

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

Indices of Revealed Comparative Advantage and their Consistency with the Heckscher-Ohlin Theory

A Cross Sectional Analysis

By *Ms. Kaveri Deb*, Research Scholar (Economics) and *Dr. Partha Basu*, Professor of Economics, Department of Humanities and Social Sciences, Indian Institute of Technology, Kharagpur, West Bengal (India).

ABSTRACT

The issue of comparative advantage constitutes an important feature of the theory of international trade. Comparative advantage of countries has been measured in the literature by various alternative indices of 'revealed comparative advantage'. Balassa first coined the term 'revealed comparative advantage' and the index that he devised in the process, has been later modified by various authors in many ways to address one or more of the shortcomings of Balassa's index. However, the existing literature has not tried to determine empirically, the extent to which the different indices are consistent with the idea of comparative advantage as identified particularly by Eli Heckscher and Bertil Ohlin. The present paper makes an attempt in this regard. In the process, another index has been derived by considering the logarithmic transformation of the Balassa's index, and its consistency with the theory has been empirically tested in a similar manner to determine whether it performs better than the other indices. A theoretical review of the alternative indices and empirical findings in different situations exhibit the modified index certainly has an edge over other indices.

Keywords: Revealed comparative advantage, Heckscher-Ohlin theory, labour intensive commodities, capital intensive commodities.

JEL Classification: F11, F14, C43, C12, C21, R12

Trade and Trade Restrictions: The Debate over Chinese Rare Earth Elements

By *Dr. Nabeel A. Mancheri*, Postdoctoral Associate, National Institute of Advanced Studies, Indian Institute of Science, Bangalore, Karnataka (India).

ABSTRACT

Rare earth elements (REEs) or rare earth metals are a collection of seventeen chemical elements in the periodic table, namely scandium, yttrium, and the fifteen lanthanides. Until recently, the global dependency on China for rare earths was a well-kept secret. But word started to spread fast after Beijing cut export quotas by 70 per cent for the second half of 2010, sending prices of some oxides - the purified form of rare earth elements - up as much as 850 per cent. This article is designed to evaluate what rare earth elements are and explores China's current monopoly over the industry. The study provides insights into how widely traded these minerals are and China's

positions in the international trade both in terms of volume and value. The study investigates who are the major customers and analyzes the various trade restrictions imposed by China. The study capitulates instructive and actionable data for considering how China's decreasing exports, and fresh technological uses are setting up an unprecedented discussion on the REEs.

India's Trade Relations with China in the Era of Globalization

By *Dr. Saghir Ahmad Ansari*, and *Shujauddin Khan*, Research Scholar, Department of Agricultural Economics & Business Management, Aligarh Muslim University, Aligarh, Uttar Pradesh (India).

ABSTRACT

In this study, an effort has been made to analyze the trade relations between India and China since 1995 using the concepts of trade intensity, revealed comparative advantage, trade reciprocity index, long-term trend analyses and statistical test. Time horizon is taken during 1995 to 2008. Our results show that the liberalization process has led to significant increase in Volume of India-China trade resulting in trade growth between the two countries higher than the world trade growth. India's trade growth lagged behind China during 1997-2002, but since 2002, its trade growth rate improved substantially and became even higher than China. India's exports to China increased rapidly since 1995 because of this China became the second largest destination for India's exports. This analysis also shows great potential of trade in manufactures, chemicals and agricultural products. The composition of India's commodity basket shows that India mainly focuses on exports of primary product and imports manufactured goods, which is not beneficial for India in long term. Balance of trade is not favourable for India and there is need to take immediate steps for improving India's exports to China specially by focusing on exports of manufactured goods for which good potential exists.

Keywords: trade intensity, trade growth, world trade, exports

GLOBAL DEVELOPMENT HORIZONS 2011

Multipolarity: The New Global Economy

Overview

(Courtesy: The World Bank, Washington D.C.)

BOOK REVIEW

Latha Pillai and B.P. Remesh (eds.), *Bridging the Gap: Inclusive Development and Education*, Sage Publication, New Delhi, ISBN: 978-81321-0752-1, Price: ₹ 550/-.

By *Dr. Basanta K. Sahu*, Assistant Professor, Indian Institute of Foreign Trade, New Delhi (India).

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They are accepted for publication on the understanding that they contain unpublished work not submitted for publication elsewhere. Any special feature relating to the paper such as its presentation in a seminar/conference must be clearly indicated at the bottom of the first page.

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- (b) Coes, Donald V. (1981), "The Crawling Peg and Exchange Rate Uncertainty", in John Williamson (ed.), *Exchange Rate Rules: The Theory, Performance and Prospects of the Crawling Peg*, St. Martin's Press, New York, pp. 113-116.
- (c) Ware, Roger and Ralph Winter (1988), "Forward Markets, Currency Options and the Hedging of Foreign Exchange Risk", *Journal of International Economics*, Vol. 25 (November), pp. 291-302.

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