

CHAPTER 1

INTRODUCTION TO THE STUDY

“We should be evoking into a new age of business with a world view that maintains one simple proposition – that all of nature: human, animals, earth are interconnected and inter-dependent”. – Anita Roddick

1.1. INTRODUCTION

It has been rightly seen and proved that mankind cannot live and survive in isolation. Science, too, has proved of late, that nothing in the world exists as an isolated or independent entity. Man is dependent on others for the fulfillment of his needs and requirements. If we date back to the history, from the primitive era itself, it could be seen that inter-dependence existed between human communities. This interdependence created the concept of barter system which clearly depicted how one man relied on the other for his basic as well as for generic needs and it further widened the scope of socio-economic involvement between people and communities at large. Historians have argued that evolution of communications and mobility of people across distant regions was prevalent since 8th century onwards. The scope of inter-dependence of communities for fulfillment of wants reached boundaries and got intensified across nations. Irrespective of many national differences existing among nations, they aimed at strengthening their economic relations by moving closer through international trade which led to the mobility of

commodities across countries. Mobility of commodities made it easier for markets spread at dispersed locations, to integrate globally which marked the beginning of the era of globalization and globalized economies.

The evolution of globalization can be seen to be existent from the early 19th century and is proceeding till date (*Estevadeordal, et al., 2003*). Globalization could be understood as a phenomenon which enhances worldwide trade in an increasingly open, integrated and borderless international economy. It has brought with it not only a remarkable growth in world trade in goods and services, but also exchanges in currencies, capital, technology, information and ideas which are becoming evidently prominent. The starting point of globalization could be comprehended through trade liberalization and other forms of economic liberalizations that have led to the emergence of a new and more liberal world trading system. General Agreement on Tariffs and Trade (GATT) and evolution of World Trade Organization (WTO) after 1940s, further enunciated the process through significant reductions in tariffs and other barriers to trade in goods and services and further intensified the movement of capital and other factors of production. To add to it, those corporations who aimed at local markets, also started spreading their wings in terms of markets and production facilities to national, multinational, and international reach. These changes in the structures of industrial operations have led to an increase in the power, profitability and productivity of those business firms that can choose many nations for their resources like that of materials, production facilities and markets, and quickly getting adjusted to changing market conditions.

Since globalization has virtually connected almost all economies of the world, it also brings with it manifold impact on all. The effects could be seen right on their production of goods and services, employment of labour force, investment in both physical capital and human capital, to technology diffusion from one nation to another thereby impacting their efficiency, productivity, profitability and overall competitiveness.

Few impacts of globalization on world economy deserve special mention. One, being the exponential growth of Foreign Direct Investments (FDI) which is much higher compared

to world trade. FDI brings with it easy access to capital, technology transfer, industrial restructuring, skilled manpower, opening up of new market opportunities etc., within and across nations. Second, being the growth of trade in services like information technology, financial, healthcare, education, tourism and other prominent intangibles along with trade in goods that are an important part of international trade and commerce.

Therefore, it can be appropriately argued that globalization has led to growing competition and widening up of markets globally, resulting in greater productivity and production on a global scale by acquiring economies of scale through effective reduction in costs and prices of commodities and through continuous technology up-gradation on a world-wide basis. These are some of the key parameters for achieving stable economic growth for any nation.

The word liberalization goes hand in hand with the concept of globalization. Liberalization, could be broadly understood as creation of interdependencies of people and organizations across the world, and includes stabilization as well as structural adjustments. Stabilization deals with controlling the fiscal balance, the balance of payments and external payment deficits and maintaining a low rate of inflation. Structural adjustments look at improving efficiency and productivity and integrating the domestic economy with the world trade and capital movements. External sector liberalization includes foreign trade, investment and exchange rate liberalization and depends upon various factors like the dependence of the economy on foreign trade, financial sector liberalization on external account, etc.

Trade liberalization is an important component of economic liberalization which includes the removal of trade barriers, such as tariffs and non-tariff barriers and expects trade to act as an engine of economic growth. It also measures the extent of export promotion, degree of openness, and marketization strategies of any country (Narayana, 2008) which are sure shot formulas of successful integration of a country with world economy.

1.2. INDIAN ECONOMY AT A GLANCE

India initiated the process of integrating with the world economy in the 1990s due to severe balance of payments crisis, high fiscal deficits as well as scorching inflation rate. These structural reforms took the form of bringing reform in the trade and balance of payments regime and changes in the domestic financial sector. The main goal of liberalization and globalization was to make the economy more market oriented through increasing competitiveness and reducing government interventions.

India today stands as the world's fastest growing nation after China, having recorded a growth rate of over 7.5 per cent during 2003-12. The economy has been embarking on a high rate of growth due to various factors such as contribution of the services sector, strong domestic demand, higher investment, expanding infrastructure and a stable government.

Although in the last two fiscal years, there has been a gradual dip in the growth rate, partly due to domestic as well as global factors. The Reserve Bank of India (RBI) has been taking remedial measures along with the new government's initiatives to revive growth and instill positive sentiments among investors and businesses. FY14 is projected to recover on a fast pace in all the sectors and is also showing promising scope of growth prospects in the future.

India is fast emerging as a global leader, with its vast, natural resources, and huge base of skilled manpower. Combined with cutting edge technology, Indian trade market is making its presence felt all across the world.

1.2.1. India Profile

Geographic Details

- **Location:** Indian Peninsula is separated from mainland Asia by the Himalayas in the North, the Bay of Bengal in the East, the Arabian Sea in the West and the Indian Ocean in the South.

- **Area:** 3.28 million sq. km.
- **Capital:** New-Delhi

Demographic Details

- **Population (as per 2011 census):** 1,210 million (approx.)
 - **Male:** 624 million
 - **Female:** 586 million
- **Literacy rate:** 74 per cent
- **Population Density:** 382 per sq. km.
- **Household:** 240 million

Economic details

- **SENSEX Movement:** The value of BSE index more than tripled from FY 03 - 13.
- **GDP Growth rate (CAGR, FY 08-13):** 7.2 per cent
- **Rank in Global Competitiveness Index (FY 13):** 59/144
- **Economy:** Mixed
- **Gross National Income (FY 13):** \$720 million
- **Gross Fixed Capital Formation (FY 13):** \$545 million

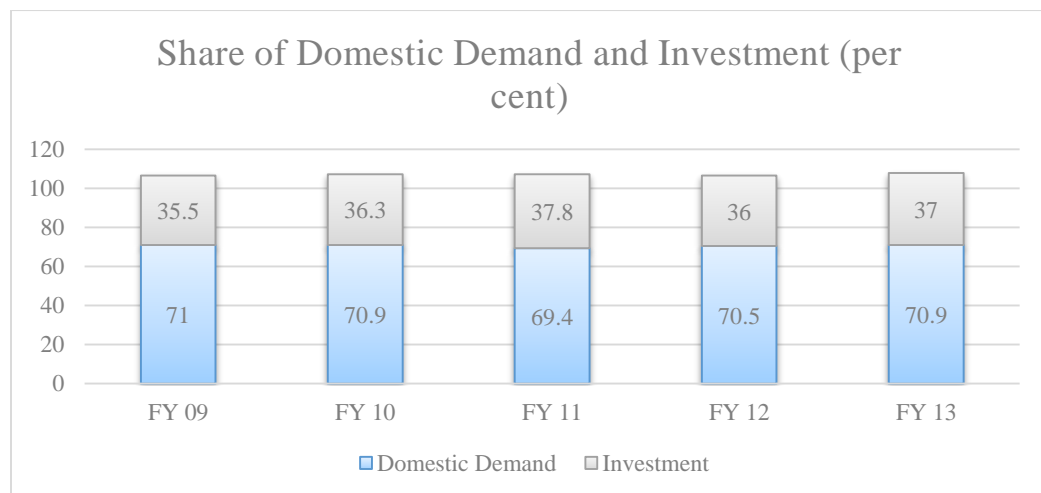


Figure 1.1: Share of Domestic Demand and Investment. **Source:** Reserve Bank of India, 2013.

- **Foreign Investment inflows:**
 - **Cumulative FDI inflow (Apr'00 – June'13):** \$198.8 billion

- **FDI inflows (FY 13):** \$22.4 billion
- **FII inflows (FY 13):** \$27.3 billion

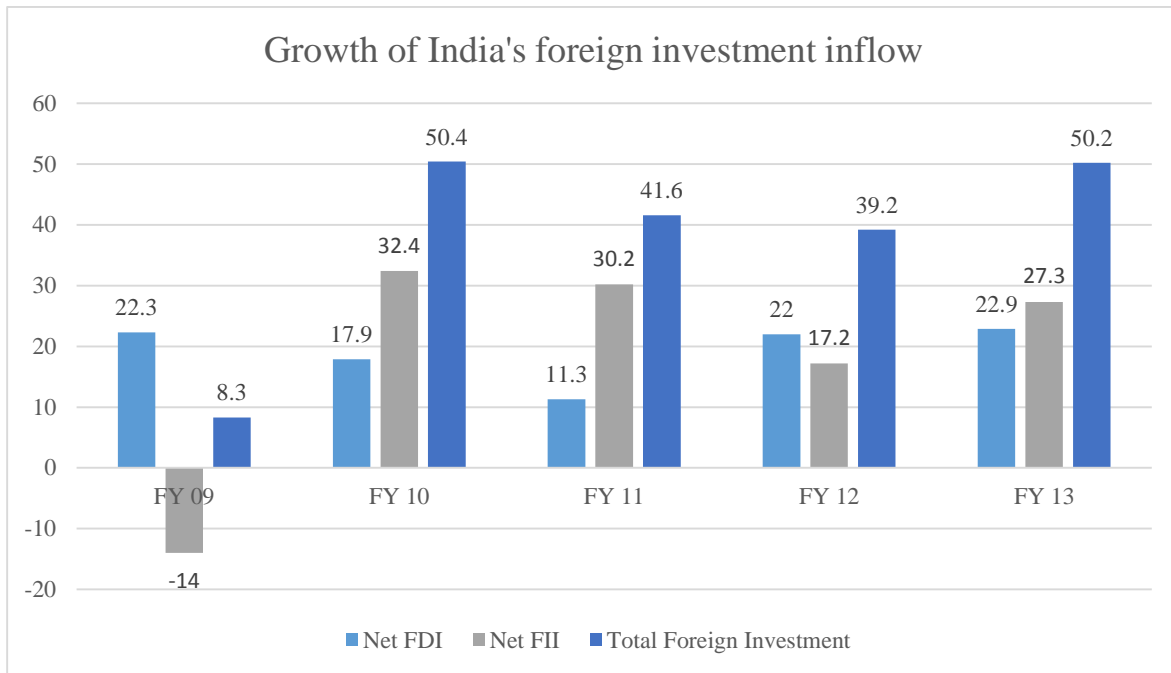


Figure 1.2: Growth of India’s Foreign Investment Inflow. **Source:** Handbook of Statistics, RBI Bulletin, May 2013.

- **Principal markets for trade:**
 - Countries with a high share in India’s export basket include the UAE, USA, Singapore and China, while countries with a high share in the import basket include China, Saudi Arabia, UAE and Switzerland.
 - **Exports (FY 13):** \$300.6 billion
 - **Imports (FY 13):** \$49.5 billion
- **Foreign Exchange Reserves:** \$295.3 billion
- **Principal Commodities for trade:**

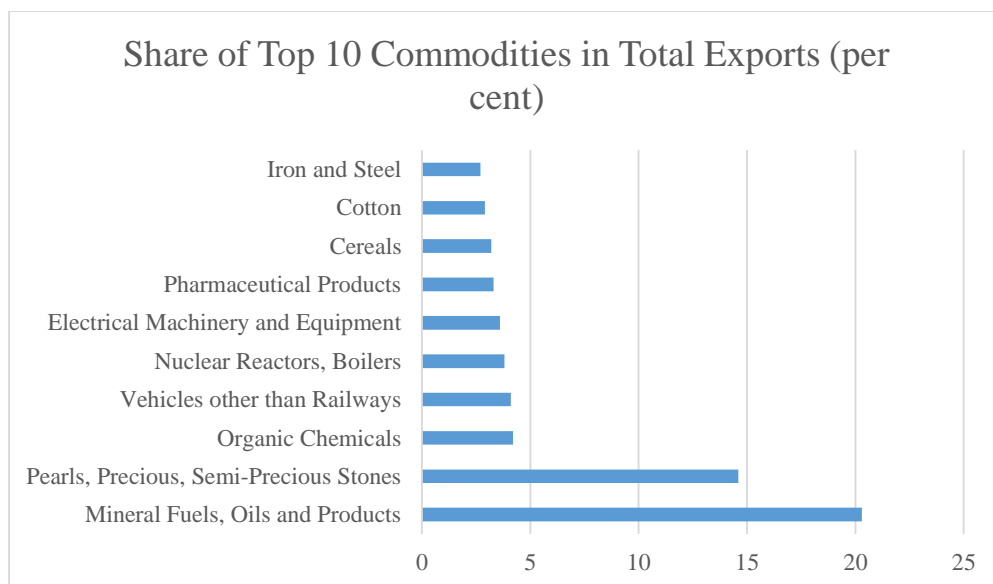


Figure 1.3: Share of top 10 commodities in total exports (per cent). **Source:** Export-Import databank, Ministry of Commerce, 2013.

1.3. ASSAM ECONOMY AT A GLANCE

Assam is situated in the North-East region of India – a fact of geographic, cultural, economic and political significance. For centuries, people and communities have been attracted to the fertile environs of Assam and its abundant natural resources. In the process, a rich and composite culture has evolved. Development, or lack of it, has contributed to the disquiet characteristic of Assam for several decades. The region continues to be marked by low agricultural productivity, poor infrastructure, tenuous communications and nascent levels of industrial activity.

Assam is blessed with fertile soil and a climate conducive to agriculture. The state has the potential to expand its agricultural production manifold. The state is also well placed to serve the needs and markets of other states of the North-East. Despite this, Assam’s economic development is lagging behind the rest of the country – and the gap is increasing. In 1998, the average per capita income of the country was over 1.8 times than that of Assam. The relative stagnancy in the growth of income is attributable in turn to the inability

of each of the component sectors to grow at rates that would allow the State to reach the levels attained by the rest of the country.

There are a few traditions of indigenous entrepreneurship, and the tentativeness of private investment from outside the state has necessitated a major, if not always efficient role for the state.

Long famed for its silk production, and for the quality of textile and cottage industry products, Assam is today seeking to find a place on the industrial map of India. The tea industry in India had its beginning in Assam, and by the mid-19th century it had firmly established itself. For a century and a half, it has brought export earnings to the country and prosperity to its owners. Crude oil was struck in Assam; Asia's first petroleum refinery was set up at Digboi in 1901. High quality coal and many other minerals have been extracted over a long period of time.

Assam is still however amongst the industrially under-developed states. The partition of India meant a major reorganization of Assam's economy. The train routes and waterways that linked Assam to Calcutta passed through East Pakistan (now Bangladesh) and quickly became non-functional. This had serious implications for industries in Assam. The high transportation cost meant that raw materials and inputs from the rest of India cost more and transporting finished goods also had an extra transportation cost element. This access disadvantage has meant that capital has been shy of coming to Assam, except in areas where there is a very obvious comparative or fiscal advantage. Infrastructural problems as well as shortage of capital have also meant slow growth in this sector.

1.3.1. Assam Profile:

Geographic Details

- **Location:** Located south of the Eastern Himalayas, Assam comprises the Brahmaputra and the Barak river valleys along with the Karbi Anglong and the North Cachar Hills. Assam is surrounded by six of the other Seven Sister States: Arunachal Pradesh, Nagaland, Manipur, Mizoram, Meghalaya and Tripura. These

states are connected to the rest of India via a narrow strip in West Bengal called the Siliguri Corridor or “Chicken’s Neck”. Assam also shares international borders with Bhutan, Bangladesh, China and Myanmar.

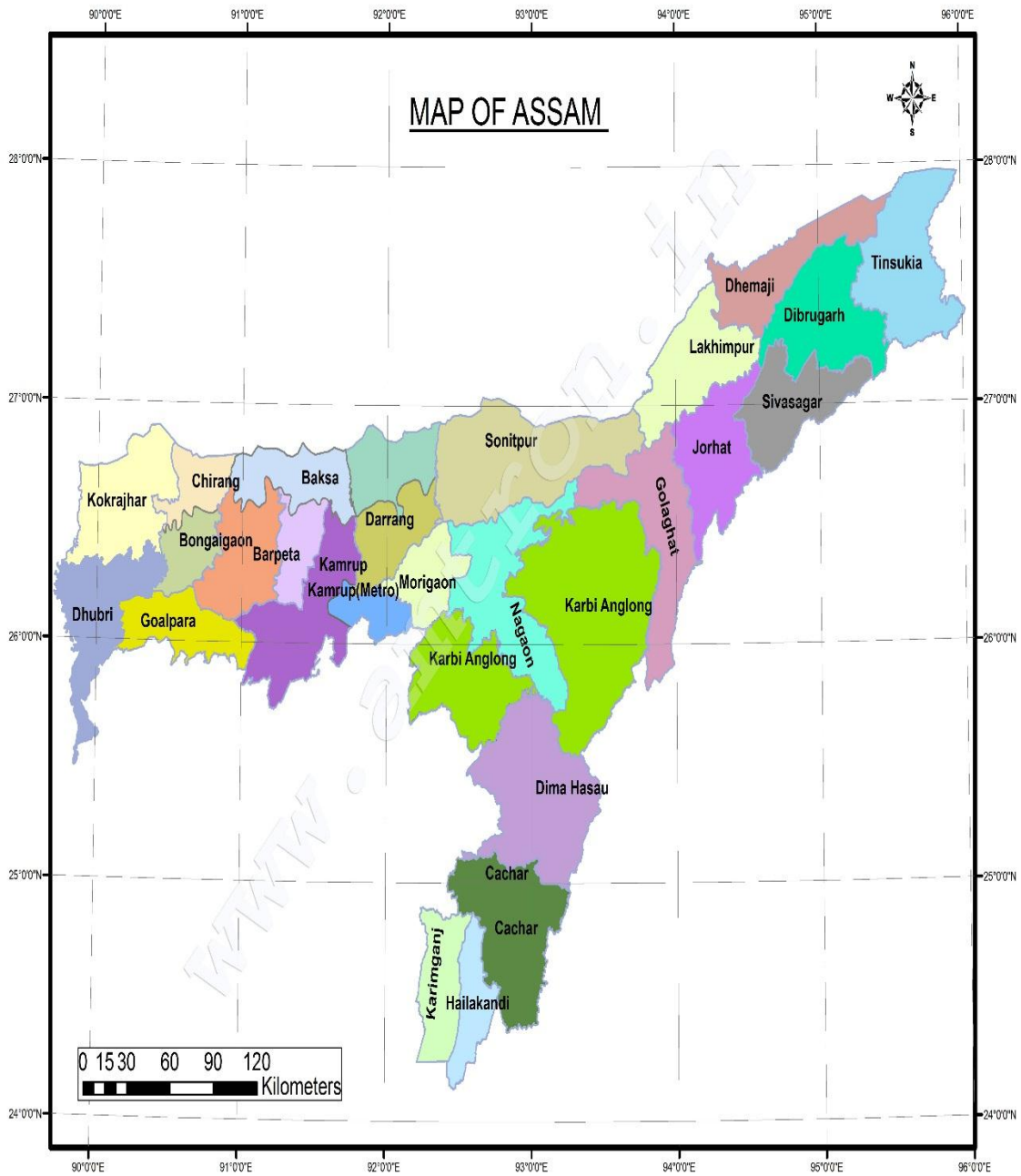
- **Area:** 78,438 sq. km.
- **Capital:** Dispur

Demographic Details

- **Population (as per 2011 census):** 31,169,272
 - **Male:** 15,954,927
 - **Female:** 15,214,345
- **Districts:** 27
- **Households:** 4.91 million
- **Literacy rate:** 73.18 per cent
- **Density:** 397 sq. km.

Economic Details

- **Gross State Domestic Product in 2011-12 (Current prices):** Rs. 115408 crores.
- **Gross State Domestic Product in 2011-12 (2004-05 Constant prices):** Rs. 80465 crores.
- **Per Capita Net State Domestic Product in 2011-12 (Current prices):** Rs. 33,633.
- **Gross Fixed Capital Formation in 2009-10 (at Current Prices):** Rs. 2444625 lakhs
- **Gross Fixed Capital Formation in 2009-10 as a percent of GSDP:** 26.44 per cent
- **FDI Inflows:** 0.1 per cent of India’s total FDI inflows
- **Exports:** Less than 0.1 per cent of India’s Total Exports



1.4. OBJECTIVES OF THE STUDY

- To study the current economic status of the Indian and Assam Economy.
- To show a positive and strong correlation between investments, exports and growth.

- To study the export basket of Indian economy and find the commodities where it has a comparative advantage over other economies.
- To study the current export basket of Assam economy and find the commodities where it has a comparative advantage over other regions.
- To find the scope of those commodities where Assam has a possibility of gaining comparative advantage over other regions in the future.
- To study the impediments to export growth in Assam.
- To study the investment scenario of Assam economy and identify sectors where it has a scope of attracting different forms of investment in the future and accelerate the export growth in those sectors.
- To identify ways of trade facilitation and infusion of investments in the region.
- To identify possible areas in the field of services which could be exported as well as attract Investments in the region.

1.5. RATIONALE OF THE STUDY

In spite of having a geographical advantage and abounding natural resources, Assam, considered as the gateway to the North-Eastern Region of India, still remains isolated and blocked from mainland India. One possible way of coming out of the shackles of underdevelopment is to develop a strong manufacturing and service base through promotion of exports and attracting FDI as well as Private Investment in the region. Hence, the rationale behind the study is to highlight and identify those commodities and sectors (in terms of services) where it has prospects of gaining comparative advantage in the International Market and open up for Trade and Investment. It may also act as a road map for policy makers to make Assam a destination for FDI and Private Investment for identified sectors thereby boosting export competitiveness in the region.

1.6. SIGNIFICANCE OR EXPECTED CONTRIBUTIONS OF THE STUDY

- Highlighting the scope of export competitiveness in Assam through gaining comparative advantage in merchandize.
- Highlighting the scope of exports in services in Assam.
- Highlighting developmental efforts which would act as a road map of attracting Inward Investment into the region in the form of both Foreign and Domestic Investments.
- Coming out with recommendations on how the Government can transform this region as an attractive FDI destination mostly through the promotion of exports.
- The research would make significant contributions in the field of International Economics relevant to this region as well as to the academic community as a whole.
- Finally, the study can act as a useful means for the govt. and for the policy-makers for reviving the region from the clutches of economic backwardness.

1.7. RESEARCH METHODOLOGY

Chapter 3: Current State of Affairs of Indian and Assam Economy

- To study the current status of the Indian economy, time-series data of at-least last 10 years have been incorporated which are mostly represented in the form of table and figures.
- The data includes the present state of Indian Economy in terms of:
 - GDP growth in the pre-globalization and post-globalization era
 - Annual Structural Composition of the economy
 - Annual Gross Fixed Capital Formation
 - Liberalization policies on FDI inflows
 - FDI inflows in India post-reform period
 - India's BOP Position during 1990-91 to 2011-12
 - Balance of Payments Transactions as a percentage of GDP
 - India's Trade Balance

- India's Exports in Services
- To study the current status of Assam economy, time-series data of last five years have been incorporated which are mostly represented in the form of tables and figures.
- The data includes the present state of Assam Economy in terms of:
 - Per capita Income (at constant 1980-81 prices)
 - Annual Average Growth rates of NSDP- comparison of Assam NSDP and All-India NSDP
 - Growth Rate of GDP- All India and GSDP- Assam over previous year at current prices
 - Sectoral Composition (per cent) of GSDP (at constant 1993-94 prices). The figures for 1991-92 to 1992-93 has been taken considering 1981-82 prices as the base year.
 - Sectoral Composition (per cent) of GSDP (at constant 2004-05 prices)
 - Percentage of GFCF to GDP in Assam and All India (at current prices)
 - Gross Fixed Capital Formation (per cent) by Type of Ownership (at current prices)
 - Break up of Outstanding Investments by Sector (2009-10).
 - Trend of Fiscal Parameters (2000-01 to 2012-13) of Assam
 - Value of Exports from Assam from the period 1998-2013.
- The secondary data (time-series data) has been collected from various published and unpublished sources.
 - Published sources includes sources like:
 - Data from Central Statistical organization
 - Economic Survey, 2012-13
 - Reserve Bank of India reports
 - Economic Survey, 2011-12
 - Directorate General of Commercial Intelligence and Statistics, Ministry of Commerce, Govt. of India
 - Government of Assam, Vision Assam 2025
 - Directorate of Economics and Statistics, Assam

- Centre for Monitoring Indian Economy (CMIE)
- Economic Survey, Assam, 2012-13
- Department of Finance (Economic Affairs), Government of Assam
- India Economic Survey, 2010-11
- Unpublished sources includes sources from:
 - Commissioner of Customs, Shillong, Meghalaya
 - Data from Agricultural and Processed Food Products Export Development Authority (APEDA)
- These mentioned data and sources have helped in assessing the present state of Indian and Assam Economy and also gave a comparative framework of Assam Economy's growth status compared to mainland India.

Chapter 4: Investments, Exports – Key determinants of Growth: Evidence from the Context of Indian Economy

- The current investment scenario in India is assessed considering the Gross Fixed Capital Formation for the last seven years in relation to the GDP growth in India in the corresponding years.
- To further establish a strong relationship between Gross Fixed Capital Formation and GDP, a simple regression model is designed formulating hypotheses. The hypothesis is statistically tested using Karl Pearson's Coefficient of Correlation along with t-test and ANOVA.
- The second section of the chapter deals with the study of the current economic scenario of India in terms of total FDI inflows, FDI inflows on a sectoral basis, growth of GDP and its export performance over the years.
- Since the sample evidence has been taken from the context of Indian Economy, therefore, this study uses secondary data to prove the validity of the topic.
- The data under study has been mostly collected from RBI Statistics Database on Indian Economy from the period of 2000-2012.
- To substantiate the need of FDI for promotion of exports and analyze the relationship between exports and FDI, Karl Pearson's Coefficient of Correlation has been calculated.

- To further study the correlation between FDI, GDP and Exports, Karl Pearson's Coefficient of Correlation has been calculated to validate the degree of interdependency between the three variables.
- In order to fulfill the objectives of the study and to prove the dependency of GDP on FDI and exports, few hypotheses have been formulated based on the variables in question, which have been further validated through the use of statistical tools like Simple Regression and Multiple Regression Models and Correlation analysis. The statistical significance of the variables is explained through the use of ANOVA and Durbin-Watson test.

Chapter 5: Exports Structures in India: A Comparative framework of Analysis through Revealed Comparative Advantage with China

- To establish the pattern of Comparative Advantage for India in the global market, firstly, a theoretical and analytical structure is designed based on output and export growth of the country over a period of 2000-2011.
- The analysis is further done based on computed values of RCA indices based on SITC 1-digit and 2-digit classification. Among the RCA indices, Balassa's (1965) export performance index is used as it has the advantage of computational simplicity, which is computed using actual data on trade, production and consumption.
- India's export structure is also compared with its strongest counterpart in the International Market i.e. China through the use of RCA index.
- Spearman's Rank Correlation Coefficient is also calculated which indicates a clear picture on India's and China's gain in the global market over the years and their mode of competition and complementarity with each other.
- Tables and figures have been created for various SITC classification of commodities based on RCA values.

Chapter 6: An Overview of Assam's Export Potentials: Trends, Pattern, Challenges and Scope

- As a part of investigation in the present study, data have been accumulated from both primary and secondary sources.
- Primary sources comprise of interviews and responses collected from exporters engaged in various entrepreneurial ventures in the state through the use of open-ended questionnaire. The questionnaire comprised of 28 questions.
- Responses of government officials and autonomous bodies directly engaged with trade and investment of the state through the use of open-ended questionnaire is also highlighted to get a clearer picture on the scope of exports from Assam and the current policies incorporated at the state level for promotion of exports; and understand various hurdles and obstacles that are inhibiting the growth of exports from Assam. The questionnaire comprised of 35 questions.
- Although the official record of Directorate General of Foreign Trade (DGFT) shows that the number of registered exporters from Assam is in hundreds but it was also revealed from the discussion with the Development Officer that most of them have stopped their operations and some are not exporting at all. It was also revealed that many exporters prefer to take their export licenses from Assam but export from regions outside North-East. The striking part was discovered while discussing with the Chapter In-charge of Federation of Indian Exports Organization (FIEO) that most of the exporters don't reveal their true identification and their actual address of communication. As a result, it was quite difficult to locate all the active exporters from Assam during the time of study.
- The sample size taken for the study is 10 for exporters as well as govt. officials.
- The secondary sources include govt. documents and unpublished data collected from Customs House, Shillong. The secondary data on exports from Assam and India is also compared through the use of Revealed Comparative Advantage (RCA) index to identify those commodities where Assam has the potential of gaining comparative advantage over mainland India.
- Thus the methodology adopted here comprises of field study, interviews, interpretation of information gathered and an analysis of the present state of affairs.

Chapter 7: Investments and Exports in Assam: It's Scope in a few Selected Industries

- The current investment scenario in Assam is assessed considering the Gross Fixed Capital Formation for the last 5 years in relation to the GSDP growth in Assam in the corresponding years which is gathered from various published sources.
- To further establish a strong relationship between Gross Fixed Capital Formation and GSDP, a simple regression model is designed formulating hypotheses. The hypothesis is statistically tested using Karl Pearson's Coefficient of Correlation along with t-test and ANOVA.
- The data is also statistically tested using ANOVA to prove that the GSDP of the state is affected due to low GFCF over the years.
- To study the scope of Investments and Exports in the manufacturing sector of Assam, few sectors like Cement Industry, Plastics Industry, Agro-Processed Industry has been highlighted.
- Further, to assess the strength of each sector for attracting various forms of inward investments and explore outside markets of the country through exports, a primary study of 6-10 companies has been done in each of the four identified sectors amounting to a total of 30 organizations/units.
- Information such as the installed production capacity, utilized production capacity, unutilized production capacity, markets explored, and capital structure of the organizations have been collected through the use of a questionnaire from each of the 30 organizations. Most of the data is collected for the past 5 years.
- To study the sources of capital or capital structure of the companies, financial statements of few of the companies have also been analyzed.
- The primary study gives an understanding of why most of the organizations have not been able to realize their full production installed capacity over the years.
- The study also brings forth the scope of Investments as well as Exports in each of the organizations under the four sectors considered.

Chapter 8: Scope of Exports and Investments in the Services Sector in Assam

- To assess the contribution of Services Sector in India's GDP growth and growth rate of various services, data on share and growth of various services is considered through secondary sources for the past six years.
- To study the current status of exports and investments in Services Sector of India, data has been accumulated for 2012 through secondary sources.
- To assess the contribution of Services Sector in Assam's GSDP growth, data on Services Sector Growth Rate at Constant (2004-05) Prices is considered through secondary sources for the past four years.
- To study the scope of Exports and Investment in services sector in Assam, two service sectors namely, the Higher Education Sector and Information Technology Sector is taken into account and a primary study is done on these sectors considering two different questionnaires for each of the sector. The questionnaire used for assessing the scope of exports and investments in Higher Education consisted of 15 questions. On the other hand, questionnaire used for assessing the scope of exports and investments in Information Technology consisted of seven questions. Most of the questions were close-ended in nature.
- As there is no data as of now available in terms of exports in services from the state of Assam, therefore, to understand and analyze the scope of exports in Higher Education sector, a total of 10 universities from around the state have been taken into account to study whether exports is taking place in this sector and in which mode of delivery of services, cross-border trade is happening and what could the possibility of further exports happening in this sector.
- Similarly, 10 Information Technology companies have been taken into account from around the state to see and analyze whether there is any scope of exports in this sector and presently which mode of delivery of services of cross border trade is happening in this industry what could the possibility of further exports happening in this sector.

1.8. LIMITATIONS OF THE STUDY

- The region of study chosen is confined only to the state of Assam.
- The sample size of respondents both in the case of exporters and govt. officials is limited to 10 each due to unavailability of sufficient data and information, especially with regard to exporters.
- To study the scope of attracting investments and signify the possibility of exports in manufacturing sector in the region, only four sectors have been highlighted out of which only 30 companies as a whole has been considered.
- To study the scope of exports and investments in the services sector, only two sectors have been chosen considering the fact that all sectors that are opened for trade, are not opened for foreign direct investments in India.