

Trade Specialisation - An Encounter to International Trade Threats

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Abstract

India's balance-of-payments (BoP) position improved dramatically in 2013-14, particularly in the last three quarters. This owed in large part to measures taken by the government and the Reserve Bank of India (RBI) and in some part to the overall macroeconomic slowdown that fed into the external sector. Current account deficit (CAD) declined sharply from a record high of US\$ 88.2 billion (4.7 per cent of gross domestic product [GDP]) in 2012-13 to US\$32.4 billion (1.7 per cent of GDP) in 2013-14². Even though the balance of payment of India is improving still India has negative balance of payment that means the export of India is always less than the imports. It has led the researcher to find out measures to improve the balance of payment as well as to change the negative trend in the balance of payment. In this paper the researcher made an attempt to analyse how for trade specialization of India helps India to encounter the threat, "negative balance of payment".

Introduction

India, after staying at perilously unsustainable levels of well over 4.0 per cent of GDP in 2011-12 and 2012-13, the improvement in BoP position is a welcome relief, and there is a need to sustain the position going forward. This is because even as CAD came down, net capital flows moderated sharply from US\$ 92.0 billion in 2012-13 to US\$ 47.9 billion in 2013-14, that too after a special swap window of the RBI under the non-resident Indian (NRI) scheme/overseas borrowings of banks alone yielded US\$34.0 billion. This led to some increase in the level of external debt, but it has remained at manageable levels. The large depreciation of the rupee during the course of the year, notwithstanding sizeable accretion to reserves in 2013-14, could partly be attributed to frictional forces and partly to the role of expectations in the forex market³. Hence it is the need of the hour to find out the strategy to sustain the growth in GDP and the improving Balance of Payment. Trade specialization can be a strategy to encounter the risk of India in the international trade. Adam Smith the father of economics thought that the basis of international trade was absolute cost advantage According to his theory trade between two countries would be mutually beneficial if one country could produce one commodity at an absolute advantage (over the other country and the other country could in turn produce another commodity at an absolute advantage over the first⁴. As per the Heckscher Ohlin theorem the labour abundant country that is India and should produce the labour intensive items and exports to other regions in the world. As per the Ricardio's comparative cost theory indicates that a country should specialize in the production of those goods in which it is more efficient and leave the production of other commodity to other country. Then the two nations will have more advantage by engaging in trade. India is specialized in labour intensive goods, India can produce the labour intensive goods at lower cost than other countries in the world because India is specialized in labour intensive goods. Hence an attempt was made by the researcher to analyse the exports of labour intensive from India to other regions in the world and to find out how far the labour intensive goods exports will help India to encounter the problem of negative balance of payment in international trade.

Research Gap

Several studies have been undertaken by many researchers on the topics relevant to Analysis of balance of payment of India, International trade performance of India, exports of labour intensive goods from India to other regions, but no researcher have undertaken a study about the trade specialization of India and their impact on the balance of Payment. Hence the study Trade specialization an encounter to international trade threats was taken by the researcher.

Objectives of the Study

- ❖ To study the growth of Balance of Payment of India over a period of time.
- ❖ To Analyse the contribution of Labour Intensive Goods Exports to the total exports of India and to the BOP of India.

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² Economic survey 2013-14.

³ I bid

⁴ M.C.Vaish, Sundama singh, "International economics", Oxford & IBH publishing co. Ltd., New Delhi, 2006,Eighth Edition

Methodology

The present is highly based on the secondary data the data required for this study has been collected from different sources like UNCTAD, WTO, UNCOMTRADE, Ministry of Commerce of India etc.. There are 37 products are classified as Labour Intensive goods by UNCTAD for the purpose of the present study the researcher have selected only top ten labour intensive exportable goods from India (Shown Below). The period covered for the study is one decade ie, 2004-2013. The collected data were analysed with the help of the statistical tools like Index Number, Percentage and Balassa's RCA index to find out the comparative advantage in exporting the top ten labour intensive goods.

Results and Discussion

Top Ten Labour Intensive Exportable Goods

| S.No | Product Name | SITC* No. |
|------|---|-----------|
| 1 | Textile yarn | 651 |
| 2 | Other textile fabrics, woven | 654 |
| 3 | Made-up articles, of textile materials, n.e.s. | 658 |
| 4 | Floor coverings, etc. | 659 |
| 5 | Travel goods, handbags & similar containers | 831 |
| 6 | Men's clothing of textile fabrics, not knitted | 841 |
| 7 | Women's clothing, of textile fabrics | 842 |
| 8 | Men's or boy's clothing, of textile, knitted, croche. | 843 |
| 9 | Women's clothing, of textile, knitted or crocheted | 844 |
| 10 | Footwear | 851 |

*Standard International Trade Classification

BOP of India

| S. No | Year | India (\$ in '000) | Growth |
|-------|------|--------------------|-------------|
| 1 | 2004 | -23076929.11 | 100 |
| 2 | 2005 | -40509030.42 | 175.5390859 |
| 3 | 2006 | -57011834.09 | 247.0512165 |
| 4 | 2007 | -72747240.47 | 315.2379596 |
| 5 | 2008 | -133851207.3 | 580.0217467 |
| 6 | 2009 | -89636516.57 | 388.4248036 |
| 7 | 2010 | -129620890.9 | 561.6903804 |
| 8 | 2011 | -160919540.6 | 697.317827 |
| 9 | 2012 | -191782709.5 | 831.0581906 |
| 10 | 2013 | -152807020 | 662.1635802 |

Source: Ministry of commerce and Industry of India

The table shows above explains the growth of Balance of Payment of India over a decade. India's Balance of payment is always negative since the import of India is always more than the exports. Comparing to the base year 2004 every year the negative balance of payment is increasing. In comparison with the base year in the year 2012 the negative balance of payment increased to more than 800 percentage but in the next year it is decreased to around 170% it proved that the negative balance of payment of India is in the decreasing trend.

Labour force in India

| S.No | Year | No. of Labours | Growth of Labours | Share in World Labour Force |
|------|------|----------------|-------------------|-----------------------------|
| 1 | 2004 | 455491600 | 100 | 15.25302 |
| 2 | 2005 | 467691600 | 102.6784 | 15.40142 |
| 3 | 2006 | 468797000 | 102.9211 | 15.19389 |
| 4 | 2007 | 469802400 | 103.1418 | 14.99293 |
| 5 | 2008 | 470736800 | 103.347 | 14.79474 |
| 6 | 2009 | 471649800 | 103.5474 | 14.60473 |
| 7 | 2010 | 472580100 | 103.7517 | 14.42488 |
| 8 | 2011 | 481097800 | 105.6217 | 14.48296 |
| 9 | 2012 | 489839400 | 107.5408 | 14.55062 |
| 10 | 2013 | 498686500 | 109.4831 | 14.62438 |

Source: UNCTAD

The table shows above explains the Labour force of India. Since India is the second most populated

country in the world, India has a major share of around 15% in the total world Labour force. India's total work force has been increasing year by year as the population increases but the share in the total world labour force is not increasing as the world labour force increase that is evidenced by the decreasing trend of India's share in the world labour force.

Share (%) of Indian Labour Intensive goods Exports in the world Exports of Labour Intensive Goods

| S.No | Year | 651 | 654 | 658 | 659 | 831 | 841 | 842 | 843 | 844 | 851 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 1 | 2004 | 5.13 | 4.26 | 6.67 | 7.24 | 2.28 | 2.49 | 3.39 | 5.45 | 2.46 | 1.4 |
| 2 | 2005 | 5.38 | 4.57 | 7.46 | 8.75 | 2.25 | 2.84 | 4.52 | 5.37 | 2.77 | 1.56 |
| 3 | 2006 | 5.78 | 4.15 | 6.78 | 9.53 | 2.1 | 2.67 | 4.62 | 3.97 | 2.47 | 1.62 |
| 4 | 2007 | 6.21 | 3.91 | 6.15 | 8.41 | 2 | 2.57 | 3.9 | 3.66 | 2.28 | 1.71 |
| 5 | 2008 | 6.32 | 4.31 | 5.78 | 7.93 | 2.01 | 2.61 | 4.07 | 3.69 | 2.55 | 1.72 |
| 6 | 2009 | 5.74 | 4.43 | 5.7 | 7.94 | 2.02 | 2.83 | 5.04 | 4.72 | 3.61 | 1.82 |
| 7 | 2010 | 8.65 | 5.18 | 6.38 | 9.47 | 1.77 | 2.58 | 4.74 | 4.1 | 2.34 | 1.72 |
| 8 | 2011 | 8.73 | 4.22 | 7.36 | 8.25 | 1.84 | 2.81 | 5.28 | 4.47 | 2.41 | 1.84 |
| 9 | 2012 | 9.67 | 3.15 | 7.6 | 8.82 | 1.79 | 2.84 | 4.62 | 3.62 | 1.99 | 1.68 |
| 10 | 2013 | 11 | 3.11 | 8.04 | 10.4 | 1.95 | 2.97 | 4.79 | 4.12 | 2.29 | 1.97 |

The table shows above reveals the share of India's Exports of Top Ten Labour Intensive Goods in the world exports of these ten goods. It shows that India's Share in the world exports has been increasing every year except exports of other textile fabrics woven (654), women's clothing of textile fabrics (844) and Men's or boy's clothing, of textile, knitted, crocheted (843) even though the share in the world exports of these three commodities are decreasing still India have a considerable portion in the world exports. India's share in the world exports of Textile yarn, Floor coverings, etc. have been increasing much faster than other commodities.

Contribution of labour intensive goods to the total exports of India

| S.No | Year | 651 | 654 | 658 | 659 | 831 | 841 | 842 | 843 | 844 | 851 | Total |
|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1 | 2004 | 0.527 | 0.127 | 0.549 | 0.299 | 0.238 | 0.517 | 0.805 | 0.338 | 0.305 | 0.613 | 4.318 |
| 2 | 2005 | 0.433 | 0.115 | 0.548 | 0.275 | 0.206 | 0.387 | 0.593 | 0.319 | 0.279 | 0.521 | 3.676 |
| 3 | 2006 | 0.382 | 0.13 | 0.579 | 0.273 | 0.231 | 0.361 | 0.578 | 0.237 | 0.27 | 0.538 | 3.579 |
| 4 | 2007 | 0.354 | 0.12 | 0.623 | 0.302 | 0.221 | 0.391 | 0.841 | 0.233 | 0.284 | 0.547 | 3.916 |
| 5 | 2008 | 0.335 | 0.094 | 0.471 | 0.273 | 0.191 | 0.348 | 0.763 | 0.152 | 0.219 | 0.508 | 3.354 |
| 6 | 2009 | 0.366 | 0.093 | 0.507 | 0.286 | 0.234 | 0.38 | 0.759 | 0.21 | 0.302 | 0.634 | 3.771 |
| 7 | 2010 | 0.261 | 0.083 | 0.4 | 0.217 | 0.216 | 0.339 | 0.703 | 0.166 | 0.258 | 0.557 | 3.2 |
| 8 | 2011 | 0.133 | 0.04 | 0.258 | 0.137 | 0.138 | 0.231 | 0.566 | 0.163 | 0.277 | 0.383 | 2.326 |
| 9 | 2012 | 0.228 | 0.047 | 0.299 | 0.164 | 0.155 | 0.234 | 0.594 | 0.121 | 0.192 | 0.446 | 2.48 |
| 10 | 2013 | 0.252 | 0.048 | 0.358 | 0.134 | 0.18 | 0.263 | 0.653 | 0.143 | 0.208 | 0.487 | 2.726 |

The table shows above explains the share of exports of labour intensive goods to the total of exports of India. All the top ten labour intensive products exports is increasing year by year. Around 971 (as per the classification of UNCTAD) products are exported from India to the rest of the world. Among all these products labour intensive goods are giving major share to the total exports of India. There are 37 products are classified as labour intensive goods, but these ten 10 products alone contributes around 4% to the total exports of India.

Comparative Advantage of Labour intensive goods

| S.No | Year | 651 | 654 | 658 | 659 | 831 | 841 | 842 | 843 | 844 | 851 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 1 | 2004 | 1.19 | 1.05 | 1.85 | 2.5 | 1.03 | 0.95 | 1.22 | 2.17 | 1.08 | 0.93 |
| 2 | 2005 | 1.11 | 1.08 | 1.8 | 2.39 | 0.91 | 0.76 | 0.95 | 2.21 | 1.12 | 0.82 |
| 3 | 2006 | 1.04 | 1.37 | 2.03 | 2.58 | 1.03 | 0.76 | 0.99 | 1.57 | 1.03 | 0.88 |
| 4 | 2007 | 1.03 | 1.41 | 2.3 | 2.91 | 0.96 | 0.89 | 1.54 | 1.36 | 0.97 | 0.93 |
| 5 | 2008 | 1.15 | 1.27 | 1.81 | 2.99 | 0.82 | 0.86 | 1.54 | 1 | 0.86 | 0.89 |
| 6 | 2009 | 1.2 | 1.3 | 1.62 | 2.91 | 0.88 | 0.85 | 1.38 | 1.25 | 0.99 | 0.97 |
| 7 | 2010 | 0.79 | 1.26 | 1.37 | 2.35 | 0.81 | 0.87 | 1.47 | 1.04 | 0.88 | 0.89 |
| 8 | 2011 | 0.41 | 0.64 | 0.92 | 1.61 | 0.47 | 0.59 | 1.25 | 1 | 0.96 | 0.62 |
| 9 | 2012 | 0.76 | 0.82 | 1.07 | 1.97 | 0.51 | 0.62 | 1.36 | 0.73 | 0.61 | 0.7 |
| 10 | 2013 | 0.74 | 0.82 | 1.18 | 1.52 | 0.54 | 0.63 | 1.39 | 0.81 | 0.62 | 0.69 |

The table shows above explains the comparative advantage to India in exporting labour intensive goods to other regions in the world. India had comparative advantage in exporting all these ten labour intensive goods to European union. But the trend is decreasing as the the export of these goods is not increasing as the world

exports increases.

Conclusion

India is the second most populated country in the world so India has huge manpower in the world in the total workforce of the world India owns around 14%, so India can produce the labour intensive goods at lower cost than other countries in the world and it can be exported to other regions which are not specialized in labour. Through this paper it can be concluded that if India concentrate on labour intensive goods in which India is specialist India can easily encounter the risk of international trade, that is the negative balance of Payment and the positive signs in the balance of payment can also be addressed properly.

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