

# FOREIGN TRADE REVIEW

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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

### **Trends in India's External Trade in Rubber and Rubber Products : An Inter Temporal Analysis**

*by* **Shri Joby Joseph**, Research Fellow; **Dr. Tharian George K.**, Dy. Director (Econ.);  
**Shri Toms Joseph**, Economist,  
Rubber Research Institute of India, Kottayam, Kerala.

In a relative term, the assessment on the consequences of global trading regime governed by WTO in a significant way has been concerned with macro level issues compared to product specific studies from a national or global perspective. Several factors such as trade policy reforms initiated in a large number of countries or country groupings, rules of the WTO agreement, overriding importance of today's regional trade agreements and broad sectoral issues are influencing the behavioural patterns and equations of international trade. The popular academic and policy perspectives tend to treat product specific issues as an ensemble of broad sectoral issues. As a result, there exists a substantial paucity of product specific studies across countries. Attempts are made only when the issues surface beyond the scope of sectoral level survival or revival strategies. The long term implications of such a policy paradigm exposes the relevance of studies pertaining to the performance of individual product groups in the context of trade policy reforms.

In the light of this development, the paper makes an attempt to provide a detailed analysis of the trends in India's external trade in rubber and rubber products.

### **Industrial Sector Growth Accounting of Some Indian States and Union Territories : A Data Envelopment Analysis**

*by* **Dr. Shahid Ahmed**, Reader; and **Dr. Somesh K. Mathur**, Senior Lecturer,  
Department of Economics, Jamia Millia Islamia (Central University), New Delhi.

We work out technical efficiency levels of the Indian States and Union Territories using Data Envelopment Analysis from 1980-81 to 1997-98. We decompose net value added per worker growth into components attributable to technological changes (shifts in the overall production frontier), technological catch up (movement towards or away from the frontier) and capital accumulation (movement along the frontier). The overall production frontier is constructed using data envelopment analysis, requiring no specification of functional form for the technology nor any assumption about market structure or the absence of market imperfections. We analyze the evolution of cross states net value added distribution for the 22 Indian states and union territories from 1980-81 to 1997-98 using Kernel densities. The efficiency factor accounted for 5.07 per cent only, technological change accounted for 11.66 per cent while the contribution of capital deepening is relatively higher at 17.82 per cent while the point to point productivity change is of 11.66 per cent.

The overall averages provide evidence of productivity improvements of 173.29 over 1980-81 (base) to 1997-98 (current year) period. The efficiency factor accounted for -10.63 per cent only, technological change accounted for 173.20 while the contribution of capital deepening is 42.52

per cent to account for 173.20 per cent overall productivity change (not point to point). The results seem to suggest that there are other factors suggested in the literature like barriers to exit, a maze of rules and regulations, government import policies, high concentration, among others, rather than the ones that are included below for the growth accounting exercise which can totally account for point to point and overall productivity changes from 1980-81 to 1997-98. Also, we do find that the efficiency levels for the Indian states have gone down from what it was in the 1980s to what it was in 1997-98. However, the smaller states have outperformed the larger states in terms of their efficiency levels. Also, states which had relatively lower efficiency levels and net value added per worker in 1980-81 are the ones which have grown faster than other states. We see a tendency of catching up among the Indian states in terms of net value added per worker.

**Key Words:** Growth Accounting, Data Envelopment Analysis, Technical Efficiency, Efficiency Change, Technological Change, Capital Deepening, Kernel Smoothing.

## **Performance of Onion Exports from India : A Temporal Analysis**

by **Dr. Pramod Kumar**, Scientist (Senior Scale); **Dr. Alka Singh**, Senior Scientist; **Dr. P.S. Badal**, Scientist (Senior Scale); and **Dr. R.P. Singh**, Head, Division of Agricultural Economics, Indian Agricultural Research Institute, New Delhi.

Onion is one of the important vegetable crops grown in India. In terms of area, India ranks first in the world with over 479 thousand hectares spread over entire country accounting for around 18 per cent of the world area planted to onion. Globally, the country occupies the second position after China in onion production with a share of 11 per cent. In the post-liberalization era, a number of export promotion measures have been taken to boost agri-exports. Onion being one of the major export items, it is very pertinent to assess the performance of onion export in post liberalized regime in order to take corrective measures and devise future strategies to achieve greater levels of export. The paper attempts to study the changes in composition and direction of onion exports and estimation of export demand for onion. Onion was exported from the country mainly in four forms [at 8 digit HS (ITC) classification] i.e., onions fresh or chilled, onions preserved/prepared by vinegar acetic acid, onions dehydrated/dried and onions provisionally prepared. Substantial change in composition of onion and its products has taken place over the years, with the share of onions fresh in total onion exports falling to 83 per cent in TE 2002 from a high of 99 per cent in 1980. In the decade of 1990s, onion fresh recorded a marginal growth in volume terms whereas onions dehydrated/dried and onions provisionally prepared recorded a very high growth of 23 and 7 per cent respectively. Therefore, the focus in future should be to produce and export processed products of onion, i.e. onions dehydrated/dried and onions provisionally prepared by vinegar acetic acid for accelerated foreign exchange earnings. The insignificant growth of unit value realization for onions fresh or chilled, onions preserved and onions dehydrated exports is a cause of concern. In Singapore, Sri Lanka, Malaysia, and Mauritius Indian onion fresh or chilled was getting higher unit value price and, therefore, the focus could be to expand the market base in these countries. The Markov chain analysis was done to estimate the market share for the period 2009. It was estimated that Bangladesh would account for highest share of onion fresh exports followed by Malaysia, United Arab Emirates (UAE), Singapore, etc. With the enforcement of Free Trade Agreement (FTA) with Sri Lanka, the declining trend in exports to Sri Lanka is expected to be reversed. There is a need to expand the export market of onions and also to look for avenues where higher price realization is possible. There is also a need to have long term and stable policy towards export of onion. The supply of onion for exports could be increased through increased production and by way of reduction in post harvest losses. An adequate policy support is needed to take the available technology to the farmers.

## **Progress and Prospects of Indian Engineering Goods Exports (1956-2005)**

by **Shri Asherf Illiyan**, Presently teaching in the Department of Economics, Jamia Millia Islamia (Central University), New Delhi.

The importance of exports to economic development has been well documented in empirical as well as theoretical literature. For instance, as a number of studies prove, exports may lead to greater capacity utilization, economies of scale, incentive for technological improvement and efficient management due to competitive pressure abroad, etc. The present study analyzes exports performance of Indian engineering goods industry during 1956–2005. The study found that Indian engineering exports have shown phenomenal growth over many years and are making distinctive contribution to the overall export effort. Not only the engineering exports have grown by leaps and bounds from a mere Rs 5.16 crore in 1956-57 to an all-time high of Rs 73,800.9 crore in 2004-05 but also its share in total all-India exports increased from 0.5 per cent in 1956-57 to a commendable 20.4 per cent in 2004-05. It reflects the increased acceptability of Indian engineering products in international market, aggressive marketing strategy, entry into new market, promotional role of Engineering Export Promotional Council and more liberal policies of the Government especially after 1991, etc. Moreover, it is observed that engineering exports have registered a much higher annual average growth rate than total all-India exports in almost all decades.

It is also noticed that there has been a marked shift and significant changes in the composition of engineering exports in the last four decades. The importance of capital goods and management and consultancy services has gone up while those of non-ferrous metals and consumer durables have declined. Further, a close look at destination of Indian engineering exports shows that there has been substantial diversification over the years. While the share of Asia and Africa which accounted for almost 97 per cent of Indian engineering exports in 1956-57 has declined to 34.2 per cent in 2004-05, the share of Europe and America with negligible share in 1956-57 now accounts for 39 per cent of Indian engineering exports. This is a pointer to the diversification of market as well as growing acceptability of our engineering products in developed world. The major problems of engineering exports are: stiff competition, technological problems, high cost of industrial inputs, high transaction cost, trade barriers, infrastructural bottlenecks and so forth.

Setting up of engineering export processing zones, focused approach in terms of identified thrust products and thrust markets, upgradation of technology, sales promotion effort, prompt delivery and after sales services, support to small-scale units, more involvement of large-scale units, setting up of joint ventures, attraction of foreign direct investment, establishment of free trade area or preferential trade agreements, etc. are a few suggestions emanating from the study.

### ***WORLD INVESTMENT REPORT 2005***

## **Transnational Corporations and the Internationalization of R&D : An Overview**

by **UNCTAD Secretariat**

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