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TITLE: ECONOMIC EFFECT OF INDO -EAST AFRICAN TRADE: A STUDY IN INPUT OUTPUT FRAMEWORK

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ABSTRACT:

INTRODUCTION AND BACKGROUND Alfred Marshall and Robertson hypothesized international trade to be the engine of capitalist growth. The hypothesis had been derived from practical experience of growth of economies of Europe and theories of international trade. After second war, model of planned development, which enabled USSR to achieve a level of growth in few decades that was achieved by capitalist economies in centuries, was imitated by Eastern Europe and many developing countries. Like USSR, its followers assigned low importance to international trade in development, leading to closure of the economy. Globalisation changed this. Globalization brought about integration of large segments of world economy; countries adopting globalization went for free trade for rapid economic growth. Resurrection of international trade has thus made it an engine of growth again. Therefore, we propose to examine the economic effect of trade on the growth of economies of India and East Africa. East Africa comprises Burundi, Kenya, Rwanda, Tanzania and Uganda. The paper shall focus on India's trade with these countries and its effect on growth of all US partners.

MODEL Growth is a function of investment, which is endogenised in dynamic model. But want of capital matrix will force us to use the modified Leontief static open model. Growth effect of trade and its differential impact on sectors and between the years shall be captured by the solution of the model with two coefficients matrices A_t and A_{t+1} Modified static Input Output model shall be used in the study. The following two input - output models shall be used: $X1_t = (I - A_{t+1})^{-1} F1_t$ (1) $X2_t = (I - A_{t+1})^{-1} F2_t$ (2) Where $X1$ and $X2$ are gross output vectors, $(I-A)^{-1}$ is Leontief Inverse, $F1$ and $F2$ are two final demand vectors. Elements of $F1$ have sector wise export earnings from six countries to each other, and $F2$ contains sector wise import bills of trading partners. t refers to time period. All other elements of final demand shall be zero in order to isolate and estimate trade effect on growth of output. Another set of two models shall be $X1_{t+1} = (I - A_{t+1})^{-1} F1_{t+1}$ (3) $X2_{t+1} = (I - A_{t+1})^{-1} F2_{t+1}$ (4) **DATA-BASE** Input output tables of these countries and other data sources, related to official trade of these countries, shall be used.