SECOND RESEARCH CONFERENCE ON EMPIRICAL ISSUES IN INTERNATIONAL TRADE & FINANCE

INDIAN INSTITUTE OF FOREIGN TRADE

LIST OF PAPERS

DETAIL OF AUTHORS

AND

BOOK OF ABSTRACTS

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International Finance, Capital Flows and Macro Economic Impact on India

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ABSTRACT

Capital flows are most helpful when the magnitude of those flows is steady and stable. The international capital flow such as direct and portfolio flows has huge contribution to influence the economic behavior of the countries positively. The present Paper attempts to explain the effects of private capital inflows (FINV) on some macro economic variables in India by using the time series data during April 1995 to December 2006.

The study also examines the impact of international capital flows on economic growth, trends and composition and suggests policy implications thereof. Co-integration test confirms the presence of long-run equilibrium relationships between a few pair of variables like private capital inflows (FINV) and economic growth (IIP as proxy of GDP) and FINV and Exchange Rate (EXR). The Granger causality test shows unidirectional causality from FINV to Exchange Rate (EXR) and bi-directional causality from FINV and growth (IIP). Finally study found that Foreign Direct Investment (FDI) is positively affecting the economic growth, while Foreign Institutional Investment (FII) is negatively affecting the growth. The empirical analysis shows that FDI plays unambiguous role in contributing to economic growth.

It concludes that capital inflows have not contributed much towards industrial production or economic growth. There are two reasons for this, one the amount of capital inflows to the country have not been enough. Two, the amount of capital that does flow in, is not utilized to its full potential

Exchange Rate Regimes and Economic Performance in MENA Countries: A Poled Mean Group Estimation

Abdelhak Benamar

Mohamed Benbouziane

ABSTRACT

The choice of exchange rate regime is a real dilemma. The decision on any exchange rate system is affected by many considerations ranging from economic factors related to stabilization properties of regimes to political arguments. So, one of the most important aspects of choosing exchange rate regime is its impact on the real economy.

Thus, the main concern of this paper is to test the impact of exchange regime on the real sector (inflation, nominal money growth, nominal exchange rate, foreign direct investment, exports, imports and GDP growth) in MENA countries using the new classification as documented in Reinhart and Rogoff (2004) and Levy Yeyati and Sturzenegger (2005). Previous studies have used VAR models. Recent empirical studies, however, have shown that VAR models are in general known for their over-parameterization and low precision of coefficient estimates (Madalla and Kim, 1998). To overcome such a problem, we will be using the Pooled Mean Group (PMG) estimation as proposed by Pesaran et al. (1999). This method allows for heterogeneous short run dynamics which implies relaxing a restrictive assumption adopted in the VAR model. Our results show that, these is a significant impact in the short run, whereas in the long run, it was found that the nature of exchange rate regime has no effects on the economic performance in MENA countries.

The Optimal Currency Area and the GCC (Gulf Council Countries): Is there any Feasibility?

Abderrezak Benhabib

Samir Maliki

Abdelhak Benamar

ABSTRACT

The main objective of this paper is to test for the possibility of an optimum currency area in the six Gulf countries (namely: Saudi Arabia, Bahrain, Qatar, Kuwait, and United Arab Emirates). To constitute such an optimum currency area, however, they must satisfy certain preconditions; i.e., they must have similar economic structures with exposure to symmetric shocks, they must be open economies, well diversified and must also ensure high degree of factor mobility. The objective of this paper is to assess the degree to which the GCC may be meeting the requirements of an optimum currency area. Annual and quarterly data are used in our analysis. The main results, and using an MVTAR model (Multivariate Threshold Auto-regression) and the generalized response functions, are that the GCC countries should be divided, as far as the symmetry of the shocks is concerned, into two sub-groups. The first consists of UAE, Oman and Bahrain and the second sub-group consists of Saudi Arabia, Qatar and Kuwait. Thus, the main implication is that the GCC countries are still far away from an optimal currency area and our recommendations is that the success of such a union is conditional on a lot of measures including the removal of domestic and cross-border distortions that are regarded as a hamper to trade and foreign investments, the coordination of national policies that ensure macroeconomic stability, the deepening of regional integration, and the development of nonoil economy and according a large degree of political integration.

Why Has Financial Development Received Little Attention among the Determinants of FDI Flows to Sub-Saharan Africa?

Abel Ebeh Ezeoha

ABSTRACT

This paper examines whether banking development is a relevant determinant of FDI flows in the Sub Sahara African (SSA) region. Using a panel data set spanning from 1995 to 2008 and drawn from 32 SSA countries, the paper finds evidence to support that banking development indeed matters as much as the other conventional determinants of FDI. It reveals that the impact of banking development is amplified when analyzed alongside with macroeconomic and institutional factors; and that the impact of banking development on FDI is optimal in the presence of sound institutional quality and macroeconomic stability.

Crowding In and Crowding Out Impact of FDI on India's Services Sector

Aditi Sawant

ABSTRACT

The services sector's contribution is the highest in the Gross Domestic Products (GDP) among all sectors in India. Similarly, it has been observed that Indian services sector attracted maximum Foreign Direct Investment (FDI) in comparison to other sectors since liberalization. This clearly indicates dominating role of Service sector in many aspects. Although an unexpected boost in the growth of the service sector has inspired many economic variables. It's always advisable to measure and forecast future implications of a particular trend or development pattern within the economy. This paper analyses the crowding in and crowding out impact of FDI on domestic investment in services sector in India. For the research analysis, the period under investigation will be from 1990 to 2010. For the econometric analysis, Adaptive expectation and It will also focus on the Growth rate of GDP, Growth rate of Services and Growth rate of FDI in Services for the same period in India. For the econometric analysis, an appropriate method will be used based on the analysis of literature review. It provides a roadmap on what the government needs to do in order to use the FDI opportunities in the service sector to ensure inclusive and sustainable growth as well as regulation to enhance their contribution to pro-poor economic growth and sustainable development in India.

Transition to Monetary Union: An Empirical Contribution to the Debate on Regional Integration in East Africa.

Albert Mafusire

ABSTRACT

The resuscitation of the East African Community (EAC) in 2000, following its collapse in 1977 and the subsequent expansion of its membership present an interesting development. The EAC now plans to move into a monetary union by 2012, yet questions on the appropriateness and timing of such action abound. On the basis of the traditional OCA theory, there is little support for such a development. However, research shows that OCA has performed poorly from a historical perspective. Recent literature in this area suggests that in spite of the desirability of macroeconomic convergence, structural similarities among members of a monetary union are important as an assurance of the congruence in the transmission of policy changes in a currency union. This paper employs the shock synchronization framework to test whether EAC members have any structural similarity. On the basis of the results obtained, I draw the policy implications of the proposed EAMU for EAC member countries.

Growth Behaviour, Structural Changes and Instability in India's Exports and Imports

Amarjit Singh Sethi

Jyoti Anand

ABSTRACT

An attempt has been made in the present paper to examine long-term behavioral growth paths traced by different components of India's exports, imports, and GDP by using sufficiently long time-series information at aggregated/ disaggregated level. Through confluence analysis, the best-fit equations of behavioral growth paths for each of the aggregates were rationally identified and relative growth rates were computed so as to examine alternative hypotheses of constancy, acceleration, or deceleration in the growth paths. Along these paths, turning points, if any, were located by following Sethi (2010a) and kinked growth rates were computed thereat. Through traditionality analysis, identification was made as to which of the components of exports, imports, and GDP have undergone a relatively more rapid structural shift. Besides, the extent of instability as also growth-instability relationship among different components of the study variables was measured through alternative indexes.

At aggregated level, the policy of liberalization was observed to have induced acceleration on both trade and GDP. For a majority of the components, turning points were detected to have occurred after mid-80s. Kinked rates of growth were fairly high in respect of the export of Manufactured Goods, imports of Non-bulk Items (including capital goods and export-related items), and GDP from Services Sector. As regards pattern of structural shifts, the most traditional and most modern sectors were seen respectively to be (a) Primary Products and Petroleum Products in case of exports, (b) Bulk Items and Non-bulk Items in case of imports, and (c) Agriculture & Allied Activities and Services in case of GDP. The extent of association between growth and instability was observed, in general, to be weak. Nevertheless, keeping in view its

deleterious effect on the whole economy, we need to understand the significant causes of instability in the economic variables so as to have a check on the extent of instability.

India’s Intra-Industry Trade with Different Economies

Amit Srivastava

Yaj Medury

ABSTRACT

Intra-industry trade, where same or almost same products are getting exported and imported between a country pair, is an integral part of international trade. The trend has been identified in late 1960s, but still the field is quite fascinating to the researchers because of its unpredictable nature. Although lot of research has been done on the topic but still researchers have not reached to consensus regarding its theory and empirical results. In most of the cases the empirical results does not in agreement with theory and therefore it is difficult to conclude about the reasons/determinants of intra-industry trade. The present paper tries to find out the nature of India’s intra-industry trade with different categories of countries. Here countries have been categorized into different categories, according to World Bank classification. We have selected different parameters, which are relevant for affecting intra-industry trade, and used a panel data analysis for the last ten years data.

Strengthening the Domestic Market or Searching Export Opportunities: A Dilemma Resulted from the Impact of China's Products Penetration on Micro, Small and Medium Enterprises

Angelina Ika Rahutami

Westrie Kekalih

ABSTRACT

The newest RTA ratified by Indonesia was ASEAN-China Free Trade Agreement (ACFTA). ACFTA is aimed to strengthen and enhance economic cooperation between ASEAN and China. One of ACFTA consequences is having more trades of goods and services flow to Indonesia from ASEAN countries and China. Among other countries, China has been a new "giant" for Indonesian trade. Trading relationship between Indonesia and China tends to increase year after year. Since 2005 until 2009, Indonesia had had a deficit trade balance to China. This condition indicates that China trade can expand and entry Indonesian market easily. Until now, invasion of cheap products from China has threatened many industries in Indonesia, as well as in Central Java. This condition has affected business situations, including Small and Medium Enterprises (SMEs). Based on this phenomenon, this study is aimed to analyze how Central Java deals with ACFTA challenges. The study method was an explorative study. Primary data was found through questionnaire and in-depth interview. The study results showed that Central Java had a deficit trade balance to China. This condition was not favorable because the imported commodities were equal to the competitive SMEs' commodities. This condition threatened MSMEs entrepreneurs. Moreover, the results of consumer perception showed that respondents preferred to choose the Chinese products rather than Indonesian because of quality, availability, attractive design and price. Furthermore, many SMEs entrepreneurs were faced to a new threat especially in supply chain, supply

continuity, and price. The Chinese products penetration has decreased sales volume and profit of SMEs. Thus, this study results the appropriate strategies to cope with the ACFTA, which are strengthening access to domestic market, fixing supportive regional regulation, and not focusing yet on export orientation.

Conceptual and Analytical Method to Measure Economic Recession and Recovery in a Single Country (Case: U.S., U.K., Germany, China, Malaysia and Thailand)

Asfaw Yilma Demisse

ABSTRACT

Our world frequently suffered from different economic crisis due to different reasons. This descries mainly by comparing the GDP and unemployed rate in economy. Also other determinants are considered by some economist and related institutions. However still there is no clear method to calculate economic crisis. Especially it seems to be hard to calculate recession during economic activity because there is no uniform measurement. Therefore, this paper focuses on introducing new measuring tool to calculate the rate of recession and recovery in a given country using four key variables: real GDP, Unemployment Rate, Rate of Inflation and Investment (Growth fixed). Based on the new method this paper analyses the case of U.S, U.K., Germany, China, Malaysia and Thailand using CIA World Fact Book (2009) summarized data. And the result shows that U.S and U.K are in relatively in slow motion to skip from the economic crisis comparing to Germany, China, Malaysia and Thailand. And this seems to agree the CIA report

Financial Integration in South Asia: Possibilities and Consequences

Ayub Mehar

ABSTRACT

South Asia is mired with ethnic and deep rooted military. The continuing disturbances are acting as a great barrier to the overall economic and social integration in the region. It is often argued that the region is extremely laden with vast potential natural resources that the region with favorable policies, co-operation of the Government can achieve tremendous progress. The two prominent economies like India and Pakistan can play a crucial role in fostering an economic and political cooperation to integrate this region effectively with the world economy. The paper makes an attempt to address these discussing the major issues related to the financial integration in South Asia. The integration of stock exchanges is one of the advancements in this direction. The consideration of stock market integration in South Asia is a part of globalization and free trade regime. There is a great variation between India and Pakistan – two major economies in South Asia – in the distribution of financial assets. Fairly large part of financial assets in India belongs to the equity market; in Pakistan, public debt is the largest part of financial assets. These variations indicate the need of synchronization in the monetary and fiscal polices of the participating countries. The study proposes that utilization of financial resources by flow of investment in the areas of specialties can improve the socio-economics and technological advancement in South Asian countries. However, the capital account convertibility, permission for cross boarder investment and synchronization in the monetary and fiscal policies are the prerequisite of a common stock exchange.

China’s Outward Foreign Direct Investment: Location Choice and Firm Ownership

Bala Ramasamy

Mathew Yeung

ABSTRACT

This article evaluates the international location decisions made by public listed Chinese firms during the period 2006 – 2008, using a Poisson count data regression model. Further, we categorize the firms into state-controlled and privately owned according to majority ownership. We find that the determinants of internationalization differ based on ownership. State-controlled firms are attracted to countries with large sources of natural resources and risky political environments, but private firms are more market seekers. Although all firms have strategic intent, the attraction is commercially viable technology rather than core research content. Our findings also show that existing theories can sufficiently explain the actions of private Chinese firms, but adjustments are needed to understand the behavior of state-controlled multinationals.

Multilateral Trade Negotiations and Trade and Environmental Disputes in WTO

Barun Kumar Thakur

ABSTRACT

Developing countries has immense potential to increase its share of exports in environmental goods in international trade. This paper attempts to explain how trade and environmental disputes has been gone through its process in multilateral trade negotiations. Out of 405 disputes, nearly half of that went through the final process, the rest is either still under the consultation phase or settled through mutual understanding out of the dispute panel. Article I which is based on most favoured nation principle, Article III on national treatment, Article XI of quantitative restriction and Article XX on general exception has been cover in details. Article XX (b) which is on 'Necessary to protect human, animal or plant life or health' and Article XX (g) is on 'relating to conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions or domestic production or consumption' related disputes have also been discussed . Finally, the paper talks about impact on developing countries due to trade and environmental disputes in the framework of multilateral trade negotiation under WTO Agreement and GATT 1994.

Causal Relationship between Foreign Direct Investment and Macroeconomic Indicators: The Indian Context

Basabi Bhatatcharya

J. Mukherjee

ABSTRACT

The objective of the present study is to analyse the pattern of movement of external capital flows to Indian economy in terms of foreign direct investment (FDI) along with other domestic macroeconomic indicators and their probable impact on the financial and overall performance of the economy. Given that the current study period is from 1997-98 – 2008-09, and the tremendous growth in terms of external capital inflows in India during that time simultaneously with near double digit economic growth, our focus is primarily to unravel the linkage between the FDI inflows and macroeconomic fundamentals during this time period. The study employs recent time-series econometric methods like Granger causality test (1969) and its subsequent improved version Toda Yamamoto approach (1995) and the Granger two-step cointegration test and Johansen and Jesulius (1990) cointegration approach in the relationship. Our results indicate that FDI and the selected macroeconomic indicators, viz., real GDP growth, call money rate, US dollar exchange rate, inflation, T-bill rate, trade openness, and Dow Jones Index value are cointegrated and thus there exists a long-run stable relationship between them. The short-run causality test result suggests bi-directional causality between trade openness and FDI, and uni-directional causality from FDI to exchange rate and also from inflation to FDI inflows. Given the increasing importance of the FDI inflows in the Indian economy, the findings should hopefully have significant policy implications.

Export Potential at the State-Level: A Case Study of Karnataka

Bibek Ray Chaudhuri

Debottam Chakraborty

ABSTRACT

Given the diversified framework different regions of India have different priority sectors and different priority requirements. In order to fulfill this, regions will engage in trade with different countries or other regions within India. In case of International trade, it is interesting to observe that, although any particular region (say a state) cannot individually trade with other countries, the trade basket of India, as a whole, will reflect different regional priorities of India. In this framework, it is challenging to find out the regional export potential in a country like India. Data regarding regional trade is not much accurate, since export data of regions are computed on the basis of the port-wise data. In this connection, a methodology is proposed in this paper, to estimate the regional export potential, considering Karnataka as a case. The existing production basket has been matched with the potential export items from India for this purpose. At the end, we shift our emphasis to the products which have export potential but have not yet achieved high export values. Considering tariff, non-tariff barriers and import penetration ratio for different countries we identified high, low, and medium potential products for the state from this set. It has been observed that some agricultural products like sunflower, groundnut, onion, turmeric, and silk, electrical machinery, precision engineering products have high unrealized export potential from the state to different countries. Identification of the causes and the ways to enhance the export of such products were arrived at through the survey of various stakeholders.

The Spaghetti Bowl: Issues Relating to Rules of Origin and the Paradox Caused by Rules of Origin in Regional Trade Agreements

Bipin Kumar

ABSTRACT

One of the major problems in International Trade nowadays is determining the country in which a particular good originates. In today's world of preferential trading regimes and concessions in customs valuations based on bilateral trading agreements, as well as in the presence of the WTO regime, the Rule of Origin is a hotly debated subject. It is the basis for all Regional Trade Agreements, and is also being worked on in great detail by the WTO. For many years the world trading community did not realize the need or the importance of Rules of Origin, but now most countries and Trade bodies have woken up to the need of Rules of Origin. Substantial work has been done in the past decade on Rules of Origin, but even this has not been enough and there is still a long way to go in establishing a proper framework of Rules of Origin that can be adopted by all countries.

This paper has been divided into four parts, the first part deals with the basic concepts relating to both Non-Preferential Rules of Origin as well as Preferential Rules of Origin. The Second part deals with the problems that are being faced with regard to Non-Preferential Rules of Origin as well as Preferential Rules of Origin. The third part deals with the paradox caused by Rules of Origin in relation to the Regional Trade Agreements. Part IV concludes that while progress toward their harmonization has been made, rules of origin will continue to be important and controversial as long as countries treat similar imported goods differently.

Does Export and Productivity Growth Linkage Exist? Evidence from the Indian Manufacturing Industry

Chandan Sharma

Ritesh Kumar Mishra

ABSTRACT

This paper examines the interrelation between exporting and productivity performance by using a representative sample of Indian manufacturing firms over the period 1994-2006. Specifically, we have tested the learning-by-exporting and self-selection hypothesis for our sample firms. For this purpose, we compute the firms' total factor productivity (TFP) by using a semi-parametric estimation method. In order to investigate the linkage, in the first step, we test the causality between TFP and export intensity of the firms by using the system-- Generalized Method of Moments (sys-GMM) approach. Although we have found mixed evidence in support of both the hypothesis, our overall results are somewhat more in favor of the self-selection hypothesis. In the next stage, we attempt to provide evidence that occurs during various phases of transition in the export market. Our results suggest that entering in the export market does not improve the firms' performance; however, the decision to exit, from the export market does have an adverse effect on the productivity of firms. In addition, our evidence indicates towards the presence of high sunk cost for entering in export market coupled with perhaps lesser information about foreign markets. Finally, our results also lend some support for significant role of in-house research activities and economies of scale in the firms' productivity performance.

India's Balance of Payment Position: Need to Make Trade Work for the People.

Chandramouli T.

ABSTRACT

International trade has become more complex and competitive. Countries have begun to open up their economies and adopt liberalization process. The formation of WTO has altered the world trading setup and in the process of analyzing the gains from trade, countries have failed to promote 'trade diversion' activities. The volume of trade may increase, but what is needed is trade diversion and not only trade creation. In this context it is worthwhile to analyze India's balance of payment position. This paper makes an attempt to analyze balance of payment position between 1995-96 and 2009-10*, thereby understanding India's performance during the post-WTO phase. Interestingly this phase is also characterized by rising foreign exchange reserves, growth of services, FTAs and recessionary impacts on various sectors. Though favourable changes in India's external sector can be highlighted, it is necessary to make trade work for the people. The outcome of any economic activity should not create 'immiserising growth' like situations, but should lead to the development of all sectors.

New-New Trade Theory and the Great Recession: Evidence from Indian Firms

Chinmay Tumbe

ABSTRACT

This paper analyses the impact of the Great Recession abroad on Indian firms using the framework of New-New Trade Theory. In particular, we recognize firm heterogeneity at the industry level and analyze a sample of over 3,000 firms representing over 40% of aggregate merchandise trade across the time period 2004-09. We find that the impact on profits has been felt across firms and sectors and more so by exporters relative to non-exporters. Firms that witnessed profits fall for two consecutive years over 2007-09 were more likely to be exporters, less reputed firms and govt. companies. We theorize that external demand fluctuations are sizeable risks to businesses and form an additional deterrent for firms to enter export markets, in compliance with New-New Trade Theory.

Indian Antidumping Policy and its Impact on the Markups of Domestic Firms

Christian Viegelahn

Hylke Vandenbussche

ABSTRACT

Over recent years, India has become one of the most frequent users of antidumping measures. Indian firm-level panel data at hand, our paper estimates the effects of antidumping protection on the market power of domestic import-competing firms. Controlling for the potential endogeneity of antidumping protection, our findings indicate that markups of protected firms increase when antidumping measures are imposed. We find that the effect is stronger the longer protection is in place. For firms in relevant control groups, we do not find any increase of markups during the same period. This paper is amongst the first to provide firm-level evidence on the effects of antidumping protection in an emerging country.

Exogenous Human Capital, Complementing Foreign Capital, Labour Market Infirmities and Dynamics of India's Services Growth

D Tripati Rao

Krishna Mahale

ABSTRACT

In the backdrop of explosive growth of services trade during the past two decades, we explore the determinants of India's services exports through an augmented-gravity model. We find that: (i) 'location' does not matter for India's services exports as the effect of distance on services exports is found to be transient and tapers off in the long-run, (ii) services exports exhibit unlimited potential under favorable trading conditions, per se, 'economic freedom' of trading partner, (iii) overall, the determinants for services exports are different compared to goods exports, and (iv) while 'market size' and 'geography' (distance and remoteness) matter for goods exports both in the short- and long- run, services exports are purely driven by exogenous human capital accumulation; wherein human capital may be causing an endogenous growth in services exports due to labour market infirmities. The human capital to physical capital ratios may converge (unconventionally) to a steady state signaling investment in physical capital and innovation in services; the latter is an unavoidable phenomenon resulting in the realization of a complete product life-cycle beginning from introduction to maturity and decline stages for the entire services sector.

Green Stimulus in Regional Cooperation: Case of Developing Countries

Debdeep De

ABSTRACT

In response to the economic crisis enormous sums of money have already been spent by the governments in underwriting toxic assets, recapitalising banks and attempting to restore confidence in the financial sector and stimulate lending. Beyond financial rescue for specific sectors, broader economic stimulus packages have now been established in countries right across the world to boost the economy through a mixture of tax cuts, social spending and public investment. Government policies affecting aggregate demand and market size will have long-term growth effects particularly in the developing economies. Supply constraints arising from pressure exerted on natural resources and energy will trigger higher world market prices for commodities and fuels, affecting production and consumption throughout the system. In principle, the potential exists for each of these different recovery measures to contain a green stimulus component. For example the support for the financial sector may be ensured with lending preferentially targeted at sustainable investments. Sectoral bailouts like those to the car industry may be made towards shifting towards greener manufacturing and low carbon vehicles. Out of a total commitment of almost $2.8 trillion committed to economic recovery plans, $436 billion (15.6 per cent of the total) can be characterized as green stimulus, according to the HSBC Global Research analysis 2009. The extent of green stimulus varies considerably across countries. Some plans still have no green component at all while others (notably China, the EU package and South Korea) incorporate green investment plans that represent a very substantial proportion of the recovery funding.

Regional cooperation in these days is not only limited in the formation of regional trade agreements and free trade agreements which has emerged in facilitating the economic cooperation with the stagnation in WTO but also a complex strategic coupling of those economic factors which has strengthened economic resilience of developing countries by providing those countries, especially the poorest among them, with full and duty-free market access to developed-country markets, leading to greater economic diversification. The present paper attempts to asses for the role of regional cooperation analyzing to address the combined challenges of catch up growth and climate change. The role of international trade agreements are discussed in the context of facilitating reduced high emissions energy demand to yield lower emissions and greater energy efficiency. The study is based on secondary research where the trade agreements are examined in the light of providing green stimulus to direct the economies in the path of sustainable growth. The paper addresses the concerns arising out of the expanded and transformative policy of the developing countries. Finally it recommends a developing country perspective in international trade negotiations in combating the economic and climatic threats simultaneously.

International Capital Flows, Global Financial Crisis and Trade Openness in Nigeria

Doyin Salami

Ikechukwu Kelikume

ABSTRACT

The flow of foreign capital from resource rich nations to resource poor nations and developing nations is central for private sector investment and economic growth to thrive. But liberal economic policies, global financial crisis and trade openness brings significant amount of risks which in recent times have slowed down the pace of economic growth and development in most emerging nations. The global economic recession of 2007-2008 which had its root in the U.S housing market bubble, triggered financial crisis across developed economies, emerging markets and developing economies. Many financial analysts were optimistic initially that the impact of the global financial crisis on Africa will be minimal giving the fact that African economies had little exposures to advanced economies banking system or to the "toxic asset" that triggered off the global financial crisis. Events in 2009 however, debunked this notion. African economies are not immune from the global financial crisis as they are strongly affected due to contraction in global trade, a fall in investment, tighter financing condition overseas, a drop in foreign direct investment, currency depreciation in relation to the US dollar, falling remittances from overseas workers and a sharp fall in capital inflows. Between 2000 and 2007, capital flows which were made up largely by foreign direct investment (FDI) and portfolio investment flows help buoyed Africa economic growth performance. However, by 2008, outflows of foreign capital hit African economies significantly with foreign investors fleeing the region's stock markets for safer and more liquid markets at home.

Between 2003 and 2007, Nigeria's real GDP had grown at more than 6 per cent per annum and despite the global economic crisis, GDP growth rate increased from 6.2% in 2007 to 6.8 per cent in 2008. A Merrill Lynch report released in November 2008 concluded that Nigeria was the least vulnerable of any of the world's major economies,

based in part on its large current account surplus, healthy banking sector and a low level of external debt. The International ratings agency Fitch and standards & poor's in its July 2008 report noted that Nigeria's macroeconomic position was "among the strongest of all 'BB' rated sovereign," and that the rating was supported by prospects for "continued robust economic growth." Sequel to these ratings, the Nigerian economy suffered severe setback in 2008 with the capital market losing more than two-third of its value and the naira falling 34 per cent against the dollar-a fall out of the perceived weakness in the banking sector and spillover effects of the global financial crisis. This paper analyzes the effects of global financial crisis and trade openness on capital flows in Nigeria. The paper provides evidence that macroeconomic volatility emanating from the global economy had significant short-run and long–run impact on capital flows to Nigeria.

Does Economic Partnership Agreement Strengthen Economic Integration in Economic Community of West African States?

Fadonougbo Boko

ABSTRACT

The main purpose of this paper is to show that EPA between European Community (EC) and West African countries will not strengthen intra trade in ECOWAS area. We based our analysis on the interim agreement already signed by Ghana and Côte d'Ivoire. Since the agreement will be signed with each African country, it means that the agreement will not take into account ECOWAS as a unique community but as a heterogeneous group of countries. Then, we present the European Union as one developed community and West African countries lonely. Second we try to compare the competitiveness in tradable goods subject to free trade in the agreement between West African countries and EC. We compare tariff before and after the creation of free trade area (FTA) and we found that tariff on import from EC after FTA under EPA will be lower than intra trade tariff in ECOWAS after implementation of FTA under EPA. Therefore, FTA under EPA will lead to an intra regional trade diversion. It will result contradictory effect according to Article 2 c and e of EPA agreement. From these result arise the question according to which for developing and LDCs GSP would certainly be better to an EPA.

Globalization and Occupational Wages: Some Empirical Evidence

Farzana Munshi

ABSTRACT

How does globalization affect inter-occupational wage inequality within countries? This paper empirically examines this issue, by focusing on two dimensions of globalization, openness to trade and openness to capital, for 52 countries for the time period 1983-2002 using a relatively new dataset on occupational wages. Estimates from dynamic models suggest that increased openness increases occupational wage inequality in poorer OECD countries as predicted by the Heckscher-Ohlin-Samuelson model, but for the more advanced OECD-countries we find no significant effect. In the context of developing countries, the results suggest that increased openness to international trade has insignificant effect on wage inequality. Increased openness to capital flows appear to be associated with an increase in wage inequality in middle-income developing countries during the period of analysis.

Non-Tariff Measures Affecting India's Textiles and Clothing Exports: Findings from the Survey of Exporters

Gordhan K. Saini

ABSTRACT

This paper reports the finding from the survey of India's textiles and clothing exporting firms. A survey of 135 firms was conducted to identify and assess the impact of NTMs; and to estimate cost of compliance (COC) expenditure. The results reveal that the EU and USA based buyers are most restrictive covering more than 2/3rd of total NTM incidences. The technical barriers, product & production process standards and conformity assessment requirement for technical barriers are the most frequently used NTMs among the aggregated five categories. The average COC as a per cent of turnover is inversely related to the firm size, which is 0.63 per cent for large firms and 1.32 per cent for small firms. Overall, on an average firms spend about Rs. 0.49 crore or 1.12 per cent of total turnover in complying with NTM standards. Some of the common issues about NTMs are buyer nomination of the suppliers and testing & certification agencies, stringent social compliance measures, import detentions and export related NTMs. Unexpectedly, the NTMs are not only seen as marketing and promotional tool but also they promote efficiency and competitiveness within the industry. The institutional mechanism and support system is recommended to mitigate the impact of NTMs.

Strategies of New Mexican Multinational Enterprises

José G. Vargas-Hernández

ABSTRACT

The term multinational has meant the expansion of American firms around the globe. During the 1970s and 1980s “Third World multinationals” were identified and characterized by a number of authors. However, their foundations have changed over time under the competitive advantage strategy of the global economy era. Profound economic changes in emerging economies during the 1990s resulted in a more competitive environment that forced large firms to develop new strategies, build new capabilities and move into more global competitive markets. Newer emerging multinationals enterprises (MNEs) from emerging economies are in the process of transforming the global foreign direct investment (FDI).

The emergence of rapidly developing economies is characterized by a wave of economic growth and the rise of local enterprises to become “global challengers” (BCG, 2009) that are globalizing their business and challenging the traditional American model of modern multinational enterprise (MNE). The emergence of this “global challengers” is a trend, although this new emerging multinationals are hardly world leaders in their industry or market niches.

Mexico had been host economy for multinationals from developed countries. Foreign policy entered México when this country changed trade policy from an economic model of import substitution to an export oriented strategy model. Trade liberalization policy has changed the behavior of large Mexican firms providing incentives to internationalize their activities. The Mexican emerging multinational enterprises (MexEMNEs) are involved in broader processes of economic globalization of Mexico post-NAFTA (North American Free Trade Agreement). After 15 years of the implementation of NAFTA,

Mexico has become the 12th largest economy of the world and one of the leading world exporters in manufacturing goods.

In the late 1990s, large Mexican firms that survived market reform and structural adjustment policies started to invest overseas. Since then, new multinationals are rising in Mexico as well as other emerging economies are changing the corporate world. The analysis of Suarez and Oliva (2002) shows that emerging multinationals are successful survivors from the complex competitive environments of structural economic reforms in the stages of turnaround and catch-up, expansion, acquisition of new capabilities and quest for industry leadership.

Although this new Mexican emerging multinational enterprises (MexEMNs) share common structural features with emerging multinationals from other countries, they have the imprinting of specific national experiences. Mexican new multinationals have irrupted on a global scale multiplying investments beyond the borders to lead their business sectors. Mexican emerging multinational enterprises (MexEMNs) rank among the most global and largest firms.

Indian Sovereign Wealth Fund in Making: A Critical Evaluation of Sustainability and Challenges

Julien Chaisse

Debashis Chakraborty

J Mukherjee

ABSTRACT

India has been nurturing the idea to create a Sovereign Wealth Fund (SWF) since 2008 and establishment of an advisory group for evaluating how to set up a SWF in February 2010 underlines the inclination of the country towards this option. The move has been emboldened by the growing nominal as well as real foreign exchange reserves (FER) in India since mid-nineties, which reached a new peak of US$ 251985 million in 2008-09. Nonetheless, the accumulation of FER has occurred simultaneously with a negative current account balance, which undermines the robustness of the FER. Since India's current account deficit is growing over the last decade, a major component of the growth in its FER has been speculative capital inflows on the capital account. The current study attempts to analyze the macroeconomic stability of India in terms of reserve adequacy – the ratio of reserves to short-term external debt and ratio of reserves to broad money, and fiscal deficit so as to understand its preparedness for creation and management of SWF. Looking at the growing fiscal deficit scenario in India, it also attempts to gauge the exposure of the FER to potential outflows by foreign investors and weigh the SWF options in that light.

Do Foreign Institutional Investors Really Drive the Indian Stock Market?

K. V. Bhanu Murthy

Amit Kumar Singh

ABSTRACT

It is, generally, argued that we can attribute the rise and fall of stock market to the flow of funds and investment by Foreign Institutional Investors (FIIs). We often hear the terms "FIIs fuel the market-run". While this might be true of smaller countries, which do not have strong domestic financial institutions and markets, it needs to be well established that the same can be said of the Indian stock market.

The Indian stock market is visited by three major players – FIIs, Mutual Funds (MFs) and Domestic Institutional Investors (DIIs). This paper lays down the analytical framework for comparing the nature and role of the three players. It uses a framework for empirically testing the impact of each player on the stock market. Through a set of Granger causality tests, it verifies the popular hypothesis that FIIs dominate the Indian stock market.

The results are quite startling. Our results show that FIIs are not the only active players who have an influence in Indian stock market even DIIs have an influence, whereas Mutual funds are the passive players. FIIs are essentially opportunistic agents who do not cause any fundamental change in the market but themselves opportunistically gain from the market.

Forecasting Foreign Exchange Rate during Crisis: A Neural Networks Approach

K. V. Bhanu Murthy
Arun Singh

ABSTRACT

This paper attempts to compare artificial neural network with a conventional univariate forecasting models - ARIMA. Foreign exchange rate forecasting is a fertile ground for making such comparisons since it is of both theoretical and practical relevance. The stage for exchange rate forecasting was set with the liberalization of exchange rate regime. In recent years, there is renewed interest exchange rate on account of the added volatility due to the international crisis. More particularly, this paper examines foreign exchange rates in India between since a large part of this period was crisis ridden.

This paper analyses the daily USD/INR rates with the help of a neural network and presents their usefulness even in the times of extreme volatility like the current recessional period. It predicts the one-step-ahead value of the USD/INR exchange rate using a Feed Forward Back Propagation neural network with gradient descent approach using Levenberg-Marquardt Algorithm. It measures the performance using three evaluation criteria, i.e. MSE, MAE and DA. It then compares the Neural Network and the ARIMA model.

The results show that there is no given perfect model for prediction. We may hypothesize that neural networks may perform better if the data generating process is not structured along conventional lines of modelling. Also it cannot be said a priori that neural networks have advantage over conventional methods. The choice of model depends on case to case basis conditions. Also if the phases of the neural network, i.e. training, validation and testing belong to different phases of the data generating process which are different from each other, then the predictive efficiency of neural network suffers. The results of neural

networks are also compared with a cubic function. The findings in the study have implications for both policy makers and investor’s in the foreign exchange market.

Dominance and Concentration of FDI: A Cross Country Analysis

K. V. Bhanu Murthy
Manoj Kumar Sinha

ABSTRACT

With globalization, there has been a phenomenal rise in Foreign Direct Investment (FDI). Since this is likely to lead to an international relocation of production and consequent generation of income and employment. This would lead to international specialization of production and is likely to maximize of global welfare. This would however, be hampered if the distribution of FDI in terms of inflows and outflows are not rationally allocated. This implies that FDI outflows should not be dominated by few countries and FDI inflows should not be concentrated in few (developing) countries.

We use set of new indices, including Indices at three levels for FDI and Gross Domestic Product (GDP), at five point of time (namely, 1990, 1995, 2000, 2005, and 2008), Index of Rank Dominance, Bodenhorn's measure of Mobility and Turnover and Herfindal's Index of Concentration for periods 1990-2008. These indices are prepared to study and examine whether FDI outflows is dominated by few countries and FDI inflows is concentrated in few (developing) countries.

On examining dominance patterns of 53 countries, it was found that the FDI outflows were dominated by three countries whose index of rank dominance was in the range of 0.90. Similarly, in terms of FDI outward stock, USA got an absolute dominance with IRD = 1. In respect of concentration it is noticed that the ratio show a pattern whereby it increases when the world economy contracts and decreases when the world economy expands, with phases of instability during crisis.

The Impact of Bilateral Tax Treaties on FDI Inflows: The Case of India

K. V. Bhanu Murthy

Niti Bhasin

ABSTRACT

Foreign direct investment (FDI) inflows are driven by both home country and host country conditions. It is for the host country to provide a conducive environment to FDI. Many developing Asian economies, including India, have redesigned their tax systems to make them internationally competitive. Bilateral tax treaties are seen as an instrument of policy that makes this possible. Tax treaties alleviate the problem of international double taxation. They create an environment of fiscal and legal certainty.

This paper examines the FDI inflows to India from 14 countries that are major partners. With the help of panel data for the period of 1993-2007, this paper models the role of tax treaties in promoting FDI. A fixed effects (LSDV) model is developed that captures macro-economic factors and policy factors such as openness. We have also used Principal Component Analysis to augment the model's analytical richness.

The trend shows that FDI has been growing due to factors including tax treaties. The results show that FDI to India is market seeking and efficiency seeking. It is facilitated by tax treaties. In particular, Mauritius, UK, Singapore, UAE and Switzerland show acceleration in their FDI flows to India, due to the implementation of tax treaties. There is very small but significant and positive effect of tax treaties.

The Determinants of Capital Inflows in Nigeria: A Cointegration Vector Autoregression Approach

Kelikume Ikechukwu,
Agbontaen Osarodion Osaro

ABSTRACT

This paper revisits the determinants of capital flows to Nigeria over the periods 1980 to 2009. It examines structural policy mix and uncertainties within the study period and introduced volatile macroeconomic aggregates as key determinants of capital inflows to Nigeria. The study used the co integrating Vector Autoregressive Model (VAR) to test for the existence of demand shocks induced mainly by transitory structural error and self induced shocks which are most likely due to parameter disturbances. The result reveals that all the variables in the model had a significant effect in altering the levels and composition of capital flows to Nigeria. The exchange rate volatility variable showed no signs of sustained effects in the long-run but it elicited relatively strong inconsistencies with other variables in the short-run. Other variables such as macroeconomic stability, openness, political stability, market size, labor efficiency and capital performance reacted more swiftly to other variables in the model. The test of shocks among variables detected that the effect of a unit shock to capital inflow on the variables in the model is quite large. This suggests a cyclical impact of capital inflow shock on the model, subsequently; this effect was noticed to decline fast. The impulse response result discloses that the effects of such shocks regenerate quickly and it was discovered that investors in Nigeria react to capital flow shocks negatively. The shock response patterns of the variables in the model have significant implications for policy makers, business agents, investors and donor agencies. It lends support to the need for stringent management of capital inflows and volatile macroeconomic aggregates.

Adjustments in Trade Structure after Macroeconomic and Financial Crisis

Kenan Bagci

ABSTRACT

This paper investigates the potential effects of macroeconomic and financial crises on the structure of trade. We consider two types of macroeconomic shocks, four types of financial crises, one dual crisis, and three measures of trade structure. The findings reveal that economic crises have immediate and long-lasting negative impact on diversification, technological intensity of exported goods and of the goods in which countries have comparative advantage. Following financial crisis, we observe the opposite effects.

Economies diversify their exports and experience an upgrade in the technological intensity of the goods exported. Finally joint definition of crises indicates that economies increase their capability to match world demands while no clear improvement in technological intensity takes place.

The Task Composition of Off-shoring by the U.S. Multinationals

Lindsay Oldenski

ABSTRACT

Grossman and Rossi-Hansberg (2008) develop a model in which the extent of off-shoring done by a firm is determined in part by an exogenous cost parameter that varies depending on which activity is being off-shored. I build on their framework by explicitly modeling the source of these costs. I draw on insights from adaptive theories of the firm to sketch a model in which less routine tasks are more costly to off-shore. I test this prediction using firm level data on U.S. multinationals to identify which intermediate inputs these firms off-shore to their foreign affiliates. Controlling for parent firm and country fixed effects as well as a measure of the feasibility of off-shoring, I find that U.S. producers are more likely to import an intermediate input from a foreign affiliate the more intensively that input uses routine tasks. More complex and non-routine activities are more likely to be performed at the multinational's headquarters in the U.S.

The impact of Exchange Rate Volatility on South African Exports to the US: A Bound Test Approach

Lira Sekantsi,

John Khumalo

ABSTRACT

This research paper empirically examines the impact of real exchange rate volatility on trade in the context of South Africa's exports to the U.S. for the South Africa's floating period January 1995-February 2007. In measuring real exchange rate volatility, this study utilized GARCH. After establishing the existence of cointegration among the variables involved in our two-country export model, we estimated long-run coefficients by means of ARDL bounds testing procedure proposed by Pesaran, et al. (2001). Our results indicate that real exchange rate volatility exerts a significant and negative impact on South Africa's exports to the U.S. Therefore, stable and competitive exchange rate and sound macroeconomic fundamentals are required in order to improve international competitiveness and greater penetration of South African exports to international markets.

The Performance of Indian SEZ's: A Disaggregate Level Analysis

Malini N Tantri

ABSTRACT

The performance of SEZs at the disaggregate level is analyzed within the framework of Zone-Trade Performance Index taking the reference of seven conventional SEZs and for the time period of 1986-87 to 2007-08. The analysis reveals variations in performance across zones as well as within each zone over the reference period. Moreover, variations in performance are found statistically significant as well. This indicates the pressing problem of regional disparities having reflections in the SEZs structure as well. On the positive count, the introduction of SEZs policy in the year 2000-01 presented positive impact on the performance standard of these enclaves. The variations in performance across zones are found due to variations in state of infrastructure facilities, institutional arrangements in each zone followed by zone specific problems. Based on empirical exercise we put forward two main arguments to explain the scenario. First, there is a pressing need to address these issues rather than extending liberal tax incentives and subsidies, which may not work in ceteris paribus condition. Second, instead of uniform policy applicable to all states/zones and sector, a more practical approach would be revisiting the policy based on the sector and zone specific problems and prospectus.

Access to Finance and the Margins of Imports: Firm Level Evidence from India

Maria Bas

Antoine Berthou

ABSTRACT

Do firms that increase their access to finance are more likely to import? Importing foreign goods is costly and requires using internal or external financial resources. We investigate this feature using detailed balance-sheet data for a sample of about 10.000 Indian firms, reporting information on financial health and imports by type of good over the period 1990-2003. Our empirical findings shed new light on the determinants of firms' import patterns. Estimation results show that firms with a lower leverage and higher liquidity are more likely to source their goods from abroad; this is especially the case for capital goods (extensive margin of imports). Multinational firms and the most productive firms are less constrained by their leverage, and are more likely to use internal liquidity for importing goods, as compared to least productive domestic firms. We find similar results for the volume of imports (intensive margin of imports). Hence, access to finance is a key determinant of firms' import status and volume of import.

Has Inflation Targeting Represented a Switch in Developing Economies? Evidence from Two Modeling Approaches

Marjan Petreski

ABSTRACT

The aim of this paper is to empirically examine the effect of a regime switch, from exchange-rate targeting (fixed exchange rate) to inflation targeting, on monetary policy, hence adding to evidence on whether IT along with a managed float provides a better monetary policy compared to exchange-rate targeting. For this purpose, a group of developing countries that have historically experienced such a switch is analyzed. This is done by an augmented interest-rate rule a-la Taylor (1993; 2001a). Two methodological approaches are used: switching regression and Markov-switching method. Although both approaches have different drawbacks which compensate, still both lead to the conclusion that inflation targeting represented a real switch in developing countries and that the period of inflation targeting was characterized by a more stable economic environment, by more independent monetary-policy conduct, by strict focus on inflation and, possibly, by consideration of the short-run real objectives of the economy.

Trade Liberalization and Economic Growth in Iranian Economy

Mohammad Rahimi
Aboulfazl Shahabadi

ABSTRACT

The goal of this study is to investigate the effect of trade liberalization on economic growth in Iranian economy using a Cobb–Douglas production function, which is expanded to take into account political instability and trade liberalization. The empirical results show that in the long run the real export and import duty have positive effect on GDP, while the Labor force and education causes to decrease the GDP. Moreover the Iranian activity to become a membership of WTO (as a proxy of trade liberalization) is an effective factor on economic growth in Iran.

Towards a Global Financial Reporting System: Analyzing Comparative Financial Performance

Monica Singhania

M.K. Mittal

ABSTRACT

There is a need for a unified global financial reporting system to ensure comparability of financial statements at the international level. The present paper examines the impact of convergence to IFRS on financial statement analysis in India. There are major differences in the IFRS and the present Indian Accounting Standards in various accounting aspects like fixed assets accounting, valuation of inventory, etc. The analysis involves detailed examination of the financial statements of an Indian Company, Dabur India Ltd. for two consecutive financial years 2007-2008 and 2008-2009. Our results show that the convergence to IFRS in India changes the magnitude of key accounting ratios. The data analysis and findings pinpoint stark differences in the values of short-term solvency ratios such as current ratio and quick ratio. The current ratio is 1.51 in 2008-2009 (and 1.75 in 2007-2008) in the IFRS environment whereas under Indian accounting principles it is 1.97 in 2008-2009 (and 1.68 in 2007-2008). Similarly the quick ratio is 0.64 and 1.19 in IFRS and Indian accounting principles in 2008-2009 (0.83 and 1.02 in IFRS and Indian GAAP respectively in 2007-2008). This is due to more stringent recognition of provisions under IFRS as compared to Indian Accounting Standards. The long-term solvency ratios carry similar value under both the alternative accounting environments. One important distinguishing point in this regard is the treatment of preference shares as debt under IFRS. Redeemable preference shares are treated as equity under the present Indian accounting principles. In addition, all sales based profitability ratios are lower under IFRS as compared to the present Indian Accounting Standards. This could be attributed to lower profit recognition under IFRS setting. Once again this reflects a more stringent view of business. This may be primarily due to divergent accounting rules followed under the two sets of accounting principles.

GCC Economy Integration: New Evidence

Mukesh Chaudhry

Richard Boldin

ABSTRACT

Linkages between the five financial markets located in the Gulf Cooperation Council (GCC) countries are empirically analyzed. Using methodologies that account for idiosyncratic factors in the data, evidence of linkages between the GCC countries are found. The findings have implications for hedging or diversification strategies, particularly in the long-run. For example, the presence of cointegration between the GCC countries provides opportunities for investor cross-hedging, especially if markets differ in liquidity.

FDI Outflows and Domestic Investment in India: An Empirical Exercise

Nandita Dasgupta

ABSTRACT

In tune with a new era in global industrialization and development, India like other emerging economies is aggressively pursuing international investment practices through its outbound FDI (OFDI) activities. India's success in outward FDI is very recent, dating back to the implementation of its outward looking development strategies since the 1990s. The increasing FDI outflows from India have raised valid concerns relating to the repercussions on the country's domestic investment and capital formation from the perspective of economic development and growth. The central goal of this paper is to empirically investigate and evaluate the evidence of the relationship between OFDI and levels of domestic capital formation in India.

Evidences of substitutability between OFDI and domestic investment are found in the economic literature with respect to the experiences of the developed countries, for example in the United States (USA) for the 1970s and 1980s by Stevens and Lipsey (1992), Feldstein (1995) and Desai, Foley and Hines (2005) and also in Holland (Belderbos, 1992). Contrary to this, there also exists an alternative perspective that suggests a positive/complementary association between OFDI and domestic investments of the source economies. This happens in situations where the home and overseas production activities are deliberately combined by the firms to exploit the economies of scale, reduce costs and enhance the efficiency in domestic production and investment efforts. This in turn increases domestic investment (Desai, Foley and Hines, 2004).

Until now, the prevailing empirical economics literature has addressed the issue of the macroeconomic association between OFDI and domestic investment mainly for the developed countries. Similar research for developing economies is practically

nonexistent. The country-level analysis is very important for developing countries in particular, so as to identify the critical path of industrialization that each such country must adopt and implement in the present global economic environment and to define or redefine their engine of growth. The objective of this paper would be to fill the void by exploring this issue at the country level for India over 1970 through 2007.

The choice of our variables is basically from the Feldstein (1995) model, which is essentially an extension of the Feldstein-Horioka (1980) equation and includes FDI flows, domestic savings as well as other variables that might jointly influence investment. Some of these additional variables could be the Indian FDI inflows, gross domestic capital formation, rate of growth of GDP, imports and exports. We will use the time-series approach of cointegration and vector error correction modeling to examine the dynamic and causal relationship of Indian OFDI outflows with domestic investment and the other relevant macro variables cited above.

Global Climate Change and Indian Carbon Market

Neeraj Singhal

Himani Gupta

ABSTRACT

Carbon Credits have the potential to be the next great currency. It might be almost mandatory to have Carbon Credits one day and there seems to be no alternative world currency that escapes local political intervention that we can all trust. Carbon Credits are going to hold the same value wherever you are because CO_2 has a global impact. World carbon market grew by 37 per cent in Q1 2009 compared to the previous quarter to reach 1,927 Mt. This was 128 per cent higher than the first quarter in 2008. The carbon market has touch $121bn in 2009. Carbon market is forecasted to touch $408bn by 2012 and $2.1 trillion by 2020. India and China are the two major contributors in terms of carbon credit through Clean Development Mechanism. India currently hosts a total of 1,158 CDM projects, which take up 26.5 per cent of the CDM project market share worldwide (Fenhann, 2007). However, the prospective revenue of certified emission reductions (CERs) in terms of kCERs generated by the CDM projects are expected to amount to 447,158 kCERs in 2012, averaging 15.5 per cent of the kCERs in 2012 globally. In the Asian context, India currently hosts about 35 per cent of the CDM projects, which will generate only 19 per cent of the expected accumulated CERs in 2012. This paper discusses the contribution of Indian Carbon Market with reference to global carbon market scenario.

Disparity between the Trade Policy and the Business Political Outlook of Exporters in India: An Urgent Need for Resolution

Nilotpal Goswami

ABSTRACT

A clear linkage between the activities of Indian exporting businesses, their political outlook and a corresponding national trade policy could contribute to an effective integration into the global economy and an equitable domestic developmental agenda. Government could then negotiate various trade agreements globally at the levels of World Trade Organization (WTO), regional trading agreements and bilateral agreements, reflecting the fundamental concerns, confident of its core strengths and aware of its areas of vulnerabilities requiring attention. Similarly, businesses could respond not only by functioning as centers of economic prowess but also as agents of social performance to contribute to the development agenda. The synergy between government and business, public policy and political outlook of businesses has to be mutual, direct, proactive and meaningful. Weaknesses in this linkage could have serious and long term implications.

Role of Trade Related Factors in Determining Technical Efficiency of Indian Manufacturing Industries: Evidence from a Stochastic Frontier Approach

Paramita Roy Biswas

Arpita Ghosh

ABSTRACT

This paper tries to examine the impacts of trade-related factors like effective rate protection, import coverage ratio, import penetration ratio and the real effective exchange rate along with some technological-socio-economic variables on Technical Efficiency (TE) of 14 manufacturing industries of India during the period of 1980-81 to 2001-02. TE of each industry group is estimated by fitting Translog stochastic frontier production functions to the data of Annual Survey of Industries, taken at three-digit level. The empirical results report that average TE ranges from 43 per cent to 93 per cent, across industries, implying wide variation in TE scores. The highest TE is achieved by Beverages-Tobacco industry and the lowest is experienced by Paper, Paper- product industry. Considering trade related variables, lowering of tariff and relative adjustment of real effective exchange rate has contributed positively to achieve higher TE in Rubber, Plastic industry and Jute-vegetable Fiber industry respectively. Among other determinants of TE, firm size has positive, significant impact on Beverages-Tobacco and Transport industries. Reduction in the number of employees per worker indicates fall in internal bureaucratic control, leading to higher TE of Cotton Textile, Basic Metal & Alloys, Metal Products industries. Capital-labor ratio has favorable effect on TE of Jute-Vegetable Fiber, Textile Products and Non-metallic Mineral Products industries. Higher real wage fosters TE of Paper, Paper-product, Metal Products, Electrical, Non-electrical Machinery industries. The results support the impact of trade related variables on

technical efficiency for some of the industries; however, the results are industry-specific. The same observation is also true for the determinants of efficiency other than trade-related factors. The need for undertaking industry-specific policies for promoting technical efficiency is thus highlighted.

Trade Performance and Institutional Quality: A State-Level Empirical Inquiry

Pavel Chakraborty

ABSTRACT

Institutions have received a great deal of attention in recent years. A series of papers by La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997, 1998) and Acemoglu, Johnson and Robinson (2001, 2002) suggests an important point, that institutions matters importantly for economic performance. More recently, a number of studies have shown that, by shaping the patterns of comparative advantage, institutional quality also affects international trade patterns (Levchenko, 2007; Nunn, 2007). In particular, Levchenko (2007) finds that when countries differ in terms of institutional quality, the less developed regions may not gain from trade and factor prices actually diverge as a result of trade. Further, Do and Levchenko (2008) builds a political economy model in which institutional quality itself is endogenously determined in a political economy equilibrium and investigates, how exposure to international trade affects country's institutions. Empirically, some recent research (Bhattacharya, 2009) estimates how cross-country variation in institutional quality affects trade performance. However, the relationships between trade and institutions within countries have not been explored so far.

By investigating the interactions between trade and institutional quality across Indian states, this paper aims at filling this gap. Given the emerging consensus on the importance of the institutions, it is natural to think that institutional differences could be a primary source of comparative advantage within the developed regions ("North") and developing regions ("South") of a country. Again, the exposure to the foreign market or competition also affects institutional quality. The increase in the openness of the region generally implies that the each region would prefer better institutions under trade than in

autarky. Therefore, the starting of our analysis is based on the assumption that production and trade in some sectors rely more on institutions than the others.

Therefore, the paper investigates the within-variation in trade performance as explained by the economic and judicial institutions using the state-level trade data covering the period of 1994-2006 for India, i.e., how the differences in institutional quality explains the trade performance. To address the endogeneity issue of the institutional variables, the paper addresses the given hypothesis through an IV approach using the Limited Information Maximum Likelihood (LIML) Fuller approach. Since, we have state-level sectoral trade data, another interesting question that the paper also intend is to assess is the interactions between trade and institutions in shaping sectoral specialization, i.e., how trade (openness) magnifies or dampen the effect of institutions.

Theoretically, the results can go either way- economic institutions and policies can deteriorate as a result of trade opening in countries with weak political institutions (Segura-Cayucla, 2006; Stefanadis, 2006; Dal Bo and Dal Bo, 2007) , thereby enabling a divergence among the developed and less-developed states; while on the other hand, trade opening can lead to an institutional improvement due to foreign competition effect (Levchenko, 2008) among the regions, which could have a catching-up effect in the long run. To the best of our knowledge, this is the first paper that uses state-level trade data to test empirically, whether institutions act as a source of trade.

Investment Liberalization in Producer Services: Case Study of India

Pralok Gupta

ABSTRACT

Services are the fastest growing sector of the global economy. Trade in services has grown faster than that in goods over the past decade. A distinguishing feature of services trade is that trade protection in services sector is generally in the form of regulatory barriers as opposed to tariff and non tariff barriers in the case of goods. Moreover, unlike in the case of goods trade, where border measures for protection are prevalent, it is 'behind the border' measures, namely domestic regulations and regulatory frameworks that are the main policy instruments for protecting services and for realizing national objectives. Liberalization of these regulatory barriers can contribute significantly to welfare gains, particularly for developing countries, like India, where the prevailing regulatory regime is more stringent and rigid. Some of the potential benefits of such liberalization are increased capital flows in the form of FDI, technology transfers and technological collaborations, new innovations, price reductions, improved quality and increased variety.

This paper is devoted to understanding the regulatory barriers affecting Mode3 (capital mobility) of service delivery and their resulting impact on Mode3 imports in selected services. To analyze these regulations, India is considered as the service importing, i.e., capital receiving country. This paper focuses on four important producer or intermediate services, namely, banking, telecom, air transport, and maritime transport services in the Indian economy over the period of 1995-2008. It estimates total regulatory restrictiveness affecting foreign investment (Mode 3) in each of these services and also examines the extent to which these restrictions are due to 'behind the border', i.e. operational restrictions as opposed to border level, i.e. entry level regulations. It also examines the changes in these indices over time and assesses the relative importance of border versus

‘behind the border’ liberalization in determining the overall regulatory environment affecting foreign investment in each of these services. It also examines the relationship between the regulatory environment and specifically the ‘behind the border’ regulatory environment with trade in goods and/or services, given the critical input role played by these intermediate activities in enabling goods and services trade.

The paper finds that total regulatory restrictiveness affecting foreign investment has reduced over time and that ‘behind the border’ restrictions have also reduced, except for maritime transport services. However, there has been relatively less liberalization of ‘behind the border’ measures and today, the bulk of regulatory barriers take the form of such non-border measures. Correlation analysis further reveals that liberalization and in particular ‘behind the border’ liberalization has a significant positive association with increased trade and investment flows in the concerned sector and in related sectors and transactions, most likely through increased productivity and efficiency. Hence, further trade liberalization requires the opening up of these intermediate services not only at the border but also ‘behind the border’.

Overall, the main contribution of this paper is to broaden the perspective with which investment liberalization is understood. It goes beyond looking at investment liberalization in terms of FDI relaxation only. It highlights the importance of ‘behind the border’ regulations which have a significant bearing on the operations of foreign investors in India.

Regulatory Policies Affecting Labour Mobility from India to Selected Developed Country: Case Studies of Information Technology and Nursing Services

Pralok Gupta

ABSTRACT

Services are the fastest growing sector of the Indian economy. From export perspective, cross-border labor movement to provide services is very important for India due to its large skilled/semi-skilled workforce and English speaking population. Indian export performance, however, depends upon restrictions imposed by its major trading partners on such movement. This paper focuses on barriers affecting movement of Indian Information Technology and Healthcare (Nursing) professionals and compiles all relevant regulations imposed on these services in Australia, Canada, UK and USA. It develops templates for quantifying these regulations and constructs trade restrictiveness indices based on severity and importance of these restrictions. It makes a comparison of prevailing regulatory regimes and assesses importance of various types of regulatory barriers in such restrictiveness. The methodology of the paper relies on the collection and analysis of primary and secondary data for constructing empirical indices. Primary data is obtained through interviews with different stakeholders in selected services. Secondary data sources include relevant Government publications, policy documents, information from visa and immigration authorities and licensing bodies, WTO Trade Policy Reviews and other notifications and circulars of various Departments/Ministries in India and abroad. This study finds that IT services face less restrictive environment than nursing services in these countries. It also finds that whereas some horizontal commitments are made under the Generalized Agreement on Trade in Services (GATS) of the WTO for IT services, there is no commitment, either sector specific or horizontal, made for nursing services by these countries. The empirical estimation suggests that immigration barriers are more important for IT services but for nursing services, qualification recognition barriers are the most important. As negotiations are ongoing at both the bilateral and

multilateral levels, such a study is likely to benefit the policymakers to identify the key regulations and how these could be liberalized by developed countries and, in turn, what concessions Mode 4 exporting country, like India could make.

Legal Aspects of Regional Integration

Prem Shankar

ABSTRACT

Have RTAs acceded to the principle of mutual development of the multilateral trading system, that is, whether RTAs have functioned as ‘building blocks’ or ‘stumbling blocks’ vis-à-vis the multilateral process, has been heavily debated in recent years. The school of thought which is skeptical about the recent trends towards regionalism are pondering over its potential to segregate the multilateral system into a number of closed, hostile blocks. With RTA’s growth and expansion they have assumed advance abilities to influence, the terms of trade in their favour using their trade policies to block imports, prioritizing and giving preference to the products within their region. Regionalism also has an inclination to create distinctive marked regions as outsiders endeavour to minimize the costs of trade diversion by becoming insiders. This has resulted in a new phenomenon of overlapping RTAs which has made them more complex both in structure and in their relations with the MTS. The way in which rules of origin can be designed to have a protectionist impact and the differing rules of origin in RTAs having a negative impact on international trade is being highlighted prominently recently. Those opposing regionalism are also probing the jurisprudential conflict that could possibly arise between dispute settlement provisions contained in the ‘new generation’ RTAs and that of WTO. The other school of thought, positivists favouring the formation of regional associations also has number of arguments to support their claim. First, it is argued that RTAs, by moving at a faster pace than WTO rules, while sharing its goals, represent a way of strengthening the latter. Second, smaller regional groupings may be more effective in tackling new areas such as services, investment, intellectual property protection, cooperation in competition policy, technical standards and government procurement compared to multilateral rule-making. By acting as laboratories to try out alternative rules and strategies to encompass these issues, it is argued that they can ease the reaching of agreements on these issues at the multilateral levels.

Third, despite the fears of trade diversion, the empirical evidence suggests that trade creating effects dominate in major RTAs thus enhancing world welfare. A study conducted by the WTO Secretariat showed that there had been a definite trend toward broader as well as faster market access, liberalization on non-tariff measures in RTAs in parallel to developments in the MTS. Also, although on a simple statistical analysis third parties may be disadvantaged by trade diversion, this is less obvious in a dynamic context if overall growth, and hence the demand for imports, is increased as a result of the integration process, it is argued that RTAs have had a positive effect by facilitating the integration of developing countries into the world economy.

The fact that this debate exists highlights the importance of WTO rules governing the establishment of RTAs to minimize their adverse systemic effects on the MTS. This paper summarizes the current rules which RTAs should meet before WTO approval for such arrangements is granted, as well as highlighting some of the controversies around these rules. The paper also deals with the argument that current rules lack clarity in addressing the particular problems of integrating WTO commitments on reduced agricultural support in RTAs. The recent issues and problems regarding the jurisprudential conflict between the dispute settlement mechanisms of RTAs and WTO have also been addressed.

Growth Networks

Raja Kali
Josh McGee
Javier Reyes
Stuart Shirrell

ABSTRACT

Efficient networks in nature are frequently small-worlds, combining high clustering among nodes with short distance across nodes. We map the relationship between products in global trade (product space) and the products a country exports (product specialization) as a network to examine the hypothesis that countries whose product specialization resembles a small-world are more likely to experience high growth episodes. We devise network measures of spillovers within a country's exports and distance between product specialization and the rest of product space. The interaction between spillovers and distance, representing trade-offs in the network, is key for the probability of growth acceleration. It is not enough to have only high spillovers between products, or only short paths to new products. An intermediate level of the interaction is associated with the highest probability of growth acceleration.

Indo-Asean FTA: Impact of Tariff Liberalization on Select Sectors in India

Rajan Sudesh Ratna

ABSTRACT

India and ASEAN signed FTA in August 2009 and the tariff liberalization stated from 1 January 2010. The FTA brings opportunities as well as challenges to the Indian producers. A clear cut estimate about the gains or losses are yet to be evaluated as the lists have become public only in January 2010. Several apprehensions have been expressed by Indian producers, especially the farmers and fishermen in the sectors of agriculture, plantation and fisheries regarding adverse impact of FTA. Some of the sectors which are labour intensive or unorganized are likely to face bigger challenges.

In this paper an attempt will be made to provide answers to this question. In this regard, the paper will examine the impact of FTA where the tariff goes down to zero within the mutually agreed date especially on plantation crops and fisheries sector. Their relative strengths and tariff liberalization commitments on these sectors under the FTA will be analyzed along with the trade and tariff data. The paper will first examine the impact of India's multilateral tariff liberalization Post-Uruguay Round on the imports, domestic production and examine their correlation by using econometric tools. These results would then be extrapolated to examine the tariff liberalization impact on the domestic economy in view of India's commitment in the ASEAN-India FTA. Based on these empirical evidences the study will assess if the threat to Indian producers on these sectors are real or perceived.

International Oil Price Volatility and World Equity Markets' Behaviour- An International Evidence

Rakesh Kumar

ABSTRACT

In the age of globalization, it has become very important to find out the economic and non variables which are significantly responsible for volatility in stock markets. Investors have become largely sensitive to these factors which results in change their investment strategy at the time of emergence on national and international level. The present study is an attempt to measure how equity markets of developed and developing countries respond to volatility in international crude oil price. To investigate the problem, the study uses a set of ten stock markets from developed countries and seven stock markets from developing countries. To analysis how investors react to crude oil price volatility which results in volatility in stock market, two stages GARCH (1, 1) model is used. In the first stage, GARCH (1,1) is used to estimate the conditional volatility of crude oil price expressed in dollar, thereafter in the second stage, the estimated conditional volatility of crude oil price is used as independent regressor to estimate the conditional volatility of world equity markets in question by running GARCH (1,1) model. The data set used in the study involves the monthly prices of stock exchange listed indices for the period ranging from January 1995 through December 2007. In brief, the research methodology applied in the study includes application of Jarque-Bera test to determine the normality of data, Ljung-Box to examine the cross correlation in stock returns, GARCH (1,1) estimation of asymmetric volatility, and finally correlation to examine the volatility integration between world equity markets returns and crude oil price in the international market.

Corruption and its Effects on Bilateral Trade in Latin America

Reza Akbarian,
Homayoon Shirazi

ABSTRACT

The value and the efficiency of the institutions and the level of their effectiveness in trading among the countries is pretty a new subject that has been considered in recent studies. Corruption is one of the main and basic factors of the value and efficiency of the institutions and for this reason the studies on corruption can help us to identify the role and intensity of that on the institutions. Many researchers believe that the corruption would cause a reduction in trading among the countries and the decrease of corruption would help to reduce the trading costs and uncertainty, hence it can increase the trading. On the other hand some other assume in societies that have unsubstantial trade rules and low quality institutions, corruption can help to facilitate the transactions process. The main purpose of this paper is to study the changes of corruption during the time and its effects on bilateral trade of selected countries in the Latin America between 2002 and 2008. In this study, the indices of corruption which are calculated by the World Bank and the International Transparency organization have been used. Based on the conclusions, an increase in corruption causes reduction in bilateral trade among the countries, as one percent reduction in Corruption Perceptions Index would lead to 018 percent increase in export in the exporting country. Furthermore one percent reduction of that in a country which imports the goods would induce 0.15 percent increase in trade. Furthermore one unit increase in the Control of Corruption index causes 0.49 percent increase in export and one unit increase of this index in a country which imports goods increases bilateral trade by 0.21 percent.

Vertical Specialization in India's Manufacturing Trade: Trends, Patterns and Implications of the Global Economic Crisis

Sadhana Srivastav

Rahul Sen

ABSTRACT

This paper analyzes the trends, patterns and implications of Vertical Specialization in India's international trade. The paper uses trade data at product levels (SITC 5 digit level) for analyzing the vertical specialization in India's manufacturing trade over the past decade.

The analysis supports the fact that with increasing globalization of its economy, India is beginning to experience vertical specialization in its merchandise trade, with a significant potential for expansion of same in the area of auto-parts, electronics and electrical machinery. However, the recent global economic crisis seems to have slowed down the pace of this phenomenon.

Export Potential of India with SAARC Nations: Evidence from Gravity Model Approach.

Sandeep Kaur

Paramjit Nanda

ABSTRACT

Nowadays, countries are more closely linked through trade. Developed and developing countries are removing their trade barriers to expand more trade with each other. Different theories of trade have explained the reasons of trade in different ways.. The classical and new trade theory can successfully explain the reasons for countries to join in world trade. However, they cannot answer the question of size of the trade flows. Another trade theory, the gravity model, which has been used intensively in analyzing patterns and performances of international trade in recent years, can be applied to quantify the trade flows empirically. In the present paper, the gravity model has been chosen to quantify the India's exports with its six members of SAARC (Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka) during 1981-2005. For this, paper has been divided into three sections. Section I deals with database and methodology, second section explains the results of gravity model while III section discusses the export potential of India derived from gravity model. A panel framework is designed to estimate the gravity equation during a period of 1981-2005. Panel estimation can be done using pool estimation, fixed effect and random effect. Therefore, the gravity equation has been run with the help of these three models and then F -statistic test and Hausman test (Verbeek, 2004) have been run to select the most efficient method for interpreting the estimate results. The study has also estimated exports potential using point estimate and interval estimate (speed of convergence).

The results of gravity model show that economic size (GDP) of exporter country (India) as well as importer countries (SAARC nations other than India) came out to be significantly and positively affecting India's exports showing that India tends to exports

with larger economics. Market size (population) of SAARC members (other than India) had highly significantly and negatively affected the India's exports showing absorption effect i.e. country exports less when it is big. Surprisingly, real exchange rate of exporter country (India) had non-significant and positive effect on India's exports. The coefficient of difference in per capita income was non-significant and negative suggesting that Linder effect dominated in India's exports. Regarding the export potential, India's export potential exists for Maldives, Bhutan, Pakistan and Nepal. India had convergence in exports with four SAARC members (Bhutan, Maldives, Nepal and Pakistan) and divergence with two SAARC members (Bangladesh and Sri Lanka). In other words, India had not exploited all the export potentials in trading with six SAARC members. There is a large scope for export expansion for Maldives, Bhutan, Pakistan and Nepal. All kinds of trade barriers in countries involved must be removed in order to enhance the India's exports. India is the only SAARC member that shares land border with four members and sea border with two. No other SAARC country shares a common border with each other. In terms of trade, commerce, investments etc., India is a source of potential investment and technology and a major market for products from all other SAARC members. Therefore, it is essentially in India's interest to put her weight behind SAARC.

Rejuvenating the Public-Private Partnerships (PPP) in Asia

Satinder Bhatia

ABSTRACT

India has been an illustrious example of the success of the public-private partnership (PPP) model for infrastructure building. Of late, the government has come up with several road, railways and power projects based on this model. Besides the detailed guidelines put out by the Government of India, the growth of private equity fund market in India has also contributed immensely to the success of the PPP initiative in India. The Asian Development Bank (ADB) has taken impressive initiatives in Asia for infrastructure building but the PPP model has not made its mark. Although commitments for co-financing have come from several Asian governments towards developing the Asian private equity fund in ADB to assist infrastructure building, several more efforts have to be made to unleash PPP projects to meet the infrastructure needs of the region. Along with private interest, there has to be public interest as well and this interest has been kindled by the take-out financing framework. This framework has emerged strong in India; and if cultivated well, can emerge strong in the rest of Asia as well.

Impact of Financial Recovery on Textile Exports - A Case Study of Tirupur, Tamilnadu

Sabita Kumari Acharya

ABSTRACT

The textile industry in India is one of the largest and most important industrial segments of the Indian economy accounting for over one fifth of the country's industrial production. After agriculture it is the second most important economic activity in terms of employment. Not only that, it is also one of the major sources of export earnings for the country. Exports of textiles and clothing products from India have increased steadily over the last few years, particularly after 2004 when textiles exports quota were discontinued. From 1992-93 to 2000-01, exports have increased at an annual rate of growth of 17.23 per cent in rupee terms and 11.53 per cent in dollar terms. In 2001-02 it has declined by 11 per cent. As reported by Directorate General of Commercial Intelligence & Statistics (DGC&I), Kolkata textile exports have registered a robust growth of 21.74 per cent in 2005-06 compared to 9.28 per cent growth in the previous year. However, this industry was in a state of flux due to the severe contraction in export and domestic demand due to the global economic and financial crisis. Particularly in 2007, T&C exports were badly affected by strong appreciation of the Indian rupee against the US dollar. Recent analysis shows that the Indian Textile Industry is all set to witness a recovery in 2010. The objective of this paper is to find out the changes in textile exports of 'the knitwear capital' of India i.e. Tirupur which is located in the south Indian state of Tamilnadu.

Utility of RTAs: Experience from India's Regionalism

Sejuti Jha

ABSTRACT

In the last one decade India's trade policy has seen a marked shift towards regionalism with establishment of many Regional Trade Agreements (RTAs), signed one after the other. This paper tries to look into the question of whether such RTAs were ultimately of use to the Indian traders.

An RTA is created, primarily, to give more access to the traders of the RTA to each other's markets, by eliminating or reducing tariffs on select traded products. Overall welfare effects of RTAs are ascertained using traditional trade-creation-trade diversion analyses. To particularly find out whether traders are using a RTA, percentage ratios (Utilization, Product coverage and Utility ratios) are calculated (Inama 2003, Candau-Fontagne-Jean 2004). Lack of data limits the use of such a methodology here.

This paper tries to find the use of the Indian RTAs by comparing total aggregate trade trends with trends in trade of preferential items, for each of the RTAs, using secondary data. Primary level data from certifying agencies will be used to see if they conform to the trends found. Comparison of India's RTAs with other country regional groupings will also be done to draw some valuable insights. In light of the results the concluding section will debate on the utility of signing more RTAs.

Welfare Assessment of SPS Standards: An Empirical Study of Indo-US Mango Trade Dispute

Siddhartha K. Rastogi

ABSTRACT

As trade quotas have been eliminated under GATT and tariffs have been rationalized under WTO; the focal point of disputes and negotiations in international trade has shifted to non-tariff barriers (NTBs), particularly Sanitary and Phytosanitary (SPS) standards. SPS standards are commodity specific standards, adopted by WTO members to protect domestic flora and fauna and environment from the impact of invasive foreign organisms. However, in the absence of any past experience and concrete scientific or empirical evidence, standards are usually kept at prohibitively high levels, thereby inducing suboptimal outcomes.

One such case is the mango trade dispute between India and USA. India ranks first in mango production worldwide, supplying about 40 per cent of world mangoes; whereas, USA is world's biggest mango importer accounting for 32.7% of the total imports worldwide during 2003-05. However, USA imposed a ban on import of Indian mangoes between 1989 and 2006 due to high pesticide levels and incidence of pests. The US permitted import of mangoes from India in 2006 under high standards and strict inspection norms, which still remain controversial and under negotiation. This study examines the impact of various standard regimes on the two trading partners and explores if the benefit from a higher standard regime is worth the marginal effort.

As the importing nation, US has four policy options – 1) a complete ban on mango trade, which was in application between 1989 and 2006; 2) Hot Water Treatment (HWT), the policy advocated by India; 3) nuclear irradiation, the policy favored by US and presently in force, and; 4) free trade, policy regime with no SPS standards in place. Welfare impact

of mango trade on both, India and US, under all four different policy regimes is estimated. Welfare impact is defined as the net of consumer surplus, producer surplus, SPS compliance cost for the exporting nation, and control and spillover costs for the importing nation. Partial equilibrium framework with stylized microeconomic models for different components is used for estimation. Benchmark data of three years (2004-06) is employed in order to avoid the effect of abnormal observations, with the principle of conservatism being followed.

The results suggest that policy choices of both the nations are consistent with their respective payoff estimates. However, if India undertakes to compensate the US for any losses from a policy change in favor of India, both the nations may reach a Kaldor-Hicks efficient outcome. A brief sensitivity analysis is performed, indicating that the developed north can afford to be more flexible in adopting SPS standards. This study also underscores that the impact of risks arising out of invasive species cannot be studied in terms of science alone but it has to be wedded to the economic implications.

FDI and Technology Spillover: An Evaluation across Different Clusters in India

Smruti Ranjan Behera

ABSTRACT

The present analysis tries to explore the impact of FDI particularly its technology spillover effect within or between selected industries of Indian manufacturing in different selected clusters across four regions in India. To measure the spillover effect of a particular cluster this analysis develops an innovative production function which allows for measuring the inter-cluster technology spillover across different clusters in India. The specification of the production function is to measure the technology spillover across different clusters in India and its inter-cluster spillover analysis with respect to some basic parameter in the model. It accounts for the role of investment climate to measure the spillover effect of a particular cluster in India. The empirical findings reveal that some clusters benefit more from the foreign counterparts due to more technological stock in cluster/region and cluster-specific effect and other intermediate factors. Furthermore, technology spillover intensity in some clusters seems to be strongly affected by geographical location and the better investment climate of these regions.

Impact of India's FTA with ASEAN on Sectoral Exports: A Gravity Model Analysis

Souvik Bhattacharjya
Saswata Chaudhury
Anandajit Goswami

ABSTRACT

South Asian Association for Regional Co-operation (SAARC) was established in 1985, with an objective to strengthen economic, social, cultural and scientific co-operation. Also, in 1967 some of the major south East Asian nations formed a similar organization ASEAN (Association for South East Asian Nations) with an objective to accelerate economic growth, social progress, cultural development among member nations and the protection of the peace and stability in the region. However, there is a growing network of regional cooperation between South Asia and Southeast Asia. Some of the economic cooperation frameworks include the ASEAN Regional Forum (ARF), the Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC), which sets out the background of the framework of economic cooperation for South and Southeast Asia. India and Pakistan are Dialogue Partners of ASEAN. India, Pakistan, Bangladesh and Sri Lanka are also members of ARF. The political issues present within neighbouring countries, often act as a constraint for economic cooperation in these regions. In this background, is there a better scope for promoting economic development in the region through the facilitation of trade?

The paper will, identify some of the potential economic benefits that could emerge through such economic co-operation in these regions. The economic benefits will be measured in terms of revealed comparative advantage both in the presence and absence of trade. In the process, some of the existing trade policies in the two regions will be studied and possible improvements (if any) will be identified.

General Equilibrium Analysis of Strategic Trade and Environment: A CGE model

Sri Kaushik Das

Pinaki Chakraborty

ABSTRACT

The present paper intends to understand general equilibrium implications of strategic trade for comprehending the policy orientations that may be important because of strategic interdependence of firms operating in an open economy general equilibrium. As a method of addressing the problems we appeal to Computable General Equilibrium (CGE) modeling, using input/output structure based on Social Accounting Matrices (SAM).

The paper constructs an open economy general equilibrium model based on SAM of India for the year 2003-2004 and explores the implications of changes in tariff and subsidy over macroeconomic variables through the processes of policy simulation. The model incorporates market imperfection by introducing increasing returns to scale and 'consumer's love of variety' for a comprehension of the same problem under strategic trade framework. The Paper examines the impact of policy simulations on different macroeconomic variables under perfect competition and under market imperfection. For example the paper derives some incisive results, such as with trade liberalization through import tariff reduction welfare increases both under perfect and imperfectly competitive market structure assumption. However, change in welfare is higher under perfect competition assumption than under market imperfection. We find that in most of the cases policy simulation results match with the standard trade policy results under imperfect market structure. Incorporating environmental externalities it is found that imposition of stricter environmental standard reduces pollution at the expense of social welfare. In addition to, we also have examined substitution possibility between trade policy and environmental policy. This seek for answer to much border question whether

harmonization of environmental standard should be a part of the international trade agreements like GATT, NAFTA or WTO in order to restrict disguise form of protectionism.

Evaluation of Policy on IPR with Respect to the Indian Apparel Industry

Subhajit Chakravorty

Pravin Jadhav

Vijay Mathur

ABSTRACT

India is the world's second largest producer of textiles & garments and the apparel sector alone contributes 8% of India's exports. Intellectual property rights (IPR) have come to play a major role in this sector through patents, designs, registered trade marks, geographical indications and so on, more so with technical textiles.

The paper seeks to study the scope of IPR on Indian apparel industry, the government policy, the state of affairs and find gaps in policy and its implementation.

The study is based on survey at a major textile cluster in India. Core issues are identified through Delphi with a panel of experts. The instrument for survey is a pre-designed, pre-tested questionnaire.

Important insights are sought into IPR awareness, IPR management and impact of IPR on exports through the empirical study. The paper also suggests measures on IPR and innovation policy for government, export promotion councils and exporters based on results from the empirical research.

The Recent Financial Crisis, Consequent Fiscal Deficits of Developing Economies and its Impact on Foreign Capital Flows

Suchismita Bose

Sudipta Jha

ABSTRACT

Due to the current global recession numerous developing economies are experiencing large increases in fiscal deficits and consequently are at a high risk of loss of longer term stable capital inflows like Foreign Direct Investment (FDI). This is particularly true of transition economies in the Central and South Eastern Europe (CEE/SEE) area. India too ranks high in fiscal deficit and though still is receiving robust foreign capital flows, may ultimately face problems if the government fails to narrow its rising deficit. In this empirical study we consider the implications of deteriorating government balances for foreign direct capital flows. In our study with panel data from 15 developing European countries and India, fiscal health is found to be a very significant determinant of FDI flows, either on its own or in conjunction with the market size gravity variable and different policy variables. We find that the effect of market size and successful reforms polices are sometimes overshadowed by each other but previous FDI inflows and government balances remain a key determinant of flows in all our regressions including India. The strong autoregressive nature of FDI flows certainly implies that any reversal of flows would be dangerous as it could lead to further continued depletion of flows. Our rough estimates also show the significant loss of FDI inflows which results from fiscal deficits not being maintained at sound levels or government balances which fall considerably short of possible competitors.

Real Exchange Rate Volatility and India's Bilateral Export Volume: A Cointegration VECM

Suresh KG

Sreejesh S

ABSTRACT

The study analyses the effect of volatility of real exchange rate of rupee with US dollar, Pound sterling and Euro on the bilateral exports of India with USA, UK and Euro area (15 countries) for the period 1994 to 2007(1999 to 2007 for Euro), during the period India have been following a market determined exchange rate system. Quarterly data on the real exchange rate, measure of real exchange rate volatility (GARCH 1,1 used to measure volatility), real exports of India with USA, UK and Euro area and the GDP index of the three trading partners have been used. The nominal exports have been deflated by the exports unit value index to get the real exports, while the nominal bilateral exchange rate is deflated by the ratio of whole sale price index of India with the Consumer price index of the respective countries to get the real exchange rate data. Since the Augmented Dickey Fuller (ADF) test results indicates that the variables are integrated at order 1, I(1), Johanson’s Cointegration test and Vector Error correction model have been employed to examine the long-term and short term dynamics between the variables. The results show that the real exchange rate volatility is negatively influencing the exports to UK, while the export to Euro area has a positive effect.

The Mundell-Fleming Model Revisited

Surjit Das

ABSTRACT

In today's World, the finance capital has become more mobile across countries than never before. Given capital mobility, in an open economy, there is an extension of closed economy IS-LM analysis - famous as the Mundell-Fleming model, which has been extended in various directions and is still the main "work horse" of traditional open - economy macroeconomics. In Mundell-Fleming model, under flexible exchange rate, the equilibrium level of activity gets determined through intersection of commodity market equilibrium condition and money market equilibrium condition subject to a strictly exogenous money supply. The foreign exchange market always automatically adjusts to that common equilibrium point by capital (in/out) flows depending on the interest rate differentials. This doctrine also claims that the expansionary fiscal policy would always be completely ineffective under flexible exchange rate by generating exactly equal amount of import surplus in an open economy. In this piece of work we try to develop an alternative open economy macroeconomic model with capital flows. Following post-Keynesian tradition of endogenous money supply, we claim that rather it would be more realistic to think that the equilibrium employment and output are determined by goods market and foreign exchange market equilibria and the money market would always be in equilibrium at any rate of interest. Secondly, on the basis of empirical evidences, we are arguing here that the net foreign capital inflow is not really directly dependent on the interest rate differentials; rather it would be more realistic to assume that the net capital flows for a particular country to be exogenously determined at any particular period of time. The direction and destination of international finance capital would be driven by profit motive based on expected capital gains net of various kinds of country risks. This paper concludes that the employment and output of an open economy unambiguously decrease with larger capital inflow, ceteris paribus, and it would unambiguously increase with expansionary fiscal policy under a flexible exchange rate regime. This work argues

that the effect of expansionary fiscal policy would be surely positive under flexible exchange rate; however, with capital inflow its effect would be dampened. Any independent demand constrained nation State saddled with involuntary unemployment would be able to increase its level of employment and activity by undertaking autonomous expansionary fiscal policy more effectively with some control over the capital account of balance of payment. From a policy perspective, the expansionary fiscal policies coupled with some control over foreign capital flows are recommended as opposed to contractionary fiscal stance along with absolutely reckless capital flows, which we are witnessing today.

Examining the Interlinkages between Production Consumption and Exports of Tea in India

Sushmita Chatterjee

ABSTRACT

In this paper, we examine the interlinkages between production, consumption and exports of tea in India and thereby provide a sound methodology to estimate the export function for Indian tea. With production and domestic consumption, both rising monotonically over time, a prime question is why tea exports are stagnating and fluctuating at the same level. Since the reasons for the same can emanate from both the supply and the demand side, exports cannot simply be a function of factors external to the domestic economy. To understand the responsiveness of tea exports, we first develop an output model based on the producer's harvesting and investment decisions, a consumption model derived from a consumer's utility maximization model and an exports model, which is a variant of Thirlwall's export model. Thereafter, we estimate the output function, the consumption and the export function using seemingly unrelated regression equations (SURE) technique due to Zellner (1962, 1963). This method seems more appropriate than the single equation export models or even the two-equation export demand-supply models because it is not always easy to ascertain the explanatory variables exhaustively and SURE takes into account the possible correlation between the unknown variables which may affect production, consumption and exports jointly. In effect, by considering the interlinkages between production, consumption and exports in a SURE framework, we are able to capture the effect of both the demand and supply side of exports and get improved and efficient estimates of the parameters.

Globalization and Monetary Policy Independence – The Indian Experience

Suvojit Lahiri Chakravarty

ABSTRACT

This paper addresses the issue of the effect of financial globalization on the Indian economy. It looks into the magnitude of capital flows along with the extent and intensity of capital controls to insulate the economy from sudden reversals. The study also focuses on the degree of monetary independence in the light of these flows for the Indian economy using time series data of daily frequency from April 2005 to March 2007.

Financial Crisis and Degree of Openness of Countries: Some Case Studies

Tanaya Sinha
Srobonti Chattopadhyay
Rittwik Chatterjee

ABSTRACT

Starting from the Great Depression of 1930s, the world economy has faced several severe economic crises. The major ones that hit the whole world economy hard are the Latin American Financial Crisis during late 1970s and early 1980s, the South-East Asian Financial Crisis during the late 1990s and the Sub-Prime Financial Crisis of 2009. Among the crises, dealt in this paper the Latin American debt crisis that occurred during the late 1970s and early 1980s, led to a situation where various Latin American countries accumulated huge foreign debts that they were unable to repay and thus faced almost bankruptcy. The IMF introduced the structural adjustment measures which stressed upon reducing government expenditures substantially, maintaining a free market environment, deregulating government control on various sectors, privatization of a large number of public assets etc. On the other hand, the South-East Asian Financial Crisis, that begun in 1997, was a chiefly a currency crisis, that had hit some major Asian economies also known as "Asian Tigers" for their impressive export and growth performances during the previous decade. Most analysts agree that the trigger for the crisis was, essentially, the enormous weight taken by short-term financial capital in the financial structure of emerging markets as a part of the process of globalization. The preponderance of this form of capital was the result of International Monetary Fund (IMF) polices that encouraged its inflow via the opening of the capital account of the balance of payments of many emerging markets. The IMF resorted to its orthodox measures of a tight monetary policy and further structural liberalization The Indian economy, which was already plagued by deep rooted structural inefficiency and "red-tapism", suffered a major

blow due to the gulf crisis and thus faced a severe BOP crisis in 1991. In the aftermath of this crisis, a new liberalized policy regarding foreign trade, exchange rate etc was put in place according to IMF's structural adjustment suggestions. Unlike other cases this came to cure the external imbalance for the time being and helped India to emerge as a major player in the world economy in the long run. Subprime crisis which originated from the developed world resulted in a massive financial meltdown all over the world. Employment, foreign trade and foreign capital flow dried up in most countries. India and China, both with partly regimented economic structure, though in varying degrees, somehow showed impressive growth rate. Most of the world's leading advanced and emerging market economies have adopted stimulus measures to counter the growing financial and economic crisis. Automatic stabilizers, such as welfare payments and unemployment pay, are also helping to counter the global downturn triggered by the subprime crisis in the United States. This global financial and economic crisis has cast serious doubts about the paradigm of market deregulation that dominated the last three decades.

Revealed Comparative Advantage, Behaviour in Evolving World Trade

V. Kalyan Shankar

Rohini Sahni

ABSTRACT

Introduced in 1965, the Balassa's Index of Revealed Comparative Advantage (RCA) has long transcended from being a trade-indicator into an active policy-guiding tool, a thumb-rule of sorts for nations to assess their comparative advantages. This is particularly true among developing countries, where it has provided the analytical basis for nations to examine their export baskets. In India, the Index has been used quite repeatedly in official trade-policy documents like the Medium Term Export Strategy, 2002-07 as well as bilateral Joint Study Group reports (with Korea, China) to formulate our trade strategies. In this context, it becomes all the more crucial to (re)examine the Index and understand what it reveals (and what it doesn't) – which is what this paper endeavors to do.

Learning by Exporting, Importing or Both? Structural Estimation of Productivity with Multi-product Firms and the Role of International Trade

Valerie Smeets
Frederic Warzynski

ABSTRACT

In this paper, we analyze the relationship between exporting/importing status and firm productivity. We use a rich product-firm-level dataset providing both revenue and quantities of all products for a large panel of Danish manufacturing firms over the period 1998-2005 and link it to another dataset describing firms' international trade transactions by product. We first use our detailed product level information to compute a firm level deflator. We thus avoid the criticism of biased estimates due to the use of industry level deflator (Klette and Griliches, 1996; De Loecker, 2009). We find that both importing and exporting behaviours are strongly associated with productivity, but the effect of importing is larger in most industries. Firms involved in both importing and exporting are the most productive. We then follow the literature (Van Biesebroeck, 2005; De Loecker, 2007; Halpern et. al., 2009; Kasahara and Rodrigue, 2008) to isolate the learning by importing/exporting effect from the selection effect. We find a strong selection effect but no learning effect. We also investigate the mechanisms behind the productivity premium, distinguishing between a price effect and a pure efficiency effect.

Exchange Rate Pass through and Currency Invoicing in Indian Exports

Venkatraman Yanamandra

ABSTRACT

The issue of exchange rate pass through (ERPT) gained considerable interest in recent years due to its relevance to the conduct of monetary policy as well as the choice of the optimal exchange rate regime. A number of studies on ERPT have been conducted for the developed countries and now interest is shifting to the developing and emerging economies. Studies on this issue for India have focused mostly on import prices and to a lesser degree on export prices. The results suggest that pass through has been incomplete and Indian exporters practice pricing-to-market (PTM). This paper estimates the pricing to market elasticities to India's top five export destinations both for the aggregate level for all the products as well as sectoral data, focusing on manufacturing and non-manufacturing sectors at the 6-digit product classification level. This is done using panel data regression techniques for the period 1996 to 2009. The results obtained suggest that Indian exporters do practice PTM but the degree of pass through varies among the top export destinations. Openness to trade in the destination markets also has an impact on the PTM elasticities.

Industrial Trade Liberalization Financing and its Impact on Poverty in Ghana

Vijay K Bhasin

ABSTRACT

Ghana has adopted the Growth and Poverty Reduction Strategy, which emphasizes increased focus on poverty reduction in the design and implementation of its policies. The present study uses the CGE model, Social Accounting Matrix and Ghana Living Standards Survey 4 data for the year 1999 and examines the impact of unilateral partial industrial trade liberalization in isolation, combined with foreign capital inflows and value-added tax on the poverty of various categories of households- agricultural households, public sector employees, private sector employees, non-farm self employed and non-working. The study has shown that elimination of trade related import tariffs on industrial goods in isolation, combined with foreign capital inflows and value-added tax reduces the incidence, depth, and severity of poverty of all categories of households. The study has also shown that elimination of trade related export tariffs on industrial goods in isolation and combined with foreign capital inflows increases the incidence, depth and severity of all categories of households; whereas when it is combined with value-added tax, it reduces the incidence, depth, and severity of poverty of all categories of households. The study has shown that financing of unilateral import tariff industrial trade liberalization through domestic resources (Value-added tax) could have a greater impact on poverty alleviation than the foreign resources (foreign capital inflows). The study has also shown that financing of unilateral export tariff elimination on industrial goods through domestic resources could be a poverty-alleviating policy in comparison to the situation when it is financed through foreign resources then it could be poverty enhancing policy.

Export Potential of India's Traditional Medicine: Across Regional Explorated Study

Vijaya Katti

J. Mukherjee

Tanaya Sinha

ABSTRACT

According to World Health Organization "Traditional medicine is the sum total of knowledge, skills and practices based on the theories, beliefs and experiences indigenous to different cultures that are used to maintain health, as well as to prevent, diagnose, improve or treat physical and mental illnesses. Traditional medicine that has been adopted by other populations (outside its indigenous culture) is often termed alternative or complementary medicine." In general traditional medicine refers to health practice, approaches, knowledge and beliefs incorporating plant, animal and mineral-based medicines, spiritual therapies, manual techniques and exercises, applied singularly or in combination to treat, diagnose and prevent illness or maintain well being. Traditional and complementary medicines provide an important health care service to persons both with and without geographic or financial access to allopathic medicine. Traditional and complementary medicine has demonstrated efficacy in areas such as mental health, disease prevention, treatment of non-communicable diseases, and improvement of the quality of life for persons living with chronic diseases as well as for the ageing population. Although further research, clinical trials, and evaluations are needed, traditional and complementary medicine has shown great potential to meet a broad spectrum of health care needs. Nearly 25% of modern medicines are derived from plants first used in traditional medicine.

Indian system of medicine namely Ayurvedic, Yoga & Naturopathy, Unani, Siddha and Homeopathy together is known as AYUSH.. Recently, Sowa Rigpa has also been included in the list. While coming to the export scenario, though AYUSH products have

been exported from India regularly, the export figure is difficult, as AYUSH products are basically mixed products, having overlapping zones and more than one purpose. AYUSH products comprise of wide range of herbs, herbal medicines, supplementary foods etc.

This paper focuses on the export potential of Indian traditional medicine in different regions namely SAARC, ASEAN, Latin America, Africa, Euro and North-America. The paper examines the potential of Indian traditional medicine in each region based on the existing trade relation with India, tariff structure, registration process in each country etc. One of the main contribution of the paper is the cross regional nature of the study regarding the export potential of Indian traditional medicine. Another contribution of the study is the identification of HS code of AYUSH products. As given the mixed nature of the products HS codes can only be identified at 8 digit levels.

Preferential Tariff Formation the Case of the United States

Vivek Joshi

ABSTRACT

This paper addresses the impact of Multilateral Trade Liberalization (MTL) on the preferential tariffs granted by the United States. For a given MFN tariff, we model the preferential tariff with a simple linear functional form. We take MTL of the US as known to the world by the end of Uruguay Round in 1994 and estimate its impact on preferential tariff negotiations during 1995 to 2007. We use a three dimensional panel data, which takes into account the partner, product and time variation of the data-set. To complete our data-set, we codify eight PTA legal agreements. We draw three important conclusions. First, the products that are highly protected do not get high preferential access even at the regional level. Second, reciprocity plays only a limited role in granting better preferential access. Third, irrespective of development level of the partner, the non-reciprocal GSP preferences always matter.