NEWSLETTER

INSTITUTE FOR STUDIES IN INDUSTRIAL DEVELOPMENT

Volume IV No. 1 January - June 2012

TWO DAY NATIONAL SEMINAR

Structural Changes, Industry and Employment in the Indian Economy: Macro-economic Implications of Emerging Pattern

20–21 April, 2012

Prof. M.R. Murthy, Director, ISID welcoming the guests

The Institute organised a Two-Day National Seminar during April 20–21, 2012 to discuss seven studies prepared by the programme team under the Second Phase ICSSR Research Programme along with a comprehensive synthesis paper incorporating findings of all the studies by Professor T.S. Papola, the Principal Co-ordinator of the programme. The objective of the Seminar was to elicit comments and suggestions from a wider group of scholars and experts on the scope, methodology and findings of these studies. Prof. S.K. Goyal chaired the Opening Session of the Seminar and Dr Abid Hussain, Chairman ISID in his opening observations appreciated Prof. Papola and other members of the programme for covering a wide range of subjects of the Indian economy.

A brief note on each Session is given in the following pages.

Session I

Growth and Structural Changes in Industry: Organised Sector -- *T.P. Bhat*

Growth of manufacturing industries has undergone four distinct phases in the Post-Independence India. The early years (1951–65) saw an acceleration in industrial growth from around 3 per cent to 6.5 per cent during 1939–51. During 1965–80 growth rate slumped to 4 per cent. The next decade saw a revival of the earlier rate of 6.5 per cent, which more or less continued also in the first decade after economic reforms. Growth rate accelerated by about 8 per cent during 2000–05 and further to around 10 per cent in 2005–10.

Share of manufacturing in GDP increased during the first three decades but has remained virtually unchanged since then. In spite of stagnation in its share in GDP, the manufacturing sector has under gone significant structural changes, both in pre- and post-reform period. The 'traditional' industries have progressively declined and 'modern' industries have gained in importance. Traditional industries accounted for 73 per cent and modern industries for 27 per cent of manufacturing GDP in 1950–51, their shares reversed exactly the same in 2007–08. The shift towards 'modern' industries has been faster in more recent period. It is important to note that the share of the organized sector has steadily increased in manufacturing GDP at a faster rate in recent years. The share is around 70 per cent in 2007–08 as compared to 42 per cent in 1950–51. The organized segment is now predominant in manufacturing, though its contribution to employment is only 18 per cent. The long-term changes in the output structure have been in favour of intermediate products and capital goods. The manufacturing sector has become more diversified.

The post-reform period has witnessed some major changes in the structure and characteristics of organized manufacturing. On the whole, capital goods have maintained their share, the share of consumer goods has increased and that of intermediates has declined due to liberal imports of parts and components. The share of capital intensive industries has increased rapidly and that of labour intensive industries declined. Capital intensity of even labour intensive products has also sharply increased. Labour productivity has increased rapidly and capital productivity has sharply declined. This trend is not helpful in generating employment in organized sector.

Remembering former Chairman Dr Abid Hussain

It was with a deep sense of grief and heavy hearts that the ISID faculty and staff received the news of Dr Abid Hussain's sudden passing away in London on 21 June 2012. Dr. Hussain, reverently referred to as Abid Saab, has been associated with the Institute for Studies in Industrial Development (ISID) from the very beginning. His contribution for the coming into being of the Institute and its subsequent development was quite varied and extremely vital. From being a signatory to the Memorandum of Association to Chairman Campus Development Committee and finally to being its Chairman he had been an inseparable part of ISID's progress. It was indeed only natural for the Institute to turn to him to assume the responsibility of Chairman of the Board of Governors and provide leadership at a very critical juncture.

Abid Saab visualised the ISID as an autonomous independent think tank in the public domain for not only providing empirical content to the debates on contemporary economic issues but also to give them a direction. It was his mission to see ISID attain a place of eminence and being recognised as an intellectual waterhole. We were looking forward to many years of his sagacious guidance and benevolent support.

There are very few contemporary Indians who have contributed to enrich the national life in such varied fields as economy, culture, diplomacy and in general nation-building in an equal measure. In his death, India lost a towering personality and a worthy son.

Our deep condolences to Dr Abid Hussain's family. We join the nation in paying homage to the departed great soul he had been. May his soul rest in peace!

Chairperson: Prof. K.L. Krishna, *Formerly Director, Delhi School of Economics; Discussant*: Prof. B.N. Goldar, *Institute of Economic Growth, Delhi.*

Session II

Growth and Structural Changes in Industry: Un-Organised Sector -- *Ajit K. Jha*

The unorganized manufacturing segment has lower capital intensity. They also have lower productivity per worker not only relative to organized sector but also very low in absolute terms. Therefore, output in unorganized enterprises will have to grow fast in order both to create more jobs and raise productivity. And also that structure of enterprises should move towards more modern and more productive sectors.

As per the data from NSSO surveys, unorganized manufacturing enterprises have increased at 1.6 per cent, employment by 1 per cent, gross value added by 4.3 per cent and fixed assets by 10.9 per cent per annum during 1994–95 to 2005–06. Among enterprises, the number of own account enterprises has grown faster than establishments. Dividing the enterprises units between agro-based and non-agro based industries it is found that the number in the former has increased at a rate of 4.4 per cent per annum, that in the latter category have declined.

Productivity, in terms of value added per worker has increased at a rate of 3.3 per cent per annum, 1.4 per cent in own account enterprises and 3.9 per cent in establishments; and 2.6 per cent in agro-based and 6.2 per cent in non-agro industries. Capital intensity has increased by almost 10 per cent per year, more in non-agro than in agro-industries. Capital productivity has sharply declined at a rate of about 6 per cent per annum, primarily because of a decline in agro-industries while it has increased in non-agro industries. These trends provide a rather mixed picture of the performance and prospects of growth and employment in the unorganized manufacturing.

Unorganised segment accounts for 82 per cent of employment but only 30 per cent of GDP of manufacturing sector. The ratio of per worker productivity between unorganised and organised segments is thus about 1:17. Improvement in the levels of productivity and earnings of the large mass of workers engaged in unorganised enterprises needs high priority both for improving livelihoods and sustaining economic growth.

Chairperson: Prof. Amita Shah, *Director, Gujarat Institute of Development Research, Gota; Discussant:* Dr Vinoj Abraham, *Centre for Development Studies, Trivandrum.*

Session III

Study of Structural Characteristics of the Large Indian Private Corporate Sector -- *M.R. Murthy and K.V.K. Ranganathan*

Indian economic policy has undergone a rapid change during the past few years. These economic policy changes brought a greater importance in the corporate sector, comprising both government and non-government companies. Especially non-government companies have acquired a dominant position both in terms of numbers as well of paid-up capital (PUC). Relative importance of the corporate sector in total output, net value added in the organised industrial sector has also grown over the periods. These changes also threw many challenges and opportunities to Indian entrepreneurs.

Based on the sample size 500 companies, the study examined the changes in structural characteristics of the Indian private corporate sector are:

- Joint stock companies at work, relative importance of joint stock companies in the organised industrial sector, growing importance of non-Government companies, emergence of small private limited companies, dominance of few states in new registrations, changes in spatial and regional distribution of companies.

- The declining share of manufacturing companies during the last three decades period imply the emergence of service sector, trading, investment, finance, real estate and construction companies.

- The share of paid-up capital (PUC) of non-government companies is more than doubled from 31 per cent at the end of 1979–80 to 75 per cent by 2009–10.

- The shareholding pattern has since changed considerably and in most listed companies promoters have secured their position. This was possible due to changes in the Companies Act as also withdrawal of public financial institutions. The change became visible almost immediately after the process of liberalisation has been set in motion.

- Earlier studies/official reports [MIC (1965) & ILPIC (1969)] have shown that the concentration, both in term of ownership and production, in the Indian corporate sector have gone unduly in favour of large industrial houses. This study brings out the extent of competition brought out due to changes in economic policies particularly those relevant for the industrial sector and its continuation to the emergence of new entrepreneurial class.

The objective of the study is to examine the changes in the composition of non-financial large private corporate sector in terms of the relative position of erstwhile large houses, older companies/groups, emergence of new class of entrepreneurs and foreign companies as also the sector/industry distribution; technology intensity by examining the largest 500 companies in terms of total assets in 1989–90 & 2009–10.

Prof. K.V.K. Ranganathan giving his presentation while Prof. N.S. Siddharthan (chair) and Dr J. Dennis Rajkumar (discussant) look on

Chairperson: Prof. N.S. Siddharthan, *Madras School of Economics*; *Discussant*: Dr J. Dennis Rajkumar, *Indian Business School, Bangalore*.

New Members of the Board

- Prof. Kuldeep Mathur, formerly Professor of Political Science, Centre for the Study of Law & Governance, Jawaharlal Nehru University, New Delhi
- Prof. Sucha Singh Gill, Director General, Centre for Research in Rural and Industrial Development, (CRRID), Chandigarh
- Air Commodore Jasjit Singh, Director, Centre for Air Power Studies, New Delhi (ICSSR Nominee)

Session IV

Changing Factor Incomes in Industries and Occupations: Review of Long Term Trends -- *Satyaki Roy*

This study shows that rising inequality in India during the high growth scenario could largely be explained by a significant shift in the share of value added in favour of profits. This is reflected in the overall economy by a decline in compensation to employees that started since 1993–94. In the manufacturing sector the share of wages in gross value added declined consistently during the past four decades. The share of profits in value added increased precisely from 1993–94 only and that seems to be the result of both declining share of wages as well as share of interest paid in gross value added. This trend is related to the fact of average wage of workers falling far short from their labour productivity. In fact the labour lost more than half they could get for producing the same output in the past two decades. Although the shift in factor incomes that reduces labour's share in value-added is likely to have depressing effects on demand but this shift toward profit led growth generates a peculiar growth trajectory that depends upon demands of goods and services that either could be produced domestically by increasingly capital intensive technologies or through rising imports. This perhaps explains why industries are increasingly using capital intensive technologies even though labour is relatively cheap. The other worrying fact, the study underlines, is that during the past four decades capital intensity increased at much higher proportion than the rise of labour productivity and this might be indicative of the fact that investments in the manufacturing sector were not always directed towards productivity raising machinery but also toward creating capacities that did not result in higher productivity.

Chairperson: Prof. Biswajit Chatterji, *Jadavpur University, Calcutta; Discussant:* Prof. Praveen Jha, *Jawahar Lal Nehru University, New Delhi.*

Session V

Growth and Structure of Services Sector in India -- *Jesim Pais*

This study attempts to understand the growth and structure of the services sector in India through an analysis of the different sub-sectors within the services sector at a level of disaggregation that has so far not been adequately analysed in the literature. A study of the services sector at a reasonably disaggregated level is necessary because unlike agriculture (the primary sector) and industry (the secondary sector), the services sector (the tertiary sector) is much more heterogeneous in nature. Further due to communications led technological advancement, the process of globalisation and increased reliance of outsourcing as a mode of production organisation, rapid changes have occurred in the economic structures of many economies including India. And a large part of this change is visible in the form of growth and change in the structure of economies in favour of larger share of the services sector.

Through a detailed analysis of the services GDP and employment at a disaggregate level, this study attempts to identify sub-sectors within services that have contributed mainly to GDP growth and others that have contributed mainly to employment growth. Thus the study attempts to address the question of whether there is a mismatch between contribution to GDP and to employment within the subsectors of the services sector. There is also a detailed analysis of the productivity levels in different services. Productivity levels in different services are compared with that of the average within the services sector and also with agriculture and the manufacturing (or the industry) sectors.

The analysis of the growth and structure of GDP in India from is for the period from 1950 to 2009–10, with emphasis on the period from 2004–05 to 2009–10. The analysis of the growth and structure of services sector employment in India is undertaken at the 2-digit as well as at the 5-digit levels. The study also looks at the different possible classifications of services and attempts to understand the prospects of growth and sustainability through this alternative classification.

Chairperson: Dr Atul Sood, *Jawahar Lal Nehru University, New Delhi; Discussant:* Prof. K.V. Ramaswamy, *Indira Gandhi Institute of Development Research, Mumbai.*

Session VI

Role of States in Exports -- *Mahua Paul*

As a country progressively engages in international trade, its factors of production will enter increasingly into the export sector, where their return is higher, compared to the import competing sector. The same thing can be envisaged at the regional level. Consequently, the states, which can attune their production structure to international demands, should earn higher than other states. The attempt here has been to investigate how open Indian states are with respect to international trade. What specific regional rigidities are responsible for differential level of openness of the states are the areas of concern.

Research on impact of trade on industrial characteristics is limited in India as industry-wise trade data is not available. Trade data is available only at product level in terms of HS codes which is different from classification of industries given in Annual Survey of Industries. Customs data from various ports of the states has been provided by Directorate General of Commercial Intelligence and Statistics, Kolkata and has been used in the study. The export performance of the States during the period under study (2000–2010) has been attempted. Also inter –State export competitiveness, contribution towards growth and the factors responsible for growth performance of the states are some other issues examined here.

Chairperson: Prof. A.K. Singh, *Director, Giri Institute of Development Studies, Lucknow; Discussant:* Prof. Keshab Das, *Gujarat Institute of Development Research, Gota.*

Session VII

Regional Disparities in Growth and Human Development in India -- *Satyaki Roy*

The study shows that per capita income increased for all the states in the past four decades but it could hardly reduce the gaps between states as expected. In fact no sign of convergence could be visible in this regard. Furthermore considering the share of non-agriculture across states we see a decline in the difference between states but that did not lead to a declining income gap. The distribution of industry and services that grew over the years need to be looked into in order to explain divergence in income. The study also shows that disparities in terms of income were higher within the rural areas across states compared to their urban counterparts. This might be a reflection of a converging trend in terms of opportunities available in the cities and towns across states. A converging trend across states in terms of various human development indices such as literacy rate, general enrolment ratio and life expectancy at birth is evident. The gaps also declined between the rural and urban segments within states. This is perhaps indicative of the fact that beyond

Dr Satyaki Roy (presenter), Prof. K.P. kannan (chair) Dr Sandip Sarkar (discussant) at the question and answer session a threshold income certain basic capabilities or entitlements are available at more or less similar levels despite divergence in per capita income. The study also shows that performance in terms of various dimensions of human development increases with income but at a declining rate implying that per capita income at higher levels become less important in generating gains in terms of basic human development indices. Finally the study compares the performance of the states in terms of human development over the years including that computed from the latest available data and shows that the relative positions of the states didn't undergo much change over the years.

Chairperson: Prof. K.P. Kannan, *Centre for Development Studies, Trivandrum; Discussant:* Dr Sandip Sarkar, *Institute for Human Development, New Delhi.*

Panel Discussion

Structural Changes in the Indian Economy—Emerging Patterns and Implications -- *T.S. Papola*

Over a dozen studies on major aspects of growth in the Indian economy, namely growth and structure of GDP, employment, industry, services, trade and inter-regional and interclass disparities, were undertaken by the faculty members under the ICSSR research programme on "Structural Changes, Industry and Employment in the Indian Economy: Macro-Economic Implications of the Emerging Pattern" during March 2009-June 2012.

This paper highlights the major structural aspects of India's economic growth specially over the past three decades from the viewpoint of its long-term sustainability. Based primarily on the findings of a number of studies undertaken as part of a larger programme, it reviews the trends in sectoral pattern of GDP growth, employment, trade, industry and inter-regional and inter-class disparities and brings out implications of these trends for a sustainable and equitable growth. The paper concludes that while attainment of a reasonably high GDP growth may not be problem in the medium term, its inequitable character is likely to pose a serious threat to its sustainability in the long run.

Chairperson: Prof. K.L. Krishna, *Formerly Director, Delhi School of Economics*

Panelists: Prof. Sheila Bhalla, *Institute of Human Development, New Delhi;* Prof. K.P. Kannan, *Centre for Development Studies, Trivandrum;* Dr Gerry Rodgers, *formerly Director, International Institute of Labour Studies, ILO, Geneva, Currently Visiting Professor, Institute for Human Development, New Delhi;* Prof. R. Nagaraj, *Indira Gandhi Institute of Development Research, Mumbai;* Prof. Ravi Srivastava, *Jawahar Lal Nehru University, New Delhi;* and Prof. Alakh N. Sharma, *Director, Institute for Human Development, New Delhi*

As many as fifty persons, including the chairpersons and discussants of various sessions and subject experts participated in the workshop and provided comments and suggestions.

Prof. T.S. Papola (presenter) and Prof. K.L. Krishna (chair) hearing to views of the panelists in the panel discussion

After incorporating the comments and suggestions received in the seminar, all the papers have been revised substantially. Dr Partha Pratim Sahu was seminar Rapporteur.

ISID FOUNDATION DAY

Panel Discussion – Why India should Take a Re-look at the FDI Policy

01 May 2012

Since the opening up of the economy in 1991, India's FDI policy has been liberalised extensively. The process has been almost unidirectional. Though India did attract large amounts of FDI, there are serious questions about its quality. Indeed, thanks to the liberal definition of FDI propagated by the international agencies, questions have been raised as to the extent of the reported inflows meeting the expectations from FDI. At another level, official data grossly underplays the process of acquisition of Indian businesses by foreign companies, the

Prof. S.K. Goyal with the Paneslists in the Foundation Day (L-R) Prof. Surajit Mazumdar; Prof. Biswajit Dhar; Prof. R. Nagraj; Shri Dinesh Abrol

Foundation Day Celebrations

Institute's Foundation Day on May 01, 2012 was started with the lighting of the lamp by Prof. S.K. Goyal, Prof. M.R. Murthy and staff and faculty members of the Institute. On this occasion Prof. S.K. Goyal honoured senior faculty and staff members—Shri R.P. Pokhriyal; Smt. Usha Joshi; Shri Sunil Kumar; Shri Umesh Kumar Singh; Smt. Renu Verma; Smt. Sultan Jahan; Mrs Lakshmi Sawarkar; Shri Nitesh Rathod; Shri Bharat Chander; Shri Vinod Kumar, Shri Bhupesh Garg, Shri Sudhir Aggarwal, Shri Jeet Singh and Shri Shiv Kumar—with a bouquet of flowers for their exemplary contribution to the institute. Institute's premises was decorated with rangoli.

implications of which could be quite serious. Even an official committee expressed its concern over the lack of transfer of technology and the pitfalls in relying on FDI for advanced technology. Significantly, actions by certain foreign companies further underlined the potential challenges to domestic public policy making.

Given this broad scenario and the 'Return of Industrial Policy' in international development discourse, a number of scholars and other individuals felt the need for a discussion on the subject. In response, the Institute for Studies in Industrial Development (ISID) organised a Panel Discussion on Why India should take a Re-look at the FDI Policy, on May 1, 2012, its Foundation Day. The Panel comprised Dr Biswajit Dhar, Director General, RIS, Delhi; Prof. R. Nagaraj, IGIDR, Mumbai; Shri Dinesh Abrol, NISTADS, Delhi; Prof. Surajit Mazumdar, Ambedkar University, Delhi; and Prof. K.S. Chalapati Rao, ISID.

Prof. S.K. Goyal, Vice-Chairman, ISID, in his opening address recollected the work done at the Corporate Studies Group and also at ISID on multinational corporations and foreign investment for national and international official agencies. He welcomed the panellists and said that he was particularly pleased to see some former colleagues among them. Prof. Rao while introducing the panellists briefly described their research interests and their contribution to the understanding of foreign investments, technology transfer, intellectual property, etc.

Dr Biswajit Dhar

Dr Dhar, who also acted as the moderator, started off by saying that it was like homecoming for him as he had studied many different issues and worked on databases relating to foreign capital, at the Corporate Studies Group. He said that the discussion could not have been conducted at a more opportune moment as the policies relating to FDI are at the crossroads. He underlined the need to analyse the issues/policies in a framework that is vastly different from the present one. This is one area where the policies need a thorough review and what lies behind the numbers that are widely cited needs to be understood in minute detail. Dr Dhar also emphasized the need to evolve appropriate policies based on ground level experiences rather than on broad aggregates and vague expectations as policy making in the world is going in one direction while the reality is moving in a completely different direction.

Dr Dhar mentioned that the collaborative research of ISID and RIS on FDI further confirmed the need for looking at the things more closely and the background paper and the following presentations were based on this ongoing research.

Prof. K.S. Chalapati Rao

Prof. Rao traced India's experience at attracting FDI in the context of the objectives stated in 1991: promoting industrialisation in general and technology transfer, marketing expertise and export promotion in particular with emphasis on paying "for imports through our own foreign exchange earnings". He recalled that the government

Prof. K.S. Chalapati Rao initiated the Discussion on FDI Policy in India

also boldly stated that after four decades of planning for industrialisation, India has reached a stage of development where foreign investment should be welcomed, rather than feared. Our industry has come of age and her entrepreneurs are second to none.

Starting with permitting 51% FDI through the automatic route in select high priority industries, now practically all manufacturing industries are open for 100% foreign equity. 100 per cent foreign equity is allowed even in small scale units. While most services are also open to FDI, a few areas are stll subject to caps on FDI. Starting from a modest increase in inflows till 2005, the reported inflows shot up substantially thereafter. But FDI into the manufacturing sector, which was the main justification for opening up, especially the non-acquisition variety, formed only a very small part of the total. The large and increasing share of tax havens only meant that India was denying itself some of the benefits from these investments. On the other side, one could argue that this advantage has been deliberately provided to foreign investors in order to lure them to invest in India. Even more importantly, the increased inflows comprised, to a large extent, investments that do not have the essential characteristics one has come to associate with FDI, as they have a fair share of portfolio investors and round-tripping. It was underlined that there is a complete mismatch between the suggested benefits from FDI and the internationally adopted definition which is completely devoid of the associated intangible assets. As a result, the distinction between direct and portfolio investments have got blurred.

He pointed out that the official figures underestimate the importance of foreign acquisitions to a great extent. This was illustrated though a study of manufacturing of companies in general and cement and pharmaceutical sectors in particular. It was also made clear that due to the role of foreign private equity players and acquisitions, there is not only double counting, but also heavy capital outflow resulting in, on occasion, net inflows being much smaller than the gross figures. It has also been pointed out that a number of small- and medium-sized technology-oriented companies and market leaders were being taken over by large foreign companies eroding the technological base of Indian companies. There is a need to study this phenomenon thoroughly. Interestingly, official data does not support the view that FDI companies are more export-oriented than Indian companies. In fact, the evidence offered by official agencies is at times unconvincing and even conflicting. This fact underlines the need for a thorough analysis of the happenings at individual company level.

It was a puzzle why India continues to follow a liberal FDI policy ignoring the observations of Prime Minister's Group on Manufacturing made under the aegis of the National Manufacturing Competitiveness Council (NMCC). The Group was highly critical of India's post-1991 liberal approach to FDI as the main objective of acquiring technology and its diffusion did not take place. It stated in no uncertain terms that India needs to "have a relook at our FDI policy". Prof. Rao explained the similarities between the Group's observations and China's Indigenous Innovation Policy. He also described how China's state-owned companies formed joint ventures with TNCs in the automobile sector in order to ensure technology transfer. And also that a large number of what are officially called foreign invested enterprises are nothing but Chinese companies which raised capital abroad through listing their subsidiaries and affiliates on the Hong Kong Stock Exchange. Thus, a large proportion of the reported FDI into China inflows, in fact, is portfolio capital. Probably, contribution of FDI to the rise of China might be overstated to a considerable degree.

Prof. Rao then focussed upon international FDI flows, a superficial understanding of which could lead to grossly misleading conclusions and inappropriate policy prescriptions. He underlined that the global aggregate FDI flows are grossly misleading and countries have to take into account this fact before assessing their own relative position in order to fine tune their own approach towards FDI. An example was cited that during 2010 India's reported FDI inflows declined steeply. But a major portion of this was contributed by housing, real estate development & construction and other services which till then

Forthcoming Events

One-day seminar
Sustainable Mineral Development
24 August 2012

Mining, in view of its impact on the communities and regions where mining enterprises operate, has attracted considerable public scrutiny in recent times. Also, a new mining law (Mines and Minerals (Development and Regulation) [MMDR] Bill 2011) which is intended to address the mining sector's problems and challenges, is under the consideration of the nation's Parliament. Against this backdrop, the institute is organizing seminar on "Sustainable Mineral Development and MMDR Bill 2011" on 24 August 2012.

were receiving large amounts of FDI. But the drop has more to do with internal matters than external factors. Also, while the reported global FDI inflows increased in 2010, it was mainly due to an increase in reinvested earnings which are not really cross-border flows. Actual cross-border flows indeed fell during the year! While China's reported FDI inflows grew by about 11% in 2010, as noted by UNCTAD itself, the value of cross-border M&As and green field FDI projects fell by 45% and 11% respectively! In case of India the corresponding percentages were: -31%, -8% and -9%.

Towards the end he explained that a point has now been reached when India is looking at FDI as 'stable' capital and a BoP management tool rather than as something having the additional attributes for getting which the policy was liberalised in 1991. The simultaneous encouragement to outward FDI makes even the argument of supplementing domestic resources less convincing. If at all, FDI policy is made to dovetail capital account convertibility. While much of the FDI cannot enhance India's ability to earn foreign exchange through exports of goods and services and thus cover the current account gap on its own strength, large inflows of portfolio capital causes currency appreciation and erodes the competitiveness of domestic players. The situation is ripe for perpetual dependence on capital flows. He concluded by saying that in this scenario, a "relook" at the FDI policy suggests itself.

Prof. R. Nagaraj

Prof. Nagaraj in his opening remarks mentioned that he was excited to see the monograph on foreign investment brought out by ISID and RIS as it fills a major gap in the understanding of India's FDI inflows and raises afresh the issue of concepts. He felt that though foreign private capital in India is numerically small related to domestic output or domestic capital formation or value added in the private corporate sector, it plays a significant role in specific industries and technologies. Profits of foreign-owned firms could form a disproportionately large share of the corporate profits in India. Foreign firms could have brought in greater competition, improved technology, produced better quality and variety of products and contributed to faster growth in exports. Alternatively, they could have displaced domestic firms, increased product/industry level concentration with all the attendant adverse effects and market structures. Foreign capital lately comes in various disguises that make it difficult to know the true origin or the final destination or the purpose. The strongest argument for foreign investment being that it brings in scarce additional capital and technology, the empirical question is: How much capital foreign firms have really brought in after the reforms?

India needs foreign capital for technology and managerial practices as much as foreign firms are attracted to India's large and growing market. The extremely liberal view of foreign capital therefore needs to be given up and India, like all mature capitalist democracies, must take a more rational and nationalist view on this. At what social and national cost the purported benefits of foreign capital have been acquired is something that needs to be assessed. The interests of farmers and working poor have to be protected and learning and acquisition of technological capabilities have to be promoted. The extremely liberal view of foreign capital has to be given up. As a matter of principle, openness to foreign capital should be strategic.

Professor Nagaraj concluded by saying that any relook at FDI policy has to go to the root of its orientation through a careful forensic analysis of foreign ownership structures of corporate firms. A careful revaluation enhances positive externalities and reduces costs. He hoped that further studies under ISID-RIS collaborative programme would improve the understanding of FDI by taking into account the direct effects as indirect effects are quite difficult to assess.

Shri Dinesh Abrol

Shri Dinesh Abrol in his opening remarks mentioned that, like for Dr Biswajit Dhar it was a sort of homecoming for him, because as a student he used to visit Prof. Goyal at the Indian Institute of Public Administration for data collection and discussions. His observations were focused upon India's technological development. He pointed out that the policies which India pursued during the 'eighties in the name of technological modernization and so on, became a vehicle for financial participation and the number of technical collaborations, in fact, declined. Instead of technology what were acquired was brand names. The technology fees paid and royalty payments were very little. But the way it was implemented was not a good idea, because India had to pay a heavy price in terms of technological fragmentation. The capital goods industry which was supposed to be the engine of any technological improvement suffered a lot. The Indian industry itself exhausted the opportunities offered by internal liberalization the way it was implemented thus paving the way for external liberalization.

He referred to the observations made by his senior ... that India made a mistake by developing technology on its own which was responsible for India becoming a high cost economy. By the late nineties, the prevailing view was that India should give in to the demands of IPR and give complete freedom to TNCs to build India's technological capability. India would also be able to attract overseas R&D. This view got strengthened during the period of external liberalisation. The situation, however, is far more complex. TNCs have globalized in a period of financial globalization. Financial globalization also affected non-financial TNCs including those which undertake R&D. They have created special purpose vehicles (SPVs); they have modernized their activities across the world. These SPVs were created not only in the form of financial and holding companies, but also in the form of foreign R&D centres, which actually hold patents. Patents are not necessarily filed in the name of foreign R&D centres such as the ones located in Bangalore. Inventions in India take the form of intellectual property owned in the name of the corporate headquarters or the parent company. Technological fragmentation due to our own internal liberalization and TNCs were not actually the main actors out here. It was happening because R&D companies were only looking for brands and not acquiring technologies or economies of scale.

Whenever foreign firms undertake R&D associated with production, they tend just to adapt products and processes. Looking at the process as a whole, developing nations cannot depend on foreign TNCs to promote their own technological improvement.

Finally, Shri Abrol has taken the examples of pharmaceutical and ICT industries and explained the ongoing process and mentioned that organizational modalities are changing but there is hardly any discussion amongst academicians on this particular issue.

Prof. Surajit Mazumdar

Prof. Surajit Mazumdar while reemphasizing the need to reassess the FDI Policy said that one should go beyond the quantum of FDI inflows. The situation has risen as a result of the specific kind of integration that India has undergone with the world economy through the process of opening up after 1991. The unilateral opening up to FDI was one part of the mechanism. There is clear evidence of much greater integration with the global production systems as both exports and imports have increased significantly. But there is the problem of adverse trade balance. The level of trade deficit in relation to GDP has gone up significantly. In periods of high growth one finds that it tends to become even more adverse. This of course, has been happening right from 1950–51. The deficits have reached levels which were never seen in the pre-liberalization period. Despite the fact that India's export-GDP ratio and share in world exports has increased, composition of Indian exports changed, the simultaneous substantial increase in imports has resulted in much worse trade balance.

However, India has not faced any serious balance of payments problem in the last two decades because of invisibles, which is again a break from the past. During the post-liberalization period balance on account of invisibles—mainly net earnings from software exports and remittances—has grown significantly. Despite this, the country has accumulated very large foreign exchange reserves primarily because of inflows on capital account. This happened in spite of significant increase in outward FDI during the last seven years or so. So, not only have capital inflows covered the current account deficit, they have also covered outward FDI from India and yet allowed a significant amount of accumulation of foreign exchange reserves.

There is, however, a qualitative difference in the way the capital account surplus has compensated for our current account deficit in the period since 1991. Till the 1970s, it was mainly the external assistance which was responsible for our capital account surplus. In the 1980s commercial borrowings and NRI deposits gained importance—they were ultimately responsible for the 1991 foreign exchange crisis. But after the liberalization, foreign investment is the main source of capital account surplus. So foreign investment allowed India to cover its current account deficit, Indian firms to invest abroad and accumulate foreign exchange reserves. This foreign investment for a decade and a half were, more or less, dominated by what is officially termed as foreign portfolio flows. The integration into the global economy has meant that India's external balance situation is structurally more adverse than earlier.

One of the purposes for attracting FDI was supposed to be, in the age of globalization, a the medium through which a country's economy comes to participate in the global production sharing process, where it becomes a base for production of final goods or intermediate products, ultimately for the world market. Clearly, the FDI that India has got is not the kind which would have produced a positive effect on the balance of payments through promoting Indian exports. Prof. Mazumdar concluded by saying that this type of situation makes policy makers tend to be preoccupied with ensuring that flows of foreign direct investment continue, irrespective of its true nature, so that the current account adverse situation doesn't become a bigger problem.

Dr Biswajit Dhar while summarising the presentations mentioned that India was at a completely different trajectory where the industries are unable to compete globally. This makes the burgeoning trade deficit alarming. The official thinking that curbing imports could be a solution to the problem is not feasible as we are now import-dependent for various reasons. Apart from this, India cannot step out of her international commitments and start putting curbs on imports. Thus, neither can we curb imports nor can we increase exports. This is where we need to look at what would be the contours of regulation of FDI if we really want efficiency-seeking FDI. India is often compared with China and there have been some references to what China did. One of the things that China has done assiduously and right from the beginning was to negotiate market access with the foreign investors. In return to the market access foreign investors had to transfer technology.

He further elaborated that we cannot formulate policies on the basis of numbers which do not reflect the reality. While apparently we want efficiency-seeking FDI, we have ended up framing a policy that allowed all kinds of FDI. Then there is the case of retained earnings which has been an old problem. Retained earnings are nothing but foreign investors' profits made in host countries and thus domestic savings become foreign savings. Such reinvestments would be the base for further outflow. So, it doesn't really do anything to the two-gap framework.

There is a lot more to ponder upon as far as our foreign investment laws are concerned and as all the speakers have emphasized there is a need to rethink, relook and possibly retract from as we have gone too far and too much. How far we will be able to come back is another matter because it is not easy to suddenly come out of the international commitments but yet we need to raise this question since it has become such a major problem.

Dr Abid Hussain

Dr Abid Hussain, Chairperson of the Session, and Chairman of ISID, mentioned that it was a glorious day for ISID because 1st May happens to be its Foundation Day. He complimented Prof. Goyal and others who strived hard to create the Institution and did marvellous work. Dr Hussain said that from the very beginning it was quite clear that investment was critical for growth and development and that internal accumulation would not be able to meet the required quantum. Therefore, foreign investment/capital was sought to bridge the gap. Maybe in the beginning it was state to state: from Soviet Union, Germany and others. The role of MRTP and other regulations like FERA was not to stop it but to see as to how to channelize the investment. He pointed out that the Indian policy throughout is based on the central factor of Capital. The idea of technology was there but the focus was only on the finances.

He stressed that indigenization and things of that sort were quite abused. We neither allowed our technicians, technologists or scientists to come up nor did we let the technologies to be the major criteria for investment. He, however, agreed that there have been many mishaps and many things which went wrong that have got to be corrected. It is obvious that no one has made any case for completely stopping FDI.

As Joan Robinson said Capitalism is bad but the worst is not to have capitalism at all. Similarly, some of the investments which have come into India have been bad. They have not been properly harnessed; the mistake lies with us rather than with the investors. Because the investor is in business the idea that we are going to develop a country is again a supplementary idea. May be that imperial mindset may have worked in certain cases but otherwise, by and large, it has not.

Chairman Dr Abid Hussain overwhelmingly participated in panel discussion

While it is useful to study the past failings so that we do not commit the mistakes which we have committed in the past, it is far more important to focus on the future course of action. If investments are necessary, because of the huge magnitude of the things to be done, then one cannot say that one will go half-way on the investments. He cited the example of China which for thirty years was getting things from Russia. After thirty years they started entering the American market to gain access to their technology. Though, we now praise Chinese achievements, but we should not forget those thirty years during which Russia and America played an important role in China's development.

While China has done very well you cannot expect it to grow as fast as it has. Why is India lagging behind? Turkey and Indonesia today are marching ahead. That is what we have got to find out and help our country. The issue of land has become so acute that investment becomes difficult. We cannot ignore it, both from the point of view of industrialization and from the point of view of the farmer. Unfortunately, the way we are moving, we are making it difficult for foreign investment and even the domestic investment to come into the manufacturing area, which is the heart of what you call development. Another important area is governance: delays in clearing files and unkept promises. The fact that our individuals do very well outside but not in India is due to the system. Dr Hussain also touched upon the approach of the judiciary and the executive.

In sum, he said one needs to look into those areas where we had committed mistakes but not with the idea to revive them or to go back to them, but to learn from them and move forward.

Dr Dhar in his concluding remarks referred to the problems that have arisen due to the investor rights and how India is at the receiving end now. In his concluding observations he explained how classical industrial policy helped develop India's automobile sector. This only underlines the role of and need for industrial policy. He also stressed that investor rights should not be allowed to override public interest. Far from policy paralysis India is now witnessing lack of policy. What is required is a national industrial policy to which all other policies including the FDI policy should dovetail. He said that the discussion was quite stimulating and this has to be taken up further to cover the larger issue of setting the objectives and formulating policies. He promised to comeback with good research and empirical evidence to aid this process.

Prof. M.R. Murthy, Director ISID, while proposing the vote of thanks, expressed his deep satisfaction over the way the discussions have taken place. He said, as a follow up, the Institute would subscribe to more firm-level databases to facilitate detailed analysis of the FDI phenomenon as aggregate data has been found to be extremely wanting.

FACULTY NEWS

- Dr P.L. Beena completed her two years ICSSR General Fellowship on the topic, "Mergers and Acquisitions: A Study based-on selected Industries in Indian Corporate Sector" at the institute in January 2012.

Internal Presentations

- Shri M.M.K. Sardana, presentation on "Standoff between Iran & US and its allies on Nuclear Issues", 08 March 2012.

- Ms Richa Khurana, Research Intern at the Institute, presentation on "Analysing the Export Behaviour of Indian Private Corporate Sector: A Case Study of Manufacturing Firms", 19 March 2012.

- Dr Satyaki Roy, presentation of the report of the research project on "Determinants and Impacts of FDI in R&D in the Creation and Diffusion of Knowledge in the Automobile Industry: A Study on Clusters in Chennai, Bangalore and National Capital Region", submitted to the Technology Information, Forecasting and Assessment Council (TIFAC), Department of Science & Technology, on 30 March 2012.

Occasional Papers

- **Growth and Structure of Employment Long-Term and Post-Reform Performance and the Emerging Challenge; *T.S. Papola and Partha Pratim Sahu*, March 2012.**

  The employment study under the ICSSR research programme aims at reviewing the employment strategies and policies, employment performance and outcomes and employment prospects in near future in India. It describes the broad contours of approaches to employment followed in development strategies in Five Year Plans and macro-economic and sectoral policies to promote employment generation. It describes and analyses the employment performance of the Indian economy in a long-term—about 37 years, 1972–73 to 2009–10—as well as in shorter five to 10 year perspectives, in terms of rates of growth and structural changes, with special reference to the post-reform period. It then presents the employment challenge that India faces, in quantitative and qualitative terms. Finally, it examines the prospects of employment growth of sufficient magnitude and desirable quality and outlines the policy measures for its achievement.

  The study highlights the main employment concerns as follows: i) while the long term employment growth was of around 2 per cent per annum with some variations in the shorter periods; ii) industry has shown the highest growth followed by services, agricultural employment growing at the slowest rate of slightly over one per cent; iii) for most of the sub-periods, employment growth has been lower than the growth of labour force and employment growth has decelerated while GDP growth accelerated in recent years; iv) the organized sector witnessed a "jobless growth" since the middle of 1990's; v) the high employment growth recorded during 2004–05 was suspected to be an overestimate largely reflecting unusually high labour force participation rates; vi) sectoral shift in employment was slower than that in GDP leading to increasing productivity and income differences between agriculture and other sectors; vii) share of self-employment though declining, continues to be more than half, but that of the unorganised employment which is over 90 per cent, is increasing.

  However, during post-2000 period employment grew faster than that of labour force and the organised sector employment also grew especially in the private sector and ASI segment of industry; and rural non-agricultural employment grew faster which is not necessarily 'distress-driven'.

  Employment challenge as visualized by our study is much larger than as indicated by unemployment rates, since it includes unemployed, 'severely' underemployed and also the working 'ultra poor'. On a tentative basis the quantitative magnitude of the challenge – persons requiring jobs, fresh or alternative, would place the figure at about 12% of the labour force, as against 4% recorded as unemployed. Qualitative challenge, manifested in low wages, irregular and uncertain employment and lack of social protection, is even larger. The 'quality deficit' is even very high for women and unskilled workers.

  To address this employment challenge, the study put forth following suggestions: i) a high rate of economic growth -- with employment intensive growth in high productivity sectors; and productivity-led growth in low productivity sectors; ii) structural shift of workers from agriculture to other higher employment potential sectors such as transport, construction, financial services, education, health and manufacturing; iii) productivity improvement in informal sector-rural non-farm and urban informal enterprises; iv) a reorientation towards employment intensive domestically consumed products would be a more reliable solution to the employment problem, in view of the recent experience during the financial crisis.

Working Paper(s)

Managing Global Financial Flows at the Cost of National Autonomy: China and India, *Sunanda Sen, WP2012/01*, March 2012

The narrative as well as an analysis of the global imbalances, as exist in the literature, remain incomplete unless it captures the part of the story which relates to the experiences of the emerging economies which are experiencing the surges in capital flows. In addition to disregarding the implications of the capital flows on their domestic economies, especially in terms of the 'impossibility' of following a monetary policy that suits growth in the domestic economy, such analysis fails to recognise the significance of uncertainty and changes in expectations as factors behind the build up of the large official reserves, often on a precautionary mode. The consequences, as discussed above, are more than one, affecting the fabric of growth and distribution in these economies.

Experiences of China as well as India, with their de-regulated financial sectors in recent years, bear testimony to the points mentioned above.

Financial integration and free capital mobility, which are supposed to generate growth with stability in terms of the "efficient market" hypothesis, have not only failed to deliver as promised, especially in the advanced economies, but also have pushed the high growth developing economies like India and China to a state of compliance, where domestic goals of stability and development are sacrificed to attain the globally sanctioned norms of free capital flows.

Structural Changes in the Indian Economy: Emerging Patterns and Implications, *T.S. Papola,* WP2012/02, June 2012

This paper highlights the major structural aspects of India's economic growth specially over the past three decades from the viewpoint of its long-term sustainability. Based primarily on the findings of a number of studies undertaken as part of larger programme, it reviews the trends in sectoral pattern of GDP growth, employment, trade, industry and inter-regional and inter-class disparities and brings out implications of these trends for a sustainable and equitable growth. The paper concludes that while attainment of a reasonably high GDP growth may not be problem in the medium term, its inequitable character is likely to pose a serious threat to its sustainability in the long run.

Discussion Notes

- Targeting the Oil Exports of Iran, M.M.K. Sardana, DN2012/06, June 2012.
- Challenges of Rising Inequalities and Corruption in Growing Economies like India, M.M.K. Sardana, DN2012/05, June 2012.
- Health and Safety at Workplaces in India: M.M.K. Sardana, DN2012/04, May 2012.
- Standoff between Iran and US and its allies on Nuclear Issues: A Perspective: M.M.K. Sardana, DN2012/03, April 2012.
- Bollywood on the Wings of Technology and its Contribution to Economy: Hundredth Year of Indian Cinema: M.M.K. Sardana, DN2012/02, March 2012.
- The Nuclear Safety Regulatory Authority Bill 2011: M.M.K. Sardana, DN2012/01, January 2012.

Articles/Papers

- T.P. Bhat, "India and China: The Trade Policy Dynamics," *India Quarterly*, Vol. 68, No. 1, Indian Council of World Affairs, New Delhi, Pp. 69–87, March 2012.
- K.S. Chalapati Rao (with Biswajit Dhar), "Boosting FDI Flows, and How!" *Financial Express*, 07 April 2012.
- Satyaki Roy, "Disparities in Consumption Expenditure and Reversal of the 'Tunnel Effect" in *Alternative Economic Survey 2011*, Indian Political Economy Association, Delhi, Pp. 47–52.
- Satyaki Roy, "High Non-wage Employment in India: Revisiting the Paradox in Capitalist Development," *Indian Journal of Labour Economics*, Vol. 54, No. 2, Pp. 251–267, 2011.
- Satyaki Roy, "Spatial Organization of Production in India: Contesting Themes and Conflicting Evidence," *Journal of Regional Development and Planning*, Vol. 1 No. 1, Pp. 1–16, 2011.
- K.S. Chalapati Rao, "Listing PSUs Does not Mean Market Discipline," *Business Standard*, 29 January 2012.
- P.P. Sahu, "Is there an Earning Penalty for the Self-employed Worker? Evidence from India," in Valentina Cuzzocrea and Jenifer Laws (Eds.) *Value of Work: Updates on Old Issues*, Inter-Disciplinary Press, Oxford UK, (Ebook), 2011.

Presentations in Conferences/Seminars

- T.S. Papola presented a paper titled "Structural Changes in the Indian Economy: Emerging Patterns and Implications" in National Seminar on Structural Changes, Industry and Employment in the Indian Economy: Macro-economic Implications of Emerging Pattern, held at ISID, 20–21 April 2012.
- T.P. Bhat presented a paper on "Structural Changes in Indian Industries" in National Seminar on Structural Changes, Industry and Employment in the Indian Economy: Macro-economic Implications of Emerging Pattern, held at ISID, 20–21 April 2012.
- K.V.K. Ranganathan gave a presentation on "Structural Characteristics of Large Indian Private Corporate Sector in the Post-Liberalisation Period" in the National Seminar

on Structural Changes, Industry and Employment in the Indian Economy: Macro-economic Implications of Emerging Pattern, held at ISID, 20–21 April 2012.

- Satyaki Roy presented two papers titled "Changing Factor Incomes in India: Long Term Trends" and "Regional Disparity in Growth and Human Development" in the National Seminar on Structural Changes, Industry and Employment in the Indian Economy: Macro-economic Implications of Emerging Pattern, held at ISID, 20–21 April 2012.

- K.S. Chalapati Rao made a presentation on "Foreign Direct Investment: Myths about Concept and Statistics" in the Seminar The Trap of Investment Treaties: Options for India, organised by RIS, Madhyam, Centad and TWN at RIS, 13 April 2012.

- P.P. Sahu presented a paper titled "Employment in North East Region of India: Recent Trends and Emerging Challenges" in a National Seminar on "Labour and Employment in North-Eastern Region: Challenges and Opportunities" at V.V. Giri National Labour Institute, Noida, 30–31 March 2012.

- T.S. Papola presented a paper titled "FDI in Retail Trade: Implications for Employment and Livelihoods" at a Workshop on FDI in Retail Sector, organized by O P Jindal Global University, Rohtak, 12 January 2012.

- T.S. Papola presented a paper titled "Social Science Research in Globalising India: Historical Development and Recent Trends" in International Conference on Indian Social Sciences in the Changing World: Roles, Responsibilities and Reforms, organised by Indian Council of Social Science Research (ICSSR), New Delhi, 06–07 February 2012.

- T.S. Papola presented a paper titled "Labour Rights in Globalising India" in National Seminar on Rights of Labour in Globalising India, organised by Centre for Human Rights, University of Hyderabad, 28–29 February 2012.

- K.S. Chalapati Rao made a presentation on "Foreign firms in the Indian Pharmaceutical Industry and Acquisitions & Mergers" in the Workshop on Public Health and Pharma Industry, organised by RIS, 06 February 2012.

- K.S. Chalapati Rao made a presentation on "India's FDI Inflows: Recent Experiences" in the Workshop on India – EU Free Trade Agreement: For Whom?, organised by Madhyam and Third World Network, 08 February 2012.

- Satyaki Roy was Discussant in CESP Young Scholars' Seminar at JNU, 12–13 March 2012.

- Satyaki Roy was Discussant in the Workshop on Rethinking Economic History: Circulation, Exchange and Enterprise in India, organised by Nehru Memorial Museum and Library, 14–15 March 2012.

Lectures Delivered

- K.V.K. Ranganathan delivered a lecture on "Internet and Social Science Research" to the participants of the "Research Methodology and Project Formulation Workshop" held at Giri Institute of Development Studies, Lucknow, 28 May 2012.

- P.P. Sahu delivered a lecture on "Employment Trends & Challenges in North-Eastern States of India" to a group of research scholars from North Eastern States of India in a Training Programme on Research Methods in Labour Studies at V.V. Giri National Labour Institute, Noida, 15 March 2012.

- P.P. Sahu delivered a lecture on "Employment Challenges in the North Eastern States" to a group of trade union representatives and labour officials from North-Eastern states, in a Training Programme on Gender, Poverty and Employment under the North East Programme at V.V. Giri National Labour Institute, Noida, 15 March 2012.

- P.P. Sahu delivered a lecture on "Analyzing employment and unemployment data: Working with SPSS," in a training program on Quantitative Methods in Labour Research at V.V. Giri National Labour Institute, Noida, 06 February 2012.

- P.P. Sahu delivered a lecture on "Data Sources on Labour" in a training programme on Qualitative Methods in Labour Research at V.V. Giri National Labour Institute, Noida, 20 January 2012.

- T.S. Papola gave the Inaugural Address on "Labour in Globalising India – Issues of Employment, Inclusiveness and Social Protection", at the Course on Qualitative Methods in Labour Research at V.V. Giri National Labour Institute, Noida, 16 January 2012.

- T.S. Papola gave a lecture on "Employment Challenges in the Informal Sector and the Role of Skill Development" in the International Training Programme on Skill Development and Employment Generation at the V.V. Giri National Labour Institute, Noida, 10 January 2012.

Participation in Conferences/Seminars

- Jagannath Mallick participated in "Second Annual India KLEMS workshop," organised by Indian Council for Research on International Economic Relations (ICRIER), New Delhi, 26 April 2012.

- P.P. Sahu attended a lecture by Prof. Samir Amin on "21st Century Socialism" at India International Centre, 25 March 2012.

- T.S. Papola participated and chaired the valedictory session in the Seminar on "Problems of Small Farmers and Policy Options", at Giri Institute of Development Studies, Lucknow, 23–24 March 2012.

- K.S. Chalapati Rao participated in the Workshop on "Rethinking Economic History: Exchange and Entrepreneurship in India", held at Nehru Memorial Museum and Library, 14–15 March 2012.

- T.S. Papola participated and chaired a session in the National Seminar on "Social Group Statistics and Present Statistical System: Emerging Policy Issues, Data Needs and Reforms", organised by Indian Institute of Dalit Studies, New Delhi, 23–24 February 2012.

- Satyaki Roy participated in the International Conference on "The Global Economy in a Time of Uncertainty: Capitalist Trajectories and Progressive Alternatives", organised by International Development Economics Associates (IDEAs), held at Muttukadu, Chennai, 24–26 January 2012.

- P.P. Sahu attended a round table discussion on the Launch of the book titled *More and Better Jobs in South Asia*, organized by the World Bank, New Delhi, 16 January 2012.

Research Internship

The Institute has been providing summer internship to the final year post graduate students in economics/commerce, business economics and media & communication areas. During this period the Department of Economics, Panjab University, Chandigarh approached the Institute to provide Internship to its final year students of their Five-year Integrated M.A (Honours) in Economics. The following four final year students completed their four-month internship at the Institute in May 2012:

- Ms Arvinder Walia, prepared a report on "India's Experience with FDI Inflows on Account of Mergers and Acquisitions: A Case Study of Cement Industry" under the supervision of Prof. K.S. Chalapati Rao;

- Ms Jasmine prepared a report on 'Economic Growth Experience of Indian States' under the supervision of Dr Mahua Paul and Dr Jagannath Mallick.

- Ms Jasmine Kaur Ludhar, prepared a report on 'Trend and Pattern of Structural Changes in Punjab and the Indian Economy: A Comparative Analysis' under the supervision of Prof. T.S. Papola.

- Ms Shruti Sharma, prepared a report on "Prospects of Growth in Retail Trade in India" under the supervision of Dr Satyaki Roy.

Mr Arpit Tiwari, Integrated M.Sc., (Economics), IIT, Kanpur also done his summer internship during May-June, 2012 and worked on "Corporate Governance Issues in Listed Public Sector Companies" under the supervision of Prof. K.S. Chalapati Rao.

ISID-PHFI collaborative Programme

- ISID and PHFI would jointly work on a research programme on Public Health Issues. The broad areas for research are namely, healthcare financing, structure of health expenditure across states, corporatisation of health services, pharmaceutical industry, occupational health, environment, health communication. In this context a joint meeting of ISID and PHFI faculty was held on 08 May 2012 to identify the broad areas of research in terms of common interests as well as available skills and expertise with the collaborating institutions.

OBSERVATION

Beyond Doha Round Agenda

T.P. Bhat

There is a fundamental shift taking place in the global economy, to which the multilateral trading system needs to adapt. Basically, there are five main factors on which the change has to occur. First, the traditional trade negotiating dynamic, driven by private sector interests of industrialised countries, is running out of steam. Second, the world economy is moving from conditions of excess supply to stress on supply, so economic security has become the main concern for all consumers. Third, international economic integration can contribute to enhance security. Fourth, addressing these new concerns requires a wider agenda of multilateral cooperation involving all multilateral institutions. Fifth, despite shifts in economic power across countries the common interests and the scope for 'give and take' on these new issues make multilateral cooperation worth attempting.

The Doha Round has been plagued by a private sector interest deficit. The corporate protagonists of developed countries were conspicuous by their absence. This was due to a number of factors, mainly unilateral and regional liberalization in goods and services, which have reduced the incentive to negotiate multilaterally. With all this happening outside the WTO framework, Western countries do not have to expend negotiating coinage within the WTO to secure outcomes that their firms are obtaining without any costs. The WTO has had an important role to play in liberalizing trade. However, the WTO was more effective in liberalising trade policies in industrial countries, than those of developing countries.

The global economic landscape has changed. The period 2002–08 saw the largest consecutive period of world GDP growth ever, fuelled by productivity increases and low inflation. Now, the world economy is moving from a period of abundant supply to stresses on supply. This landscape has revealed serious threats to economic security. Rising commodity prices threaten food and energy security. Financial security has been threatened by the recent global crisis; moreover, the world is uncomfortable with the massive global transfer and re-nationalization of finance that is reflected in the emergence of sovereign wealth funds.

The response to all these threats to security is multilateral cooperation and this cooperation is superior or complementary to unilateral responses. On food security, the imposition of export taxes by any one country might help reduce domestic prices, but, when undertaken by many countries, it results in increases in world prices, rendering unilateral actions ineffective. Similar is the case with oil subsidies. Unilateral actions against undervalued exchange rates are less effective and prone to being captured by protectionist interests. The fact of the matter is that appropriate multilateral rules relating to export restrictions, cartelization of oil markets, persistently undervalued exchange rates and core financial regulation would sustain economic integration, while also enhancing economic security.

Many of these new issues should be on any future agenda of multilateral cooperation. The drivers of this new agenda could be new actors, for whom security will be an overriding concern: consumers (affected by food, energy and financial insecurity), immobile labour (affected by undervalued exchange rates), or just the population at large with concerns about environmental security. That these defuse interest can have a strong influence on national policy. Around the world, the swift actions of the governments, whether on food, energy or inflation, attest to the power of these interests. The question is whether governments can now exploit more fully the scope for international cooperation to render policy more effective in serving those concerned about security. The forum for such cooperation need not exclusively be the WTO, except where only trade measures are involved. On other issues such as exchange rates, financial regulation and the environment, other multilateral institutions would have to be involved.

The challenge for multilateral cooperation posed by the new agenda is substantial and success is far from assured. What does the proposed agenda imply for the pursuit of the WTO's traditional liberalization agenda? In principle, there is no reason why taking up the new and important issues should be at the expense of the WTO's striving to open markets in agriculture, goods and services. But whether the WTO will continue to do the latter will depend on which of the two current views about the future is correct.

The sanguine view is that liberalization will continue apace because most countries have come to accept openness as a key principle of economic policy. On this view, the private sector interest in multilateral liberalization will remain attenuated, and the traditional agenda will correspondingly feature less prominently in the WTO. That inactivity on the multilateral front will lead to policy rollback, which could take the form of increased protectionism, particularly in agriculture, where the stakes are high and the rules are murky. If this were to happen, the private sector, threatened with loss of market access, could return re-energised to the multilateral arena. The importance of the proposed agenda similarly depends on international economic circumstances. For example, if food and oil prices were to fall steeply in near future, the threat to security would become less pressing and the need for cooperation less urgent.

The post-mortems of the failed WTO ministerial have highlighted the divergent interests of the new powers, notably China and India, and the traditional ones such as the EU and the US. Extrapolated into the future, this divergence leads to a pessimistic prognosis for future cooperation. However, there is much greater shared interest and scope for give and take between the old and new powers in an agenda that addresses the new concerns. Achieving successful multilateral cooperation will nevertheless be a challenge.

Editorial Committee

K.V.K. Ranganathan
(Editor)

Seema Goyal Papola
(Layout and Design)

Partha Pratim Sahu

Editorial Assistance
Puja Mehta

Page Making
B. Dhanunjai Kumar

ISID Media Centre Publication

ISID

Institute for Studies in Industrial Development

4, Institutional Area, Vasant Kunj, New Delhi - 110 070, India

Phone: +91 11 2676 4600 / 2689 1111; Fax: +91 11 2612 2448

E-mail: info@isid.org.in; Website: http://isid.org.in