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Testing the Validity of the Export-led Hypothesis for Zambia: An Econometric Analysis

Chanda Chimfwembe and **Venkatesh Seshamani**

This paper empirically tests the validity of the Export-led Growth (ELG) hypothesis with respect to Zambia for the period 1990-2011. The study utilized annual time series data for the period 1990 to 2011 when trade policy reforms were implemented to promote exports. The model drawn from Keong et al (2002) was estimated using the Johansen procedure of cointegration. A causal relationship between exports and economic growth in Zambia was analyzed using the Granger causality test and Vector Error Correction Model. The results indicate that the export-led growth hypothesis is valid for Zambia.

Keywords: *Export-led Growth, Cointegration, Granger Causality, Vector Error Correction Model*

Introduction

In the 1950s and 1960s, most of the developing countries followed import substitution (IS) policies for their economic growth. The proponents of the IS policy stressed upon the need for developing countries (LDCs) to evolve their own style of development and to control their own destiny. This implied policies to encourage indigenous “learning by doing” in manufacturing and the development of indigenous technologies appropriate to a country’s resource endowments (Todaro and Smith, 2003). However, since the mid-1970s, in most developing countries including Zambia, there has been a considerable shift towards export promotion strategy. The export promotion strategy postulates that export expansion leads to better resource allocation, getting economies of scale and production efficiency through technological development, capital formation, and employment creation and hence economic growth. Experiences of Asian and Latin American economies provide good examples of the importance of the export sector to economic growth and development, which led economists to stress the vital role of exports as the engine of economic growth (Abou-Stait, 2005).

Since the mid-1970s, Zambia shifted from import substitution policies to export promotion strategies. It was argued that such Export-led Growth (ELG) strategy increased the country’s capability of producing goods that could compete in the world

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Time-series Analysis of Exchange Rate Volatility of Indian Rupee/US Dollar - An Empirical Investigation

Gautam Kamble and Parmeshwar Honrao

This paper empirically investigates the nature of exchange rate volatility. The exchange rate is a key financial variable that affects decisions made by foreign exchange investors, exporters, importers, bankers, businesses, financial institutions, etc. The exchange rates could display higher volatility because of several factors such as deviation from fundamentals, excessive speculative activities, macroeconomic shocks, or other global and domestic news. Reserve Bank of India intervenes in the foreign exchange market to maintain orderly market conditions. The exchange rate volatility has been significantly negative in the short run rather than higher exchange rate fluctuation trends. The study uses monthly data on Rupee-US Dollar bilateral exchange rate. The empirical analysis has been carried out for the period between Jan 2011andSep 2013. The foreign exchange rate volatility of Indian rupee against US Dollar was investigated by using GARCH (1,1) model. Present study uses a model to explain the Indian foreign exchange rate volatility.

Keywords: *Exchange Rate Volatility, Foreign Exchange Rate, Monetary Policy, ARCH/GARCH Models, Forecasting.*

Introduction

The foreign exchange rate is the rate at which one currency (say Re) is exchanged for another (say dollar). Exchange rate, is the price of one currency in terms of another currency. The exchange rate between the Rupee and dollar refers to the number of rupees required to purchase a dollar. Thus the exchange rate between the Rupee and the dollar from the Indian viewpoint is expressed as Rs.62.2=$1.It has a great impact on the volume of foreign trade and investment. We study, with daily and monthly data sets, the impact on exchange rate level using high-frequency data on Rupee returns against the dollar and we construct model-free estimates of daily exchange rate volatility. Volatility of the exchange rates of developing countries is one of the main sources of economic instability around the world. Exchange rate volatility is defined as the risk associated with unexpected movements in the exchange rate. Exchange rate volatility is a measure of the fluctuations in an exchange rate. It is also known as a measure of risk.

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Euro Zone Crisis and its Implications for the Indian Economy

U Sarangi

This paper analyses the Eurozone crisis and its implications for the Indian economy. It is seen that the Eurozone crisis has erupted as a consequence of the global economic and financial crisis that started with the collapse of the Lehman brothers in the US and the acceptance of euro currencies by most of the EUs as the national currency for their trade and economic transactions. This has also resulted in drain of public finances due to falling euro-vis-à-vis US dollar in most of these economies and more severe in case of countries like Greece and Spain. Further, there are deep recessions in these economies including that of the Indian economy. In the early part of 2012, the Indian rupee has depreciated considerably which has resulted in serious current and capital account deficits for the economy. The Eurozone (EZ) crisis is a severe economic crisis that has affected the EU countries particularly Spain, Greece, Italy, Ireland seriously thereby jeopardizing their economies resulting in flight of capital, leading to revival through financial bailout packages for countries like Greece and Spain. The paper also studies the economies of Greece, Italy, Spain and Ireland at length and suggests certain remedial measures for these economies to get rid of the Eurozone crisis through proper and adequate financial bailout packages. It is felt that the IMF being the global multilateral financial institution plays a major role in reviving and rescuing these economies from the serious crisis through financial support and economic stability. Certain statistical and economic tools have been used to analyze the various economic parameters and their relationships by taking into account the EU economies vis-a-vis the Indian economy. The major aspects which the study covers include European banking and sovereign debt crisis, crisis of EU institutions, conditions for crisis resolutions, crisis overview, impact on the US economy, IMF involvement, US-EU co-operation, causes of the crisis, economic challenges facing the EZ, major crisis policy responses, correction in trade imbalances in the EZ, implications for European integration, trade competitiveness, EZ crisis and its impact on the Indian economy, linkages between global crisis and EZ crisis, implications of EZ crises and possible directions and relationships existing between EZ and the EMEs.

Keywords: *Euro Zone Crisis, Bailout Package, Banking and Sovereign Debt Crisis, Trade Competitiveness, European Integration*

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Indian Exports of Handicrafts and Global Markets: An Empirical Analysis

Naresh Kumar

Handicraft sector of India is cottage based, decentralized and export-oriented. A lot of manufacturing units are established in rural and small towns, which generate employment for a million of artisans. Indian handicraft products have great opportunities in the domestic and international markets. Main products of handicrafts consist of art metal wares, embroidered and crocheted goods, shawls and art wares, zari and zari goods, woods wares, hand printed textiles and imitation jewellery. The total handicrafts exports from India was Rs.2920 crore in 1995-96, and it increased to about Rs. 17970 crore in 2012-13 there by registering a Compound Annual Growth Rate (CAGR) of 8.94 per cent during the period1995-96 to 2012-13. The main cause of this high growth rate has been the increasing demand from major importing countries for the products because Indian handicrafts have attracted foreign tourists being affected by globalization. The USA has the highest share of exports and accounted more than 30 per cent for the study period; the UK is the second major destination for handicraft exports. This study tries to make an assessment of the coefficients of variation, and it has been found that stability over the study period in exports of handicrafts has improved which indicates the presence of diversification.

Keywords: *Coefficients of Variation, Growth, Concentration, Stability*

Introduction

The term ‘handicraft’ covers a complete range of crafts work. These are generally produced with low capital investment from materials available within the producing country. Handicrafts are a great productive sector and export products for many developing markets. These are consumed by a wide range of people belonging to different age groups in all levels of society. The sector in India is decentralized, cottage based and highly labour intensive. The industry is spread all over the economy especially in small towns and rural areas. A large number of manufacturing units are established in rural and small towns. The industry is a big source of income for women and people belonging to the weaker sections of the economy. The production of handicraft commodities is done on both small and large scale in India. A large number of artisans are engaged in handicrafts industry on part-time basis. The industry generates employment for about one million artisans.

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Indian Manufacturing Sector Exports in the Context of Globalization

Pesala Busenna

In India, new economic reforms were introduced in the early 1990s. The main objectives of economic reforms were: to reduce government intervention; to reduce tariffs and quantitative restrictions on imports, to facilitate the acquiring of foreign technology and to promote performance growth of industries by ways of removing various constraints, and to improve the efficiency of the manufacturing sector as a whole through increased competitiveness. The main objective of the paper is to examine the Indian manufacturing sector's contribution to total exports, particularly of given industries. The success of the globalization of the Indian economy should be measured by its export performance. Innovation in the operation and organization of this sector is critical to the success of economic reforms. It follows from our analysis that from1987-88 to 2002-03; the contribution of textile and textile product exports was higher than the other industries (within the manufacturing sector). Second, for all the manufacturing industries CAGR declined in the post globalization period (except 'other manufacture industry') compared to the pre-globalization period. Third, the growth rates of all industries (except handicrafts) exports increased during 2001-02 to 2011-2012, in relation to the post globalization period. Fourth, a very few of the Indian manufacturing industries contributed enormous towards the growth of exports in the post globalization period.

Keywords: *Manufacturing, Exports, Globalization*

Introduction

In the Indian context, a new economic reforms process was initiated in the early 1990s. The main objectives of economic reforms were: to reduce government intervention; to reduce tariffs and quantitative restrictions on imports; to facilitate the acquiring of foreign technology and to promote the performance of the industrial sector by way of removing various constraints; and to improve the efficiency of the manufacturing sector through increased competitiveness. Multi National Companies (MNCs) and developed countries have been seeking to export commodities to developing and underdeveloped countries. Although India is able to compete with them to a certain extent, it has not succeeded in excelling the global market players. At the same time as compared to the

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Puzzling Scenario of US Economic Growth

Abdul Ghafoor Awan

The economy of the United States is the number one economy of the world on the basis of its GDP size. Many economies of the world depend upon the working of it. However, US economy has been facing the phenomena of labour productivity slowdown since 1973. The productivity grow was witnessed during 1990s decade due to revolution of information technology but it was proved transitory. To investigate this phenomenon the economists have been actively working and using different theoretical and empirical approaches. But it is still an enigma and its real cause has so far not been detected. The objective of this research study is to investigate why US economy has been facing productivity growth slowdown since long, what are its causes and what is its possible solution? The study has used qualitative research approach in which real economy sector and technology economy sector have been studied on the basis of secondary data collected from OECD, IMF, World Bank, etc. The individual share of these sectors in the US GDP has been determined to analyze their effects on productivity growth. The author has also compared goods and services sectors and their contribution into the US GDP. The results of study show that no breakthrough or major innovation has been occurred in major sector of US economy. Information technology is a small sector and growth in this sector during 1990s has not brought any significant impact on US economy. The evidence shows that quality of patents is falling despite increasing number of researchers during the period of 1990-2010 and it reflects diminishing return on R&D investment in technology sector. The ratio of input/output is 40/100, which is totally against the concept of constant return to scale.

Keywords: *Productivity, Patent, R&D, Technological Progress, Output.*

What is an Economic Growth?

Gordon (2012) says that by economic growth we usually mean the growth rate of real GDP per person (or per capita). The achievement of rapid growth is one of the most important distinguishing features of a successful economy. The fact that U.S. economy grew more rapidly than those of the industrialized nations of Europe during the century between 1850 and 1950 allowed Americans to enjoy a higher standard of living than most residents of Europe throughout the postwar era. How economic growth affects standard of living one can understand this phenomenon by looking at the economic history. In 1870, average real GDP per person in the United Kingdom, was 37 percent higher than in the United States. But in 2010 average real GDP per

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Abenomics Gamble and the Japanese Economy: The Risks and Opportunities

Shalendra D Sharma

Prime Minister Shinzo Abe's economic policies dubbed "Abenomics" are a bold attempt to resuscitate Japan from its long economic stagnation. What are the core tenets of Abeonmics, what are the domestic and external factors which propelled Japan's political establishment to adopt such wide-ranging policies, what are the potential implications for Japan and the global economy, and what more needs to be done for Tokyo to reap the potential rewards of Abenomics? This paper addresses some of these related questions.

Keywords: *Abenomics, Deflation, Quantitative Easing, Fiscal and Monetary Policy.*

It is well documented that over the past two "lost" decades, the Japanese economy has been caught in the grips of a never-ending existential crisis.[1] Slow and stagnant growth, pervasive deflation, weak asset prices (despite a virtually zero policy interest rate), rising public debt (long past 200 percent of GDP), and eroding international competitiveness has reduced the once "miracle" economy into the new "sick man of Asia" – with the land of the rising sun now increasingly dismissed as the land of the setting sun. To its credit, Tokyo, over the years has introduced a wide array of measures to stop the downward spiral and kick-start the moribund economy – but, with little success. Although part of the failure has been due the ad-hoc, heart-hearted and inconsistent policy responses, it is equally true that the problems facing the Japanese economy is so multifaceted and deep that it defies quick or easy fixes. Indeed, if observers of Japan's economy agree on one thing it is that if the country is ever to get out of its economic malaise, policy responses must be equal in magnitude to the daunting challenges at hand.

It seems that this lesson finally dawned on to Japan's political establishment. The Liberal Democratic Party (LDC), which has held power almost unbroken from 1955 to 2009 (when it suffered a humiliating defeat that left it with just 113 seats in the 480 seat lower-house), had time in the interregnum to reflect, reassess and eventually articulate a set of policy measures that seems more up to the task. Arguably, it was Shinzo Abe (who was re-elected as president of the then in-opposition LDP in September 2011)