FACTOR CONTENT OF INDIA’S FOREIGN TRADE IN LEONTIEF-LEAMER-TREFLER FRAMEWORKS

Topic: International Trade 2
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Abstract
A notable economic feature of India is that a huge labour force (second largest in world) is combined with a relatively very small stock of physical capital. Therefore India offers an excellent case study for Heckscher-Ohlin theory which states that the pattern of trade is determined by the endowments of factors of production of a country. At the same time it is also evident that under the impact of industrialisation the composition of India’s foreign trade has undergone a substantial change over the years: particularly the non traditional items have remarkably grown in importance in the export basket. This paper attempts to measure the factor content of India’s foreign trade to find out whether the factor intensity of trade has been in tune with comparative advantage as determined from its endowment of factors. The period covered in the study is from 1989-1990 to 2003-2004. First, the factor contents of trade are measured in the light of two alternative theoretical frameworks provided by Leontief (1953) and Leamer (1980). Then the factor content is further studied by incorporating the factor-augmenting productivity differences into the model as argued by Trefler (1993, 1995). The study confirms the Heckscher-Ohlin presumption regarding India’s trade with the World and regarding its bilateral trade with the EU and developing countries of Asia. However, paradox has been witnessed in cases of India’s trade with North America in later years of economic reforms even after substantial factor-augmenting productivity adjustments.