

Open Economy Macroeconomics and its Relevance to India

Selected papers presented at the Workshop
Organised at Pune during 15th - 17th March 1990

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
PUNE 411 004**

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**OPEN ECONOMY MACROECONOMICS
AND ITS RELEVANCE TO INDIA**

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Foreword

While economists continue to debate whether India is an open economy or a closed economy, all along through the years of developmental planning, we have been greatly plagued by and concerned with the foreign exchange problem. We have never been able to get over the foreign exchange problem. Even in the Eighth Plan, being currently finalised, our large balance of payments deficit has become a major problem to reckon with and will in all probability necessitate scaling down the growth rate target. Our outstanding external debt (including deposits in the Indian commercial banks by the Non-resident Indians) at the end of March 1990 was more than 22 per cent of our GDP at current market prices. Debt services payments, excluding those on NRI deposits as percentage of export of goods and invisibles other than official transfer receipts was estimated at 21.5 per cent during 1989-90. While our exports have been growing at a faster rate than our imports, our trade deficit has increased in the recent past and the balance of payments on current account, including invisibles, has deteriorated because of heavy debt servicing burden as well. We can, therefore, ill-afford to ignore problems relating to foreign trade and international monetary and financial developments.

During the past 10-15 years, discussions of macro-economic theory and policy have also more and more come to be cast in an open economy framework, that is, in a framework which takes into account the implications of the interaction of the domestic economy with the developments in the external sector of it and with the developments in the world economy. Questions such as the determination of the equilibrium exchange rate system, impact of capital movements on the domestic economy, etc., have received considerable attention from economists.

We organised a workshop at the Institute during March 15-17, 1990, with a view to taking stock of the theoretical and empirical analyses developed recently in this field and to examining the relevance of these analyses and policy formulations to the Indian economy. While this was our objective, we chose to start this process from the current research works of the workers in the field.

About twenty scholars took part in the workshop. The proceedings were grouped into seven sessions under various sub topics : (i) Exchange Rates, (ii) Empirical Analysis of Exchange Rates, (iii) Structure of Trade, (iv) External Debt, (v) Macro-economic Policy and Adjustment Processes, (vi) Transmission of World Economic Fluctuations to the Indian Economy, and (vii) Implications of Recent Development in the World Economy. Twenty two papers were presented at the workshop. Professor John Williamson, Senior Fellow, Institute for International Economics, Washington, D.C., U.S.A. delivered the keynote address on the theme of the workshop.

The papers presented at the workshop were subjected to a refereeing process for inclusion in the present volume. However, not all the papers recommended by the referees for publication in the present volume could be included here as some of the authors had made commitments to publish the papers elsewhere.

We are grateful to all the participants of the workshop for

presenting their papers in the workshop and for the highly stimulating discussion at the workshop; and particularly to Professor John Williamson for his keynote address and for his participation and valuable comments during the workshop. We thank the authors of the papers included in the present volume for allowing us to publish the papers here, and the referees for carefully going through the various papers and making helpful suggestions on them.

The workshop was financed out of a generous grant made to the Institute in 1989 by Ford Foundation for starting a section at the Institute in the area of international economics and for support for research, training and seminars in international economics. The grant is also expected to enable the existing research work at the Institute in the areas of monetary and macroeconomics and finance to expand into the related open economy aspects. The Ford Foundation had earlier extended very generous financial assistance to the Institute for more than twelve years beginning with 1955-56 for strengthening the research and training programmes of the Institute. The recent grant from the Ford Foundation, one of the activities under which was the workshop under reference, marks the renewal of the old association between the Ford Foundation and the Institute, and we are grateful to the Foundation for it.

Most papers presented at the workshop and included in the present volume represent work in progress. It is hoped that the publication of these papers will evoke useful comments and generate discussion on the issues addressed to in them. It is also hoped that the papers being published here will create greater interest among research workers to examine the open economy aspects of the macroeconomic and the developmental experience of the Indian economy.

Gokhale Institute of
Politics and Economics,
Pune 411 004

V. S. Chitre
Director

June 1991

2. Foreign Exchange Rate)
Forecasting: Vector) Discussant:
Auto Regression Results) Manmohan Agarwal
for some Quarterly Rates)

3. Foreign Exchange Rates:)
Regression Forecasting)
Models for Some Major)
Currencies)

4. The ECU Ganti Subrahmanyam
Discussant:
B.S.R. Rao

Reporteur: V.G. Joshi

Session 5

Structure of Trade

Chairman: S.V. Bokil

1. Trends in Current Account Deficit and Balance of Trade: Separating Facts from Prejudices A. Virmani
Discussant:
S.V. Bokil
2. Composition of Imports, Expenditure Switching and Trade Policy M.K. Datar
Discussant:
S.V. Bokil
3. Impact of Import Liberalisation on Export Intensities: A Study of the Indian Private Corporate Sector N.S. Siddharthan
Discussant:
A. Vasudevan

Rapporteur: M.K. Datar

Macroeconomic Policy and Adjustment Process

Chairman: Ganti Subrahmanyam

1. International Aspects of Monetary Policy in India L.M. Bhole
Discussant:
K.R. Holla
2. Macroeconomic Policy Responses to External Shocks : A Case Study of Jamaica Manmohan Agarwal and Nira Goel
Discussant:
D.M. Nachane
3. Some Notes on the International Adjustment Process: Implications for Developing Countries A. Vasudevan
Discussant:
S.V. Bokil

4. The Monetary Approach to the Balance of Payments and Exchange Rate: Empirical Evidence Relating Specifically to India

V.G. Joshi
Discussant:
Thomas Paul

Rapporteur: R. Parchure

Session 6 : Transmission of World Economic Fluctuations to the Indian Economy

Chairman: A. Vasudevan

1. The Transmission of World Growth Cycle to the Indian Economy
- V.S. Chitre
2. The Transmission of Fluctuations in Economic Activity from Abroad: Some Evidence from India
- Smriti Mukherjee
Discussant:
L.M. Bhole
3. Inter-relationships between National Stock Markets: A Preliminary Study of India, U.S.A. and Japan
- B.S.R. Rao and Umesh Naik
Discussant:
G. Subrahmanyam

Rapporteur: Thomas Paul

Implications of Recent Developments in the World Economy

Chairman: B.G. Bapat

1. East Europe's Reforms and Developing Countries' Trade Prospects
- Nambiar, et.al.
Discussant:
B.G. Bapat
2. Purchasing Power Parity: A Re-examination of the post-1970 Evidence
- D.M. Nachane

Rapporteur: Thomas Paul

Closing Session : Chairman: V.S. Chitre

Rapporteurs: V.G. Joshi
Thomas Paul
M.K. Datar
R. Parchure

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