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India's Trade Policy: The Impact on Economic Growth, Balance of Payments and Current Account Deficit

G Ramakrishna

India has been experiencing a major transformation since 1990s in the wake of unilateral economic reforms initiated since 1991. The unilateral trade policy measures initiated include: market oriented exchange rate policy, removal of trade restrictions and subsidies, drastic reduction in tariffs on imports and removal of non- tariff barriers, easing the restrictions on foreign investments, and measures relating to external borrowing and import licensing. This paper discusses the features of the trade policy of India in general along with the recent trade policy of 2004-2009. The study assesses the impact of the recent Trade policy on India's economic growth, balance of payments and current account deficit. The empirical findings underscore the fact that trade liberalization played a positive role in influencing economic growth of India. The structural shift analysis on the growth rates of BOP mainly indicate that all the components have shown a statistically significant change during liberalization period and the open policies had a positive impact on India's current account balances.

Keywords: *Trade, Liberalization, Economic growth, Balance of Payments, Current Account Balance.*

1. Introduction

The Indian economy has been experiencing a major transformation since 1990s in the wake of the unilateral economic reforms initiated since 1991 and the reorientation of the economy in accordance with the rules and regulations within the multilateral framework of GATT/WTO. Accordingly the globalization of production process, the market for goods as well as financial markets has been initiated, though slowly. This has generated debate on the linkage between trade policy and economic growth along with poverty and income inequalities. The large quantities of capital inflows and trade liberalization have brought to the forefront the debate on the linkages between trade policy and the macro variables. The World Bank and IMF have endorsed liberalization policies in developing countries such as India and have conditioned funds to the member countries on the basis of implementation of these policies.

The open trade and capital flows regimes are being supported and advocated on several theoretical grounds[1]. India has been wedded to economic reforms since 1991 as a consequence of its serious balance of payments crisis, though there were some attempts in this regard in 1980s too. Some of the policy measures are homebred and some are initiated as a part of IMF and World Bank conditions. The unilateral trade policy measures thus initiated include: market oriented exchange rate policy, removal of trade restrictions and subsidies, drastic reduction in tariffs on imports and removal of non-tariff barriers, easing restrictions on foreign investments, and measures relating to external borrowing and import licensing.

Nexus Between Capital Flows and Economic Growth: The Indian Context

Narayan Chandra Pradhan

Capital account liberalization and its nexus with economic growth of Indian economy has been dealt in this paper. In the main case under scrutiny, the co-integration sub-tests are able to find evidence in favour of long-run relationship between net capital flows and non-agricultural GDP in the case of Indian economy. The Granger causality test suggests that coefficients are not statistically significant in both the regression equations. Based on these tests neither can we make any claims about the predictability of growth from capital inflows nor can we infer that capital inflows have been due to the growth factors.

Keywords: *σ- Capital inflows, FDI, Exchange Rate, Growth*

1. Introduction

A significant development in the world economy since 1980s has been the surge in international capital flows. These flows emanated from a greater financial liberalization, improvement in information technology, emergence and proliferation of institutional investors such as mutual funds, pension funds, sovereign wealth funds (SWFs) and a spate of financial innovations like derivative products. Foreign portfolio investment (in public sector and other bonds and corporate equities) also tended to grow very rapidly from the 1970s as the world's capital markets become more integrated.

The sheer volume and rapid growth of international investment, especially since early 1980s, provides a justification for the analysis in the Indian context. In this context, Balasubramanyam and Spasford (1994) had stated that, the concepts, theories and tools of analysis on capital movements have been refined over the years and now provide an excellent framework for analyzing recent issues posed by the growth and altered structure of international investment. It is also noteworthy that the expansion of capital flows has been much larger than that of international trade flows. The process has been reinforced by the ongoing abolition of impediments and capital controls and the widespread liberalization of financial markets in developing countries during the 1990s and 2000s.

There is ample evidence of high and increasing degree of international capital mobility among the major industrial and developing countries (Montiel, 1993). A striking feature of the enlarged capital flows to developing countries in the recent period is that private (debt and equity) flows, as opposed to official flows, have become a dominant source of financing large current account imbalances. Another noteworthy feature has been a shift away from debt flows and towards equity flows, especially foreign direct investment. Private capital flows appear to be concentrated in a few key emerging market economies (EMEs). The growth of international financial flows in recent years has overshadowed that of trade resulting from the rapid liberalization of capital account regimes. In addition, several pull[1] and push[2] factors have changed the composition of financial linkages between developed and developing countries during the process of globalization.

Do Countries form Convergence Clubs in the World?

Nitin Arora and Rahul Arora

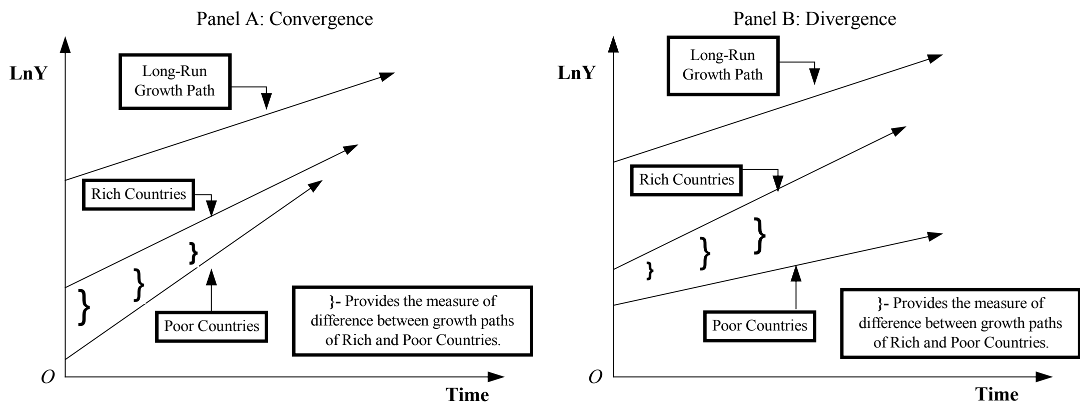
The present study endeavours to test the convergence hypothesis among 113 sampled countries of the world. The null hypotheses of absolute β- and σ-convergence have been completely rejected alongside the confirmation of the existence of conditional β-convergence. The existence of conditional β-convergence thus, entails to identify the club(s) of the countries converging towards the average GDP per-capita of the world. The search for convergence club(s) using Augmented Dickey Fuller (ADF) and Phillips-Perron (PP) test statistics ends up with the identification of three different convergence clubs. About 24% (i.e., 27 out of 113) countries have been observed affiliates of these three convergence clubs. Among these 27 countries, significant convergence coupled with acceleration in the growth rates of GDP per-capita income has been observed only for 9 countries of the world.

Keywords: *σ-convergence*, *β-convergence*, *ρ-convergence*, *Convergence Club, World Economy*.

1. Introduction

In the era of globalization, it is generally agreed that integration among different economies is successful if the poor economies catch-up the growth rates of richer ones and the growth of richer ones trickles down to the poor nations. Thus, the gap between the development levels of rich and poor countries should decline eventually. In the growth literature, convergence is seen as a 'catching-up' process, whereby economies with lower per-capita income grow faster than the richer ones and the gap in per-capita income between the two economies reduces. However, there exists divergence, if the gap in per-capita income between two

Figure 1: Convergence and Divergence Process Among Countries



Source: Authors' Elaborations from El-had Bah (2007)

India's Import Demand Functions

Neena Malhotra and Meenu

The present study investigates India's aggregate imports demand function and also for some of its major categories by using log linear form, for the period 1986-87 to 2003-04. The demand for imports depends upon a large number of macro variables including size, composition and growth rate of population, level and growth rate of GNP, relative prices, rate of capital formation, size and growth of export earnings. Besides, many other factors like tastes and preferences of consumers, natural calamities, availability or non-availability of substitutes to important import items, level of domestic production etc., can influence imports at aggregate and disaggregate levels. Apart from relative price and income variables, which are the major determinants of aggregate import functions, other variables like capacity to import and policy variables can be important determinants. At disaggregate level, domestic production is another important determinant of import demand function.

Keywords: *Imports, GNP, Capital Formation, Export Earnings.*

1. Introduction

For any developing country, high import is one of the prerequisites during the initial stages of economic development. The demand for imports depends upon a large number of macro variables including size, composition and growth rate of population, level and growth rate of GNP, relative prices, rate of capital formation, size and growth of export earnings. Besides, many other factors like tastes and preferences of consumers, natural calamities, availability or non-availability of substitutes to important import items, level of domestic production etc can influence imports at aggregate and disaggregate levels (Kutty, 2001 and Mathur, 2003).

The present paper is an attempt to estimate the import demand functions for India's total imports and for some of its major categories. The paper has been organized into four sections. Section 2 undertakes review of empirical studies related to the topic. Section 3 discusses the data base and methodology of the study. Section 4 gives the findings of the study. Section 5 gives the conclusion of the study.

2. Review of Literature

In literature we find many studies on import demand functions of India and other countries. Jayaraman (1977) shows that only imports of food and live animals have both high price and income elasticities, while imports of manufactured goods, chiefly classified by materials, imports of machinery and transport equipment, and imports of miscellaneous manufactured goods are only highly price elastic. Costa (1988) studied import determinants and found that dummy variable (for import liberalization) and real income have positive coefficients, whereas imports were negatively related to relative prices. Virmani (1991) found that price

The Dynamics of SEZs over EPZs: A Case Study of Santacruz SEZ

Malini L Tantri

Through a case study of Santacruz SEZ, this paper explores whether the SEZs policy in India, as a trade policy initiative, represents merely a static shift from earlier EPZs, or has indeed provided tangible trade transformation in the process. A time series analysis is carried out to explain this metamorphosis based on secondary data collected from Development Commissioner's Office of Santacruz SEZ. The analysis reveals that the introduction of SEZs policy has had significant and dynamic impact on the working of Santacruz SEZ. This, in particular, is visible not only in terms of higher export earnings but also in terms of increasing investor participation as reflected in the increase in the number of exporting units and competitiveness of Santacruz SEZ's exports, as measured in terms of unit productivity. Beside this, Santacruz SEZ has made quite impressive contributions to the total SEZs exports of the country in general and gems and jewelry exports of the country in particular. Despite this overwhelming performance, Santacruz SEZ seems to have failed to diversify its reach in International market due to the constraints of its sectoral composition.

Keywords: *SEZs/EPZs, Trade Policy, Santacruz SEZ, Trade Performance, Exports.*

1. Introduction

To be in line with the policies of liberalization spreading the world over, and considering the internal economic crisis, India embraced economic liberalization process in the early 1990s. The process of opening the domestic economy to the world market, however, had been initiated much earlier, i.e., in the late 1970s (Nayyar, 1987). This was evidenced by the initial attempt of switching the policy focus from 'import substitution' to 'export promotion' based on the recommendations of various committees, viz., Alexander Committee (1978), Dagli Committee (1979), Review Committee on Electronics (1979) and Tandon Committee (1980). However, the most common phenomenon observed during this period is that, every time a balance of payments (BoPs) problem arose, tariff rates were used to stabilize BoP (usually an increase in tariff rates) rather than adjusting the foreign exchange rate (Aksoy, 1992).

Besides, the major drawback of these policies related to a lack of consistency in approach and failure to recognize the various supply side factors[1] shaping the performance of the economy. As a result, Indian economy witnessed a very sluggish performance even in the external sector. In order to tackle the persistent problem in BoPs, a major policy shift was introduced in the EXIM policy statement of 1990. Among the measures introduced as a part of economy wide reforms, export promotion schemes like, EXIM Scrips (1991), abolition of cash margins for Export Oriented Units (EOUs) (1992), granting of tax concessions to export houses (1996-97), setting up of Special Economic Zones (SEZs) (2000) and partial convertibility of Rupee (1992-93) and full convertibility in the trade account (1993-94) were

Accelerated Trade in Housing Industry: An American Challenge in Recent Times

Subhrendu Bhattacharya

This paper deals with American Housing Industry, its liquidity and factors relating to trading in housing. It researches the factors that, in recent decades, have triggered a quantum jump in home trading in US. These factors fall both in the social and economic categories. The conditions for heightened trading in homes have become extremely favorable, supported both by exogenous and endogenous factors. While endogenous factors at the family level, have played some role, in the recent decades, the runaway greed for money and the short-term focus of the Real Estate and Banking industries are to be substantially blamed. It is proactive marketing by the Real Estate and Banking industries that have created such an obsession, among Americans, to trade in homes. The paper also analyzes the factors, which cause trading in homes frequently happen. Finally, the paper briefly dwells on the US housing crisis that afflicted America, by the end of 2007.

Key Words: *Housing industry, Trade, American, Banking, Real Estate.*

Introduction

In the US, the labor market is characterized by flexibility as most of the employment, exists in the private sector. In the US economy, these jobs are provided with a stipulation of "Employment at Will". This implies that the organization can dismiss an employee any time, without assigning any reasons and without giving any notice. Similarly, the employee could leave the organization at any time, without paying any penalty for leaving the organization. This clause of "Employment at Will", attached to every job, makes the jobs in the US economy highly vulnerable. Job losses could happen every now and then, for average Americans. These job losses could happen because of economic recession, economic slow down, outsourcing or even due to illegal immigration. An employer could also start employing illegal immigrants at the cost of the expensive local American labor, though this may be against the law. Job losses in large numbers, could also occur due to a managerial decision, when the top management suddenly decides unilaterally to move the business operations, to a distant country, such as China.

Relocation Imperatives

In all of these scenarios of job losses, which arise from flexibility of labor market, it becomes sometimes necessary for a laid-off employee to relocate to another city, where jobs are available. Thus Americans, generally, are used to and do not mind job centric relocations, when compared to employees in Germany, France, Holland, Japan, China, India etc. These relocations necessitate selling their old homes and making an effort to buy new homes,