CHAPTER-II

REVIEW OF LITERATURE

Trade liberalization causes the expansion of global and regional trade and also causes changes in trade patterns of global trade. Multilateral trade and bilateral trade liberalization make the global output three times more than the level of global trade in 1950s. There is growth in non-commodity exports, such as computers and electronics. Change in export composition of world trade shows the strong emergence of EMEs.¹ Last five-six decades seem tremendous changes in international trade and there is a change in the mode of production too. There is a shift from horizontal specialization to vertical specialization, that is, the increased importance of imported inputs in the production of goods that are exported. Vertical trade makes a link between increasing international trade and increasing international productivity. Vertical specialization has increased sharply in recent years during 1986 and 1995. Japan-Asia electronics trade increased by 900 percent.² Since world war second, the structure of world trade has begun to change, particularly in the last three decades. Important characteristics of current global trade patterns include 75 percent of the world's exports are from developed countries, while only 25 percent are from developing ones. Developed countries export mainly manufactured goods 83 percent of their total, 62 percent of all world exports. Developing countries also export more manufactured goods than primary products 56 percent of their total, 14 percent of world exports of primary products is exported by developing countries than by developed countries 14 percent of world exports, compared with 11 percent. Most of the developing countries increased their share of exports during the 1990s, from 1950 to 1970: developed countries gained in the share of total world exports, and developing countries lost in the 1980s and 1990s: a group of developing countries in East Asia significantly increased their manufactured exports, and this increased their share of the world trade. Latin America's share fell substantially from 1950 through 1990, and then began to increase slightly. Exports from West Asia and North Africa
fell since 1980, due to declining petroleum prices. There has been a historic decline in the exports of the Sub-Saharan continent. Its share of the world total has dropped from over 3 percent in 1950 to barely 1 percent in 1996. This has been largely due to the fact that Africa has not basically changed the products it exports, and that the prices of these products have tended to fall.\(^3\) In the global context the merchandise trade of Asian Developing Economies is growing at a much faster pace and global production sharing is an inimitable attribute of the economic landscape of these economies with China playing a paramount role. The projection made within the standard gravity modeling framework shows that total real non oil trade of Asian Developing Economies would expand at an average annual rate of 8.2 percent during the next two decades. Total non oil trade of regions would increase steadily from 53 percent in 2010 to 58 percent in 2030. The trade -to-GDP ratio would increase from 39.4 percent \& 74.4 percent.\(^4\) Emerging economies are continuing to integrate themselves into global economies start involving in international trade and open up their economies for foreign investment. Enhancing the general institutional framework is always the first priority of emerging economies which include the development of efficiency of markets, the effectiveness of the public sector administration and the availability of infrastructure. For the development of efficient markets these economies carefully designed a flexible schemes of promoting new industries and these economies further try to enhance the chances of developing internationally competitive business clusters. There are many features of MNEs, like extensive and the range of communication of MNEs with their host societies, and this will tempt policy makers to go for micro – manage inwards foreign investment and to target their instruments at attracting very specific types of projects.\(^5\) WTO obligations impacted success in many countries but it also causes failure in some cases. Philippines when joined the WTO committed themselves to all the agreement, including the agreement on agriculture. After joining WTO, Philippines were reduced from the status of agricultural exporter to a net food importer. Agriculture contributes 20 percent of the GDP of the country and over 50 percent of the population was dependent on agriculture. After joining WTO there an agriculture surplus of $ 1.3 billion turns into a trade deficit of $ 3.5 billion. Between 1995- 2000 and agricultural

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growth rate was 38 percent to 1.62 percent. There is a decline of Philippines food security, deteriorated livelihood of small farmers and agricultural workers and exacerbated long running social inequities. 6 Most of the trade liberalized under NAFTA is between the United States and Mexico. NAFTA is a free trade agreement and the best way to judge the benefits of free trade agreement is by whether it increases imports and exports, and not by whether it increases exports and decreases imports. NAFTA was made to reap benefits derive from a shift in resources to industries that reflect a nation’s comparative advantage. Here shift implies that the benefits come from both increased imports and exports. According to this measure, NAFTA has been a success in the United States and Mexico. Income, exchange rates, and prices are economic variables important to bilateral trade flows and after accounting these variables NAFTA is found to have a significant positive effect on trade flows between the United States and Mexico. 7

Last many decades seen the increasing importance of trade in developing countries and there are reforms in the trade policies of developing countries. From 1980s, there is a dramatic change in the composition of developing countries trade. There is an increase in the share of manufacturer’s goods from 1965 to 1998. In 1965 about 50 percent of agricultural commodities are exported and manufactured commodities have only 15 percent sharing, but, in 1998 the share of manufactured commodity in exports reached up to 80 percent. Along with composition there is a change in trends of direction of exports. In the mid 1960s, developing countries export which was destined to other developing countries was about 17 percent, but in 1995 this percentage rise to 40 percent. The share of manufacture commodities which were exported to industrialized countries has fallen and that of developing countries has increased. 8 Change in the policy of trade protectionism cause change in the composition and direction of Australia’s trade. Change in Australia’s composition of export starts from the increasing opportunities in mineral market, which are coupled with OPEC-induced rise in the prices of energy raw material in the international market makes changes in Australia’s export. Australia starts giving more importance to mineral and metal exports. Their percentage in export increases from 10 percent in 1950 to 30 percent in the 1970s, which further increase to 40 percent in 1980s. And its
agriculture's share in export decreases to 20 percent in the 1980s, which is 80 percent in 1950s. Whereas the direction of Australia’s trade has also changed over these years until 1950s more than 60 percent of Australia’s trade was in Europe and during the 1960s America and Japan was the major trading partner of Australia and during 1990s Australia growing its trade with developing countries of Northeast and Southeast Asia. Trade links of East Asia with the U.S. and Japan has affected because of the proliferation of different international production network. It also affected the composition of US and Japanese electronics exports from the East Asia region and imports to the East Asia region. Japan’s trade links shows a grand diversity with East Asia in comparison to the United States. U.S. re-established itself in the field of computers and components during the last few years in spite of consistently high and growing trade deficit. Changes in the organization of international production have led to changes in the composition of bilateral trade flows. East Asian countries export and growth witness many changes during the last few decades. These changes include increasing importance of machinery and electronics products in inter regional trade and there is rapid increase in international production sharing is East Asia’s share of global trade expanded more than threefold and doubled from 1985-2001. Whereas other regional unions are not growing at such a faster pace. During 1975-2001 East Asia’s intra-regional exports rising more than six fold. During the same period export to East Asian countries going to other East Asian countries grow from 3.7 percent to 35 percent and increasing import demand contributing to the strengthening of intra-regional trade. Agricultural-food trade specialization dynamics of the European Union new member states have seen a development during the period from 2004 to 2007. There is a drop in relative competitive advantages of the majority of the commodities of NMS over the period. But there is improvement in the position of those commodities which were previously uncompetitive. The higher dynamics in Agriculture-food trade specialization have related to previously less dynamic trade groupings, and a slowdown in specialization dynamics found for trade with previous less dynamic trade partners. The agriculture-food trade of NMS explains that agriculture -food specialization of EU-15 markets did not change much from the past. There are changes in industrial relations and international trade
pattern of East Asian economies. Until 1980s, it is characterized as typical inter-industrial trade. Till that time developing East Asian countries export resource based and labour intensive product to Japan and Japan exported final manufactured goods to its neighbours. But, in last two decades important changes emerged in East Asia, which include international production sharing. Trade in parts and components have grown faster than any other part of the world and even faster than Asia’s trade of final goods. Another change that East Asia as witnessed is China emerged as a center of production network in Asia. China has transformed from primary good exported to major manufacturer good exporter. China has upgraded with technology of manufacturing products. There is a decrease of exports of low technology products and the share of medium technology products in export has increased. In 1950 China’s major trading partner of China was former Soviet Union and eastern European countries and then after 1960 China’s trade shifted towards developed countries. In 1980s the trade volume between China and developed countries was about 90 percent of its total trade and China’s trade with developing countries was less than 10 percent. China changed its strategy over time and adopts market diversification and actively participating in South–South cooperation to decrease the risk of foreign trade and establish an overseas market. Developing countries was 9.3 percent of its total imports, but in 2005 it was 23.1 percent. China’s trade with developing countries has been growing rapidly. After 2000, in most years, the growth rate of China’s export to developing countries is 30-40 percent and import 20-57 percent. The annual growth rate of China’s trade with developing countries increases faster than that of China’s total trade, and the differences between these two rates is getting greater, which means that trade with developing countries has become an important drive for China’s foreign trade. Composition of global production and trade is changing which shows the declining share of primary and secondary sector and share of tertiary service sector is growing at a faster pace. But trade barriers determine the volume trade. If barriers on international services trade are removed fully then foreign affiliate’s sales may increase trade by 50 percent. The countries which gain the most from this trade are Spain, Japan, Korea and Ireland. The WTO/GATS has given classification in the form of service trade modes for the
analysis of international service trade. Four given modes are: Cross-border supply of services. Buy and sell Transportation of the service occurs through an electronic network, for example, through phone or email, and if the service can be embodied in a physical good, then it is through traditional means of transportation. Consumers travelling abroad, Firms establish a foreign affiliate, and the presence of natural persons.\textsuperscript{15}

India did encounter a change in the pattern of degree of specialization in some of the most dynamic sector of world trade. Its index of specialization has intensified, on average, for the sector that had grown faster since the mid 1980s. The few but significant exception, such as ‘medicinal and pharmaceutical products’ could signal for a shift towards a widespread adoption of advanced technologies.\textsuperscript{16} Agricultural products always remain an important part in the export basket of India. Instead of the increase in agricultural export by manifold there is a decline in the percentage share of primary products in the total export from 17.9 percent to 10 percent during the period of 1991 to 2010. Many efforts have been made to enhance the agricultural export, but there is a slow rise in agricultural export than national exports. Since the start of globalization, Indian agricultural products have been facing stiff competition and it's growing further in future for facing this challenge, many initiatives have been taken. This commodity group during the period of 1991-2000 indicate that there is a positive trend in the growth of almost all commodities except for tea and coffee which have negative growth.\textsuperscript{17} Constant increase in the growth of Indian economy has led to its increasing integration with the global economy. This increasing integration helps the Indian economy to increase its trade volume and make significant changes in trade pattern of India. The most significant changes are trade shifting towards Asian developing countries. On the one side, share of developing Asian countries in India’s exports and imports has gone up and on the other side dominance of developed countries on India’s trade has also reduced up to some extent. Instead of this shift in trade, developed countries remain the main destination for Indian trade. In 1998-1999 out of top ten export partners seven were from the developed countries and these seven accounts 45 percent of Indian exports. But in 2006-2007 there was a decrease in the share of industrial countries in India’s total export. In 2003 Asian countries like
China became the major destination of Indian export, overtaking Japan and Germany. In case of imports in 1998-1999 top five importers of India belonged to developed world, but in 2006-2007 except USA, developing Asian countries like China, United Arab Emirates and Iran were the important sources of imports. Especially, China became the major destination for Indian trade in recent years.\(^{18}\) Liberalization in new emerging economies makes many changes in their composition of agricultural export. The technological developments, macro-economic reforms also help in making changes in their composition because newly emerging agricultural commodities having vast potential for steady exports. India after liberalizing has been able to maintain a comparative advantage in commodities like cashew and oil meals, but there are some commodities which are negatively affected.\(^{19}\) Transport, travel, banking, insurance and business services are the part of service export of India. Especially business services account for 67.8 percent of total service exports in 2008. Service sector export has 0.6 percent share in 1991 which has increased to 2.8 percent in 2008 whereas India’s share in the global export increase from 0.6 percent in 1990 to 1.2 percent in 2001 and went further up to 2.8 percent in 2008. In 1999, India is the second largest exporter of business services among the emerging Asian economies. Software and computer services, export are accounted for 46.4 percent of total service exports in 2008-09. In 2007 India’s share in world services of computer and software accounted for 20.9 percent. In 2007 India become a leading exporter of software services. IT and BPO industry is also a part of India’s services export and it has great potential for growth. IT industry is estimated to be the order of $220-250 billion and in the BPO segment to be $160-190 billion. The growth in global outsourcing is expected to out space growth in spending and is expected to rise to $120-140 billion in 2011. Indian IT and BPO revenue may achieve the target of $60 billion in exports and the domestic market may add another $13-15 billion to it.\(^{20}\)

India and Japan’s relation had seen many changes in the past. The political activities between India and Japan started in 1957 when the prime ministers of both the countries visited each other’s country. The economic relationship between both the countries started in 1958 when for the first time India got the ODA from Japan. Trade relations between India and Japan are not active in between 1960s and 1980s, but
trade picked up the pace after 1990s when India liberalizes its economy. Japan has fluctuated between the second and third position of India’s export destination between 1989 and 1997. But it fell to sixth position in 1998 and then to tenth position in 2005. One reason which causes these fluctuation in India and Japan’s trade is the shifting of manufacturer bases to China and other ASEAN countries. After 2000, the relationship between India and Japan entered a new phase. Both countries took many steps to build a strong relationship in between them. This relationship between India and Japan is not only limited to, economic ties, but it also covered wide range of subjects like maritime security, climate change, Nuclear disarmaments, security cooperation etc. which was one of the major steps taken by both countries to improve their relationships. Starting with the agreement on commerce in 1958 India and Japan started their trade relation and from that time they are continuously trying to strengthen their relationship. In 2011 India and Japan signed a comprehensive economic partnership agreement on 16th Feb. 2011 for their two way trade over the next ten years, which will help boost bilateral trade as it will eliminate tariff on goods that account for 94 percent of trade. CGE model evaluates that this comprehensive economic partnership agreement will help to increase trade by a fair amount. India is likely to increase its export to Japan by 18.25 percent and Japan will increase its export by 4.65 percent by 2020. After the economic reforms, foreign direct invest in India have experienced vast changes even in the first decade after reforms there is a continuous increase in the foreign direct investments which rose from US$ 2 billion in 1991 to US$ 39 billion in 2004. After reforms not only FDI has increased, but also there is a change in composition of sector and industry wise investment. There is a remarkable shift in the FDI from primary and manufacturing sector to services sector and there are changes within the manufacturing sector also. Even there is a decrease in the share of FDI of previously priority areas like chemical and electronics industry in overall FDI and FDI increase in industries like motor vehicles and other transport equipment as well as food, beverage and financing, insurance, real estate and business services and this increase in share of these areas in FDI leads to increase their share to 30 percent of total FDI inflows between the period of 2002/03 and 2004/05. FDI plays a very important role in an increasing percentage of production and also helps in
India’s industrial upgrading and it all happens when FDI companies increased transfer of foreign technology to India.\textsuperscript{24} Looking at the size of the economies of India and Japan, there is a need to boost bilateral trade and investment because their trade and investments are below potential and there is huge potential which helps in future development of both the countries. In recent years investment from Japan is not satisfactory instead of India’s potential as an investment destination. Infrastructure, manufacturing, and services are the areas which have tremendous opportunities for investment. FDI inflows of Japan were only 4.9 percent of total FDI inflows between 1991 and 2007. There is a fluctuation in Japanese investment which increased between 2000 and 2002 but declined in 2006 and again rose in 2007.\textsuperscript{25} After liberalization there is a tremendous increase in the inflow of FDI in India but Japan’s FDI account very low during 2000 to 2010. Japan’s FDI inflows was just US$ 3.7 billion and this constituted only 3.4 percent of total FDI inflows India received during that period and Japan’s rank was 7\textsuperscript{th}. In September 2011, Japan’s rank Jumped to 5\textsuperscript{th} position.\textsuperscript{26} Several steps have been taken by India to integrate its economy into the global economy. India’s foreign investment policies are an investor friendly, and many steps were taken to make a simple entry for the foreign investors in Indian market. Many policies which are made by Indian Government help to attract foreign investment in Indian economy and after liberalization; as a result, there is an increase in Japanese investment in India. In 2008, Japan was the fourth largest investor in India. But the FDI of Japan in India is comparatively lower than Japan’s FDI in other Asian countries. In India, FDI operates through subsidiary or joint ventures with Indian partners. At the firm level, FDI inflow is occurring through three phases. In the first phase, the firm initiates the process of targeting the Indian market. In the second phase, there is a period of establishment and in the third phase, the firms expand their venture. The success of many Japanese firms in Indian market shows that the perception of investing and operating in the Indian market is outdated and success of many Japanese firms will attract more investment from Japan.\textsuperscript{27}

After 1973, China transformed its highly protected economy to be most open emerging market economy. China joined the World Trade Organization in 2001 and after Joining China’s WTO commitment is also leading to a very important opening in
service’s sector. Liberalization brings changes in technology and managerial efficiencies, but it extended towards the service sector also. China represents the best example of the connection between openness and economic growth. These reforms make tremendous changes in the volume of China’s foreign trade, and it also makes important changes in the commodity composition of China’s trade. In early years of reforms, China, mainly exported agricultural products and petroleum products, but later China shifted towards manufacturing goods. The share of primary products which are exported fell from 45 percent of total exports in 1980 to 10 percent of total exports in 1999. Economic growth of China brings a shift in its trade structure. There is a change in its export basket from textiles and light manufactured goods to a sophisticated and electronic goods and data processing equipment. High-technology products have increased their share in exports to 32 percent of China’s total trade. The share of high-2technology product in China’s export has increased from 23 percent in 2002 to 32 percent in 2006 and there is a decrease in export of unskilled labour products from 34 percent in 2002 to 26 percent in 2006. There is a change in an import basket of China’s trade. The share of high-technology products reached 43 percent of total imports of China. China’s import of primary products and unskilled labour and high technology products has increased from 38 percent in 2002 to 43 percent in 2006, and import of primary products has increased from 19 percent to 23 percent in 2006. Over the past few years, after adopting the policy of market diversification there is an increase in the trade between China and developing countries. Until 1980 about 90 percent of China’s trade was with developed countries and its trade with developing countries is less than 10 percent. However, with the increase of south-south cooperation China’s export to developing countries increases from 9.1 percent in 1990 to 16.9 percent in 2005 and China’s import increases from 9.3 percent in 1990 to 23.1 percent in 2005. Since 1980 to 1996 China’s agricultural trade structure is impassively very low, China’s agriculture trade usually corresponds to the basic principle of comparative advantage, but that in itself is not a big achievement. In general terms, China’s agriculture, trade has expanded along comparative advantage lines, but there is little evidence of increased reliance on comparative advantage in China’s agriculture. Their reliance on comparative
advantage is also reflected in the policies of central Government, which are based on comparative advantage. In 2004, India was among China’s top twenty trading partners. India attained the fifteenth position in exports and eighteenth position in exports. China attained second position in imports and third position in exports. China’s share in India’s overall export has increased in last some years. India after liberalization makes changes in composition of exports which reflects its comparative advantage in the world economy. Comparative advantage in labour intensive manufacturers in world market changes because of China’s move towards export-oriented development strategies. Manufacturers who are chiefly made of agricultural and allied products enjoy the advantageous position in India as well as in China. India has a greater advantageous position in manufacturers made of allied products, and China enjoyed the advantageous position in manufacturers made by agricultural goods. Out of 97 sectors and 4923 commodities, China enjoyed a comparative advantage in 47 sectors and 1828 commodities exported from China to the world. The main commodities in which China has a comparative advantage are electrical and electronic equipments, manufacturers of leather, toys, etc. India enjoys the comparative advantage in 41 sectors and 1512 commodities. India enjoys a comparative advantage in 32 percent of its total exports. India’s comparative advantage is focused in sectors like Organic chemicals, cotton, iron and steel, article of apparel, accessories etc.. China’s export has increased over the decade, and it emerges as a key player in the global market. China posed a competitive threat to other countries, especially South Asia and East Asian countries. China’s threat is not confined to labor intensive product, but it spreads to whole technological and skill range. China poses a maximum threat in low technology products and newly developing countries also suffering because they have much higher cost of production as compared to China. Lack of domestic capabilities helps China to keep ahead in many areas where China posses competitive challenges. China’s threat in medium technology product is also growing. China poses a serious threat in products like Automobiles, machinery and simple electronics. In the last decade, there is a rush of Chinese imports in India, especially for cheap Chinese’s imports of manufacturing goods to India and this increase in Chinese imports result in the building up of India’s
trade deficit with China and which further results into rising requests for introducing antidumping measures against Chinese imports. Above discuss point come forward a need to check the profile of imports from China and its relation with our domestic manufacturing production structure. There is an increase in Import from all countries, but the Chinese index for same items have grown by 4618.4 percent in 2010-11 over the base 2005-06, which is much higher than the import index of other countries and the share of the imports from China in total imports of India has jumped to 41.3 percent in 2010-11 from 26.3 percent in 2005-06.\textsuperscript{34}

When China opens up its economy and allows FDI in its economy at that time China took many strong and careful steps in difficult times and aside many beliefs which has been accustomed for decades and China seem to develop its own model with Chinese characteristics known as ‘Beijing consensus’ and India adopt a different kind of model -calls it ‘Indian consensus’ - for the most democratic country in the globally interdependent world. India and China opened up their economies in the late 90s so that model which was demonstrated for late industrializing economies known as Washington’s consensus is not applicable on these economies. These models were appropriate for those countries which have a good institutional framework, better infrastructure, and efficient private sector, but it is not appropriate for developing countries.\textsuperscript{35}

Every economy tries to attract Foreign Direct Investment in the development of its economy because host country benefited the most from Foreign Direct Investment as it plays an important role in the economic development. Foreign investment and foreign technology have been used by these countries and it further helps to accelerate the pace of their economic growth. India also try to attract FDI but India faces many problems to become a favourite destination for FDI. Despite offering a large domestic market, rule of law, low labour costs, and a good working democracy, India’s performance in attracting FDI flows have been far from satisfactory. If India wants to attract more FDI than the limitations like restricted FDI regime, high import tariffs, exit barriers for firms, stringent labour laws, poor-quality infrastructure, centralized decision-making processes, must be put an end and investors must give better
facilities like one window clearance, unrestricted FDI regime, better infrastructure, etc. so that it was easy for them to invest in India.\textsuperscript{36} Foreign investment is now seen as a source of scarce capital, technology and managerial skills that were considered necessary in an open, competitive, world economy. All Asian countries try to attract the FDI inflows and India is also one of them because Foreign Direct Investment into India has been significantly lower when compared with FDI in other Asian countries. There are wider disparities among the net FDI in Asian Economies. The bulk of net FDI is confined to the four nations of Asia, namely - China has maximum FDI inflows in Asia of US$ 78.1 billion, Hong Kong in second place getting US$ 42.9 billion, followed by Singapore US$24. 2 billion and India gets US$ 17.5 billion of FDI inflows.\textsuperscript{37} Foreign Direct Investment has an uneven beginning in India especially in two sectors - industry and infrastructure. Policies related to Foreign Direct Investment in an industrial sector given more priority while the infrastructure sector was ignored though, they need to be supplemented by more infrastructure reform. This critical missing link, that is, priority given to the industrial sector concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture.\textsuperscript{38} Government with the instrument of public policy in its hands can slow down the process of FDI in India’s retailing sector because the entry of FDI in retailing sector of Indian economy is unavoidable. Government needs to set up commissions to study the problem and make some policies, which enabled the retail sector to cope with FDI because the retail sector in India inhibited by many limitations like unavailability of bank finance, dislocation of labour etc. Government make such policies which make foreign and domestic players on an equal footing and domestic traders are not at a disadvantage. The small retailers must be given the opportunity to provide more personalized service, so that their higher costs are taken advantage of by large supermarkets and hypermarkets.\textsuperscript{39} India received one tenth of FDI of that of China. The most favourable level of FDI is one which helps to contribute to the growth of productivity, which enhances learning on the job, and generates considerable transfers in the economy and this level of FDI is lower in India than other developing countries like China. India must attract a much larger volume of FDI that it is getting now if India has to attain a growth rate of excess of 10 percent
per annum. India is at the present time in a position to unbundled its FDI package effectively and also depend on other sources for the requirement of capital because India has a large pool of well trained engineers and scientists who are capable of restructuring imported know-how to suit local factor and product market. They effectively transfer know-how from foreign firms to locally owned firms. FDI are mostly needed for managerial and organizational skill. The structure and composition of India’s manufacturing, service sectors and her endowments of human capital are such that they do not require much managerial and organizational skill is the requirement of managerial and organizational skills are needed in industries which are labour intensive industries such as those in China. Developing countries like Egypt, India, Vietnam, and South Africa showed variation in characteristics of FDI and before liberalization all these countries has gone through restrictive policy regime. Effects of liberalization on these developing countries are different. The policy makers of these economies must understand that institutional arrangements generated the favourable outcome for host economy and Home Company. The choices which they made during making policies have favourable effects and this favourable effect influence externalities in favour of local companies. Foreign Direct Investment flows are depend on many economic indicators like market size, export intensity, institutions, etc. Foreign Direct Investment inflows depend on an alternative approach based on the concepts of ‘Neighbourhood approach’. The neighborhood concepts are widely applicable in different contexts, particularly for countries like China and India, and partly in the case of the Caribbean. There are significant common factors in explaining Foreign Direct Investment inflows in select regions. Outward investment has emerged as an important mechanism of global economic integration of the Indian economy. With the increase in external investment, there is also a shift of geographical and sectoral focus of India’s outward investment. Indian investments are at present more evenly distributed across the world compared to a heavy concentration in poorer developing countries in the pre-1990 period. India’s investment is now more focused on areas in which India had a comparative advantage such as pharmaceuticals and IT software. Indian enterprises which are established to abroad have also been starting to get hold of companies abroad to get access to
marketing networks, brands, natural resources, technology and other strategic assets. With the increase in outward investments, some enterprises of India are emerging as multinationals. Outward investments provides advantages to Indian enterprises in many ways, which start from their accumulated learning from production experience, further technological effort and adaptations on the knowledge imported from abroad, especially on the development of cost-effective processes and products, ability to differentiate a product with brands and quality consciousness.\textsuperscript{43} ASEAN countries open up their economies for economic integration with the world economy because it helps for the economic growth, and it also helps in the growth of manufacturing sector and high-technology sector because of easy access to capital due to Foreign Direct Investment. FDI inflow is as well significant for the growth of these countries because ASEAN countries were found to be inversely proportional to the per capita income of these countries. In ASEAN countries the important determinants of FDI are market size, economic integration, human capital, infrastructure and existing FDI stocks.\textsuperscript{44}

India adopted a new economic policy of Export-led growth for the further growth of Indian economy. Indian exports face a high degree of competitiveness in the world markets. India needs a further diversification of foreign trade for the fast growth of its export. Trade statistics reveal that India depends more on developed countries for its major portion of exports as well as imports, and imports from developing countries do not grow at a noteworthy rate. India must mend its economic policies in such a way that they should concentrate more on improving trade relations with the developing countries because India is on losing side when trading with developed countries. India is not having favourable terms of trade with advanced countries. On the other side, developing countries possess an excellent potential and scope to promote trade links among them. By triumph over the problems like non-tariff barriers, inadequate tariff-concessions and with a strong political will for economic integration, India can succeed in developing excellent trade relations with developing countries of Asia and neighbouring areas. India must emerge as a leader of third world countries to play an effective role in WTO. India must make some new strategies, which are in the support of developing countries, and it must negotiate it with the WTO. There are some issues
which India must be faced boldly as a leader of third-world countries like- to make sincere efforts to stop the green room consultation and encourage open discussions. Industrial nations are trying to shut their door for the products of developing economics. The major intercontinental companies are coming together to exploit the world market. 45
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