Dr. Dibyendu S. Maiti is working at the Centre for Studies in Social Sciences, Calcutta and is currently visiting the Institute as Max Planck India Fellow. He also has a Post Doctoral position at the Institute for Development Policy and Management, University of Manchester. He also has been a Visiting Fellow at Chinese Academy of Social Sciences, Beijing in 2005. He researches the impact of economic reforms on the dynamics of production organization of developing economies with a special focus on India. He is currently investigating the gradual expansion of the informal sector and its innovation processes.

October 9th, 1:00 pm
Max Planck Institute of Economics
Entrepreneurship, Growth and Public Policy Group
Seminar Room V03

Trade Reform, Vertical Contracts and Innovation in a Developing Economy

One of the most controversial issues in industrial organization literature is the increasing tendency towards market foreclosure through the process of vertical integration. It is interesting that a large part of producing activities in developing economies like India is undertaken by informal producers, mostly those who are vertically related to formal producers. Moreover, during the post-reform period in India vertical separation has increased by buyers giving more subcontracts to informal producers through mutually contractual relationships. How informal producers survive and what the economics of informal contracts are is still under-researched. An upcoming trend of tying up of powerful downstream producers to small upstream intermediate producers is observed with informal assistance to upstream R&D efforts during the post-reform period. Trade reform policy in India enhances vertical separation in order to reduce the bureaucratic costs in an integrated firm. If a power buyer transfers the burden of price cuts to the upstream firm, this invariably squeezes his own profit as a feedback, because of reduction of upstream R&D effort. If a power buyer assists upstream innovation, it not only helps upstream R&D effort, but also raises surpluses for both supplier and buyer.