent applications, going to the preferential trade Agreement (PTAs) effects. Our focus is on applying the 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 is 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 liberalisation 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 matter for participation in world trade. Ours is one of the very few attempts at modeling and estimating the decision of Indian firms on their participation using firm level data.

Leveraging the FRBM to Promote Fiscal Rectitude

V . Bhaskar *

Abstract

Three challenges relating to the implementation of the FRBM framework have been identified and corresponding solutions suggested. Presently, a number of states have large cash balances. To encourage states to better manage their cash balances and prevent gaming, the definitions of revenue deficit, fiscal deficit and borrowing eligibility may need amendment. Presently, project implementation is often derailed for lack of timely funding support. To encourage states and the Government of India to improve project implementation and allocate required funds to last mile projects, an amendment to the FRBM Act on the lines of the amendment made recently to the Andhra Pradesh FRBM Act could be considered. To encourage states and the government of India, to enhance transparency in disclosing their liabilities, accrual accounting could be adopted by state and Central Governments on the expenditure side, in the medium term after meticulous planning.

Commodity Bubbles : Evidence from the Indian Market

Mudit Gupta* and M. Mallikarjun**

Abstract

This paper investigates whether rational speculative bubbles are present in 17 commodities traded in the Indian commodity market. Paper applied duration dependence test on the daily returns of the spot prices. We observed that 6 out of 17 commodities have witnessed some spells of rational speculative bubbles. These commodities are: Chana, Pepper, Refined Soya oil, Yellow Peas, Rapeseed, and Chilli. Additionally, the paper reports mean reversion in Nickel, Castor seed, Chana, Pepper, Zinc, Cotton oilseed cake, and Guar gum. Evidence of random walk is provided by using variance ratio test for Crude palm oil, Castor seed (except slightly at lag 8), Groundnut, Pepper, Yellow Peas (except at lag 2), Cotton oilseed cake, Mustard seed oilcake (only at lag 2), and Chilli. This is further corroborated by using BDS test for non-linearity.

Role of Capital in Securing a Strong Banking System – The Imperatives of Basel III Accord

T.V. Rao *

Abstract

The stability of the Financial System largely depends on the strength and resilience of the Banking System. Indian Banks which suffered from negative capital adequacy, negative earnings and high Non Performing Assets(NPAs) in the Seventies and eighties are now on a robust footing thanks to the reforms brought about by the Narasimham Committee I and II and on account of the strong resolve of the Government and the Reserve Bank of India. It is a matter of pride that the Indian Banks have now become fully Basel II Compliant, and that they remained relatively unscathed in the face of the Global Financial Crises which lead to severe crisis of confidence among all stake holders.

Real Exchange Rate Disequilibrium, Trade and Economic Growth in India

R. N. Agarwal *

Abstract

Flexible exchange rate policy followed by the Reserve Bank of India since 1993 has quite often brought about a dis-equilibrium in the real exchange rate and this has been quite volatile in the recent past. The misalignment and volatility in the real exchange rate has affected the volatility of real macroeconomic variables like trade, foreign investment and economic growth even with financial development. An econometric framework is utilised to examine the linkages between the exchange rate misalignment, its volatility and the real economy. Mis-alignment of real equilibrium exchange rate is estimated as the difference between the estimated value and the actual value of real effective exchange rate. Different indicators of financial development and exchange rate variability are used.

Regression results show that mis-alignment and variability in exchange rate has a significant negative impact on economic growth. Further, regression results show a statistically insignificant impact of exchange rate misalignment and variability on trade intensity in the presence of financial development.

Trends in Consumption Pattern; A Comparative Study of Odisha and India

Priyabrata Sahoo *

Abstract

Consumption expenditure is an important indicator of standard of living. As a country becomes more developed its expenditure share on food declines and the expenditure share on non-food increases. Both in Odisha as well as in India the share on food expenditure has been declining where as the share of the non-food expenditure has been increasing. The level of consumption expenditure of Odisha is lower than India. It is the middle income group whose share in the total expenditure has been declining over the year. The lower income group shows an increase in the share of expenditure which is faster than the top income group. The Rural area shows an increase in non-food expenditure which is faster than the urban areas. Though the consumption of cereal quantity has declined for all income groups in terms of expenditure share it is increasing for the bottom 30% income group in rural areas and increasing for the bottom 30% and top 30% due to quality variation of cereal.

Do NGOs Impact Rural Development? An Empirical Assessment

Venkatraja. B * and M. Indira **

Abstract

The main objective of the present paper is to analyse the impact of Non-Government Organisations (NGOs) on rural development in Dakshina Kannada district of Karnataka state based on micro level data. A sample of 250 individuals from 10 villages of 5 taluks in D.K district was selected randomly through direct interview of 25 individuals in each village. Two villages from each taluk were selected and out of these two, one village is NGO village (where NGOs are actively involved in development process) and the other is Non-NGO village (where NGO activities are absent). Primary data were collected through survey method and focus group discussions.

In order to analyse the impact of NGO interventions on rural development, Amartya Sen's capability approach has been employed. Development being multi-dimensional in approach, special care has been taken to ensure that important elements which influence development are not excluded from measurement. That is why, in this study, due consideration has been given to five functions of development such as economic, social, political, organisational and environmental. Data pertaining to these functions are collected separately in NGO villages and Non-NGO villages through a pre-tested questionnaire. In order to incorporate all these functions in the assessment, UNDP's HDI methodology has been applied with modification.

From the study it appears that human well-being is higher in NGO villages compared to Non-NGO villages. Part of the development in NGO villages can be attributed to the strong NGO presence. In order to understand how much of the differences can be attributed to the NGO interventions, regression analysis is carried out with HFI as dependent variable and education, caste, membership, gender and income as independent variables. The results show that there is a statistically significant difference in the achieved functions between NGO and Non-NGO villages. Based on the analysis and results, positive impact of NGO interventions on development in villages of the study area is established.