

Determinants of India's foreign trade during reform

Topic: Indian Trade

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Since Leontief's (1953) testing of Heckscher-Ohlin hypothesis and its paradoxical finding, several studies have been made throughout the world on the determinants of factor content of foreign trade of various countries. A vast theoretical literature has also been emerged attempting to resolve the Paradox. In India too, Bharadwaj (1962), Prasad (1965) and Sengupta (1989) conducted studies on the determinants of the factor content of its foreign trade concluding in support of the hypothesis. However, these studies were conducted prior to the Economic Reform of 1991. In this paper an attempt has been made to measure the factor content of India's foreign trade and verify the validity of the Heckscher-Ohlin hypothesis focusing on the period of Reform. The period covered in the study is from 1989-1990 to 2003-2004. Using three factors of production - capital, labour and natural resources, first, the factor contents of trade are measured in the light of two alternative theoretical frameworks provided by Leontief (1953) and Leamer (1980). In these frameworks the study confirms the Heckscher-Ohlin presumption regarding India's trade with the rest of the world. However, paradox has been witnessed in cases of India's trade with the EU, North America and Japan. Then the paradox has been studied by taking into account the productivity differences between India and its trading partners as attempted by Trefler (1993). The findings of the study are expected to throw light on the ongoing debate on the factor content of foreign trade.