

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

An Econometric Analysis of Export-led Growth in A Multivariate VAR Framework: Evidence from India

By Prof. (Mrs.) Krishan K. Kaushik, Visiting Professor, *Prof. Kurt K. Klein and Dr. Lawrence Arbenser*, Research Associate
Department of Economics, University of Lethbridge, Lethbridge, Canada.

Empirical evidence on export-led growth hypothesis is inconclusive and mixed. This paper uses time series econometric techniques to re-investigate the relationship between exports and economic growth in India during the period 1971-2005. The insertion of three additional relevant variables omitted in previous studies help to clarify the conflicting results from earlier studies on the Indian economy. The empirical results suggest that there exists a unique long-run relationship between exports, export instability, imports, investment, terms of trade and gross domestic product. For example, ceteris paribus a 10 per cent increase in the exports raises GDP by an estimated 2.76 per cent in the long run. The short-term dynamic behaviour of income growth function has been investigated by estimating an error correction model in which the error correction term has been found to be correctly signed and statistically significant. However, there is no strong evidence for short-run causality flowing from export growth to economic growth.

Indo-Thai FTA: Indian CTV/CPT and Auto Industry – A Desk Based Analysis

By Dr. Arvind Sahay, Professor and *Mr. Gordhan Kumar Saini*, Academic Associate
Indian Institute of Management, Vastrapur, Ahmedabad.

Sluggish progress in multilateral trade negotiations has provided an impetus to the growth of bilateral trade agreements the world over. The Indo-Thai Free Trade Agreement (FTA), the first phase of which was operational from September 2004, is one such effort that provides access to the manufacturers of both countries to enter into each others' markets beginning with the phased reduction of tariffs on 82 selected items. Since the signing of the agreement, there have been apprehensions from two Indian industries, namely colour TV & picture tube and auto industry in terms of experiencing likely adverse impact.

In this paper, the authors first explore the key provisions of Early Harvest Scheme (EHS) of Indo-Thai FTA and its likely impact on Indian colour TV/colour picture tube and auto industry, especially in post September 2006 era, when the tariffs on 82 items would become zero for both sides. While highlighting the likely impact on Indian industries, the authors have compared and analyzed the import performance of items at HS code-6 and 8 digit levels for 2004 and 2005. A detailed analysis of the short and long term impact on the CTV/CPT and auto industries has been carried out by comparing cost structures, advantages and disadvantages. The paper also includes the major disadvantages being faced by the Indian industries vis-a-vis their Thai counterparts. It concludes with suggestions for Indian manufacturers and policy-makers to counter the likely adverse impact.

Structural Stability of India's Export Demand Function:

An Empirical Analysis

By **Dr. Amal Sarkar**, Lecturer in Economics
Narasinha Dutt College, Howrah, West Bengal.

The objective of present paper is twofold. On the one hand, it attempts to demonstrate the elasticities of India's export demand during 1970-03. On the other, it applies stability test to the estimated export demand function. As the Study deals with time series data, it applies unit root test to study the time series properties of data series. Henceforth, co-integration tests have been applied. This paper reports the results of estimated equation for world demand of India's exports. In long run, both import and price elasticities of export demand have been found elastic. The Study also tries to find out to what extent the historical experience, as incorporated in the estimated equation, can be used as a reliable guide for future trend in exports. In this respect, the question of whether estimates from traditionally specified export demand equation can still be relied upon is an important issue to be discussed. Our test result indicates that the estimated export demand function is stable enough during 1970-03. The result shows that in analyzing exports for the period after 1991, the traditional export demand equation is sufficient for forecasting and policy simulation.

WORLD INVESTMENT REPORT 2006

Overview

By **Mr. Supachai Panitchpakdi**, Secretary-General
United Nations Conference on Trade and Development (UNCTAD), Geneva.

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