

# FOREIGN TRADE REVIEW

Quarterly Journal of  
Indian Institute of Foreign Trade

## OBJECTIVES OF *FTR*

Global economic relations among the nations today have undergone significant changes in the last 20 years. Several trade blocs have emerged with powerful economic backing along with an emerging consensus that countries should reduce the barriers in the way of free international trade. The pattern of trade of the developing countries has changed significantly and operations of multinational corporations have contributed to that change. New areas have emerged in the arena of trade during the GATT Negotiations.

In the international financial system in the post Bretton Woods System era, a very strong regime of international fund managers has acquired the centre stage and this has imparted volatility in the financial system. The developed countries are finding it more difficult to attend stability both in the financial and real sectors in international trade. All these require fundamental research to have the necessary policy prescriptions suitable for a developing country like India. There is a lack of forum in the dissemination of research in the field of international trade and related areas.

The *Foreign Trade Review* is an international quarterly intended to fill the urgent need as explained above. The Indian Institute of Foreign Trade - an apex institution for research, training and consultancy in the broad areas of international trade has taken up the task of the publication of the journal. The following are the objectives and scope of the journal:

- To provide a forum for debate and discussion of high quality theoretical and empirical research in the areas of international trade, finance and marketing.
- To provide an outlet for research in evaluation and interpretation of innovations in the instruments and methods in the areas of trade.
- To transmit information on system and policy developments, and wide statistical information related to international trade and the international bodies facilitating international trade transactions.
- To provide a forum for discussion on the areas relevant for the negotiations in WTO.

The Journal invites research papers covering areas and problems consistent with the objectives as laid down above. It also welcomes papers on policy relevance and operational aspects.

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## IN THIS ISSUE

### **Evolution and Performance of Indian EPZs/SEZs**

by **Shri L.B. Singhal**, Director General, Export Promotion Council for EOUs & SEZ Units, New Delhi.

A Special Economic Zone (SEZ) is defined as a specially delineated duty free enclave for trade operations. This area is reckoned as a foreign territory for the purpose of duties and tariffs. Movement of goods/services between SEZ and Domestic Tariff Area (DTA) is treated as exports and imports. SEZ units can be set up for export of goods and services including trading. Establishment of EPZs/SEZs is essentially a post World War-II syndrome when import substitution was gradually discarded to adopt export led growth – opened up/free trade policy. Rationale for setting up EPZs/SEZs emanates from natural endowments and other resources of different countries. The developing countries have plenty of cheap labour but they lack in export related infrastructure, technology and even access to their products in overseas markets. The first example of EPZ – Shannon Export Processing Zone – designed to liberalize trade/FDI debuted in Ireland during 1956.

First FTZ in India was set up at Kandla in 1965. Then came the establishment of EPZs at SEEPZ (1974), Cochin, Chennai, Visakhapatnam, Falta, Noida and Surat.

As a part of its Export & Import Policy, the Government of India had announced setting up of SEZs in April 2000. The Government of India has enacted SEZ Act, 2005 in June 2005. At present, 14 SEZs are operating and approvals have been given for establishment of 64 more such enclaves. The paper attempts to throw light on the major issues involving evolution and performance of Indian EPZs/SEZs.

### **Risk Management and Capital Adequacy Norms for Banks**

by **Dr. Udayan Kumar Basu**, Professor and Dean (Training), Future Business School, Kolkata.

The overall banking scenario has undergone a dramatic change in the wake of liberalization of markets and advent of the concept of universal banking. Commercial banks can now operate as veritable financial supermarkets offering all kinds of services under one roof. The various regulatory requirements and the presence of NPAs in banks' balance sheets introduce certain rigidities in their operating parameters. Besides, the investment options expose them to market and project risks, and brings the issue of financial fragility to the foreground.

In view of the new kinds of risk affecting banks and increasing global competition faced by them, their capitalization and the efficacy of the regulatory and supervisory norms assume a greater significance. The current article explores the impact of possible changes in CRR and SLR on a bank's cut-off risk, i.e. the maximum permissible risk without any default, as well as its dependence on interest rate and capital adequacy ratio. Basel II norms for taking market risk into account, the use of Value at Risk as its measure and the recent guideline by Reserve Bank of India to relate the overall market exposure to net worth, have been examined. A method towards selection of an appropriate capital adequacy ratio to cover market risks has also been proposed.

## **India's Textiles & Clothing Trade:**

### **Moving from Big Hopes & Small Gains to Big Hopes & Big Gains**

by **Dr. P. Rameshan**, Associate Professor (Strategy), IIM Kozhikode, Kerala.

In this paper we examine the textiles and clothing export performance of India and China during the ATC and post-MFA period, with focus on the two leading consumer markets, viz. the European Union (EU) and USA. We evaluate the proposition that in comparison with China, India has not been able to gain significantly in these markets from the quota-removal on textiles and clothing, and that India has continued to be a smaller player in the world market for textiles and clothing as compared to China. Further, we analyze the implications of the trade trends of the US and EU textiles and clothing markets for the future textiles and clothing export success of India. Besides, we explore the possible strategic options available to India to become a major player in the leading export markets of textiles and clothing despite the competition and competitors. The results reported in the paper support our proposition that India's gains in textiles and clothing trade in the ATC and post-MFA era have not been commensurate with its hopes. The paper suggests various reasons for this unsatisfactory outcome and outlines some measures to ensure better gains for India in future.

## **Impact of Economic Reforms on External Sector**

by **Dr. R.K. Kaundal**, Senior Lecturer, Department of Economics, Govt. P.G. College Dharamshala, Distt. Kangra (HP).

The impact of economic reforms on the external sector during the post reform period was extremely successful in meeting the balance of payments crisis of 1990s. These reforms improved the openness of the Indian economy vis-a-vis other emerging economies. Indian economy is more deeply integrated with the world economy today than it was in 1991 as a result of high growth rate of both exports and imports. Much, however, remains to be done. Indian economy is still relatively closed compared to its "peer competitors". Further reduction to tariff protection and liberalisation of capital flows will enhance the efficiency of the economy and along with reforms of domestic policies will stimulate investment and growth.

## **BOOK REVIEW**

S.P. Agarwal, *Consultancy Services in India: Perspectives and Export Prospects*; New Delhi: Bookwell; 2005; pp. xxiv-372; Price: Rs 795.

by **Vijaya Katti**, Professor and Chairperson (MDPs), Indian Institute of Foreign Trade, New Delhi.

Shailendra Kumar, *Trade in Services: Advantage India*; New Delhi: Bookwell; 2005; pp xxiv+ 418; Rs 895, US\$ 45.

by **Anil K. Kanungo**, Editor, Indian Institute of Foreign Trade, New Delhi.

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