

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.

FOREIGN TRADE REVIEW

VOL. XLI

APRIL-JUNE 2006

NO. 1

IN THIS ISSUE

Inflow of Foreign Direct Investment into Karnataka

Patterns, Performance, Implications

By *Dr. M.R. Narayana*, Professor of Economics,
Centre for Economic Studies and Policy, Institute for Social and Economic Change,
Bangalore.

This paper presents an economic analysis of patterns, performance, and implications of foreign direct investment (FDI) into Karnataka State since 1991 with special reference to building credible databases, offering special policy support, developing indicators of competitive performance, and deriving implications for regional economic growth, exports, and globalization. These analyses and implications are of relevance and applicability for design of FDI promotion policy by other states in the Indian federation. At the same time, Karnataka's experiences serve as benchmarks for comparative studies on FDI among states in India and sub-national units elsewhere in other developing countries.

Prospects of Bilateral Trade between India and Bangladesh

Dr. Chandrima Sikdar, Faculty (Economics & Finance),
ICFAI Business School, Bangalore, India.

India and Bangladesh offer natural markets for each other's export products. In their mutual trade, they enjoy the advantages of reduced transaction costs and quicker delivery due to geographical proximity, common language and a heritage of common physical infrastructure. That is why soon after the launching of liberalization in Bangladesh in 1982 India's exports to Bangladesh registered unprecedented growth. On the other hand, Bangladesh's exports to India also increased, but not at a commensurate rate. This inevitably led to the increase of the official trade deficit of Bangladesh with India over the past decades.

It has been held that this trade imbalance was not just an economic issue but generated strong enough political resonance that was inimical to the cordial relations between the two economies. Thus, in recent years, India-Bangladesh bilateral trade has been an issue that has called for much concern. It has been held at various levels of policy-making that a bilateral free trade area between the two economies will go a long way in dealing with this ever increasing trade gap. But the ultimate success of any bilateral trading arrangement between economies hinges on a number of factors like trade intensity index of an economy; its pattern of revealed comparative advantage and the extent of trade complementarities between the economies. The present paper seeks to discuss these concepts and to evaluate the prospects of bilateral trade between India and Bangladesh in the light of these indices.

Japanese Deregulation and Financial Liberalization between 1990s and the New Century

By *Shri Rameshwar Tandon*, Research Professor,
International Institute for Special Education, New Hyderabad, Lucknow, India.

In the late 1980s, Japan was moving to a competitive market-based system of banking and capital markets; new environment created new kinds of risks as also opportunities and dangers of taking risks. The pace of financial liberalization and deregulation was accelerated which spurred competition. But forces leading to the asset bubble started building up much earlier with the slowdown in the economy. The government deficit started rising and share of government bonds rose from 5 per cent of GDP during the 1970s to over 18 per cent during late 1980s.

During the decade, the Nikkei share price index, from its 1989 peak, fell by more than 50 per cent; between 1991 and 2000, land prices declined by more than 30 per cent. The OECD estimates point out that net wealth losses incurred by the economy between 1989 and 1999 due to this asset price collapse amounted to more than two years' wealth of GDP or about \$7 trillion, of which more than 50 per cent was borne by the households. This massive loss in wealth had serious negative consequences; the banking sector was saddled with a large amount of non-performing assets and they drastically curtailed their lending.

The progressive tightening of monetary policy during late 1990s and inevitable unwinding of borrowing boom produced a steep drop in the growth of real money supply and bank lending also weakened appreciably. This rapid rise in stock prices up to 1989 was seen as an abnormality; was it the speculative zeal of investors or unmanaged monetary policy or business losses in corporate sectors? While since the early 1990s the MOF pursued vigorous liberalization of bond market and internationalization of stock and bond markets and introduction of a futures market for bonds, etc, these reform measures began with relaxation of the collateral rule.

The Paper makes an attempt to understand and highlight a slew of measures taken by Japanese government to liberalize and deregulate its financial sector and has pointed out the ups and downs of such bold initiatives taken by the government.

IIFT STUDY

Exportable R&D Services in CSIR System

Technology based innovations and national and sub-national innovation system are being increasingly considered as important instruments. These are perceived to be the tools for growth and development of advance and advancing nation in a globalizing world. R&D and R&D services are crucial for innovation chain. India today is gaining strength in its R&D services; few sectors have realized such potential. GATS Agreement of WTO provides challenges and business opportunities in R&D services for R&D and related institutions.

The paper is based on a study conducted by CITT-IIFT. The Study suggests each laboratory is capable of delivering core competencies. Constraints faced by the laboratories and observations have been highlighted and suggestions have been delineated to overcome problems being faced by such laboratories. Recommendations have been made to enable CSIR to position itself for competing in the global market for R&D services.

Foreign Trade Review is published four times a year by Indian Institute of Foreign Trade, New Delhi. Single issue may be purchased at Rs 75/- (or US\$8.00). The subscription rates are as follows:

	Inland Rs	Overseas			
		Surface		Airmail	
		US\$	£	US\$	£
One Year	275.00	30	18	48	36
Two Years	500.00	54	32	92	66