

ESRI International Conference

Growth Potential of the Indian Economy

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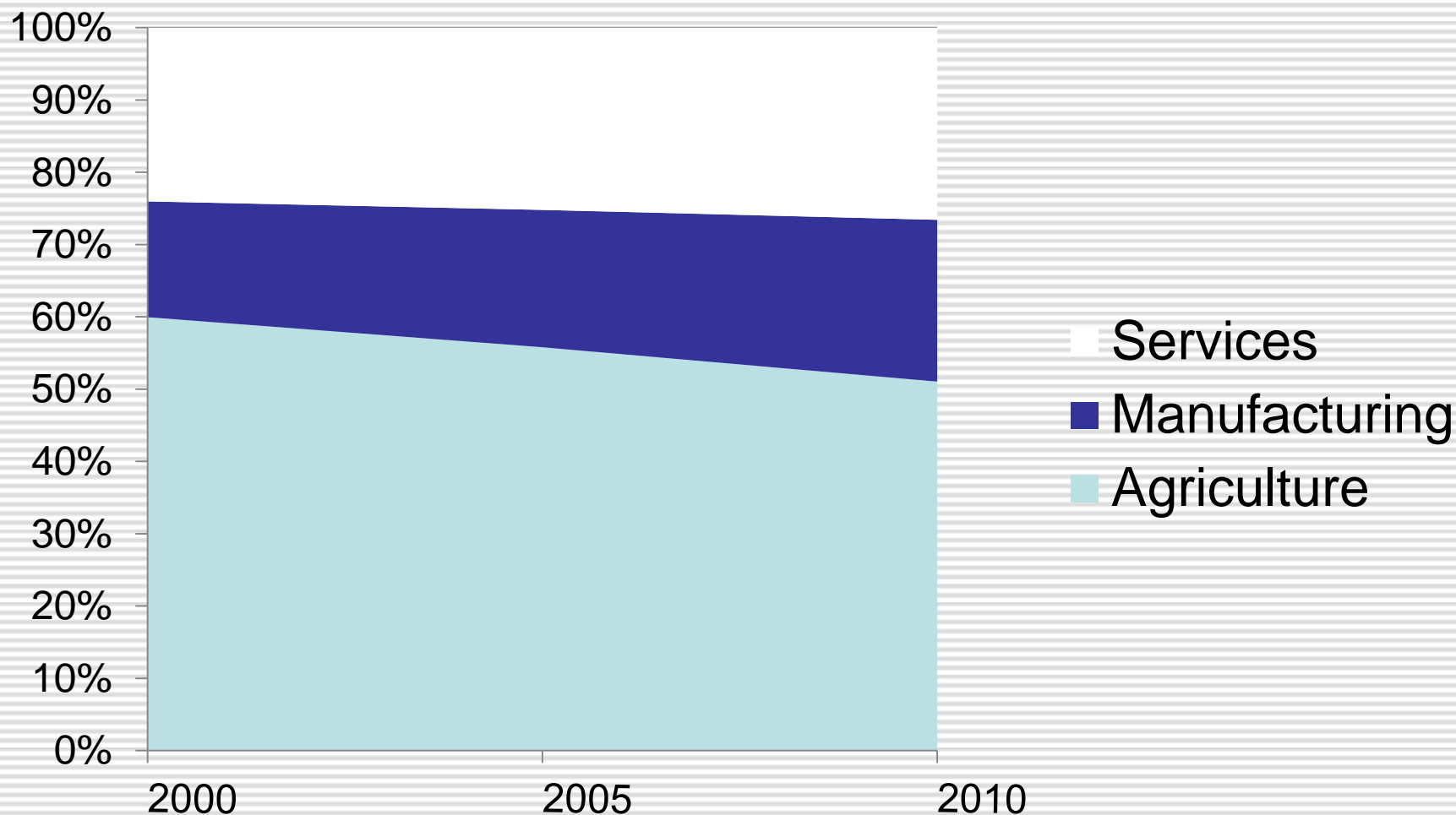
30 October 2015

Panel Session 2

“MAKE IN INDIA”

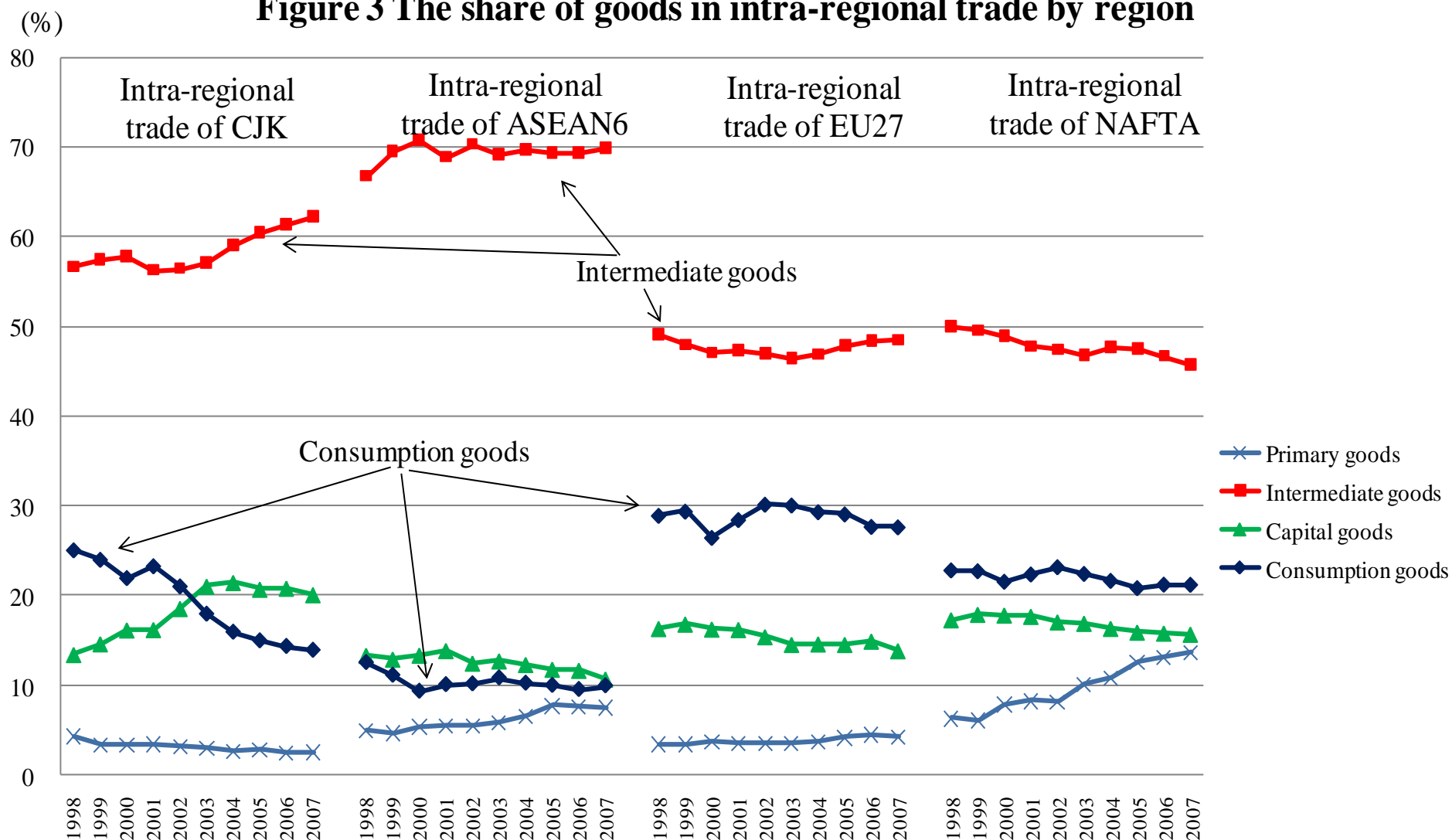
- ◆ Promoting Manufacturing Sector
- ◆ Participating in Global Value Chain in Asia
- ◆ Towards Regional Free Trade Agreement

Growing Employment in Manufacturing



Source: World Development Indicator, World Bank

Figure 3 The share of goods in intra-regional trade by region



Note: 1. Intra-regional trade includes both exports and imports among member countries.

2. Calculated by BEC classification. US dollar basis.

Source: UN,"Comtrade" database (Accessed on Apr. 8, 2010).

Free Trade Agreement (FTA) in India

◆ Bilateral FTA

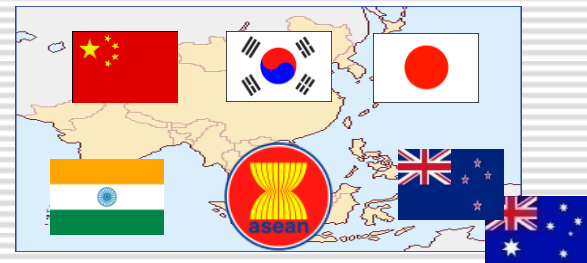
- Sri Lanka, Afghanistan, Thailand, Chile, Singapore, Nepal, Korea, Bhutan, Bangladesh, Malaysia, Japan

◆ Multilateral FTA

- ASEAN, and etc.

◆ Regional FTA

- RCEP: Regional Comprehensive Economic Partnership
- Larger gains from wide regional FTA



Trade Liberalization Increases Productivity for Indian Firms

◆ Nataraj (2011)

- To estimate the impact of tariff reduction
- Indian manufacturing firms in 1990s

◆ Findings

- A 10 % point fall in **final goods tariffs** increases average productivity by **3.3%**
- A 10 % point fall in **input tariffs** increases average productivity in formal sector by **4.6%**

References

- ◆ Tanaka and Arita (2015) “Does Policy Reform Promote FDI in Developing Economies? A Firm-level Simulation Approach” *Journal of Economic Policy Reform*, *forthcoming*
- ◆ 経済産業省海外事業活動基本調査2013年度実績
(The Basic Survey of Overseas Business Activities)
- ◆ Nataraj (2011) “The impact of trade liberalization on productivity: Evidence from India’s formal and informal manufacturing sectors” *Journal of International Economics* 85, 292-301.

Panel Session 1

- ◆ Japanese Foreign Direct Investment
- ◆ Japanese Firms in India
- ◆ Investment Barriers in India
- ◆ Simulating Policy Impacts on FDI

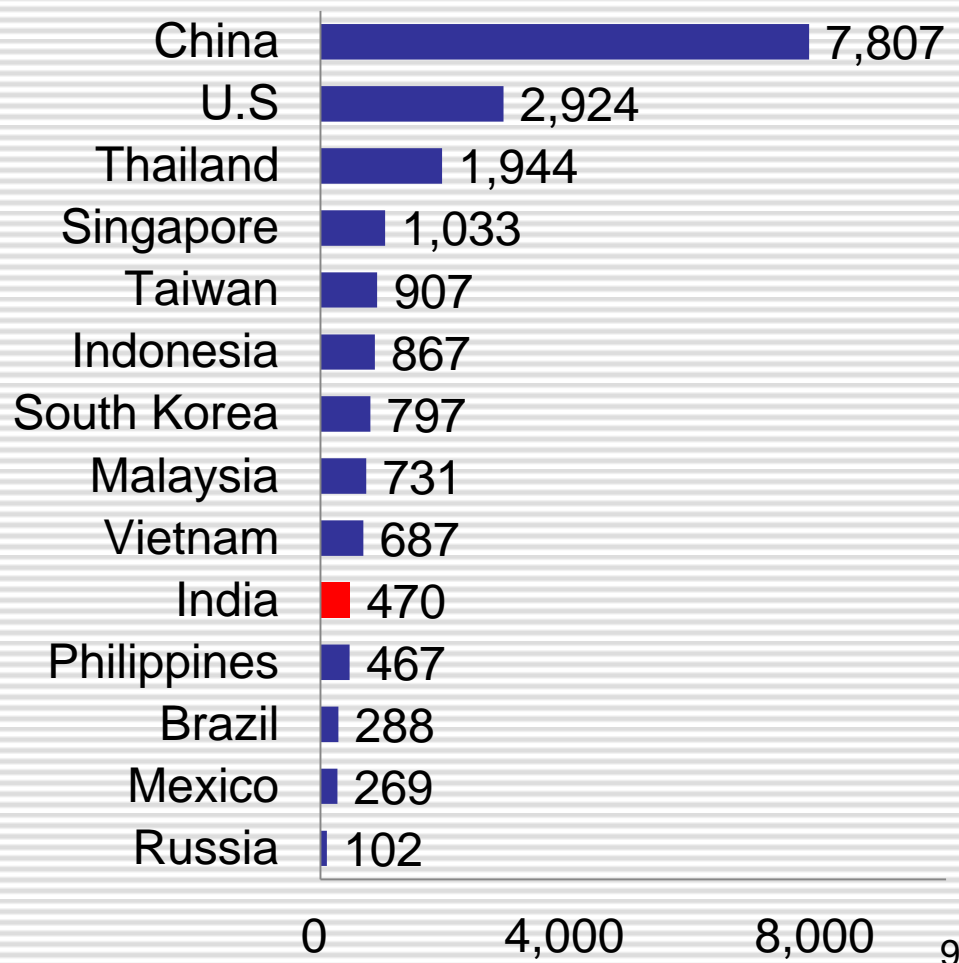
Foreign Affiliates by Japanese Firms

◆ Source:

The Basic Survey of Overseas
Business Activities by METI
(経済産業省海外事業活動基本調査
2013年度実績)

◆ Total Number of Foreign
Affiliates owned by Japanese
Firms in Year 2013

◆ 470 foreign affiliates
in India

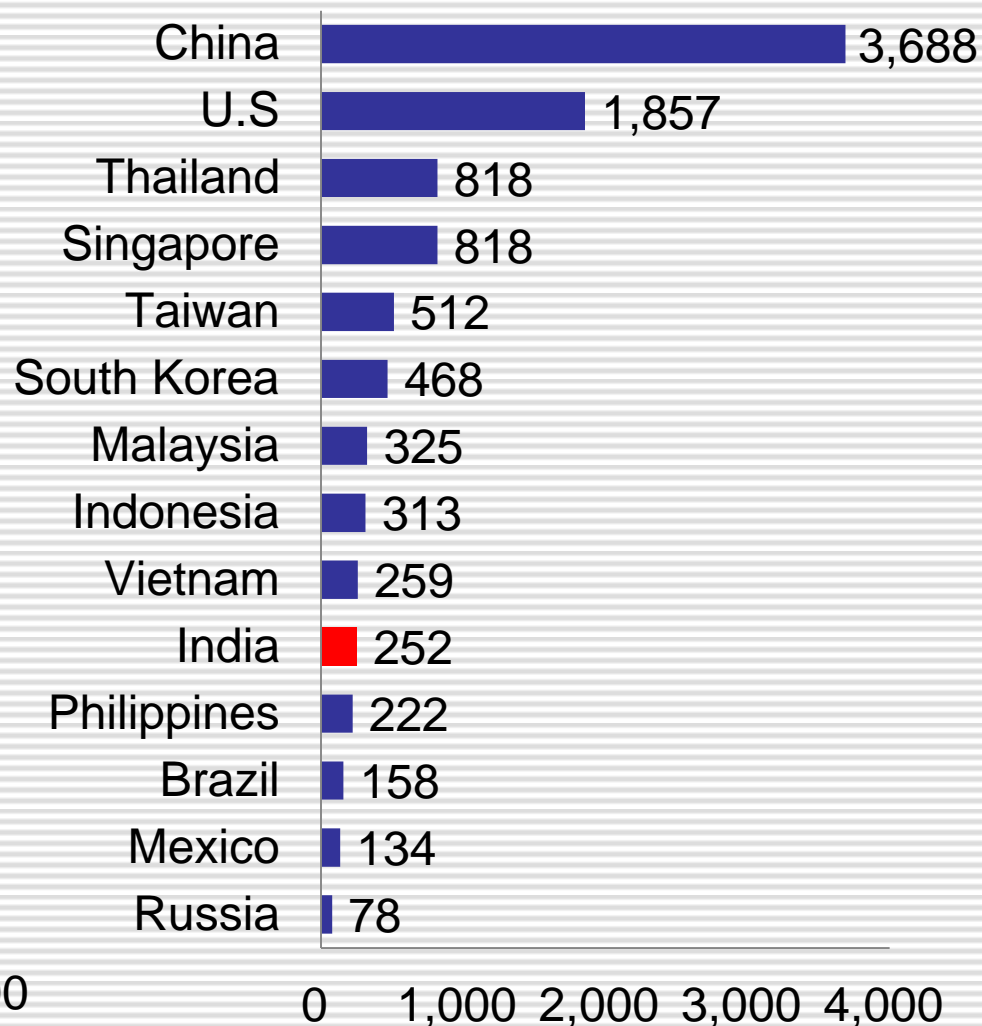


Foreign Affiliates by Japanese Firms

Manufacturing



Non-Manufacturing



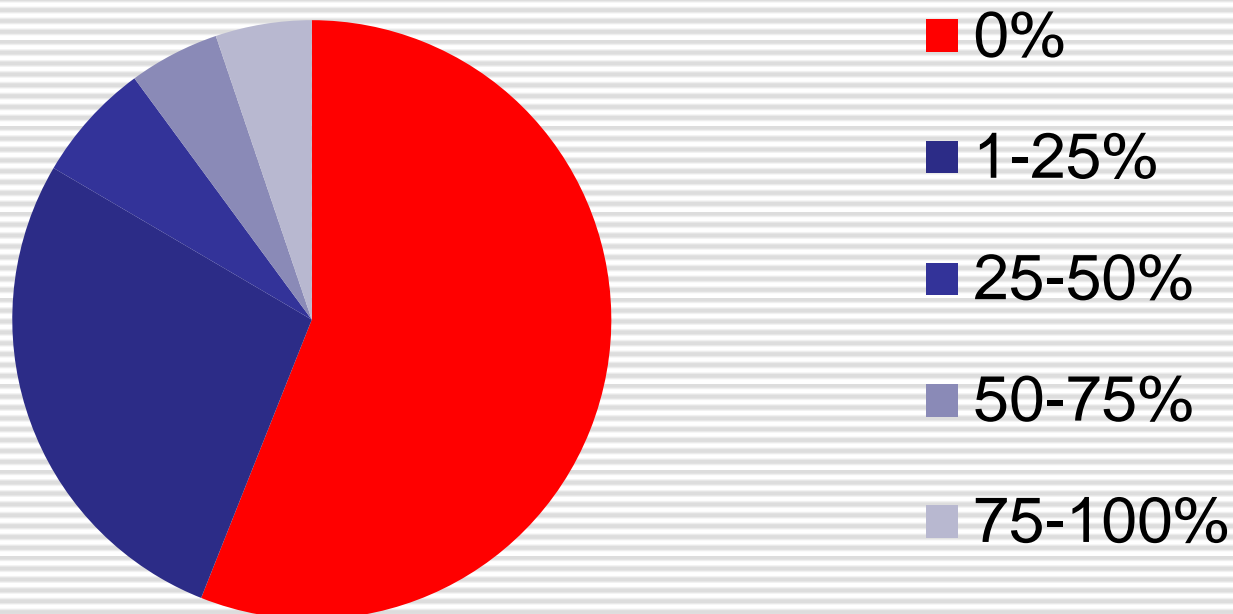
Investment Attractiveness in India

	Percentage of Firms “Yes” Sample Size: N = 402
Market Size, Market Growth	86.3%
Low Labor Cost	40.6%
Ease of Communication, Language	23.4%
Agglomeration of Transaction Partners	12.7%
Political Stability	12.2%

Source: JETRO Survey of Japanese Firms in 2014₁₁

Market-seeking FDI in India

Export Share in Total Sales by Japanese Affiliates in India



Source: JETRO Survey of Japanese Firms in 2014

Investment Barriers in India

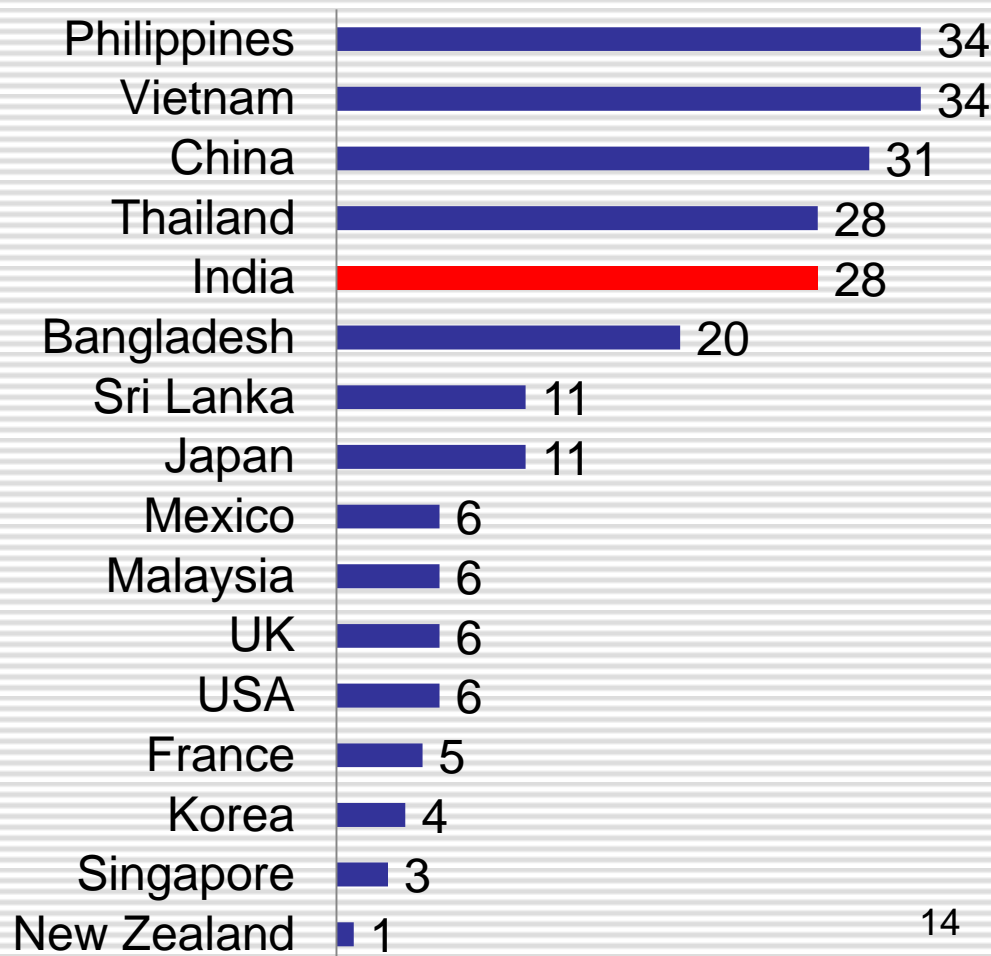
- ◆ Complicated tax system and procedures
- ◆ Inadequate physical infrastructure
- ◆ Lengthy administrative procedures for permit and licensing
- ◆ Inadequate regulatory framework and implementation

Investment Procedures in India

World Bank (2014)

- Investment procedure takes **28 days** on average
- East of Doing Business Rank of India:
142th in 189 economies
- Large **policy barriers** to foreign investment

Procedure Days



Simulating Impacts of Policy Reform

◆ Economic Model and Firm-level Data

- Research based on Tanaka and Arita (2015)
- To simulate the behavior of artificial multinational firms
 - Japanese multinational firms in manufacturing sectors for year 2006

◆ Hypothetical Policy Experiments

- Suppose developing economies reduce investment procedure days for foreign investors
 - To the level of developed economies
- 8.4% decline in fixed investment costs for India

Simulation Results

Firms across productivity group	Number of firms investing in India	
	Baseline	Policy Experiment
0-10	0	0
10-20	0	0
20-30	0	0
30-40	0	0
40-50	0	0
60-70	0	0
70-80	0	0
80-90	2	2
90-99	46	53
99-100	73	78
Total	120	133

Summary

- ◆ Growing foreign direct investment in India
- ◆ Market size/growth in India is crucial for FDI
- ◆ Remaining administrative barriers in India
- ◆ Policy reforms contribute to attract more FDI