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Aims and Scope

Journal of International Economics is devoted to the publication of professional and academic research in all the areas of international economics. It is published in the months of January and July. The journal broadly covers areas such as cross country growth models, population and migration patterns, international trade, trade policy and relations, trade organizations and bodies, foreign investment flows, balance of payments and exchange rate mechanism, multinational corporations and cross border manufacturing, etc.

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Indo-China Trade Potential: An Analysis of Revealed Comparative Advantage

Radha Raghuramapatruni

India and China, today, represent Asia's two largest and most dynamic societies which are emerging as new trend setters in international relations and have come to play an increasingly dominant role in the world economic affairs. Especially, with their enormous average GDP growth rates standing at 10% (China) and 6% (India), they have been recognized as the fastest growing economies of the last decade (2000-2010). According to the World Bank estimates of 2010, assessed on the basis of purchasing power parity, China and India have already become the second and fourth largest economies respectively of the world surpassing the developed economies.

From the global perspective, China and India today represent two unique new players in the international market, presenting an extraordinary combination of a very large GDP and still with significant poverty and pockets of unrest and a lower per capita income and living standards. This raises several questions about their becoming the major drivers in the international economic trends. It is only in the recent past, political initiatives at confidence building began to expand their areas of mutual co-operation, which now remains premised on their mutual accommodation and benefits. Now the bilateral trade among these economies has been recognized as the most reliable and the agreeable instrument of China-India rapprochement. Their long-term potential as trade partners, however, remains yet to be fully explored and exploited. It is in this context of their fast changing equations, that the current paper makes an attempt to hypothesize how this bilateral trade promises to become the most potential instrument to intensify their political relations and facilitate progress in actualizing their strategic partnership for their mutual benefit in the future.

Keywords: *International Economics (F), Trade (F1), Revealed Comparative Advantage, Trade Intensity index, Revealed Import Dependence, India-China Trade, Export Intensity, Bilateral Trade.*

I. Introduction

After 30 years of breakneck growth, China overtook Japan in 2010 to become the world's second largest economy. At the same time, China became the world's largest trading nation and the largest holder of foreign exchange reserves. In 2010, China's income per capita surpassed the $ 4000 middle-income threshold. There is no doubt, whatsoever, that China's achievement has been incredible; it has indeed been a miracle. India too emerged as a "major economic power in the world." India's economy has almost quadrupled in size, growing by 8% a year on an average over the past two decades and by over 9% from 2005 to 2010 with a comfortable external payment situation and a promising investment situation. They together account for about 37.5% of the world's population and 6.4% of the value of the world output and income at current prices and exchange rates.

The ever increasing significance of these most populous economies in the world has caused concerns about their growth and trade prospects and implications for other countries. According to IMF (2004), China's rising shares in the world output and trade have already started showing up significant repercussions on countries all over the world. Eichengreen, Rhee and Tong (2004) investigated that Chinese exports crowd out exports of the developing economies especially the other Asian economies. Lall and Albaladejo (2005) examined that China is a tough competitive threat to East Asia especially with respect to low-technology products. However, with imports outpacing exports, China also acts as an engine for export growth for its neighbours.

Blazquez-Lidoy, Rodriguez and Santiso (2008) argue that China does not pose a challenge for most Latin American countries, with Mexico as a notable exception. Jenkins and Edwards (2009) assessed the impact of China and India's economic growth and trade integration on Sub-Saharan Africa. These findings reveal that the competition from China and India is not a serious concern for most countries in the region. In addition, they observe that India poses much less of a competitive threat in the third markets than China.

In the light of these situations, the relations between India and China have received a fresh momentum as the economies have recognized the value of positive political engagement and the benefits of their collective potential rather than on the self defeating policies. Further the initiative to reopen trade route through Sikkim and softening of India's stand on autonomous region of Tibet, is rapidly raising trade and investment relationships between both the economies. In this background the paper attempts to explore the existing trade relations between the nations, the prospects for future trade and further investigates the opportunities which can be tapped for the mutual benefit of both the economies.

II. Need for the Study

The post-war era witnessed economic miracles in Japan and South Korea, but none of the nation was populous enough to power a worldwide growth or possess the weight and dynamism to transform the 21st century global economy. For the past two decades the two nations China and India have achieved relatively successful outcomes following their own growth tracks, in spite of similar internal inconsistencies like high degree of inequality, incidence of poverty, lack of inclusive growth, sociological and regional inequalities, etc.

Today these two Asian giants have emerged as the most happening economies of the world – China known to be the "factory of the world" has been growing at an astounding rate on an average of 10% during the last decade, and India called as the "world's back office" is growing at an average of 8% during the same period. But what makes the two giants especially powerful is that they complement each other's strengths. If these two nations merge into one giant of the world superpower "Chindia" they would take over the world tech industry and emerge into a mighty superpower that will dictate the world economy. In this context the study would be extremely useful to assess the intensity of trade relations between these two nations and explore the potential for future trade.

The Time Series and the Causality Analysis of Foreign Investment in India

V Nirmal Rajkumar

In this global integration process, the promotion of external trade, reduction of external debt and enhancement of foreign direct investment have assumed very crucial importance in the Indian economy. India has relaxed the FDI regulatory framework on a selective basis with reference primarily to the industrial sector since 1991. Such a positive and 'open-door' policy adopted by India towards foreign trade and investment is in contrast to its earlier ambivalent and restrictive approach. Likewise, 'Trade or Perish' is the new mantra for the policy makers. The change in policy, as such, is a controversial one, but in the present day political climate, it is likely to continue in the coming years also. It is an issue, which needs more clarity and understanding. Moreover India is going to complete two decades of foreign investment very shortly. Therefore, it is apt to take a serious study on foreign investment in India.

Keywords: *LPG, Foreign Investment, Portfolio Investment, GDP, Gross Fixed Capital Formation, Incurrence on Infrastructure, Exchange Rate, Degrees of Openness in Economy.*

1. Introduction

For decades, India's external payments position has been under strain, punctuated by a number of episodes of extreme crisis when the country lived a hand to mouth existence. After the broad-based reforms undertaken since 1991, the external sector is, in a sense, the true success story of Indian economic reforms. External sector is devoted to the policy changes in the field of both current account and capital account transactions, more especially foreign trade, foreign investment inflows, forex reserves, external debt and the country's overseas investment. Prior to mid-1991, foreign trade of India suffered from strict bureaucratic and discretionary controls. Similarly, the Government of India and the Reserve Bank of India tightly controlled foreign exchange transactions.

At the beginning of mid-1991, the Government of India had introduced a series of reforms to liberalize and globalize the Indian economy. A rebirth in the foreign investment of India is intended to integrate the Indian economy with the world economy and therefore should not be avoided. However, it needs to be managed, so that we can derive the maximum advantage from World markets.

1.1 Importance of the Study

Over a period of time, there has been a marked change in the ideology of the government towards integration of Indian economy with the World economy. The change in the ideology is reflected in the attitude of the government towards Liberalisation, Privatization & Globalization (LPG) policies. India is no exception to the changes taking place in the entire World. In this global integration process, the promotion of external trade, reduction of external debt and enhancement of foreign direct investment have assumed very crucial importance in the Indian economy.

India is one of the developing countries, which has introduced a liberalization policy and as a part of it, has relaxed the FDI regulatory framework on a selective basis with reference primarily to the industrial sector since 1991. Such a positive and 'open-door' policy adopted by India towards foreign trade and investment is in contrast to its earlier ambivalent and restrictive approach. Likewise 'Trade or Perish' is the new mantra for the policy makers. This paradigm shift is a serious area of interest to the scholars, economists and intellectuals of our country.

The change in policy, as such, is a controversial issue, but in the present day political climate, it is likely to continue in the years to come. It is an issue, which needs more clarity and understanding. Moreover India is going to complete two decades of foreign investment very shortly. Therefore, it is apt at this point of time to take up a research study on foreign investment in India.

1.2 Statement of the Research Problem

As per the reviews made by the researchers on economic reforms and their impact on foreign investment in India, the liberalization process in India seems to be irreversible. While public opinion in India continues to move towards the view that liberalization of the economy has been good and more of it is needed, some scholars have turned skeptical. Economists Bradford Delong and Dani Rodrik, for example, argue that reforms cannot be credited with India's higher growth rates in recent years because this shift preceded the reforms of the 1990s.

In a related but slightly different vein, Joseph Stiglitz has contended that India too, like China, has bought the least into the globalization story that the IMF and others are selling. Recently Kamal Nayan Kabra in his article in 'Alternative Economic Survey, India 2004-05' titled 'Disequalizing Growth: The Achilles Heel of Liberalization', highlighted the failure of reforms, facts of harsh reality, and enlisted the evils of globalization process in India.

On the other hand, De Rato, the former IMF Managing Director, compared India's current economic boom to the early stages of the 'take off' previously experienced by other Asian Economies. Moreover, he argued that if India can boost annual growth from 6 to 8% annually, it can double average incomes in 11rather than 16 years, dramatically rising living standards. So there are differing opinions on this and to test the move, i.e, the way, the foreign investment of the Indian economy is moving, this study has been undertaken.

1.3 Objectives

The specific objectives of the study are:

- To analyze the dynamics and connection between Foreign Direct Investment and economic growth under liberalization in India.
- To examine the growth and determinants of foreign investment in India

Total Factor Productivity and Trade Openness in Indian Economy

Sanjoy Saha

The development strategies of Indian economy have been very unique since independence. Using the conventional growth accounting method the study first attempts to estimate the aggregate Total Factor Productivity (TFP) for the Indian economy and then examines the impact of trade openness on TFP growth. It has been observed that TFP growth in India has been erratic in nature. During 1960s average TFP growth in India, although positive, was very low almost close to zero. Similarly, the economy experienced technological regress in the economy instead of technical progress during 1970s due to the average negative TFP growth. However, the economy's overall productivity has increased considerably after the initiation of internal economic reform measures during 1980s. The economy has been experiencing continuous rise in TFP growth since the introduction of external economic reforms. Granger Causality tests show that there is a one way relationship between trade openness and TFP growth for Indian economy. The econometric analysis reveals that trade openness in India has affected TFP growth positively and significantly. Therefore, the study suggests that formulation of more and more outward oriented policies would further in enhancing the productivity of the economy.

Keywords: *Total Factor Productivity, Trade Openness, Granger Causality Test.*

1. Introduction

The development strategies of Indian economy have been very unique since independence. The policy makers started with inward-looking orientation mainly based on state intervention and import substituting protectionist policies and then gradually moved toward an outward-looking orientation with increased reliance on market forces for resource allocation mechanisms and exports as the growth engine. These strategies have also resulted in a unique growth experience for the economy as well, as prior for around three decades after independence Indian economy had grown at the so called 'Hindu Rate of Growth'.

However, with the initiation of internal economic reforms during the mid-eighties there has been considerable step up in the growth rate of Indian economy and further after the introduction of broad based economic reforms Indian economy has moved to the path of high growth trajectory where the economy has been growing at an impressive rate of around 7-9% per annum.

One can list several factors, which have caused this high economic growth; trade liberalization undoubtedly could be one of them. However, the main motive of the study is not to examine the role of trade liberalization in achieving economic growth directly, rather

it simply examines the impact of trade openness on aggregate productivity i.e. Total Factor Productivity[1] growth for the Indian economy.

Trade breeds productivity mainly through three channels. Firstly, through trade an economy can avail cheap inputs and capital goods from foreign markets that allow it to adopt new methods of production and substitute the factors that are relatively more expensive. It leads to the creation of capital, destruction of jobs and increase in productivity, which is popularly known as 'foreign input push'. Secondly, trade intensifies competition in the product market that compels the producers to innovate for surviving from which productivity gain is also expected. It is called 'competitive push'. Thirdly, observed only at the sector level, increased foreign competition forces the least efficient firms to close down while the more efficient ones gain market share, hence raising average productivity. This is termed as 'competitive elimination' (Muendler 2002). Although, the proponents of liberalization always argue that opening up the domestic market will improve productivity of the economy, diverting resources from less efficient sectors to more efficient ones, but, gain from openness may be different for different countries according to the status of the economy, human capital stock and many other things. Mere inflow of cheap inputs and better technology will not automatically lead to the corresponding increase in productivity. The technology has to be absorbed by the domestic labour force as well, if the domestic labour force does not have the skill to adapt the foreign technology then fruits of trade may not get translated into productivity rise; similarly, it may happen that given availability of other thing different sectors may not gain from the same due to insufficient credit facilities. Therefore, one needs to examine the relationship between the aggregate productivity and trade openness empirically for different countries.

Existing studies throw mixed picture regarding the impact of openness on the TFP of different countries Austria (1998) found that Export-GDP ratio affects TFP positively and significantly in Philippines, while, the import-GDP ratio found to exert a significant negative impact on the TFP. Miller and Upadhay (2000) have observed that irrespective of the level of incomes, openness as captured by Export-GDP ratio affect TFP positively for all countries Khatiwada and Sharma (2004) found that trade openness affects the TFP of Nepal positively and significantly. Tsu-Tan Fu (2004) found that trade openness measured by ratio of import to GDP and exports to GDP are among the major determining factors in TFP growth in Taiwan.

Similarly, Lee (2004) also has investigated performance of Export and Import-GDP ratio on TFP growth of Republic of Korea and found that both exert positive and significant impact on it. Akilno (2005) have found that export–GDP ratio as a percentage of GDP has significant positive effect on TFP of Sub-Saharan African (SSA) countries. Kim et al (2005) observed that while on the one hand imports of capital goods and consumer goods have positive and significant effects on TFP, on the other, the imports of raw material do not have any significant impact. Similarly, Export-GDP is found to exert negative but insignificant impact on Korean firms.

Khan (2006) has found a significant negative relationship between TFP and trade openness arguing that the economy couldn't take the benefits that trickle through trade Nachega and Thomson (2006) observed that openness to trade measured by export plus import

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Appendix

Table 1: Results of Unit Root Tests

Variables	No constant	Constant	Constant & Trend	Test Statistic	Critical Values		
					1%	5%	10%
TFP	√			-5.725	-2.625	-1.950	-1.609
Trade-GDP	√			5.038	-2.625	-1.950	-1.609
Export-GDP	√			4.443	-2.625	-1.950	-1.609
Import-GDP	√			4.698	-2.625	-1.950	-1.609

Table 2: Results of Granger Causality Tests

Null Hypothesis	Observation	F-Statistic	Probability
Trade-GDP does not Granger Cause TFP	46	7.59424	0.00156
TFP does not Granger Cause Trade-GDP	46	0.18251	0.83385
Export-GDP does not Granger Cause TFP	46	8.83040	0.00065
TFP does not Granger Cause Export-GDP	46	0.64666	0.52905
Import-GDP does not Granger Cause TFP	46	6.21454	0.00439
TFP does not Granger Cause Import-GDP	46	0.86552	0.42838

Table 3: Results of Regression Analysis

Model: I	Coefficients	t Stat	P-value	R^2	0.1304
Intercept	-0.0035	-0.4323	0.6674	F	6.8983
Trade-GDP	0.0010	2.6264	0.0116	DW	2.3945
Model :II	Coefficients	t Stat	P-value	R^2	0.1292
Intercept	-0.0029	-0.3631	0.7181	F	6.8262
Export-GDP	0.0021	2.6127	0.0120	DW	2.4134
Model: III	Coefficients	t Stat	P-value	R^2	0.1297
Intercept	-0.0038	-0.4639	0.6448	F	6.8558
Import-GDP	0.0019	2.6183	0.0119	DW	2.3735

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Emerging Trends and Patterns of Trade: An Economic Analysis of SAARC

Sanjeev Kumar

The present paper examines the emerging trends and patterns of trade in south Asian countries (SAARC). SAARC countries are a large regional bloc with huge potential but the achievement in regional economic integration is insignificant so far. The results show that conventional trade measures indicate that the region is engaged in trade with the outside world- not within the economies of the region. The present paper suggests that India could play a major role in this regard through further unilateral as well as bilateral trade liberalization measures. And, India may have the potential for leading production networks involving the other countries in the region, which in turn could lead to an expansion of intra-regional trade in South Asian countries. From SAFTA, the region can achieve considerable gains due to enhanced bargaining powers from the outside world if the region can improve its terms of trade with the rest of the world by acting in concert.

Keywords: *SAARC, Trade direction, SAFTA and Openness*

1. Introduction

During the nineteenth and early twentieth centuries, international free trade has often been referred to as the 'engine of growth' that propelled the development of today's economically advanced nations. Rapidly expanding trade especially to the export sector provided an additional stimulus to growing local demands that led to establishment of large scale industries. During the economic reform, trade liberalization has increased with the rise of regionalism. It is argued that trade liberalization and regional economic integration can help a region increase intra-regional trade by exploring the size of the market. This may in turn yield efficiency and bring benefits not only by exploration of economies of scale but also by dynamic and upward shifts in production function. The domestic firms become more competitive and gain the confidence to enter into global competition after exposure to a regional market.

Driven towards integration by the pressure of economic interest of the region, seven South Asian countries- Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka- formed the South Asian Association for Regional Cooperation (SAARC) in 1985. They formed the SAARC Preferential Trading Agreement (SAPTA) in 1993 and transformed it into South Asian Free Trade Area (SAFTA) in 2004 with a view to enhancing their productive capacity and the region's trading interests. As an eightth member, Afghanistan joined the organization in 2005.

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Movement of Natural Persons and Free Trade Agreements: India's Prospects

PK Sudarsan

India is one of the leading nations that export labour services. India also receives the highest amount as remittances from abroad. India's remittances also have increased steadily over the years. Trade in services has got a lot of attention from economists since the introduction of GATS under WTO. Movement of natural persons under Mode 4 of GATS assumes lot of significance for many countries including India. Multilateral trade negotiations under WTO has proved to be time consuming and less successful. Negotiations under Mode 4 of GATS are the least successful ones and the number of commitments under Mode 4 are very few.

Many countries are turning their attention to Regional Free Trade Agreements (FTAs) as a means to liberalize trade in goods and services. India is not an exception to this. India too negotiated many RTAs and are at various stages of its implementation. In recent years India is paying special attention to movement of natural persons in all FTA negotiations. India-Singapore CECA and India-ASEAN FTA on services are examples for this. The study reveals that India has great prospects in promoting the movement of natural persons through FTAs. Major implication of the study, results in the findings that India should pay more attention to FTAs in getting maximum benefit from movement of natural persons rather than waiting for outcomes of multilateral negotiations.

Keywords: *Free Trade Agreements, Trade in Service, Natural Persons, Mode 4, Migration.*

1. Introduction

India is one of the top nations in the world in terms of emigration to other countries. India is a major exporter of labour services. India receives maximum amount, as compared to other nations, as remittances from abroad. India ranks top position as a labour source country for many countries in the world. Temporary labour migration is treated as one of the modes of labour supply under General Agreement on Trade in Services (GATS), i. e., Mode 4, the movement of natural persons. India has great potential to supply labour services under Mode 4. However, the multilateral negotiations under WTO in Mode 4 are not very effective so far. There exist so many impediments in the way of movement of natural persons. Perhaps the best option for India is to go for bilateral trade agreements or Free Trade Agreements involving Mode 4. India-Singapore comprehensive economic cooperation agreement is an example for that.

2. Export of Labour Services: India's Present Status

International migration of labour has played an important role in economic development of

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A Perspective on India's Outward Foreign Direct Investment

Khanindra Ch. Das

India's integration with the world economy has been marked by significant growth in outward foreign direct investment in recent years. Increase in outward foreign direct investment is driven by national policy changes, domestic and international macroeconomic, and institutional factors as well as corporate business strategies. Outward foreign direct investment is likely to benefit the country in the long run by increasing invisible receipts. However such investments could pose some challenges to macroeconomic and external sector management for India. The promotion of outward investment must not overlook the need for reducing the homegrown hurdles to improve the ease of doing business at home.

Keywords: *Outward FDI, External Sector, India.*

1. Introduction

One of the noteworthy dimensions of India's increasing integration with the world economy has been the increase in outward Foreign Direct Investment (FDI). In 2009, the data provided by UNCTAD reveals that India ranked 21st largest investor overseas (up from 23rd in 2007 and 2008) with 1.35% of world outward FDI flows and 5th largest among developing countries, next only to Hong Kong (4.75%), China (4.36%), Russian Federation (4.18%) and British Virgin Islands (2.41%).

The paper investigates the extent of international linkages through outward FDI, in particular the direction and sectoral pattern of India's overseas investment, motivation behind such investments, and implication for the external sector management for the country using disaggregated data provided by Reserve Bank of India.

2. Outward FDI by India

Indian outward FDI has increased from US$ 20947 million in 2007-08 to US$ 43929 million in 2010-11 whereas inward FDI remained stagnant (Table 1). The increase in the volume of outward FDI flows is accompanied by increase in the number of projects and firms undertaking such outward FDI. For instance, the number of outward investments projects increased from 1780 in 2007-08 (July-March) to 4524 in 2010-11. Interestingly, the wholly owned subsidiary (WOS) has been the clear preference over joint venture (JV) of Indian firms that are investing overseas (Figure 1).

However, in the early years outward investing Indian firms had overwhelmingly chosen JV over WOS in their overseas operation. The JV participation was sensible strategy for minimizing risk and uncertainty of global business of Indian firms that had little experience

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Economic Empowerment of Indian Women Entrepreneurs with Special Reference to Tirunelveli District, Tamil Nadu, India

C Mani

During the last two decades, Indian women have entered the field of entrepreneurship in increasing numbers. To the emergence and sustainable growth of their businesses, they have contributed to the global economy and to their surrounding communities. The main objective of the study has been to understand the socioeconomic background of women entrepreneurs, and their problems in running their enterprises efficiently and profitably. The study was conducted in Tirunelveli District of Tamil Nadu. A random sampling technique was adopted for the selection of study area. A sample of women respondents was taken on the basis of the criterion that they should be running their enterprise independently and not in partnership. The data relates to the month of June 2011. The survery suggested that the most common reason for success seems to be personal qualities such as 'hard work and perseverance '. Product related factors such as 'providing a quality product ' uniqueness of offerings' and 'variety of products offered' were the other most frequently stated reasons for success. People skills and marketing skills were mentioned by some women. Also a significant number of women credited their success to the support provided by their spouses, which showed significant difference. To sum up, women entrepreneurs who receive support from family, relatives and other support systems could manage their own enterprises successfully. With relevant education, work experience, improving economic conditions and financial opportunities, more women around the world are creating and sustaining successful business ventures. The present study concludes that the respondents are economically and socially empowered by starting small business entrepreneurship in Tirunelveli District.

Keywords: *Women Entrepreneurs, Constraints, Health Status, Percentage Analysis, Averages, Chi-Square Tests, Probability Analysis.*

1. Introduction

The socioeconomic condition of women is the key for overall growth and development of the country. For women, entrepreneurship is a journey from poverty to prosperity, total dependence to equality, agricultural labour to entrepreneurs in industry and in service sectors and finally, as opportunity entrepreneurs. It has almost reached a stage where it is more suitable a profession than getting employed in public /private organizations which have their own limitations. Thus the women's journey mirrors the transformation of the nation from low to a high-income country.

The economic status of the women is now accepted as an indicator of a stage of development