CHAPTER - II
LITERATURE REVIEW

2.1 Introduction

The present chapter is a review of prominent existing literature related with our study and is divided into four sections. In the second section there is a discussion on the studies related with theoretical aspects of trade liberalization and discusses the most accepted approaches about process to the trade liberalization and its sequencing, pacing and effectiveness. The third section, is devoted to a review of country specific empirical studies related to their experience with trade liberalization with special focus on India and China. The fourth section is the concluding section.

There has been a debate in the economic theory about the role of trade and choices of appropriate trade strategies for the development process in developing countries. Economists such as Prebisch (1950), Myrdal (1956), and Singer (1950) have suggested an inward oriented approach for developing countries. While Bhagwati (1978), Krueger (1978), Bel Balassa (1980) have strongly advocated the export led growth strategy in form of liberalization and globalization principle. Similaraly one group of Indian economists hails the achievements of reforms and seek faster implementation of retaining reform agendas as Srinivasan (1998), Joshi and little (1996), Ahluwalia and Little (1996), Parikh (1999), Mohan (1999). On the other hand, Nayyar (1996), Ghosh (1997), Nagraj (1997), Patnaik and Chandrasekhar (1995) are critical of the approach of economic reforms. In the following sections we will discuss some of such studies related with both theoretical and empirical aspects of trade liberalization.

2.2 Theory of Trade Liberalization:

The debate on the role of openness of international flows of goods, technology and capital in development and growth processes are as old as
Economics itself. Adam Smith argues against the mercantilists and praises the virtues of openness and competition almost two centuries ago in his famous book Wealth of Nations (1776),

“Between whatever place foreign trade is carried on, they all of them derive into two distinct benefits from it. It carries the surplus part of the produce of their land and labour for which there is no demand among them and bring back in return something else for which there is demand. It gives value to their surplus facilities, by enhancing them for something else which may satisfy part of their wants and increase their enjoyments. By means of it, narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour exceeds the home consumption, it encourages them to improve its productive powers and to augment its annual produce to the utmost and thereby to increase the real revenue of wealth and society”.

The classical economists have discussed the gains from trade in their works and advocated the policy of free trade. In his Principle of Political Economy (1848), J.S. Mill discusses the gains that result from foreign commerce which he further divides into direct and indirect gains. According to Mill (1848),

“Commerce is virtually a mode of cheapening production and in all such cases the consumer is the person ultimately benefited, the dealer in the end is sure to get his profit whether the buyer obtain much or little for his money.”

Whether trading opportunities represent an exogenous response to growth or in other words, trade is a ‘handmaiden’ of growth (Irving Kravis, 1970) was also debated initially. After mid eighties, many developing countries started liberalising their foreign trade and allowing a greater role for
private sector and market forces. This led to many research studies being taken up to analyse the correct speed and sequencing of trade liberalization.

**Frankel (1982, 1983) and Khan and Zahler (1983)** find that speed of adjustment of capital account is faster than that of current account. Liberalization of capital account leads to large capital inflows with undesirable consequences for real exchange rate. The current and capital accounts must by definition be brought into line with each other and speed at which they adjust must be harmonised, this is easier to achieve by slowing down capital flows than by accelerating the liberalization of current account.

**Calvo (1986)** analyses the speed of reforms and their sequencing i.e. whether policies should be changed gradually or at a stroke. He argues that trade liberalization is not an end in itself but a means of achieving more efficient use of resources. The allocation of resources depends upon expected prices; the credibility of reforms is also very important. Reforms therefore need a realistic time-table and what is realistic may differ from one policy area to another. Any reform package that ignores the pace at which individuals and organisations can adjust (a variable that is partly determined by political variable circumstances) runs the risk of failure and undermines the credibility of future reforms. Indeed the theory of rationale expectations demonstrates that coherence and credibility are important in determining the likely effect of reforms on for example investment, labour hiring and on program’s success and failure.

**Pack (1988)** argues that the higher growth of export oriented economies is not a reflection of an increase in factor productivity. The study finds that improvement in factor productivity has not been conclusively linked to trade regime.

**Bourguignon and Morrison (1989)** documented the effects of trade policy on income distribution. Protection was associated with an increase in inequality amounting to a drop of four to five percentage points in share of income of poorest 60 percent of population and a 20 percent fall in the mean
income of poor. This finding is consistent with the predictions of the Stolper–Samuelson theorem that freer trade benefits the relatively abundant factor of production (labour in case of developing countries).

**Thomas and Nash (1991)** are of the opinion that misalignment between domestic and international prices will reduce GDP a few percentage points. Cost of protection will be much higher when the effects of trade restrictions are considered on structure of markets. Protection has the effect of encouraging firms to enter protected domestic markets; most of these firms will operate on an inefficiently small scale. Further proper sequencing of reforms can minimise conflicts between trade and other reforms. Trade policy reforms generally improve economic performance when they are credibly implemented and accompanied by complementary actions.

**Edwards (1993)** reviews modern literature on trade policy in developing countries, with a view to evaluate the extent to which the existing empirical evidence supports the popular policy view that more open and outward oriented economies has outperformed countries with restrictive trade regime. The study analyses the methodology, techniques implemented and conceptual and theoretical models developed to investigate the relationship between trade orientation and growth. There are two broad and distinct categories of empirical work on trade policy and growth. One is large scale multicountry studies that have investigated in detail the experience of group of countries with trade policy reforms and second are econometric studies that have investigated, on broad cross country data, the relationship between the pace of export expansion and aggregate economic growth. Many studies have used effective rate of protection as an indicator of trade liberalization. Most of these studies make reduction of NTB’s and devaluation important components of trade policies. These studies analyse evidence on trade orientation, liberalization and unemployment. In cross country analysis these authors used simple rank correlation to analyse whether the rate of export growth is associated with economic growth. But theoretical framework in
these studies have been increasingly simplistic failing to explain the exact mechanism through which export expansion affects economic growth and ignoring important potential determinants of growth such as educational attainment. Endogenous growth model by Romer (1986) and Lucas (1988) provides a more convincing conceptual framework for analysis of this relationship. So author suggests, there should be studies that not only look at history but also dig deeply into microeconomics of innovations, trade and Growth.

Edward and Wijnbergen (1986) argue that if capital account is liberalised in the presence of trade distortions, welfare can be negatively affected and secondly that a gradual liberalization is welfare superior to an abrupt liberalization in developing countries. Extending this argument further to labour market and a developing countries external sector Edwards (1986) has shown in his study that even when importables are capital intensive and minimum wage is expressed in terms of exportable goods, a positive terms of trade shock will generate unemployment in the economy. An important policy implication of the analysis is that under inflexible wages, there is a strong presumption that gradual preannounced trade reforms will be able to avoid some unemployment cost associated with reforms. This requires that the reforms should be credible. If public expects that trade liberalization to be reversed, investment in the export sector will not take place and unemployment will tend to be persist. Edward (1998) has attempted to investigate the link between openness and total factor productivity (TFP). He ran a regression of TFP growth on nine measures of openness. Five of the measures shows positive significant effect and hence Edwards concludes that there is significantly positive relation between openness and productivity growth.

Nugent (2002) discuss the obstacles in implementing reforms. The struggle and asymmetries in relative strength of vested interests benefiting from pre-reform import substitution industrialisation regime and those who
could benefit from liberalization determine the credibility of reforms. Those countries that have had strong trade liberalization programme have clearly managed to overcome this obstacles by making a strong and credible commitment to reforms. Late reformer can take advantage of past experiences of early reformers and knowledge of how successes were obtained and failure can be avoided. In other words, the harmful side effects of such programmes that have been obtained in otherwise successful cases of trade liberalization can be anticipated. Concerns for possibility of high unemployment rates, increased income inequalities, government revenue shortfall, and excessive burden on public service, increased pollution and environmental degradation are bound to surface during liberalization and when these problems surface they can indeed impede the adoption of trade liberalization.

**Jayanthakumaran (2002)** reviews the available literature related with trade liberalization and manufacturing performance. Most of the studies in this area indicate that the stronger and speedier the liberalization, the greater is the manufacturing output and export growth. However the experience of least developed countries shows that trade liberalization is necessary but not sufficient condition for rapid TFP growth.

**Paulino and Thirlwall (2004)** use panel data and time series/cross section analysis to estimate the effect of trade liberalization on export growth, import growth, balance of payment of a sample of 22 developing countries that have adopted trade liberalization policies since mid 1970s. They find that liberalization stimulated export growth but raised import growth more, leading to a worsening of balance of trade and payments. To the extent that this has constrained the growth of output and living standards, the findings have important implications for sequencing and degree of liberalization.

**Rodrick (2007)** presents a forward looking evaluation of globalization. First, he indicated that the chief beneficiaries of globalization are not necessarily those with the most open economic policies. Second, globalization has come with frequent financial crises and considerable
amounts of instability. Thirdly, globalization remains unpopular among large segments of the people it is supposed to benefit (especially in rich countries). He has argued that deep economic integration—a truly “flat” world economy to use Thomas Friedman’s evocative phrase—is rendered infeasible by the fragmented nature of political sovereignty around the globe. Jurisdictional discontinuities impose transaction costs on international trade and finance that remain in place even when conventional barriers in the form of import duties and financial restrictions are removed. Deep integration could still be attainable if national sovereigns were to restrict their actions only to those that are fully compatible with its requirements. This is a model that rules out democracy, since it requires that political authorities be unresponsive to national policy imperatives and domestic needs. It is not a coincidence that the gold standard collapsed following the expansion of mass franchise and spread of democracy in the major industrial powers. Facing the conflicting needs of employment creation and parity with gold, a democratic Britain made its choice in favour of the former and went off gold in 1931. World could also theoretically combine democracy with deep integration by eroding national sovereignty and carrying democratic politics to the global level. This is the “global federalism” model. It corresponds to the U.S. or EU model writ large, on a global scale. Needless to say, this outcome does not seem practical anytime soon. The only alternative is the Bretton Woods compromise, named after the golden era of 1950-1973 in which the world economic growth under a shallow model of economic integration. This study has argued that main challenge at the moment is to recreate this compromise, by designing a global architecture that is sensitive to the needs of countries—rich and poor alike—for policy space. This requires world to move away from a market-opening mindset, and to recognize that what nations need to do in order to maintain social peace and spur economic development in our second-best global economy often conflicts with the free movement of goods, services and capital. The only way to save globalization is not to push it too hard.
Lopez and Thirlwall (2008) review the impact of trade liberalization on economic performance of poor countries with respect to poverty reduction, distribution of income within countries, distribution of income between countries, trade and balance of payment and economic growth. The study concludes that liberalization has not delivered the expected benefits. Some general conclusions, have been drawn in this work. First is that there can be static gains from trade only if two assumptions are met full employment and balance of payment equilibrium. If these two assumptions are not met, than the whole theory breaks down because gains from trade may be offset by welfare losses due to higher unemployment and imports. Secondly, the impact of trade liberalization on reducing world poverty has been minimal and may have increased it. Thirdly, trade liberalization has almost certainly worsened the relative distribution of income between rich and poor countries. Finally, the evidence is fragile that economic growth performance of countries that have liberalized extensively is in any way superior to countries that have not. The timing, sequencing, context of liberalization are of prime importance in determining the impact of liberalization. Domestic economic policy and growth supportive policies play most important role in growth performance.

There is a strong theoretical reason to believe that trade is a positive tool for development. There are many studies that link trade openness and higher volume of trade to GDP with economic growth (Edwards 1992, Sach and Warner 1995, Ades and Glaeser and Alesina, Frankle and Romer 1999 and Wacziarg and Welch 2008). But Rodriguez and Rodrik (2000) raised doubts about the robustness of these results because conclusions remained sensitive to difficulties in measuring openness, statistically sensitive specifications and collinearity of protectionist policies with other poorly executed policies in developing economies. But there are studies that have found little evidence of a relationship between trade liberalization and economic growth (Agosin 1991, Greenaway and Sapsford 1994, Jenkin 1996
and Sarkar and Bhattacharya 2005). Some studies shows that the countries which went for liberalization program have improved their export performance (Thomas et.al 1991, Weiss 1992, Joshi and Little 1996) side there is strong positive impact of trade liberalization on growth of imports and this impact is through the sensitivity of price and income changes (Melo and Vogt 1984). Dollar and Kray (2004) find that the countries who have liberalized have shown acceleration in their real income and there is a significant difference in growth pattern of globalised and non-globalised countries. Frankel and Romer (1999) find that the countries with high trade/GDP ratio, have higher incomes even after controlling for the endogeneity of trade. Following table summarise some important studies that relate trade liberalization with economic Growth:

**Table: 2.1 Trade liberalization and Economic Growth**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Research Question</th>
<th>Methodology</th>
<th>Data</th>
<th>Author and Year</th>
<th>Findings or conclusions</th>
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<tbody>
<tr>
<td>1.</td>
<td>How does the macroeconomic environment foster or inhibit export diversification as measured by Herfindahl index</td>
<td>Panel Regression, Case study</td>
<td>1962-2002</td>
<td>Bebczuk and Bergetto i (2006)</td>
<td>Export diversification is not explained by macroeconomic factors.</td>
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<td>2.</td>
<td>Does the mix of goods that a country produce have important implications for its economic growth</td>
<td>An index of income level of a country’s exports is constructed,</td>
<td>1992-2003</td>
<td>Hausmann et.al (2006)</td>
<td>Exports goods with high productivity levels promote growth.</td>
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<td>3.</td>
<td>What is the relationship between trade liberalization ,Economic growth and Trade balance</td>
<td>OLS regression Method</td>
<td>1970-2000</td>
<td>Parikh and Stirbu 2004</td>
<td>Trade liberalization has a positive effect on economic growth, openness and investment but worsens trade deficit.</td>
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<td>4.</td>
<td>Does the empirical and theoretical</td>
<td>Literature</td>
<td>N.A</td>
<td>Walde and</td>
<td>Lack of convincing evidence that trade</td>
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<td>9. What is the effect of International Trade on Income?</td>
<td>OLS estimates of growth regression and instrumental variable</td>
<td>Mankiw Gregory 1992</td>
<td>Frankel and Romer 1999</td>
<td>Trade has a quantitatively large and robust, (though only moderately statistically significant) positive effect on income.</td>
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<td>10. Are changes in export variety correlated with the growth in TFP?</td>
<td>Sectoral Regression</td>
<td>1975-1991</td>
<td>Freenstra et al. 1998</td>
<td>A positive and significant effect of export variety on growth of TFP.</td>
<td></td>
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</table>
The foregoing analysis of the existing literature presents a mixed picture: trade liberalization can improve economic performance of reforming countries but is also associated with some adjustment costs. The impact of trade liberalization differs among various countries due to the way they perceive trade liberalization process. The timing, sequencing and context of trade liberalization are of prime importance in determining the impact of trade liberalization.

2.3 Country specific Trade policy Reforms with special reference to India and China:

In the present section, we analyse studies related with reforms process in particular countries in general and trade reforms of India and China in specific. Little Scott, Scitovasky (1970), Balassa and associates (1971) were first multi country studies of trade regime in developing countries. These studies find a positive association between trade and economic growth in developing countries.

Bergsman (1974) observes that protection of domestic producers from international competition has been linked to oligopoly behaviour in domestic markets of Pakistan and Brazil. The study estimates losses of 5 to 7 percent of GDP from oligopoly rents and inefficiency associated with uncompetitive behaviour. Indirect cost of protection includes the waste of resources in income generating but unproductive rent seeking activities such as smuggling, lobbying and investing solely for the purpose of obtaining import licensing. The indirect costs of foreign exchange controls and non-tariff barriers tend to be large because allocations are based on discretion rather than efficiency.

Bhagwati (1978) finds that outward oriented development strategies are conducive to significantly higher growth than import substitution industrialisation. According to the study, ISI strategy often led to overvaluation of exchange rate resulting in detrimental impact on the balance
of payments. The study provides strong support to export promotion strategy in place of import substitution.

Michaely et al (1991) in a cross country comparison of 17 countries found that in the first year of liberalization there was a fall in manufacturing output in each country and then a recovery after second year surpassing the pre-liberalization level. They also found a close relationship between trade liberalization and export growth. Another important finding of the study is that pre-liberalization developments have had some effect on post liberalization development as Chinese economy’s successful reforms were supported by pre liberalization policies of Chinese government. This fact is also supported by Dereze and Sen (1995) as China made excellent use of market system in a poor economy without losing political commitment to economic development and elimination of mass deprivation. Secondly, China’s experience also brings out the complementarities between two essential bases of expansion of social opportunities: (a) Supportive public intervention especially in the field of education, health care, social security and land reforms and (b) the market mechanism an effective basis of trade and production arrangements, also the achievements of pre reform period in health education etc help China to sustain and promote market based policies. So the Chinese policies have a combined the pursuit of economic growth with continuation of basic social security system.

Ray (1992) critically examines the trade liberalization measures adopted in India. The study argues that stabilisation and domestic liberalization should precede trade liberalization because macroeconomic balance is necessary to remove trade restrictions easily. Export liberalization should be implemented first and then import liberalization. The main argument behind this is that imports pick up more immediately comparatively to exports after trade liberalization which can lead to BOP crisis. This study suggests that import liberalization should be selective according to the requirements of the economy. And also discusses basic determinants of
import liberalization in India such as revenue loss due to reduction of custom duties, adjustment cost of domestic import competing industry, immediate foreign exchange availability (which is determined by exports), remittances and capital inflows etc. Ray observes that China is India’s biggest competitor as far as FDI is concerned. China is perceived to offer a better environment in terms of infrastructure, labour discipline, policy implementation, political stability and commitment to economic reforms.

Mukherjee (1997) in her study examines India’s trade policy and performance in the nineties. She has discussed the factors (domestic and external) that affected India’s trade policy. The major domestic factors influencing trade policy of a country are its objectives of modernisation and technological advancement due to which it have geo-political and economic thrust on those countries and regions which possess such capabilities. Another related domestic factor is that of income and sectoral production where the performance of the agricultural, industrial and service sector act as variables in trade policy. Another important domestic non-economic factor is political movement or change in government. Four external factors also influence the trade policy of a country. Firstly, the fast pace of multilateral integration exerts pressure on a country’s trade policy to adapt, adjust and create space for such integration. Next, the sea changes taking place in regional agreements throughout the world with preferential trading areas getting strengthened or new ones getting created such as NAFTA, APEC, ASEAN. Unilateral policy decisions and shift of dominant partners in world trade is another force to reckon with in shaping trade policy of their weaker counterparts. Mukherjee is doubtful about the argument that India’s export growth accelerated after liberalization as she observes that the export growth was sluggish in real terms and in terms of comparative performance of market shares in world exports. India’s export performance was import intensive which indirectly pressurised both trade balance and current account balance and the long neglected service exports and their contribution to export earning.
were not tapped through policy support. The study suggests that macroeconomic management and strategic export promotion should go hand-in-hand which involves a series of difficult choices in decision-making—both political and economic.

**Ghosh (1997)** makes an assessment of India’s structural adjustment in comparative Asian context. East Asian and South East Asian countries did not adopt the orthodox neoclassical model of structural adjustment. Rather they adopted reforms according to their specific requirements and succeeding in maintaining fiscal imbalances. They gave adequate attention to agriculture, infrastructure and social overhead capital. On internal front government assisted redirection of investment and restructuring of industry and systematic efforts at promoting export oriented production both based on domestic and foreign investment. But India was unable to correct its fiscal imbalances in post reform era. The main fault of Indian programme is neglect of agriculture sector. The main assumption of Indian reform programme has been that the liberalised market, export orientation and resultant higher output policies will be sufficient to evoke positive supply response from agriculture and small scale sectors even though public investment has fallen. The specific trade liberalization pattern of India has essentially assumed that free trade policies promote industrial diversification. But Indian government failed to direct FDI’s according to social priority on the pattern of East Asian countries. Moreover there has been reduction in priority sector lending including agriculture and small scale industries as a result of financial liberalization.

**Kungwang (1997)** carries out a cross section series regression of various selected performance indices which are applied separately to nominal tariff and changes in non-tariff measures based on data for 18 manufacturing subsectors for the period 1992-1995 for China. It is found that a move towards trade liberalization has produced a positive effect on China’s economic performance. The tariff regime has insignificant impact on economic performance while Non-Tariff Barriers play greater role in
affecting economic performance. China’s economic growth in 1990s closely and positively related to removal of non tariff barriers. The study also concludes that tariff cut can have a greater impact on economic performance when combined with elimination of non-tariff barriers. It is suggested that design of trade liberalization should take place along three lines namely optimality, feasibility, and credibility. Optimal theoretical design means liberalization will yield maximum welfare. A feasible path is one that is politically sustainable and a credible design implies that liberalization will be implemented broadly.

**Hu and Khan (1997)** have examined sources of China’s growth and find that capital accumulation in the form of new factories, manufacturing machinery and communication system was important as were the number of Chinese workers, but a sharp and sustained increase in productivity (worker’s efficiency) was the driving force behind the economic boom during 1979-1994. Productivity gains accounted for more than 42 percent of China’s growth and by the early 1990s had overtaken capital as most significant source of that growth. This is a departure from the traditional view of development in which capital investment takes the lead. This jump in productivity generated by economic reforms began in 1978. The reforms raised economic efficiency by introducing profit incentives to rural collective enterprises (which are owned by local government and guided by market principles), family farms, small private businesses and foreign investors and traders. Thus this study offers an excellent dimension for future research on the potential role for productivity measures in other developing countries.

**Srinivasan (1998)** reviews recent theory and econometric debates about the value of openness to international trade and investment. He finds that “the empirical evidence from a number of studies points to a strong and significant effect of openness to trade on growth performance”. The growth performance of Indian exports since 1986 has been impressive compared with earlier record. But it was to be expected that low-wage cost countries would
gain as the far eastern countries moved out of labour intensive activities. The figures that Srinivasan presents for eight labour intensive manufacturing industries are deeply depressing. Since 1980, China not India, has occupied most of the room vacated by Korea, Taiwan and Hong-Kong because India failed on quality, timeliness and reliability of supply. This points to the well-known infrastructural deficiency especially ports. Chinese success is partly due to multinationals using it as an export base for world markets. India’s absorption of FDI has been a small fraction of China. Foreign investors continue to be put off by Indian bureaucratic practices and tariff on capital are still high. He also adds that Indian Labour laws, the reservation of production for small scale units and continuation of quantitative restrictions on consumer goods imports are some of other factors inhibiting labour intensive exports.

Qian Yingyi (1999) observes that China’s transition can be termed as a two stage process. Success in the first stage (1979-93) built momentum for the second stage (1994-Present). Four institutional changes were critical to the success of early stage. The govt. began to decentralise, encourage the entry and expansion of non-state enterprise, liberalized price according to dual – track approach quotas were phased out gradually, minimising the number of losers from reforms. In the second stage China unified its foreign exchange market and made its current account convertible, overhauled its tax and fiscal system, centralised the central bank, downsized the government bureaucracy, forced the military to give up its commercial operations and began privatising state owned enterprises. It is argued that the success of reforms depend upon political support which in turn depends on delivering tangible benefits to the majority of population.

Stiglitz (2000) reviews the process of transition in China and Russia. China, whose transition is considered a success by most observers, doubled its GDP in the past decades, whereas GDP in Russia fell by more than half and inequality doubled. Stiglitz claims that failure of reforms in Russia and other
countries in former Soviet Union was not the result of poor implementation only but because the reliance on textbook neoclassical models of economics and confusing means with ends e.g. taking privatisation as an end rather than a means to achieve more fundamental ends. China’s trade policy of incrementalism proved a better path to market economy than Russia’s shock therapy. Whereas the Chinese policy makers had the wisdom to know that they did not know what they were doing and so proceeded gradually, the Russians let themselves be guided by prophets bearing clear textbook models. Stiglitz support comprehensive development framework which favours inclusion and popular participation. Given a choice between bottom up involvement in imperfect reforms and top-down imposition of model institutions, the comprehensive framework calls for working to improve bottom up approach rather than tossing it aside in favour of ideal models.

Kumar (2000) provides a brief sketch of economic reforms in India. The analysis shows progressive decline in average tariff rate and India is liberalising trade with South Asia on a faster track than all other trade relations. India unilaterally removed all quantitative restrictions on imports of around 2300 items from SAARC (South Asian Association of Regional Co-operation) countries in 1998. The liberalization of trade regime since 1991 has led to a proportion of trade in GDP going up steadily from 14.1 percent 1990-91 to 18.2 percent in 1998-99. But India’s competitiveness of export in the world has declined after 1990’s due to several factors such as decline in world demand, East Asian crisis and rupee’s tendency to appreciate in mid 1990s. India also failed to diversify commodity composition of exports with a rise of 9 percent in share of top six commodity group in exports. Accordingly Kumar suggest that India’s export profile needs to broadened to cover more products, increase value addition, take advantage of the liberalising world economy and to enhance international competitiveness of Indian industry through more research and development activities.

Chadha et al (2000) note that Indian economy has experienced a
major transformation during the decade of the 1990s. Apart from the impact of various unilateral economic reforms undertaken since 1991, the economy also had to reorient itself to the changing multilateral trade discipline within the newly written GATT/WTO framework. The unilateral trade policy measures have encompassed exchange-rate policy, foreign investment, external borrowing, import licensing, custom tariffs, and export subsidies. The multilateral aspect of India’s trade policy refers to India’s WTO commitments regarding trade in goods and services, trade-related investment measures, and intellectual property rights. This study analyzes the economic effects on India and other major trading countries/regions of the Uruguay Round (UR) trade liberalization and the liberalization that might be undertaken in a new WTO negotiating round. India’s welfare gain is expected to be 1.1% ($4.7 billion over its 2005 GDP) when the UR scenarios get fully implemented. The additional welfare gain is an estimated 2.7% ($11.4 billion) when the assumed future WTO round of multilateral trade liberalization is achieved. Resources would be allocated in India to the labour-intensive sectors such as textiles, clothing, leather and leather products, and food, beverages, and tobacco. These sectors would also experience growth in output and exports. Real returns to both labour and capital would increase in the economy. The scale effect (percent change in output per firm) is positive for all the ten sectors of manufacturing, indicating that Indian firms have become more efficient than before. Even if India undertakes unilateral trade liberalization of the order indicated in the WTO multilateral scenarios, it would still benefit, although comparatively less than with multilateral liberalization.

Wood and Colandrino (2000) analyse how expansion of India’s trade might improve the sectoral structure of employment and demand and supply for education. They have compared India and China with the help of a pair of social accounting matrices each consisting of an input-output table and a breakdown of labour force in each sector by level of education and gender.
The results of the study show that primary sector employment share in India is higher than in China because of difference in composition of domestic demand, a lower level of investment and larger share of unprocessed food in household consumption and a wider gap in productivity between primary and non-primary sectors. In India the share of manufacturing employment is low due to less demand of industrial intermediates in India. This study concludes that India’s lower ratio of trade to GDP and differences in composition of its exports and imports do not explain much of the differences between India and China in sectoral structure of employment.

Singh (2001) shows that the main feature of India’s trade policy framework was continued reliance on relative price factors either through provision of export incentives and subsidies and the imposition of tariffs or through devaluation of exchange rates. The export policy was characterised by provision of export incentives and subsidies mainly to manufacturing sector while import policy was marked by high quantitative and tariff restrictions on imports. The main problem of trade in a small open economy like India seems to be the problem of internal demand constraints. The lack of sufficient supply not only imposes constraints on exports but also accentuates the need of imports to match the demand in vastly populated country like India. The trade policy reforms of 1990’s have shown substantial improvements in external sector scenario; the future trade policy framework needs to lay further emphasis on supply side factors with recognition of quality of output and control of inflation. An increase in supply output not only enables to increase exports and reduce imports but also to contain inflation.

Mai (2003) analyses the effects of China’s WTO commitments of reducing tariff and non-tariff barriers using a computable general equilibrium (CGE) model of China. In particular, this study draws attention of policy makers to a different regional employment outcome when trade liberalization induced productivity improvements are taken into account. Trade
liberalization induced productivity occurs when local producers survive import competition by seeking input saving technologies and production practices. Such endogenous productivity improvements based on empirical estimates are endogenously represented in the model. This study shows that China’s tariff reduction for its WTO entry lead to a much larger increase in real GDP, because firms seeks to improve their productivity when confronted with import competition. However the regions that achieved larger productivity may not generate more employment as firms in these regions seeks to use inputs more efficiently. This study argues that real gain from China’s WTO accession does not come from reduction in tariff and non tariff barriers. Tariff reduction represent only a small part of policy reform under the context of China’s accession to WTO. The most important reform for WTO accession is investment liberalization of heavy manufacturing and key service industries, i.e. opening up of industries dominated by state owned enterprises to domestic as well as foreign private investment. The benefits of investment liberalization are much greater than gains from tariff reduction in China.

Mattoo and Subramanian (2003) analyse the relevance of Bhagwati’s proposition that a) Trade liberalization is overwhelmingly beneficial for countries and b) non-discriminatory trade liberalization done on one’s own or in context of multilateral negotiations is definitely superior to regional trade agreements. This study argues that it is time for India to consider departing from principle of non-discrimination. A number of developments compelled India to review it trade strategy in view of altered foreign policy and security landscape aftermath of 9/11, uncertainty of success of Doha Round, RTA signed by other countries, the entry of China into WTO, India’s gambit toward ASEAN with curious choice on regional partner etc. Economic theory overwhelmingly supports non-discriminatory trade liberalization based on most–favoured nation (MFN) principle. But for India there are two problems with using multilateral approach, First, the prospects for current multilateral round of trade negotiations appears
uncertain as WTO is unlikely to be a forum where significant progress can be made to further India’s market access in labour intensive manufacturing and in skill based services where country has a comparative advantage. The second problem with an exclusive reliance on multilateralism is that the space of pure multilateralism is fast shrinking. The US, EU and even Japan are striking regional deals galore especially with Asian countries.

_Sarkar & Bhattacharya (2005)_ in their study attempt to understand whether or not trade liberalization appears to have worked in sense of stimulating growth in India and Korea for the period 1956-2001. They use Export/GDP, Import/GDP and (Export-import)/GDP as indices of trade liberalization and to study trend behaviour of trade openness series. The question addressed in this paper was about the effect of trade liberalization on country’s growth rate. In the first stage, trend analysis application of tests of stationary exhibit that all the series have deterministic trend except the Export/GDP share of Korea. The trend analysis reveals that initially trade openness in India declined but it started increasing after 1972. In Korea trade openness was increasing up to 1972 and decelerates afterwards. On the face of it growth rate in India’s GDP and per capita shows rising trends due to presence of a significant spike but they actually remains stagnant. On the other hand GDP and per capita GDP in Korea grew at a rapid rate up to the end of 1960 and then fell subsequently. On the basis of ARDL approach to co-integration, this study finds no evidence of favourable impact of trade liberalization on real growth rates of India and Korea. Contrary to pro-IMF and World bank circles this study discovers an unfavourable impact.

_Srinivasan (2006)_ describes two basic channels namely import demand and export supply through which growth of an economy influences the growth of rest of the world and vice-versa. The study examines influence of growth of India and China on the world economy. China is integrated to a greater extent to the world economy as compared to India. Although India has succeeded in becoming a major destination of global outsourcing and in
exports of information technology enabled services. But China has outpaced India in manufacturing exports and has become the global manufacturing hub although India is catching up. Also India has an advantage over China due to its vibrant democracy and legal and financial system. Both economies will be economic powerhouses in medium term and undoubtedly their growth will have a significant impact on world economy.

Lawrence (2006) reviews China's multilateral and preferential trade policies. He discusses the demanding terms of China's WTO accession, its current tariff and trade regime and its participation in the Doha Round negotiations. The analysis concludes that China's trade policies are broadly supportive of a rule based multilateral trading order and its behaviour at the WTO is that of a status quo power rather than one seeking major systemic changes. The discussion then turns to China's regional trade initiatives. China has been extremely active in negotiating these though their implications remain uncertain. Concerns about an East Asian fortress, though, appear misplaced. Directly, and through their impact in inducing others to respond, these FTAs could provide a powerful impetus to the process of competitive global liberalization. Countries that implement agreements with China will find it relatively easy to open their markets to other developing countries. However, there is also a risk that the proliferation of FTAs will lead to web of overlapping agreements that could make the trading system unnecessarily complex.

Branstetter and Lardy (2006) analyze China’s progressive opening to foreign trade and investment in the years since 1978. China achieved a great degree of openness to foreign trade in manufactures much prior to WTO accession. This is generally not acknowledged, even in the best recent scholarship. In fact, the drive to liberalization of trade and FDI regimes seems to have dramatically accelerated in the late 1990s. The additional openings mandated under China’s WTO accession agreement are likely to make China’s economy the most open large developing country, and, China has
made reasonable progress towards meeting its obligations. Developments in Chinese trade and investment have generally conformed to the patterns of Chinese comparative advantage, yielding important benefits to China and its trading partners. Further, the study notes that China’s current exchange rate regime is no longer compatible with macroeconomic fundamentals. Finally, China’s growth as a trading nation has recently reached the point where developments in China have global impact. China’s impact is particularly strong in East and Southeast Asia, but the degree to which this impact is on balance a positive one depends on the relative development of the trading partner in question.

Bardhan (2007) argues in his study that pro-globalisers are not correct in their claim that integration with world markets has worked wonders in reducing poverty and inequalities in India and China. China reduced its poverty level from 63.8 percent in 1981 to 9.9 percent in 2004. Bardhan said there is no convincing statistical demonstration of favourable effects of free trade whereas a more careful eyeballing of data suggests that more important reasons of poverty reduction lies elsewhere (than globalization). Poverty reduction in China has been mainly the result of the spurt of agriculture growth following de-collectivisation, land reforms, and readjustment farm procurement prices. These are mainly the internal factors that had little to do with global integration. Only after the reforms of 1990’s, labour intensive exports have played a significant role in reducing poverty. In India reduction of trade barriers since 1990 seems to have been associated with expansion of capital and skill intensive products. But most of country’s workforce and economy is outside the corporate sector. Bardhan has cited some studies across districts in India which have found evidence of trade liberalization slowing down the decline in rural poverty. India’s pace of poverty reduction has been less than that of China, not only because China’s growth rate is faster than India but also the growth elasticity of poverty reduction is much higher in China than in India. The study advocates reasoned and rigorous
empirical analysis before pronouncing judgement on effects of globalization on poverty and inequality in these two countries.

*Khan and Quyyum (2007)* have empirically investigated the impact of trade and financial liberalization on economic growth in Pakistan using annual observations over the period 1961-2005. This analysis is based on the bound testing approach of co-integration by Pesaran et.al (1999). The empirical findings suggest that both trade and financial policies have played an important role in enhancing growth in Pakistan in the long-run. However the short-run response of real deposits rate and trade policy variables is very low suggesting further acceleration of reform process.

*Roy (2009)* unfolds the nuances of trade negotiations, individual and collective, by revealing the experience of India. This study encapsulate the nature of integration of India into globalization underscored by its status as an ‘Emerging Giant’ and the process of structural change from an agricultural to an industrial economy in an increasingly open economy with trade as a key vehicle. The key indicators of an open economy show marked increase for India, such as increase in trade/GDP ratio, and shift from tightly controlled imports in 1990-91 to negligible controls in 2005-06. This study analyses Indian trade policy at three levels. These include (a) multilateral negotiating position at international level (WTO trade agreements), (b) framing and operation of import export policy at home and (c) ‘traditional’ trade agendas and sectoral policy affected by trade agreements. The first level deals mainly with trade agreements, WTO , Free trade agreements etc.(FTA’s). The second one focuses on changes in tariff level, duty drawback, subsidies, incentives for exporters and concession for importers etc. The last level deals with emerging sectoral trade agreements such as General Agreement on Trade in Services. Roy further discusses India’s negotiating position in the explicit linking of three, market access of areas of agriculture, NAMA(Non-Agricultural Market Access) and services. India has emphasized that the outcomes in these three areas should be balanced and this is used to underline
that the service negotiations should be considered as important as industry and agriculture. The country is pursuing varied strategies in different fields of negotiations. This corresponds with heterogeneous structure of its domestic economy. Most obvious contrast is between the service and agriculture sector. Services are India’s main trade interest and the country is therefore aggressively promoting liberalization in this field. By contrast, in agriculture, its aims to protect its local market and subsistence farmers and therefore pursues a defensive approach.

Sen (2009) observes that the import and exchange rate regime that Indian policy makers followed since independence was aimed at comprehensive, direct control over foreign exchange utilisation with an overwhelming reliance on quotas rather than tariffs. This study measures the restrictiveness of trade policy in India in terms of effective rate of protection (the percentage excess of domestic value added visa-a-vis world value added, introduced because of tariff and other tariff barriers), the import coverage ratio (the proportion of commodities in a particular industrial sector, the importation of which is restricted by non-tariff barriers) and the price wedge (the deviation of domestic price of the output produced by a particular industry from the world free trade price for that industry). Sen notes that growth acceleration in the Indian economy in the 1980s and 1990s can be causally linked to the trade policy changes that took place in the same period. The study shows that high growth of Indian economy in recent decades can mostly be attributed to the sharp increase in private equipment investment and that the later has a significantly more growth enhancing effect than public investment and structural investment. The increase in private equipment investment can itself be causally linked to the fall in relative price of equipment that occurred due to trade policy changes in 1985 and 1991. Further the study shows that trade reforms in Indian manufacturing has had a positive impact on total factor productivity growth and a negative impact on domestic prices. A reduction in quantitative restrictions leads to growth in
TFP, a reduction in price distortions, and an increase in intra-industry trade in intermediate and capital goods. An increase in quality competition from abroad has a statistically significant and negative impact on domestic market power and on domestic prices. In brief, the empirical findings of the study provide strong support for efficiency enhancing effects of trade liberalization in Indian context.

Desroches et al. (2009) examine the determinants of growth in India and China with a particular focus on institutions and trade. This study finds that institutional quality affects long-run comparative advantage and free trade magnifies these benefits of institutional reforms. A brief review of institutional reforms in India and China is provided in the study. According to the study both countries have gained from improving the quality of their institutions. In China, trade reforms have increased the capital intensity of those goods in which it has a comparative advantage which is more than India. Hence China may be driving an additional increase in demand for capital and hence growth from trade. This study further strengthens the existing literature which supports the argument that institutional reforms have a positive impact on growth performance.

Bhat (2009) has compared the trade policy of India and China. He states that China’s selective liberalization amounted to release from a command economy while India’s reforms occurred in the context of a controlled economy. Moreover China’s trade is characterised by a high fraction of re-exports in particular via-Hong-Kong so that trade volume measures may not capture China’s true level of openness. Despite these drawbacks, India’s trade policy comparison with China’s yield useful policy lessons. Reduction in average tariffs is a general phenomenon in both countries. In India the biggest reduction occurred in immediate aftermath of the 1991, BOP crisis and trend towards reduction in average tariff was reversed in 1998; India tariffs increased slightly since then as a result of conversion of non tariff barriers to tariff barriers in line with the article XI of
GATT. India’s average tariff in 1999 was 32.5 percent (against China’s 16.3 percent) and 28.3 percent in 2004 (as against China’s 9.8 percent). Analysis of a simple unweighted tariff indicates that India is much more restrictive as compared to China. On the basis of another restrictiveness indicator, Ratio of import tax revenue to total imports, India’s import duties to total imports is much greater than that of China’s (21.67% for India versus 2.76% for China in 1998). Since 1995 India has increasingly made use of anti-dumping measures and China has been the most important target of these measures. Although China was more close to foreign trade than India between 1950-80, but the situation reversed since 1980s. By 1998, China appears almost twice as open as India. A comparison of growth of imports and exports of merchandise shows that both imports and exports actually grew at a slower rate in India in the 1980-90 while they significantly increased in China. Further China’s exports and imports are more diversified with a high share of manufactured exports in total exports.

Veeramani (2009) attempts a comparative analysis of the changing patterns of exports and specialisation in India and China. This analysis provides some insights into the patterns of resource allocation under trade liberalization and its implications for the cost of adjustment. Veeramani has used the index of revealed comparative advantage (RCA) formulated by Balassa (1965) to assess the patterns of comparative advantage in both countries. Share of country’s exports in World exports are used as an indicator of international competitiveness. It is found that in a number of products, India does hold a higher RCA value than China but its share in world exports of these products is much lower. Findings shows that certain bottlenecks (poor physical infrastructure) and policies induced rigidities in factor market obstruct stands in the way of resource allocation process and export activities in India. The significance of intra-industry specialisation under trade liberalization is growing in both countries. Policy reforms are required in India to make the process of resource allocation smoother, make
labour market more efficient and facilitate investment in infrastructure. However the study argues that policy environment should be neutral for domestic and foreign enterprises (unlike in China where domestic private entrepreneurs have been discriminated against for various reasons) because it is as much important not to borrow the wrong aspects of policies from China as to borrow the right aspects.

Kowalski (2010) compares the key features of trade integration process of India and China. The economic outcomes of China and India reveal that both economies have achieved much in terms of opening up. The Chinese reforms, especially with respect to manufacturing trade, have gone further and it is one of the key determinants of better economic performance of China. The evidence gathered suggests that international trade played an important role to continue or perhaps even speed up the growth enjoyed in last decades. As compared to India, China is probably a better example to be followed in terms of trade policy. However, China’s integration process so far remains characterised by certain duality. On one hand, the opening up of trade and FDI in manufactured goods has spurred the emergence of a largely private and dynamically growing sector. On the other hand, the high level of public ownership and important regulatory barriers continue to dominate the service sector. The full implementation of China’s GATS commitments would imply significant reforms and liberalization measures with important gains for China and many of its trading partners. India has gone a long way in reducing its tariff on non-agricultural products as well as certain non tariff barriers but moderate protection still persists which adds to the cost of intermediate inputs and, thus to the hurdles faced by Indian manufacturing sector. India has revealed a comparative advantage in certain segments of services sector but its service trade policy is still very restrictive, even in comparison to China. The extent of trade liberalization achieved so far and outcomes it brought about suggest that remaining goods and services trade barriers are just one item on the list of reforms that India needs to tackle in order to
promote trade-led expansion of labour-intensive activities. Other important priorities analysed in the study include, for example reforming small scale industry policies that prevent realization of economies of scale and productivity increase in the sector, relaxing of labour market rigidities that hinder the inter-industry and interstate labour mobility and underpin misallocation of resources across industries and states; tackling infrastructure bottlenecks; and reducing regulatory differences across states.

Prasad (2010) analyzes China’s macroeconomic and structural policies. He observes that China will have to execute a demanding reform agenda in order to sustain recent growth performance, not just because of countries internal weaknesses but because integration with world economy will mean greater susceptibility to external shocks. Making growth more resilient will require a stable macroeconomic policy framework and a more efficient financial sector. This in turn would require an effective monetary policy, a more flexible exchange rate and slow but steady movement in the direction of a more open capital account. Prasad points out that earlier efforts to limit the flexibility of exchange rate were facilitated by tight regulation of domestic as well as international financial transactions-something that has already began to change and whose pace will now accelerate as the economy continues to open. He recommends greater exchange rate flexibility and the adoption of an explicit inflation target as a nominal anchor of monetary policy. He cautions that further movement in the direction of exchange rate flexibility should precede further opening of capital account and that, insofar as there is now a tendency for the capital account to open spontaneously, there no time to waste. In case of India he recommends, further reforms to financial system, monetary policy framework, physical infrastructure and human capital. This would allow India to take advantage of two strengths that it has relative to many other middle-income economies including China- a broader financial system and a young labour force.

Sultan (2010) opines that trade policy reforms have proved to be a
mixed bag of success and failures for India’s foreign trade. Trade performance is better in terms of openness ratios, self reliance ratios, income terms of trade, rapid increase in quantum of exports as compared to unit value index of exports, rapid growth of agriculture products and manufacturing products and decreased importance of developed countries in exports. However foreign trade performance is worse in terms of small share of India’s exports in world exports, higher increase in imports as compared to exports, unsustainable export growth, higher import/GDP ratio and increasing commodity concentration in manufacturing exports. Various external factors like imposition of various type of anti-dumping measures and growing movement of various bilateral agreements and internal factors like appreciation of exchange rate, rise in relative price of India’s exports, infrastructural bottlenecks, labour inflexibility, low capacity utilisation, lack of information about health and sanitary regulations of trading partners etc are responsible for poor trade performance. Keeping in view these factors, an integrated long term national export policy needs to be formulated.

Sun & Heshmati (2010) discusses the role of international trade in China’s economic growth. It starts with a review of conception as well as evolution of China’s international trade regime and the policy that China has taken in favour of trade sectors and also evaluates the effect of international trade on China’s economic growth through improvement in productivity. The study demonstrates that increasing international trade has helped China reap the static and dynamic benefits, stimulating rapid national economic growth. Both international trade volume and trade structure towards high tech exports have resulted in positive effects on China’s regional productivity. The eastern region of China has been developing most rapidly while central and western provinces have been lagging behind in terms of both economic growth and participation in international trade. China eased many of its import and export restrictions in 1980s, the value of imports exceeded that of exports as a result of fostering the domestic manufacturing industry by importing capital
goods. However, during 1989-1992 the demands for imports fell below that of exports. Foreign direct investment in China played an important role in capital accumulation as well as in the transfer of management skills and technology. China made great efforts to raise science and technology by implementing various trade policies. The government support for high tech exports and creation of a favourable environment for high tech industries enabled China to achieve rapid development of technology. The empirical results show increasing returns to scale in the provincial production functions in China during 2002-2007, with capital, labour and investment in R&D as inputs. As regards the efficiency factors, net export ratio, high tech export ratio, had positive effect on efficiency. The rise of export volume and improvement in trade structure towards high tech products has increased the efficiency of provincial production. So this study concludes that China’s outstanding performance in economic growth can be attributed to its increasing involvement in global trade and dynamic trade policy. The productivity of China’s processing sector is enhanced by accessibility to technology intensive intermediate goods. However, the author suggests further research to analyse this relationship between international trade and economic growth by covering a longer period as this focused on the period 2002-2007 for examining the relationship between the two.

Ganeshan and Wignaraja (2011) have analysed the link between commercial policies and exports through a comparative analysis of China and India. Chinese reforms were more coordinated and swifter. The study explores four important questions (1) Have China’s exports outpaced India’s? (2) What role has liberalization of trade and investment regime played in the giants’s export records? (3) Is recent emphasis on FTA’s detrimental to exports? (4) What are the emerging commercial policy challenges in the post global era? China and India have each pursued distinctive commercial policies to shift to an outward oriented, market based economy after a long period of following inward oriented centrally planned models. Both countries adopted gradual
approach but differ in the process of implementing a gradual approach to reform including timing, speed, stages and specific measures adopted. Differences in commercial policies have influenced China’s rise as a massive global exporter of manufacturers and India’s expansion into high skill services exports alongside manufacturers. China was swifter, more coordinated and more credible in its overall reform process than India. It introduced an open door policy in 1978 whereas India’s major FDI reforms did not come until 1991. Attracting export oriented FDI into manufacturing sector become main purpose of commercial policies of China in early years of reforms. China evolved a comprehensive FDI policy that enabled it to attract record inflows of export oriented FDI into manufacturing for technologically upgrading the sector overtime. Another FDI spillover has been growing outward Chinese investment in Asia and the rest of the world. India was slower in adopting a comprehensive policy framework for export oriented FDI. It initially focused on liberalising restrictions on foreign ownership which is perhaps insufficient in highly competitive international environment for attracting export oriented FDI. With second decade of reforms (2000’s) there was a surge in FDI inflows particularly into services. China reduced import tariffs in a more systemic manner, typically managed a more predictable and transparent Real Effective Exchange Rate and pursued more comprehensive liberalization in goods and services provisions in its FTA’s with Asia’s developing economies. Though the trade performances of both nations have been impressive by the standards of either developing or developed countries. Within a relatively short time span of one generation, both have emerged as major players in world trade as well as notable outward investors. Following early entry into low technology products, both nations have steadily upgraded into medium and high technology products as well as skill intensive services. However as observed in many studies, this study also concludes that India is far behind China in terms of manufacturing sector trade.
Yongding (2011) analyses the causes of imbalances in China’s external sector mainly due to rapid increase in foreign exchange reserves. China has run a current account surplus persistently for 20 years. The study explains that a developing country would usually first experience a period of current account as well as trade account deficit, then a period of both trade and current account surplus and capital account deficits and finally a period of both trade and current account surplus. However the current global imbalances are perverse as on one hand the richest country in the world – US has been persistently running a current account deficit over the last 30 years. On the other hand, the much poorer countries as a whole have run current account surpluses since the Asian financial crisis. For last two decades China’s capital account surplus was larger than its current account surplus. As a result of these surpluses China has presently accumulated more than $3.1 trillion foreign exchange reserves. Yongding recognises four problems that are associated with China’s twin surplus and he calls them Dornbusch problem, Williamson problem, Krugman problem and Rogoff problem. The late MIT prof. Rudy Dornbusch pointed out in 1970s that running a current account surplus means exporting capital. It is irrational for a developing country to lend money to rich countries because domestic resources should be used for domestic investment which will bring higher returns and improvement in the living standards of poor. John Williamson pointed out in his speech at Reserve Bank of India in 1995 that capital inflow should be translated into current account deficit. Running twin surplus means that China fails to buy foreign capital goods and technology with borrowed money. Instead in aggregate terms it lends the money back to the original creditors at a very low return. The Krugman problem refers to the fact that because of devaluation of dollar in terms of dollar index, China’s foreign exchange reserves are facing serious capital losses. Finally, according to Ken Rogoff due to the ballooning budget deficit, the temptation for the US government to inflate away its debt burden may become irresistible. As a result the purchasing power of China’s packed savings in form of US securities may
evaporate quickly. China’s current account is explained by two factors—excess of saving over investment and excess of exports over imports. Needless to say, to reduce China’s current account surplus the country therefore needs to adjust its export promotion policies. However China had tried to correct the imbalances in its external sector in a number of ways. But all the efforts have failed to address the direct cause of rapid increase in foreign exchange reserves. To stop the accumulation of reserves, the simplest solution would be for the people’s Bank of China to end intervention in foreign exchange market. Ending central bank intervention in currency market is a complex issue, but the economic and welfare costs of slow pace of adjusting the exchange are very high.

Veeramani (2012) has provided a detailed account of growth and pattern of India’s merchandise exports during the post reform period (1993-94 to 2010-11). The first decade of reforms was characterised by a slow export growth rate of 8% a year while the second decade stands apart for its strong growth rate of 21% a year. While growth performance on export side has been impressive, imports have been growing faster than exports throughout the reform period resulting in increasing merchandise trade deficit. These trends based on India’s official export data have been further confirmed using “mirror statistics” that have been constructed on the basis of imports reported by India’s trading partners. The composition of exports has undergone consistent changes in favour of capital and skill intensive products. However lack of dynamism in labour intensive exports is a matter of concern because it is this sector that holds the potential to absorb the large pool of surplus labour from agriculture. Also, this study shows a major shift in India’s export destination from developed country market to emerging markets in Asia and Africa.

2.4 Conclusion :

The preceding review of literature relevant to the present study indicates that most of the studies analyse trade policy changes in India and
China. Most of the studies confirm that both economies have opened to a great extent during reform period. However, China’s openness index is higher as compared to India. Moreover, moderate growth in India on FDI and trade front is due to infrastructural bottlenecks and rigidities, specially in the labour market. China has provided a better environment in terms of infrastructure facilities, urban discipline and policy implementation. China is much ahead of India as an FDI destination but at the same time facing severe imbalances on external sector which can be called “twin surplus” (both current account and capital account surplus) which are reducing the overall welfare. Some studies have cited pre-reform accomplishments in China in areas of education, health, social security land reforms and infrastructural development as an important player in success of China as a market economy during the post reform period. In India there is a lot of scope in human resource development and infrastructural development, but at the same time a strong democratic system and young labour force are its advantages over other developing countries. Though India has a comparative advantage in labour intensive commodities despite this, some studies conclude that India’s exports are more capital or semi capital intensive.

There are several questions still unanswered in existing literature on trade liberalization as the exact mechanism through which trade liberalization affects growth performance is not clear. Whether it is increase in efficiency or improvement in total factor productivity, innovations or something else. Secondly impact of trade liberalization on employment scenario in the reforming countries. Another most relevant area, also most debatable impact of trade liberalization on poverty reduction. Another area of research can be impact of trade liberalization on government revenue which ultimately affects government spending. The revenue implications of trade policy reform a relatively neglected topic in the area of research (Thomas and Nash 1991). Impact of trade liberalization on export performance has been paid greater attention but very little attention has been given to imports, the balance of
trade and current account of balance of payments. These are equally important areas of inquiry because if trade liberalization leads to faster growth of imports than exports, this can have serious implications for balance of payments of countries that may constrain growth below the growth of productive potential. Environmental impact of trade liberalization is another area where extensive research is needed.

In view of the above, the present work attempts to investigate some of the research questions in context of a detailed analysis of trade liberalization process of India and China. As Bardhan(2009) has rightly observed, ‘reasoned and rigorous empirical analysis is needed before pronouncing judgement on effect of globalization on economic and social indicators of these two countries’.