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# The Euro Zone Debt Crisis and its Implications for the Global Economy

Susmitha Selvaraj

*The Euro Zone debt crisis, which began in 2009, propelled shock waves across the globe and literally shook the foundations of the global economy. The spill-over effects of the crisis have been felt not only in Europe, but also in other parts of the world that are interconnected to the Euro Zone through trade, finance and investment. This study is an attempt to throw light on the major causes of the Euro Zone crisis and its implications for economies like the UK, the USA, China, Australia and Africa.*

**Keywords:** *The Euro Zone debt crisis, Global Economy, Spill-over effects, Major causes*

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## Introduction

After the Second World War, the idea of a united Europe became very strong and it resulted in a step-by step method of European integration. In 1952, the European Coal and Steel Community (ECSC) was formed by France, Germany, Italy, Luxembourg, Belgium and the Netherlands. It was declared to be a first step in the federation of Europe. In 1957, the same six countries signed the Treaty of Rome and the European Economic Community (EEC) came into existence. In 1967, the ECSC, EEC and the European Atomic Energy Community (EURATOM) were combined to form the European Community (EC). Over time, more countries joined the EC which included Denmark, Ireland and the UK (1973), Greece (1981) and Portugal and Spain (1986).

In 1986, as a means of strengthening the co-operation, the Single European Act was passed. In 1991 the Maastricht treaty was signed which led to the formation of the European Union (EU) on 1<sup>st</sup> November 1993 (Anderton, 2010). Since then, the EU has been gradually expanded with the inclusion of new countries. Now there are 28 member countries in the EU - Croatia joined on 1<sup>st</sup> July 2013 as the 28<sup>th</sup> member. In

# Determinants of Foreign Direct Investment Inflows into India

S. Mahalakshmi, S. Thiyagarajan and G. Naresh

*Foreign Direct Investments (FDI) started to flow into India in a noticeable manner especially after 1991 when the Government of India initiated neo-liberal economic reforms. The interesting question after two decades, when the FDI flow slowed down a bit was, what determines this FDI flows into India? There are a few research studies that attempted to answer this question but this study aims at looking in to the major-macro economic factors that may influence Foreign Direct Investment inflows (which consist of FDI inflows in the form of equity, re-invested earnings and other capital) into India. Thus few macroeconomic indicators namely, Gross Domestic Product, Real Effective Exchange Rate and Average Real Wages have been selected on the basis of relationship identified between them in our previous research study. The study has applied Auto Regressive Distributed Lag (ARDL) Model and Innovation Accounting of VAR system in order to establish the major determinants of FDI inflows. The results signaled that foreign direct investment inflow into India has been clearly influenced by Gross Domestic Product and Real Effective Exchange Rate, which represent the economic performance, and are the key factors influencing foreign direct investments into India.*

**Keywords:** *FDI Inflows, GDP, REER, ARW, Economic Performance, ARDL*

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## Introduction

The most drastic change in the world economy has been due to the international flow of factors of production, including labour and capital. In the 1800s, European capital and labour (along with African and Asian labour) flowed to United States and later US had sent large amounts of capital to Canada and Western Europe. Although the free trade argument tends to dominate, virtually all nations had imposed restrictions on the international flow of goods, services and capital. The tremendous growth of productive forces, which utilized scientific and technological advances in developed economies, had resulted in huge growth of their output and this expansion led them to the search for new markets. Since World War II, the trend had been in favour of free trade. Finally, the General Agreement on Tariffs and Trade (GATT) (1944) had sponsored a number

## A Comparative Assessment of Export Concentration: BRIC Countries

Richa Dani

*Over a period exports have been recognized as instruments of change, facilitating opening of markets, effective utilization of resources, increased specialization and more circulation of goods. The present study aims to determine the degree of concentration of export products and markets evolved during the time period (2000-2008) under consideration of Brazil, Russia, India and China (BRIC) countries, as shown by Index of Commodity Concentration and Index of Geographic Concentration respectively. The assessment of export performance of these countries has been carried out for nine major product groups namely, 'All Food Items', 'Mineral Fuels, Lubricants and Related Material', 'Ores and Other Minerals', 'Non-Ferrous Metals', 'Chemicals', 'Machinery and Transport', 'Iron and Steel', 'Textile Yarn, Fabrics, Made-up Articles and Related Products', 'Articles of Apparel and Clothing Accessories' and products other than described above. Moreover, seven target partner countries, namely, Mexico, China, USA, Brazil, Russia, South Africa, Japan and Rest of World have been used as export destinations. The study found varying results for each of the countries in the BRIC group, in terms of degree of commodity and market concentration/diversification of exports.*

**Keywords:** *Exports, BRIC, Index of Commodity Concentration, Index of Geographic Concentration, United Nation, WTO.*

### Introduction

Exports are believed to be one of the engines of a country's economic growth and welfare. Historically, the role of exports was seen as providing key demand stimulus to initiate a cumulative process of high investments, profits and savings, thereby leading to high growth. Exports also improve employment opportunities, contribute to improved standards of living and better working conditions. The last two decades witnessed substantial growth and structural changes in merchandise exports of various developed and developing countries. The active participation in international trade activities has led to outstanding economic performance of many emerging markets; such as Brazil, Russia, India and China (BRIC). Success in emerging lines of

## Sources of Export Instability in India

Neena Malhotra and Pinky

*The study examines the sources of export instability in India by using time series data from 1987-88 to 2012-13. In this context, most of the studies argued that instability in exports relates with commodity and geographic concentration of exports. Some other studies have shown that over dependence on primary exports is the major cause of export instability of developing countries. In the present study we have tried to determine various causes or determinants of export instability in India by taking explanatory variables as primary exports instability index, chemical products export instability index, engineering products exports instability index, petroleum products exports instability index, commodity concentration index and geographic concentration index by using multiple regression analysis. The paper finds that variables including export instability of textile products, petroleum products have negative and significant relationship with total export instability of India, while export instability of primary products, chemical products, engineering products and geographical concentration of exports have positive and significant relation with total export instability.*

**Keywords:** Exports, Commodity Concentration, Instability Index, Geographic Concentration.

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### Introduction

A country's exports sector growth depends upon a large number of domestic and international factors. In case of merchandise exports, if domestic industries, agriculture and allied sectors are efficient enough to produce quality products at competitive cost, only then exports sector will be robust and growing. With growing openness of world economy, external sector fluctuations especially those of exports earnings can cause serious destabilizing impact on domestic economy. Export earnings and their stability depend upon demand side as well as supply side factors. Exports instability is often criticized as it can have negative impact on economic growth. Destabilizing impact of export instability is through impacts on capacity to import and domestic demand of export economy. Pattern of export instability ultimately depends upon growth and changing composition of exports sector (Altman, 1980).

At aggregate level, exports earning fluctuations may be relatively smoothed by

## Indo-Asean Trade Relation: An Analysis

Md Izhar Alam

*Indo-ASEAN economy is a vibrant regional grouping in Asia. Realising the importance of the Asian region for sustaining high trade growth, India announced its “Look- East” policy in 1991 in an attempt to increase its engagement with the East Asian countries. The India-ASEAN Free Trade Agreement (IAFTA) was signed on 13 August 2009 in Bangkok. The agreement covers trade in goods between India and the ASEAN members that came into effect on 1 January 2010.*

*In this paper, attempts have been made to analyse bilateral trade between India and ASEAN region-wise, country-wise and commodity-wise and to identify complementary and competing commodities of trade between India and ASEAN countries. For any Regional Trade Agreement (RTA) to be successful, it is imperative for partner countries to have complementary trade structure to be exploited for mutual benefit. Countries which got complementary trade structure are likely to trade more whereas economies with similar trade structure often struggle to improve trade share unless there is substantial intra industry trade. Revealed Comparative Advantage Index (RCA) analysis and trade intensity indices (export intensity index and import intensity index) analysis provide a useful insight into the competitiveness of participating countries and hence reveal the possibility of increased trade cooperation between them.*

**Keywords:** *Regional Trade Agreement, Free Trade Agreement, RCA, Trade Intensity Index, Intra-Industry Trade*

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### Introduction

Indo-ASEAN economy is a vibrant regional grouping in Asia. ASEAN is a geo-political and economic organization with 10 member countries, formed in August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, the membership has expanded to include Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Myanmar and Vietnam. ASEAN's objectives are to accelerate economic growth, social progress and cultural development among its members, protect the peace and stability of the region, and provide opportunities for the member countries to discuss their differences peacefully. ASEAN for long followed export oriented growth strategy by simultaneously pursuing twin objectives of deepening regional integration efforts and carrying out multilateral trade liberalization

# An Empirical Analysis of Foreign Institutional Investments in Equity & Debt Market in India

Vanita Tripathi and Shilpa Maggo

*In the last few years there has been a significant change in the investment preference of FIIs in India. Earlier they were found to be more inclined towards equity market but recently their shift towards debt market is noticed. As the FII flows are crucial because of the probable effect they can have on an economy, therefore a proper understanding of this change is essential. Thus in this paper we have analysed the flow of FII investment in equity and in debt market in India to estimate whether there is any relationship between the flows in these two markets or not.*

*We have used monthly data for the period April 2000 to March 2013. In this paper we have applied various techniques to investigate the relationship among FII flows in equity and debt market in India. Besides Unit root test and Correlation analysis, we have used other econometric techniques such as Granger causality test and Impulse response analysis to estimate the short as well as long run relationship among the FII flows in two markets.*

*We found positive and high correlation between FII flows in equity market and in debt market of India. Regarding causality results, no causality could be detected among these flows. Impulse response analysis revealed that FII flows to debt market are significantly responsive to a shock in FII flows to equity market and vice-versa.*

**Keywords:** Foreign Institutional Investments, Debt Market, Granger Causality test, Impulse Response Analysis

*JEL Classification-* F21, G10

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## Introduction

Foreign Investment has always been imperative because of the benefits attached with it for the emerging economies like India. EMEs require huge investment for expansion and developmental projects which cannot be fulfilled by the domestic savings alone. Thus in such a scenario, foreign investment comes to the rescue of an economy by providing the required investment. One of the forms of foreign investment is investment by Foreign Institutional Investment. Foreign Institutional Investors (FIIs) are those



# Injections into the Dutch Disease: Do IMF Packages and Foreign Aid Recover Sudan's Economy?

**Yagoub Elryah and Nai Qian Qian**

*The secession of South Sudan has rendered the political, security, economic and social situation of Sudan fragile. Thus, the IMF packages and foreign aid had yielded some positive returns on Sudan's economic recovery. This study focused on the foreign aid and recent economic reforms which are conceived to be relevant in the sustainable economic recovery in Sudan. We analyzed the effects of foreign aid IMF packages on Inflation and exchange rates using an augmented Fischer-Easterly model for the panel data from 1985-2014. The results show that Sudan will face in upcoming five years a gap in balance of payments and a debt crisis, harder than the current situation as compared to those of other countries who adopted the same policies which will become lower over time. The results also show that shortage of foreign currencies is the main factor affecting Sudan's economy.*

**Keywords:** *Foreign Aid, Economic Recovery, Dutch Disease, Economic Reforms.*

## 1. Introduction

Sudan experienced long civil wars which have led to a huge devastation of the human and social capital. Thus, Sudan has lost both South Sudan and high skilled workers. However, following the secession of South Sudan in July 2011, there is increasing interest in attracting Foreign Direct Investment (FDI) and foreign aid to recover Sudan's economic decline and decrease in foreign currency reserves to balance the budget deficit and trade balance for financing the development. For instance, both the IMF and Qatar targeted to rebalance the economic situation and to stop the decline of foreign currency reserves. In particular, as the IMF introduced the reform package, the non-oil real GDP growth showed 4.6% reflecting a slowdown in economic activity. Inflation rate reached 44.4% in 2012, largely driven by the monetization of the fiscal deficit and a weakening exchange rate. After introducing the IMF's package, the consumer price inflation rate fell to 27.1% in mid-2013 from 44.4% in December 2012 (Addis Ababa, 2012). While the reserve money increased modestly by 4.6%, compared with end of December 2012, largely reflecting the drop in gold purchase by the Central Bank.