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Causes of Export Instability in Nepal

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Abstract:

Heavy and sudden fluctuations in exports and export prices create serious problems in balance of payments (BOP), national income, investment and then also creates the severe adverse impact on the overall growth of lessdeveloped countries. The severe consequences of export instability at the various front of the economy are ratchet effects on wages and manufactured products in the industrialized countries, especially during the period after boom, and the inflationary consequences on the least developed countries (LDCs) through the higher prices. In addition, almost all of the countries mostly failed to meet the minimum import requirements of target rate of growth and as a consequence, a persistent trade gap would generate, which reduce the economic growth. The will reduce investment and saving and finally deteriorate the situation of tax revenue.

In this context, most of the recent studies argued that instability in exports is related with commodity and geographic concentration index of exports, and gross domestic products (GDP) of the country. In addition to these, some other researchers argued that that export instability is also caused by growth rate of GDP. However, in this study we try to determine whether commodity and geographic concentration index of Nepalese exports and instability in agricultural and non-agricultural sector GDP cause export instability in Nepal by using the appropriate methodology as mentioned in this study.

Introduction

Violent and sudden fluctuations in prices, quantum and total amounts, of exports, according to traditional view, on the assumption that there exists an intimate relation between foreign trade, national income and investment, have a serious adverse impact on the overall growth of the less developed countries (LDCs), for the excessive fluctuations in prices and foreign exchange receipts, help generate fluctuations in domestics activities which in turn make the process of planned development quite complicated and uncertain, reduce the efficiency with which investment resources are allocated and create manifold difficulties in

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estimating the expected return on investment, which rises the cost of capital needed for greater risk (Aggarwal, 1982). Policy makers and the academicians have realized these views in most of the underdeveloped countries (UDCs) and they have been trying to stabilize their macroeconomic variables. However, there is a heavy fluctuation in foreign trade as well as in other macro economic variables of these countries. Nepal too is not free from these problems. This paper attempts to study the causes of export instability in Nepal.

Definition of Export Instability

Simply the year to year fluctuation in exports figure is defined as export instability. Mathematically, it can be defined as the difference between the actual and estimated value of exports, expressing this difference as a percentage of average value of exports. The United Nations Secretariat in its 1952 study, "Instability in Export Markets of Underdeveloped Countries," notes that instability index is the absolute difference in the value of export from year to year, expressing this difference as a percentage of larger of the two annual values.

Causes of Exports Instability

It is generally agreed that, excessive fluctuations in foreign trade originate from variations in supply or demand or other economic and non-economic factors. But most of the recent studies based on statistical evidence conclude, though inclusively that instability index of exports is largely positively correlated with the degree of commodity concentration of exports and with the proportions of exports receipts obtained from the sales of primary goods and negatively correlated with per capita income and with the concentration of exports by geographical area of destination.

Some empirical studies which are reviewed here for the purpose of study, such as those of Macbean (1966), Coppock (1962) and Voivodas (1973) questioned and even refute some of these views strongly and cast serious doubt about their general applicability both in the long and short run. Macbean, on the basis of a cross sectional study of 35 less developed countries, covering the period 1950 to 1958 and using Coppock's data, e.g., finds that there is no evidence of systematic significant association between:

i. The magnitude of fluctuations in national income and exports, and
ii. The growth rate of gross domestic product (GDP) and export instability, and

hence concludes that instability of exports, in general, is not deterimentional to the stability and the long run growth of LDCs. Macbean's findings are in close conformity with those obtained by Coppock who found an insignificant relation between the export instability index and the rate of growth of GNP.

Stern (1969) did a time series study in the context of Pakistan economy. Using data covering the year's 1957/58 to 1967/68, he regressed commodity concentration on instability index of exports, and found the coefficient of commodity concentration to be positive and statistically significant. The commodity as well as the geographic concentration index of exports is the Gini-Hirschman coefficient of concentration (Hirschman 1945) on exports. These can be calculated by using the formula given in the methodology of this study. Thus,

this time series study at least supports the positive relationship between instability of export earning and commodity concentration. Paudyal (1988), by using the data from year 1956/57 to 1981/82 of Nepalese economy, attempted to analyze export instability in Nepal in terms of export concentration by commodity and country of destination. In this study, he found the positive relationship between export instability and commodity and geographic concentration. However, due to the very low value of coefficient of determination, R^2=0.135, these variables cannot be considered as strong explanatory variables for instability index of export of Nepal.

Consequences of Export Instability

Given the synchronized world in the event of globalization, the export instability of any country may create economic instability in the same country as well as in others. Accordingly, there is much need to pay much attention to the effects of export instability on economic development. These issues have also been rising prominently in the UNCTAD Conference right from 1964 to present day, and as preliminary steps to counter the instability in LDC's exports earnings, price stabilization agreement in primary products and a compensatory financing scheme to compensate the loss in LDC's earnings due to the deterioration in terms of trade of primary product vis-à-vis manufactured goods have been advocated. It is argued that fluctuating prices of primary product retard the process of economic growth and then to economic development in poor countries. It also triggers a ratchet effect on wages and manufactured products in the industrialized countries, especially during the period after boom, and the inflationary consequences would reverberate on to the LDC's through the higher prices, they must pay for their imports of investment and consumer goods.

Almost all of the countries frequently failed to meet the minimum import requirements of a target rate of growth and as a consequence, a persistent trade gap would severely constraint the process of economic development due to the sharp fluctuation in export earnings of these countries. This immediately affects certain types of capital goods, which are essential for investment but not possible to be produced domestically, and maintenance and replacement imports cannot be obtained in the required quantity. Even if it is possible to obtain in the required quantity, it will further deteriorate the foreign trade balance and thus the GDP of the country concerned. This, as Macbean (1969) argues, impose a brake on the growth of capacity as well as full capacity operation of existing plants, thereby frustrating domestic savings.

The very high export instability always constrains investment programs of the LDCs through its impact on domestic savings and tax revenue. Above all, it affects its import capacity. According to Macbean (1966), export fluctuations may affect not only the peasants who produce exports crops but also the entrepreneurs who undertake investments in the production of manufactured goods. The peasants cannot afford the risk of depending on exportable crops, which are subject to severe price instability while the industrialist may find it difficult to estimate the expected returns on investment and be certain that the necessary capital goods and raw materials which need to be imported could be available. As a result incomes of exporters and industrialists, who are likely to have a higher marginal propensity to save, will fall resulting in a fall in domestic savings.

Rationale of the Study

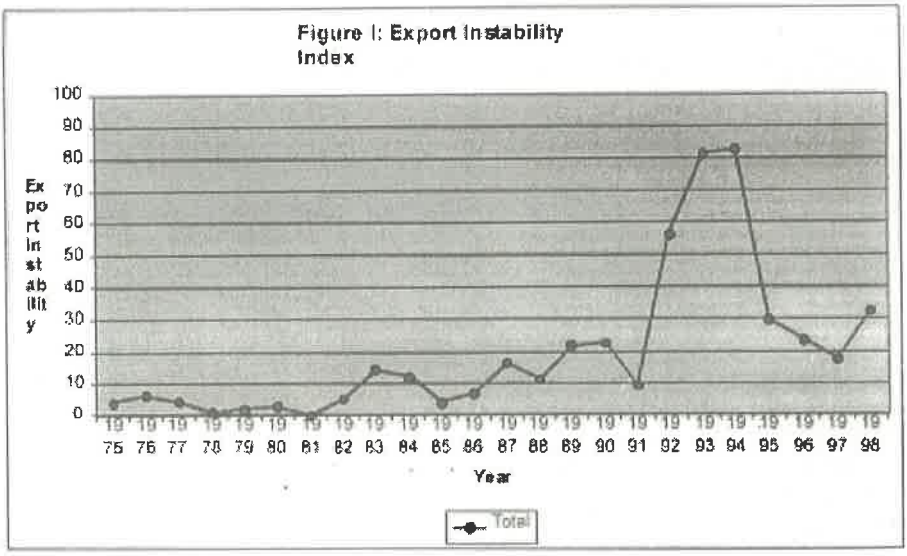
During the period under study (1975 to 1998), exports with India were found to be highly fluctuating. It was Rs. 746.7 million in the year 1975. This amount increased in the year 1976 and again decreased in the years 1977 and 1978, which was only Rs. 498.1 million. This fluctuating trend was continued up to the year 1983. In the year 1984, it was highly increased to Rs. 1160.07 million. The annual growth rate of exports in this year was 37.6% which was very high. This trend continued in the remaining years also, however, the export was extremely decreased in the year 1990 which was only Rs. 602.5 million. Again, it increased to Rs. 1552.2 million in the year 1991. In 1992, it decreased and then increased continuously. This clearly indicates the heavy fluctuations in the exports to India (Annex).

Instability in exports was also found with respect to the rest of the world countries (ROW). From the year 1975 to 1979, it was increased from Rs. 142.9 million to Rs. 646.7 Million. Moreover, it started to decrease and reached to Rs. 288.7 million in the year 1983. From the year 1984, it started to increase again. This heavy fluctuation in the export figure to India and ROW countries severely affects the total export from Nepal.

Graphically, the scenario of instability index of total exports is shown in Figure I. This figure clearly indicates the heavy fluctuations in export from Nepal. After the restoration of democracy in 1990, Nepal chose the free trade policy, which caused a sudden rise in exports between 1991 and 1995. From 1995 onwards, due to the heavy export base, the change was not much noted.

However, foreign grants and loans stabilize the balance of payment deficit of most LDCs. Thus, even if there is greater instability in exports in most of the LDCs, it is not a severe economic problem. But if this inflow of foreign aid is reduced by any means, fluctuations in export earnings are likely to inflict hardships on the economy.

Figure I: Export Instability Index



Methodology

Calculation of Concentration Index

Most of the researchers' studies (Macbean (1966), Coppock (1962) and Voivodas (1973)) considered commodity and geographic concentration index as the most important factors, which influence the instability of exports. As defined already, the commodity and geographic concentration index of exports are calculated here by the Gini-Hirschman coefficient of concentration (1945).

To calculate the commodity and geographic concentration of foreign trade, the following formula is used.

$$Cxt = 100\sqrt{\sum_{i=1}^{n}\left[\frac{X_{it}}{X_t}\right]^2}$$

Where,

Cxt = Concentration coefficient for exports in year t,
Xit = Value of exports of commodity group i in year t,
Xt = Total exports in year t.

and

$$Gxt = 100\sqrt{\sum_{i=1}^{n}\left[\frac{X_{it}}{X_t}\right]^2}$$

Where, Gxt = Index of geographic concentration in year t.

Measurement of Export Instability

In the literature of economics, various statistical measures have been employed and proposed to calculate the instability index (II). We can calculate the II by calculating the "coefficient of variation" by using the formula:

$$V = \frac{\sigma}{\overline{X}}$$

Where, s = standard deviation, and

$\overline{X}$ = mean of the variable.

The next two methods, used by Massell (1964, 1970) and Kingston (1973,1976) are based on the deviations between the observed and estimated values obtained by fitting the linear and exponential trend lines with the help of ordinary least square (OLS) method. These are:

a) If linear trend is best fitted:

$$II = \left[\frac{\sum (X_t - \hat{X}_t)^2}{N}\right]^{1/2} \times 100$$

Where, X_t = Actual value of exports in the year t.

X_t = Estimated value of exports by using the linear trend method.

N = Number of observations.

b) If exponential trend is best fitted

$$II = \left[\frac{\sum (X_t - \hat{X}_t)^2}{N}\right]^{1/2} \times 100$$

Where, Xt = Actual value of exports in the year t.

X_t = Estimated value of exports by using the exponential trend method.

N = Number of observations.

Macbean used another method to calculate II. He used a measure based on the deviations of actual value from the trend values obtained from a five-yearly moving average. The formula is:

$$II = \left[\sum_{t=3}^{N-2} \frac{(|X_t - MA_t|)}{MA_t}\right] \times \left(\frac{100}{N-4}\right)$$

Where, MAt = Five-year moving average of Xt values centered on year t.

The United Nations Secretariat, in its 1952 study "Instability in Export Markets of Under developed Countries," used another method to measure instability. This method involves no formula adjustment for trend. It consists of obtaining the absolute difference in values from year to year, expressing this difference as a percentage of large of the two annual values and then averaging these percentages (Coppock, 1962). The formula for this method is:

$$II = \frac{ABS(X_{t+1} - X_t)}{X_t} \times 100, \quad \text{if Xt} > \text{Xt+1}.$$

and

$$II = \frac{ABS(X_{t+1} - X_t)}{X_{t+1}} \times 100, \quad \text{if Xt+1} > \text{Xt}.$$

Where,ABS = Absolute value,

X t+1 = Next year exports, and

Xt = Current year export.

Another measure given by Coppock known as long-variance index is defined as:

$$II = \left[(Anti\log)\sqrt{V\log} - 100\right] \times 100$$

Where, $Vlog = \frac{1}{T-1}\sum(\log X_{t+1} - \log X_t - M)^2$

$$M = \frac{1}{T-1}\sum(\log X_{t+1} - \log X_t)$$

T = Numbers of years.

Each of these methods has its relative strengths and weaknesses. However, it has been attempted here to calculate the instability of exports by using the following formula. This formula is based on the average percentage deviation of the observed values of export proceed from an exponential growth path (Paudyal 1988). In the following model, three distinct variables are used. These are actual value, mean of the actual value and the estimated trend value of exports figure.

Because the exponential trend is best fitted for the Nepalese data, II is calculated by using the formula:

$$II = \left[\frac{X_t - \hat{X}_t}{\overline{X}}\right] \times 100$$

Where, X_t = Estimated trend value estimated by exponential trend

Causes of Export Instability

To find the causes of export instability, the following function is developed.

$$II = f(C_x, G_x, II_{agdp}, II_{nagdp},)$$

Where,

Cx = Commodity concentration

II = Instability index

Gx = Geographic concentration

II_{agdp} = Instability index of agricultural GDP

IIn_{agdp} = Instability index of non-agricultural GDP

In linear form, this model can be written as:

$$II = a + b_1 C_x + b_2 G_x + b_3 II_{agdp} + b_4 II_{nagdp} + U_t$$

Other degenerated models are:

$$II = a + b_1 C_x + b_2 G_x + b_4 II_{nagdp} + U_t$$

In these models a, b_1, b_2, b_3, b_4, and b_5 are parameters. To estimate the value of these parameters, OLS method of regression analysis has been employed and SPSS version 10.0 is used for this purpose.

In the above models to calculate IIagdp and IInagdp the following formulas are used:

$$\text{IIagdp} = \left[\frac{AGDP_t - \hat{AGDP_t}}{\overline{AGDP}}\right] \times 100$$

Where, $\hat{AGDP_t}$ = Estimated trend value estimated by exponential trend method.

AGDPt = Actual value of AGDP in the year t.

$\overline{AGDP}$ = Mean of AGDP.

$$\text{IInagdp} = \left[\frac{NAGDP_t - \hat{NAGDP_t}}{\overline{NAGDP}}\right] \times 100$$

Where, $\hat{NAGDP_t}$ = Estimated trend value estimated by exponential trend method.

NAGDPt = Actual value of NAGDP in the year t.

$\overline{NAGDP}$ = Mean of NAGDP.

Empirical Evidence:

$$II_x = -102.685 + 1.129 C_x + 0.84 G_x + 0.631 II_{agdp} + 1.414 II_{nagdp}$$

t-value (-2.799) (2.405) (1.670) (0.649) (3.664)
t-sig. (0.011) (0.027) (0.111) (0.524) (0.002)
$R^2 = 0.779$ $R^{-2} = 0.732$ F- value = 16.718, F- sig. =0.000
D – W = 1.235 N = 24.

From the above model, it can be concluded that there is positive relationship between instability index of exports and the independent variables: Cx, Gx, IIagdp, and IInagdp; each of these variables is specified above. The value of R^2, R^{-2} and F-sig. indicate that the independent variables are powerful to explain the instability index of exports of Nepal. However, t- value

is found to be significant for the coefficient of Cx and IInagdp and highly insignificant for the coefficient of IIagdp. But it is found to be significant at 11.1% significant level for the coefficient of Gx, which is not best significant. In addition to this, D-W value lies in the range of indecision. So, we cannot say whether there is autocorrelation or not. Highly significant F – ratio and insignificant t-ratio indicates some multicollenerity problem in this model. Therefore, we try to test the following degenerated model again.

$$II_x = -111.764 + 1.183C_x + 1.018G_x + 1.513II_{nagdp}A$$

t-value (-3.345) (2.599) (2.419) (4.332)
t-sig. (0.003) (0.017) (0.025) (0.000)
$R^2 = 0.774$ $R^{-2} = 0.740$ F- value = 22.811, F- sig. =0.000
D – W = 1.392 N = 24.

In this model the value of R^2, R^{-2} and F- sig. (= 0.000) are approximately similar to the first model. In this model also, there is positive relationship between instability index of exports and independent variables: Cx, Gx and IInagdp. In this case, t- values are also significant for each coefficient. In addition to this, D-W value lies in the range of indecision. So, one cannot say whether there is autocorrelation or not.

Thus, from the study of the above two models, it can be concluded that Cx, Gx and IInagdp are reasonable explanatory variables of the exports instability of Nepal.

There are other factors, which influence the exports of Nepal. These factors are:

1. No Product Specialization

Nepal has no product specialization for its exports. Fore example, if we look at the major exportable commodity of Nepal, sometimes this country export rice while other time it export timber, jute and jute products. In some circumstances, it exports woolen products while in others it exports carpets, garments, pasmina shawl, etc. Due to this problem, total exports of Nepal fluctuate heavily.

2. Supply Side Instability in Agricultural Product

Owing to the lack of product specialization, Nepal has no consistency on agricultural products for the purpose of exports. In addition to this, supply side instability is caused by the following reasons:

i. Deterioration of natural resources, specially the forest resource by heavy deforestation. This led to the closure of the exports of timber from the year 1985.

ii. The fluctuation in the production of raw jute, jute products for exports was fluctuated. Further, there were heavy fluctuations in the supply of Mustard and Linseeds, Pulses, Kutch, Live Animals, Flour, Ginger, Catechu, etc. This heavy

fluctuation is due to the number ii causes or lack of product specialization for exports.

iii. High degree of land fragmentation, lack of irrigation and climate based agricultural farming, and finally fastly increased population. Due to the first two reasons, i.e., high degree of land fragmentation, lack of irrigation and climate based agricultural farming land productivity is reduced and fluctuated. Due to the third one, i.e., fastly increased population, even if the land productivity was increased it was used to feed the increased population and as a result we were unable to increase supply of agricultural product for exports.

These factors create heavy instability in exports of agricultural products, which have the significant share on the total export from Nepal.

3. Inefficient Tax Administration and Long Open Boarder With India

Due to the sluggish and prolonged bureaucratic procedure and kicked-backed (corrupt) nature of bureaucrats, the tax administration is highly inefficient. This causes to increase the unscrupulous trade practice. Further, we have approximately 800 Kilometers of long open boarder with India. This causes to encourage heavy illegal and unscrupulous trade practice in Nepal – India boarder. As a result export figures (noted from custom posts) from Nepal is found to be highly unstable.

4. Policy Problems

Various domestic as well as the major importer countries' trade policies were also equally important to influence the exports from Nepal. The most important of them are listed below.

a. **Quotas and Subsidies:** Some of the developed countries like USA, Germany and former European Union provide quotas and various types of subsidies to Nepali products in some fiscal years while they completely abolished these facilities in other years. This causes a heavy fluctuation in the exports of some major products and then to total exports.

b. **Nepal – India Trade and Transit Treaty:** In some years of the study period, Nepal faced the problem of trade and transit with India, as for example from the year 1989 to 1991. During that period, India imposed heavy tariff on Nepalese products and as a result Nepalese products could not compete with Indian products. This caused to reduce Nepalese exports.

c. **Policy of His Majesty the Government of Nepal (HMG/N):** HMG/N adopted the various export promotion policies during this period. These policies were adopted for some years and broken for others due to their own lacunas. The major policies that were adopted for export promotion were:

1. Exporter's Exchange Entitlement scheme.
2. Dual Exchange Rate System.
3. Auction System.
4. Duty Draw-Back Facility.
5. Bonded Warehouse System.
6. Partial and then Full Convertibility of Current Account.

The last policy is still is practice. Each of these systems contributes significantly in the process of diversification of Nepal's exports of third countries. However, certain lacunas were felt in these systems. As a result, each one of these systems was decided to scrap one after another and replace it by another one.

These types of policy protections in some years reduce competency as well as quality of Nepalese exportable products in the one hand and also reduce exports in the years when these policy incentives are not provided in the other hand. Therefore, policies of HMG/N are also the causes of export instability in Nepal.

5. Lack of Exportable Quality

Due to the lack of international exportable quality, Nepal's exports heavily fluctuated during the study period. If Nepalese entrepreneurs develop a new and better quality product it takes better international markets in the beginning. But after some years their quality will deteriorate due to the lack of quality control mechanism of the government and the private sectors. This immediately reduces the exports. Such type of phenomenon was observed in the export of pasmina shawl and woolen carpets.

6. Conclusions

Like in most underdeveloped countries, foreign grants and loans also stabilize the BOP deficit of Nepal. But if this inflow of foreign aid is reduced by any means, fluctuations in export earning create hardship in the economy. In this regard, we try to find the causes of export instability in Nepal such that the policy makers can recommend appropriate policies to solve the problem of export instability and then BOP deficit.

From our study we can conclude that higher the commodity and geographic concentration of our exportable commodities and higher the instability in non-agricultural sector GDP, higher will be the exports instability. In addition to these factors, other causes of export instability in Nepal are outlined above.

Annex

Year	India		ROW Countries		Total	
	Exports	II	Exports	II	Exports	II
1975	746.7	13.399	142.9	0.438	889.6	3.807
1976	893.7	19.083	292.1	1.460	1185.8	6.337
1977	779.6	10.074	385.1	2.199	1164.7	4.394
1978	498.1	8.451	548.1	3.949	1046.2	0.862
1979	650.1	3.200	646.7	4.302	1296.8	1.900
1980	520.9	13.819	629.6	2.293	1150.5	2.748
1981	992.4	8.560	616.3	0.065	1608.7	0.175
1982	994.4	4.580	497.1	4.795	1491.5	5.120
1983	843.3	8.248	288.7	11.732	1132.0	14.300
1984	1160.7	4.504	543.2	11.356	1703.9	11.851
1985	1601.7	23.684	1138.9	5.995	2740.6	4.122
1986	1241.1	2.042	1836.9	0.077	3078.0	6.771
1987	1302.6	4.871	1688.8	10.519	2991.4	16.322
1988	1567.6	3.031	2546.9	5.238	4114.5	11.244
1989	1034.9	33.888	3160.4	6.617	4195.3	21.779
1990	602.5	65.897	4553.7	2.717	5156.2	22.638
1991	1552.2	21.990	5835.3	6.428	7387.5	8.985
1992	1450.0	37.171	12257.0	95.631	13707.0	56.265
1993	1621.7	38.005	15645.0	96.200	17267.0	81.465
1994	2408.9	5.627	16885.0	94.800	19293.0	82.350
1995	3124.3	21.778	14515.0	25.439	17639.0	29.638
1996	3682.6	39.394	16199.0	0.728	19881.0	23.398
1997	5226.2	110.460	17410.0	48.701	22637.0	17.649
1998	8794.4	292.490	18719.0	94.200	27514.0	32.684

Note: ROW refers to Rest of the World and II refers to Instability Index.
Source: *Quarterly Economic Bulletin*, NRB, 1999.

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Book Review

Sunanda Sen (2000). Trade and Dependence: ***Essays on the Indian Economy***. Sage Publications, New Delhi and Thousand Oaks, London, pp. 316. Price: Indian Rs. 475. ISBN 0-7619-9387-8.

The book under review contains a collection of papers originally published in Economic and Political Weekly. It consists of twelve chapters plus an introduction. The wide-ranging variety of issues covered in the book—from balance of payments, international credit ratings, smuggling and exchange controls to structural linkages between trades and income—attempts to show India's encounters with the world economy. The essays, written over a long period, cover the earlier years of industrial controls as well as the later era of economic liberalization in India's external trade and payments. The essays are, however, not homogenous in quality: some of them are well crafted and stimulating (e.g., Structural Linkages Between Foreign Trade and National Income; Strategy of Export Oriented Growth; Trade as a Handmaiden of Colonialism), others are merely descriptive pieces (e.g. International Credit Ratings, Smuggling and Exchange Controls). The essays in the book attempt to provide some thoughts to the issues dealing with India's external economy, both in its present and historical contexts. The chapters of the book can be divided into three categories such as essays devoted to issues in managing India's balance of payments (BOP) constraint, those dealing with aspects of trade policy, and finally the colonial legacy of international trade.

Two brief chapters depict the external payments situation in India. The basic question posed in these chapters in the need to look beyond the standard use of BOP statistics in order to capture the developmental implications of the external economic transactions of the country. The author argues from experiences of the Indian economy that the standard debt indicators usually generated from BOP do not fully reflect developmental concerns. Further, the changing composition of India's current account and flows in capital account are some aspects of India's BOP which merit attention. Chapters 2 and 3 have references to the specifics of BOP management, which have drawn attention during the eighties. The nineties, however, witnessed an improvement in the BOP position of the Indian economy in terms of a greater significance of private sources of capital flows. Chapter 4 provides an analysis of the theory and practice of international credit ratings, particularly the country-rating indices and calculating country-risks. The section on the survey of the theoretical literature highlights the modeling of international borrowing under Pareto optimality conditions. Methods used in the literature on the country-risk analysis for arriving at the country-credit ratings are also addressed in the essay. Consistent with the changing debt scenario, models of country-risk analysis have also undergone changes. The models now address the issue of debt servicing under certainty and default risk and no longer place emphasis exclusively on the "solvency criterion." An attempt is also made to explain movements in the country rating indices for selected countries including India. In conclusion, the essay questions the worth of these measures, beset with domestic

social costs and added external economic vulnerability, for developing countries' conditional borrowing.

The section capturing aspects of India's trade policy deals with issues ranging from export growth strategy, linkage between trade liberalization and devaluation, to import liberalization and the problem of smuggling. Given the author's specialization in the area of trade and development, the essays put together in this section deal with issues of current concern in India's attempt at trade reform. Chapter 7 provides a theoretical note on the strategy of export-oriented growth. Model highlighting the feasibility of an export-led growth process initiated by the state through a set of export promotional devices is provided. The export promotion device consists of subsidies on the production of the exportable commodity. The major findings listed in this chapter indicate that the use of export subsidies for achieving growth through exports has repercussions on the domestic economy. Similarly, Chapter 8 attempts to analyze the nature and implications of the export promotion strategies in India during the early seventies and eighties. The focus is, however, on the analysis of the implications of the shift to export promotion strategies from import substitution. Various aspects of export promotion strategy ranging from instruments of export promotion, magnitude of export subsidies, to net foreign exchange earnings under export subsidies have been dealt with. Some attempts have been made to understand the theoretical basis of the efficiency arguments implicit in the export growth strategy. The presentation and structuring of these sections, however, are insufficient as well as sketchy, given the importance of the issue from the point of ongoing trade reforms in India. The specifics of the liberalized trade regime in India are dealt in Chapter 9. The essay emphasizes import liberalization as a tool of economic policy and its possible effects on trade and domestic output. This essay, written in the post-1991 reforms phase, provides an account of the trade policy adjustments in India, the beginning of which can be traced to the mid-eighties. The impact on trade is addressed with an assessment of the imports licenses issued, value of actual imports and the import growth rate. The database of these variables is, however, available only till 1990-91.

A graphical analysis of the macroeconomic implications of the import liberalization is examined in the context of the major beneficial gains expected from such a policy. Chapter 10 examines the impact of trade liberalization and devaluation on India's trade balance and growth rate. A macro-model of structural linkages in the Indian economy is put to econometric testing for the period 1973-96. The major finding of the study relates to the need to consider the structural changes between different activities including foreign trade. In addition, the study shows that the effects of devaluation on the country's trade deficit and growth are determined by the interplay of a structurally interdependent system. The final essay in this section deals with the effects of controls, which prevailed, in the economy of domestic as well as external economic transactions. These have often been held responsible for the wide-ranging evasions that prevail in developing economies. In particular, Chapter 11 analyzes the problems typically faced by policy makers in a mixed economy with regard to smuggling. An attempt is made in this essay to provide a description of the pattern of smuggling. Further, the question of profits in smuggling is analyzed with the help of actual evidence from countries like India, Sri Lanka, Nepal and Bangladesh. The essay also addresses whether a solution to the problem of smuggling can be found in a market system.

The third issue covered in the book addresses India's international economic integration in a historical prospective. Chapter 12, the last chapter in the book, deals with the colonial legacies, examining the process of surplus extraction and transfers from India under British rule. The essay provides a detailed account of the macro-relations of surplus transferred abroad with emphasis on (1) magnitude of the financial transfer; (2) monetary implications for the domestic economy, and (3) official and public attitude in monetary stringency. The final section of the essay brings out the issue of export buoyancy in a stagnant economy. The essay shows that the scheme of trade in a backward economy fits in well with the experiences of India in eth colonial period.

In summary, this book presents an overview of the external economic transactions, which received very little attention during earlier years and now assumes importance in the context of the ongoing reforms in international trade. It, however, contains very few essays that attempt quantitative analysis of some of the issues so dormant in the ongoing trade liberalization attempts in India. The essays' qualities, in terms of insights, rigor of modeling and clarity of presentation, vary a lot. The chapters as listed in the contents and mentioned in the introduction do not match and this creates confusion in the understanding of the sequence in which the issues are highlighted and presented. More glaring were the missing pages in chapters 5 and 6, which constrained the reviewer from commenting on issues highlighted in these chapters.

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