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INSTITUTE OF PUBLIC ENTERPRISE
OU Campus, Hyderabad 500 007, A.P., India.

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Trade Liberalisation and Economic Growth: An Analysis of Indian Economy since 1970

Mr. Chandra Sekhar Bahinipati & Dr. Nirmal Chandra Sahu***

Foreign trade contributes to economic development in several ways. The classical economists considered 'trade as an engine of economic growth'. There are several examples, which show that the liberalised developing countries have grown at an alarming rate in comparison to others through foreign trade. India adopted the policy of trade liberalisation in 1991 after four decades of policies that maintained almost a closed economy since independence. It was a major landmark in the history of the Indian economy. The objective of this paper is to highlight the impact of liberalisation on the economic growth of the countries, with special reference to India, which has enjoyed the fruits of globalisation in the last couple of years. This paper takes the data from 1970 to 2005, which is limited to merchandise trade as well as macro-economic variables like GDP, and divides it in two parts as pre and post-liberalisation by taking 1991 as the turning point of the Indian economy. It sketches the overall performance of the trade variables, their growth rate and also their impact on the macro-economic variables, such as GDP, which is the parameter of the economic growth. It is found that there was a marginal increase in the growth rate of the trade variables after globalisation and the absolute increase in imports is more than that of exports. In the econometric models estimated in the paper the slope co-efficient of import was more in the pre-liberalisation period, which is reversed in the post-liberalisation period.

Key Words: Foreign trade, globalisation, economic growth, GDP.

1. Introduction

Foreign trade assumed a central role in the development plans of many underdeveloped countries. For most of these countries, exports represent an important share of the total output and hence trends in foreign sales are critical in fostering the over-all growth. For some underdeveloped countries, export trade is such an important factor that an estimate of the foreign exchange earnings represents the first step in the formulation of their development plans. In most underdeveloped countries, the importance of exports to domestic growth has been approached in terms of the acquisition of foreign exchange for the importation of goods and services. Although there can be no question that this is an important function of exports, it is misleading to assess the contribution of the export sector solely in terms of foreign exchange earnings. Foreign exchange is necessary for underdeveloped countries, because it is needed for the importation of capital for the development of the country.

It is most widely agreed that trade leads to faster income and economic growth. The intuition is that openness enhances specialisation, raising the level of income and ultimately stimulates growth. It

***Mr. Chandra Sekhar Bahinipati** , *Corresponding author*
Madras Institute of Development Studies, Chennai. Email: chandra@mids.ac.in

*** ***Dr. Nirmal Chandra Sahu,*** *Department of Economics, Berhampur University, Orissa.*
Email: nirmalcsahu@yahoo.com

The Changing Asia Pacific Trading Patterns

Nandita Sethi[*]

Most of the Asia Pacific countries have chosen an export led growth model and therefore trade has a very important role to play in each of these country's economic development processes. Besides, the trade amongst the countries of the region - intraregional trade, has not only been significant but steadily growing and has promoted the development of the region as a whole. The study analyses the growing trade of the countries of the region and their changing shares and importance in international trade. The study also takes a peep into the direction of trade of the countries of the region. Intraregional trade is analyzed in depth and a mathematical analysis is done to gauge the dependence and concentration of trade in the region. The results show that while overall the trade of the region has phenomenally grown, the changing relatives shares of the countries reveal that China has overtaken Japan as a the major player in the region. For the Asia-Pacific region as a whole the share of extra-regional trade has declined while that of intraregional trade has increased although its main trade partners outside Asia-Pacific, i.e., US and the European Union continue to remain very important. While the region is trading much more intra regionally its trade intensity or concentration within the region has declined as the countries of the region have diversifying their trade outside the region. Overall there still exists a vast potential to further trade and integration in the region and for a more proactive regional trading arrangement.

Key words : Asia Pacific, ASEAN, Trade, Exports, Imports, Intra regional

Introduction

The success of a number of East Asian and South–East Asian economies to transform their social and economic structure by taking full advantage of the new trade and investment opportunities have once again brought to the lime light the crucial role of international trade and investment as powerful instruments of rapid economic development. This has led to the rise of strong world wide movement for the removal of the remaining barriers to free flows of trade in goods and services and the international movement of private capital, leading to the unification of markets in goods and services, money and capital. Most of the Asia Pacific countries have chosen an export led growth model and therefore trade has a very important role to play in each of these countries' economic development processes. Besides, the trade amongst the countries of the region - intraregional trade, has not only been significant but steadily growing and has promoted the development of the region as a whole. Therefore a seemingly contradictory aspect of this global integration has been the trend towards regionalism and regional trading blocks. An in-depth analysis of the trading patterns in the region would help us to understand the growth pattern in the region. It would also give us an insight into the economic relationship between countries in the region and the scope for a more proactive regional trading arrangement.

[*]Nandita Sethi, Asst. Prof., Institute of Public Enterprise, Hyderabad, India
Email: nanditasethi@ipeindia.org.
The paper is a modified extract from her book, "Asia Pacific Region: Emerging Opportunities for India", VDM, Germany (2009)

Economic Reforms in China with Reference to Privatization of Public Enterprises

*R K Mishra**

Chinese economy is being intensively studied by several scholars and institutions. Chinese economic reforms and privatization of its public enterprises are of great significance to India, which launched its economic reforms program in 1991-1992. The present paper looks at public enterprise reforms in China within the broad ambit of economic reforms therein. An attempt has been made to study privatization and non-privatization reforms, techniques and modalities of privatization, marketisation process of public enterprises in respect of mobilization of funds, operational and commercial autonomy and the post-privatization efficiency.

Key words: China, Economic Reforms, Privatisation, Public Enterprises, India

1. Prelude

Chinese economy is being intensively studied by several scholars and institutions. Chinese economic reforms and privatization of its public enterprises are of great significance to India, which launched its economic reforms program in 1991-1992. The sequencing, putting in place appropriate institutional structure, and an optimal trade off between the equity and growth and the pace of privatization have surfaced as major issues confronting policy makers in India engaged in formulating and implementing the economic reforms program which have entered a crucial stage wherein they are required to traverse from the center to the states.

1.1. Stages of Economic Reforms in China

Chinese reforms commencing[1] in 1979 have passed through three stages. In the first stage, extending from 1979 to 1984, Chinese Government liberalized agriculture, withdrew controls, modernized industry and its fundamental structure in the national economy. In the second stage, beginning from 1984 and stretching up to 1991, the leadership reforms occupied the center stage. The leadership reforms concerned themselves with the emergence and continuation of leadership committed to the development of Chinese society with a specific perspective of achieving the rate of growth of 10% per annum for the next 20 years. During this stage, Chinese economic reforms also transformed the political structure. In this period Chinese overhauled their agricultural, industrial, fiscal, financial infrastructure and trade policies. The current stage of reforms began in 1991, and continues to hold its way in the present decade of 21st century. It deals with marketising the political structure and the economy. This is the most crucial stage of reforms which has helped Chinese in preserving their socio-political and economic systems on the one hand and superimposing on this tripod the element of market economy, on the other. During this stage of reforms, Chinese have mounted an ambitious

* *R K Mishra, Senior Professor & Director, Institute of Public Enterprise, Hyderabad.*
E-mail: ramkumarmishra@gmail.com

Financial Flows in the ASEAN Economies - Post-Asian Crisis

*Gautam Murthy**

Capital flows to developing countries in 2001 remained at low levels, prolonging the downward trend that has persisted since the 1997 Asian financial crisis. In 2001, Latin America was the largest recipient of inflows; despite a substantial decline in flows to Argentina. Other regions, with the exception of the Middle Eastern countries and Turkey, also received positive inflows. The ASEAN region is one of the most attractive investment locations in the developing world, and attracted a disproportionately large amount of FDI, particularly after 1985. This reorientation of the ASEAN economic cooperation is consistent with the national policies of the member countries i. e. , economic development through market-based growth and greater participation of the private sector. The adoption of more outward oriented industrialization strategies based on international trade and greater FDI is now being pursued in all the ASEAN members including previously inward-looking countries like the LCMV (Laos, Cambodia, Myanmar and Vietnam) countries. The impact of these large inflows of FDI into Indonesia, Malaysia and Thailand was impressive. Growth rates began to soar as these countries began to industrialize rapidly. The major investor countries in ASEAN were Japan, EU and US. The ASEAN nations like Malaysia and Indonesia faced disinvestments because of the financial crisis, but investments are now picking up. The Article deals with financial and capital flows in the dynamic countries of ASEAN (Association of South-East Asian nations), particularly after the 1997 Asian Financial Meltdown, and how these economies coped with the crisis.

Key words : ASEAN, Financial Flows, FDI, Asian Crisis

1. Background

Regional co-operation and the formation of RTAs (Regional Trading Arrangements) are gaining increasing importance for both political and economic reasons. The economic or market factors for the formation of RTAs include opening out to new markets, attracting Foreign Direct Investment (FDI), and benefits from economies of scale. The political factors include greater diplomatic cohesion, counterbalancing other RTAs, commitment to internal reform, and greater synergetic networking of nations. There has been enormous proliferation of RTAs since 1995, with their scope and geographical reach expanding. Apart from removing tariffs on intra-bloc trade in goods, the newer arrangements tend to have deeper coverage.

Developing countries in Asia made a number of attempts at regional co-operation in the 1970s, beginning with the Asian Clearing Union of 1974 and UNESCAP's "Bangkok Agreement" of 1975. However they failed to take-off because of limited coverage of membership, as well as in identifying products for tariff reduction. ASEAN (Association of South East Asian Nations)

* *Dr.Gautam Murthy, Professor of Economics at the Centre for Indian Ocean Studies, Osmania University, Hyderabad. Email: gautam1murthy@yahoo.co.in*

Social Infrastructure: Role, Relevance and Resource Allocation - An Analysis of Developed and Developing Countries

*A V Bala Krishna**

Development and maintenance of sectors like education, healthcare, community development, water and sanitation, employment generation etc., are essential to ensure realization of full potential of a country's human resources. Many nations across the Globe are focusing on the development and maintenance of a vibrant social infrastructure. All the nations are not fortunate enough to earmark necessary capital and human resources for the development and sustenance of the sector. The role of international bodies, multinational agencies and international donors occupy prominence. The study looks into the constituents of social infrastructure, the profiles of various sectors that comprise social infrastructure, the role the governments/private sector/public sector/ public-private partnerships play in building and sustaining social infrastructure in G8, LDCs and BRIC countries.

Key words : Social Infrastructure, Developed / Developing Countries, Resource Allocation

1. Introduction

Governments, around the world, continually face one question i.e., how to ensure the well being of their subjects. They prepare plans and try to secure all-pervasive development for their citizens. They allocate budgets for various developmental activities and try to facilitate for the economic development of their denizens. But, achieving economic development without the assurance of an integrated human development, leads a nation to an imbalanced development, because a nation's progress mainly depends upon the strength of its human resources (people). A mere allocation of budget, as visualized in many countries cannot achieve higher growth rates unless the people who constitute the nation are nurtured and developed to reach their fuller potential. A mere development of economic infrastructure alone does not lead to the overall development of the nation. Human resource development is not possible until and unless sectors such as education, healthcare, employment etc., are developed. Human resource development is pivotal in improving the productivity and also to foster economic development. In many contexts, achieving economic development is strongly interlinked with ensuring a vibrant social infrastructure as improvements in the social infrastructure, bring about equity and thereby sustainable economic development.

**Editorial Associate, Institute of Public Enterprise, Hyderabad. Email: balakrishna@ipeindia.org*

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Growth Strategies - Old and New Economy Models: Case Study of Botswana

Prof. B.N.Swami[1] *and P.S. Pelaelo*[2]

Botswana is a land locked and semi-arid country in Southern Africa. It's GDP and per capita GDP were P57137.4 millions (US$9142.0m) and P31937 (US$5110.0) respectively in 2006. The various sectors that contributed to GDP (2006) are mining (38.8%), general government (31.1%), trade, hotels and restaurants (10.7%), Banks, Insurance & business (10.4%) and others such as construction & social sector (8.2%). The least contributing sector presently is agriculture at 1.8% but in the year of independence (1966) of the country, agriculture contributed 42.7% of country's GDP (Bank of Botswana, 2006). Several thinkers have opined that Botswana's economy must quickly reduce its dependence on finite resources and on government spending as a driver of economic activities. It is against the backdrop of these statements by prominent personalities; the researchers explored and assessed growth strategies for economic development adopted by Botswana since independence. The study analyzes the old and new strategies applied in Botswana's economic development and reveals that Botswana underwent various transformations from the old and archaic model totally dependent on the agri-sector to the semi-industrialized model, powered by the mineral sector to the emerging strategy of trying to diversify into the service industry notably the financial services sector. The study also concludes that the current dependence on the exhaustive mineral sector for economic development, growth and vibrancy is not conducive in the long run; hence government of Botswana should shift its economy model to be tourism sector driven.

Keywords: Economic Growth Strategy, Tourism, Botswana, Services

1. Introduction

1.1. Background information

Botswana, originally known as Bechuanaland was under British Protectorate for over 80 years and finally it achieved its independence in 1966. At the time of independence, Botswana was one of the poorest countries in Africa. The agricultural sector basically put food on the national table. Beef products in particular were the main economy drivers in terms of national output and export earnings. Even these were low-end exports in the form of unprocessed carcass, dried bones and skins. Infrastructure development such as roads, communication, electricity supply, etc, was poor if non-existent. In fact by independence there was only 8 kilometers of tarred road from the colonial administrator's office to the high court where most official ceremonies took place. Economic prospects looked very bleak and government was completely dependent on

[1] *Corresponding Author, Professor in Accounting and Finance, Faculty of Business, University of Botswana, Botswana. E-mail: bonuns@mopipi.ub.bw*

[2] *Lecturer in Finance, Faculty of Business, University of Botswana, Botswana. Email: pelaelo@mopipi.ub.bw.*

The Financial Tsunami and the Indian Banking Sector

Mani Govil and Satyendra Kumar Singh***

A recession is an economic phenomenon under which a country's GDP becomes negative for the previous two consecutive quarters. The current U.S. recession which emanated from a dramatic rise in mortgage delinquencies and foreclosures in the United States, through 2007 and 2008, had far reaching consequences on the U.S. financial system. The contagion spilled to the Indian economy, too, in the form of decline in real GDP, volatile financial markets, higher inflation, business slowdown, job losses, lower exports, tight liquidity, trade deficits, higher NPAs, higher government debts, etc., post September 2008. Among all the complex and varied reasons cited for the sub-prime crisis, one of the major reasons was the lack of monetary and government regulation. In a speech, by the U.S. President in September 2008, he accepts that "self regulation of investment banks had contributed to the crisis and there was a need to update their regulatory financial structures". The Federal Reserve has since then taken several remedial steps to support market liquidity and alleviate the crisis which may have positive impact on Indian shores, too. This paper is an attempt to focus on the impact of the current recession on Indian banks and analyze how effectively the situation was handled by the monetary authorities.

Keywords- Recession, Banking Sector, Liquidity Crisis, Regulation

1. Introduction

The present global recession (2008) is a result of the global banking crisis caused by irresponsible banking. It was caused by an exceptional credit boom and leverage in the financial system. The financial institutions aggravated the credit risk by using securitization and complex structured securities. The sub-prime crisis occurred in mid 2007 and has affected the balance sheets of some major global financial institutions. It has also resulted in market liquidity crisis. The second round effect of sub-prime crisis (mid 2008), coupled with spike in oil prices, was devastating for Asian countries including India.

India had been rapidly integrating with the world economy, hence affected by the recession. The ratio of external transactions to GDP, a measure of globalization has more than doubled from an average of 46.8% in 1947-90 to 117.4% in 2007-08. The first round of sub-prime crisis on India was in fact positive since the developed markets faced lack of confidence in their own countries, paving way for emerging economies. The result was capital influx, currency appreciation and stock market boom in 2007.

Due to the regulatory regime of the monetary authorities, the Indian financial sector is inherently stable and healthy. The banking sector has shown considerable resilience although it came under strain in the last quarter of 2008. The capital adequacy ratio, the non-performing

**Sr. Lecturer, IISE, Lucknow. Email: manigovil@gmail.com*
*** Corresponding Author, Asst. Professor, IISE, Lucknow. Email: mail2satyen@gmail.com*

Performance of Exports in India – Role of Institutional Arrangement and Foreign Investment

Vunyale Narender   Renu Bala***

In the past few years the urban and semi urban areas in India have undergone tremendous up-gradation in the required infrastructure, health and education and other human development indicators. India's performance has been quite satisfactory, showing wide range of expansion and growth in various others sectors. To sustain the growth achieved in the past and go ahead to be in the group of top three countries we need to further the growth in the production and also exports for which various sectors of the economy needs huge investments and inflows in terms of FDI, FII and other forms of investments like private equity. This paper focuses on the export performance and opportunities for international investments in different sectors like IT, Financial Services, Real Estate, Manufacturing, Pharma, Health Care, Infrastructure, etc.

Key Words : Exports, India, Liberalisation, FDI, FII, WTO,

Introduction

The economy of India has witnessed tremendous growth in the past few years and has elevated itself at the twelfth position among the largest world economies[1]. Remarkably in the past few years the urban and semi urban areas in India have undergone tremendous upgradation in the required infrastructure. Similarly in the realm of health and education and other human development indicators, India's performance has been satisfactory, showing a wide range of expansion and growth in various other sectors. India's economy is on the fulcrum of an ever increasing growth curve. Though there is a slight slump in the growth in the economy that can be observed from Table – 1, the economy is moving with positive indicators such as a stable growth, rising foreign exchange reserves, booming capital market and a rapid rise in inflows of money from the investors across the world in the form of FDI and FII in the last few years. This has lead to emergence of India as the one of the fastest growing economies of the world.

Liberalization, privatization and globalization programs initiated by the government of India have improved the outward orientation and increased the role and importance of India in the export market. There are however, concerns that the country has not been able to fully utilize its potential in international trade. In contrast to the dramatic changes in exports of East Asia, India's share in global trade did not rise as impressively and the commodity structure of India's export remained almost unchanged until the mid-1990s. Moreover, unlike the East Asian countries where industry has been the major driver of exports growth, the contribution of industrial exports in India has been comparatively low. This could perhaps be attributed to

* *Corresponding Author. Assistant Professor,* **IBS®** *- Hyderabad, IFHE University*
Email: vnarender@ibsindia.org and narender.vunyale@gmail.com

*** Senior Lecturer, St. Joseph's Degree & P G College, Hyderabad. Email: renubala2@gmail.com*