JiE

Journal of
INTERNATIONAL ECONOMICS

Volume 3, Issue 2, July–December 2012

ISSN 0976-0792

Research Articles

Perspectives

Institute of Public Enterprise

Contents

The Macroeconomic Determinants Gold Prices in India: An ARDL Approach

Pushpa Trivedi and **Samir Ranjan Behera**

Though gold no longer commands the role of a monetary standard, it continues to remain attractive for its consumers, producers and investors across the globe. In the case of India, apart from equity and land, gold is an important alternative asset in the investor's portfolio. Gold is also valued as a savings and investment vehicle. In this context, this study is an attempt to empirically explore the relationship between gold prices and macroeconomic fundamentals in India by using the method of the bounds testing to cointegration or the autoregressive distributed lag (ARDL) procedure.

The bound tests of cointegration indicate that there is a long-run relationship that exists between the gold prices and macroeconomic variables viz., real GDP, interest rate, equity prices and real effective exchange rate and world gold prices. The estimated coefficients of the long-run relationship show that real effective exchange rate and the world gold prices have negative and positive signs, respectively, and both of them are significant at 1% level.

The other variables are statistically insignificant. Thus, the results of long-run relationship establish that exchange rate and world gold prices are the main determinants of gold prices in India. Further, the signs of the short-run dynamic impact have been found consistent with long-run coefficients and error correction term is negative and significant implying convergence to long-run equilibrium path.

Keywords: *Gold Prices, Investor's Portfolio, GDP, Exchange Rate, Dynamic Impact, Equilibrium Path*

1. Introduction

Though gold no longer commands the role of a monetary anchor either globally or in India, it continues to remain an attractive asset / commodity for consumers, producers and investors across the globe. One of the important characteristics of gold is that it is a highly liquid store of value. It represents command over resources both at home and abroad. Its physical depreciation is negligible; and it can be readily converted into cash by selling it.

Though it does not earn any interest and in the strict sense of the term purchase of gold does not constitute investment, as it does not increase the productive capacity of the economy and it is no longer used as the standard for fixing currency values, however, there is a well developed world market for gold. Gold prices have recently increased much faster than the general price level making it an attractive asset (Figure 1).

If gold prices rise faster than the general price level (and the prices of financial investments),

Trade of CSG by ESCAP Member Nations: A Gravity Analysis

Somesh Kumar Mathur

The study uses simple and extended gravity model to examine the impact of host of factors on imports of Climate Smart Goods (CSG) by 24 ESCAP member nations from other ESCAP members (57), the countries in the EU and the US in 2008 and 2002. Economic size, distance, similarity of endowments and demand structure and tariffs matter in that order for trade of CSG in 2008. The extended model shows the weak impact of regional trade agreement, policy and infrastructure variable on imports of CSG. The simple and extended gravity models are used to work out the import surge for bilateral trading partners of ESCAP.

It is notable to find that a country's imports do not surge automatically with the fall in import duty rates. Many other parameters of the economy tend to have impact on imports. This also shows that the elasticity of imports (value) with respect to its price (tariff duties) is inelastic. This can be one, among many, arguments for opening up the economy to CSG imports from the outside world to have cleaner and low carbon emission technologies. The impact of tariff reduction on imports of CSG for ESCAP nations under the aegis of preferential trading arrangements in 2008 has been significantly greater than what it were in 2002.

Keywords: *CSG, Gravity Analysis, Tariff Reduction, AHS, MFN, Trade Surge.*

1. Introduction

The study uses gravity analysis to examine the impact of a host of factors on imports of CSG[1] by ESCAP member nations from other ESCAP members, the countries in the EU and the US in 2008[2]. Gravity model has been used quite extensively and successfully in quantitative analysis of international trade. Gravity model is used to explain the role of tariff barriers, preferential trading arrangements, economic size and endowments, general policy environment and overall infrastructure, distance between trading partner, membership of multilateral agreement, foreign direct investments, common language, colonial links and borders, among others on trade of such climate smart goods and sub categories.

Theoretical Justification of the Gravity model have come from renowned trade economists like Linneman (1966), Deardorff (1984) Helpman and Krugman (1985), Helpman (1987), Bergstrand (1985,89), Baier and Bergstrand (2001) and Anderson and Wincoop (2003) in recent times. Anderson and Wincoop (2003) using their theoretical gravity model predict that large countries import more and then export more, larger bilateral trade barriers tends to lessen trade for given bilateral trade barriers, larger trade barriers with all other trading partners tends to expand trade bilaterally and more 'remote' countries import(and export) less.

Growth, Structure and Instability of India's Exports

Neena Malhotra and **Pinky**

The present paper examines growth, structure and instability of exports of India. For this purpose, various indices of export instability have been computed by taking the data on exports from "Handbook of Statistics on the Indian Economy (2008-09), RBI", covering the period 1987-88 to 2008-09. The results of the study show that during pre-WTO period (i.e., 1987-88 to 1994-95), leather products have low instability and two categories viz., other manufactured and other products have high instability.

On the other hand, group-wise analysis shows that three categories of exports viz., leather products, textile& textile products and other products have low instability and only petroleum products have high instability during post-WTO period (i.e., 1995-96 to 2008-09). However, only leather products have fallen under low instability group and petroleum products under high instability group during the entire study period. Remaining categories fall under medium instability group for all the three periods of time in the study.

Keywords: *Exports, Exports Category, Instability, Growth, Pre and Post-WTO.*

1. Introduction

Strategic importance of exports in economic development is well accepted in economic literature. Exports enlarge market size, allow specialization and provide a market outlet for surplus productive capacity. Exports are the most important and most reliable source of foreign exchange resources, essential for financing imports. The stable flow of exports and the resulting stable income flows provide the basis for stable growth of economy. Exports not only ease the pressure on the balance of payments but also create employment opportunities and increase intra-industry trade. Exports help the countries to integrate in the world economy and reduce them to external shocks.

Fluctuations in export revenues also lead to macroeconomic instability (Kaur, 1995). The sudden fluctuations in volume and price of exports create serious problems in balance of trade, national income and investment. Moreover, these fluctuations have a serious adverse impact on overall growth of the less developed countries (LDCs). The excessive fluctuations in prices and foreign exchange receipts generate fluctuations in domestic activities, which in turn make the process of planned development quite complicated and uncertain, reduce the efficiency with which investment resources are allocated and create manifold difficulties in estimating the expected return on investment which raises the cost of capital needed for greater risk (Devkota, 2004).

Role of International Institutions in Openness and Growth Process

Narayan Chandra Pradhan

The role of international institutions, such as, WTO, IMF, World Bank and ILO in promoting openness and growth has been examined in this paper. The WTO focuses on rules for multilateral trade liberalization and transparency; the IMF on overall macroeconomic policy framework and balance of payments disequilibria.

The World Bank focuses on long-term development and sectoral trade issues. The ILO was enacted as a development agency for developing economies that sets the labour standards. Overall, these multilateral institutions have a special role of promoting growth and development of world economy and especially the developing and emerging economies.

Keywords: *Trade, GATT / WTO, RTAs, TRIPs, GATS, World Bank, IMF, ILO*

1. Introduction

More than 60 years have passed since the formation of Bretton Woods' institutions – the International Monetary Fund (IMF), World Bank and GATT/WTO. Over this period, the world economy has changed considerably not only in the realm of economics but also in the sphere of public policy. On economic front, the most noteworthy development during the period is economic integration or *openness*, both at regional and multilateral levels, through more cross border flows - trade, services, labour, investment, and finance. The technological revolutions in transport and communications have virtually reduced the geographical barriers and facilitated the process of openness in developing countries, as well. However, the cross-border movement of labour is highly regulated and closely guarded even in developed countries.

The fall of 'Berlin Wall' in 1989 and disintegration of the Soviet Union in 1991 gave way to the United States and its allies to determine the future shape of the world economic order. Market capitalism took on a truly global character as barriers to the movement of goods and capital has reduced to a large extent (Bhagwati, 2004; Wolf, 2004). Specifically, the majority of changes in world economic and political system took place in the late eighties and early nineties and carried forward in the 21st century. At the same time, increasing economic prominence of China and India is reshaping the international financial system. Their exports and imports of merchandise and services have grown substantially since the beginning of 21st century. Their economic performance, combined with the openness of their economies, makes China and India become crucial players in the world economy.

The SPS Agreement, Perceptions of Small Farmers and Institutional Responses: A Case Study of the Grape Sector in Maharashtra

Malini V Shankar

For a predominantly agricultural economy like India, development in agriculture and agribusiness sector is critical for growth in trade and employment. The globalization of agricultural commerce and the stipulation of standards within the framework of SPS Agreement have far reaching consequences for small farmers and for agricultural trade. The case study of grape growers in the Indian state of Maharashtra focuses on the structure of the grape industry and the institutional responses of government to the challenges posed by SPS standards. It seeks to throw light on the evolving modes of governance in the grape market.

Based on a primary survey, the study finds that grape farmers of Nashik District support the 'Standards-as-Catalyst' approach and make a case for stricter standards in India. The emerging collective institutional arrangements for growing and marketing are in consonance with similar trends in Europe. Together, the responses aim at reducing uncertainties and transaction costs. The government has played a significant role in enhancing the export capabilities of grape farmers. Key policy insights are gained in the domain of agribusiness in the Indian context.

Keywords: *Food Safety, Grape Trade, Institutional Arrangements SPS Standards, WTO, Agri Business*

1. Introduction

The Sanitary and Phytosanitary (SPS) Agreement[1] within the framework of the World Trade Organization attempts to balance competing goals of health and trade. It aims at correcting market failures through ex-post facto or ex-ante measures that include food safety regulations, labeling requirements, quality and compositional standards, and process standards. In international trade, the impact of SPS Agreement can result in prohibiting trade through an import ban and increased cost of marketing, diverting trade through discriminatory regulations, and reducing overall trade flows through increased compliance costs (Henson and Loader 2001). In terms of organizations, the implementation of the Agreement can alter the structure of supply chains and influence institutions of governance.

For a predominantly agricultural economy like India, development in agriculture and agribusiness sector is critical for growth in trade and employment. Of the country's workforce, 52% is employed in agriculture (Economic Survey of India 2009-10). It is precisely this sector that is affected by the standards and measures imposed by developed countries.

Implications of Non-Tariff Measures on Firm's International Business Operations

Gordhan K Saini

This paper attempts to explore the implications of Non-Tariff Measures (NTM) on the firm's international business operations. Following an analytical approach, the paper uses various cases of different NTMs to examine their implications on the firm's overseas operations. The paper demonstrates that the firms have to cope with complex set of NTMs while operating aboard, and apparently these NTMs influence firm's international operations in many ways.

The paper concludes that firms should consider the possible implications of NTMs while evaluating the array of business and foreign market entry strategies. It is suggested that firm's business and marketing strategies must reflect the relative importance of NTMs as an environmental constraint in a prospective market and undermining the importance of these restrictions can lead to failure. A prior understanding of NTMs can help firms to become more proactive in dealing with NTMs while operating in international markets. Lastly, questions are raised for further research.

Keywords: *Non-Tariff Measures, International Business, Marketing Strategy.*

1. Introduction

Non-Tariff Measures (NTMs) constitute a complex set of constraints that firms have to deal with while operating in overseas markets. These include both import-restricting measures (quotas, standards, technical barriers, etc,) and export-promoting measures (export subsidies, etc.). In their application, NTMs are increasingly raising market access concerns for the firms at both global and regional levels. The impact of NTMs can be as devastating, if not more, as the impact of tariff barriers. Literature reveals that NTMs may be the major obstacle faced by the firms trying to enter foreign markets (Czinkota et al., 1989; Jeannet and Hennessey, 1988).

With decreasing tariff level, non-tariff protection has emerged as a difficult and challenging constraint; and may be the most significant trade distorting mechanism (Ray and Marvel, 1984). For example, in 2004, UNCTAD's TRAINS database[1] censed on average 5620 tariff lines for each country as being subject to one type of NTMs and technical measures account for 58.5% of total tariff lines subject to NTMs (Fugazza and Maurb, 2006). During 1994 to 2004 the use of NTMs and Technical Barriers to Trade[2] (TBTs) other than quantity and price controls and finance measures have increased from 55 to 85% and from 32 to 59% respectively[3].

These trends suggest that the trade impediments through NTMs and TBTs are increasing

Recent Developments in the New WTO Rounds: Action and Reaction of Developing Countries

Jamil Ahmad

The World Trade Organization (WTO) was formed in 1995 to administer existing multi-lateral trade agreements among its all member nations, support ongoing negotiations for new trade agreements and handle trade disputes. The WTO deals with the rules of trade between nations at the global level and essentially tries to sort out the trade problems they face with each other. The objective of this paper is to examine the major developments in the world trading system since the creation of GATT. The paper also tries to explore the reasons behind the collapse of the ministerial meetings and their implications. Further, this paper also highlights the asymmetries of current WTO obligations under the Uruguay Round Agreements and how member nations are seeking greater equality of outcomes during the new Rounds. The paper also tries to explore the reasons behind the collapse and controversies of the ministerial meetings and their implications.

Keywords: *WTO, Developing Countries, OECD, Negotiation, Ministerial Conference, NAMA.*

1. Introduction

The basic principles of trading system include trade without discrimination, predictable and growing access to markets and promotion of fair competition. The foundations for the international trading system of the post-war years were laid at a conference in Bretton Woods in 1944. The motivating force behind this conference was the bitter experience of two world wars and the Great Depression of the late twenties and the early thirties. During these years the policy of free trade got replaced by strong protectionism. Each country tried to protect its own economy and to saddle other countries with the consequences of the economic crisis. As a result international trade spiraled downwards. Economic growth slackened in both rich countries and in developing countries. Investment flows to developing countries dried up.

However, at the same time need for fair and free trade continued to be felt. Expansion of world trade was considered essential for achievement of the primary economic objectives of raising standard of living, promoting and maintaining high levels of employment and maximizing world income. There was a widely shared concern to create conditions that would facilitate world trade. Therefore, as the war ended the allied powers met in a conference at Bretton Woods in 1944 to prepare a framework for the operation of the world economy in the post-war years.