

SEMINAR NOTICE

Topic: *Impact of Trade, Industrial Dissimilarity and FDI on the Business Cycle Synchronization of Euro-Zone Economies: Evidences from EC3SLS Panel Data Technique*

Speaker: **Dr. Md. Hussain Kunroo, Central University of Rajasthan, Ajmer**

Date & time: Friday, May 12, 2017 at 3.30 p.m.

Venue: A.M. Khusro Room, Institute of Economic Growth,
University of Delhi Enclave, North Campus, Delhi - 110 007

Chair: Prof. Pravakar Sahoo, Institute of Economic Growth

All are welcome.

(Sabyasachi Kar)
Seminar Convenor

Abstract:

This paper uses simultaneous equations error component three-stage least squares (EC3SLS) panel data technique to find out both the direct as well as the indirect impact of trade, industrial dissimilarity and FDI on the business cycle synchronisation of Euro-zone economies. The period of analysis is 1990 to 2009. The estimated results reveal that trade, industrial dissimilarity and FDI have both direct and indirect effect on the business cycle synchronization of sample economies. While the reported EC3SLS estimates show that closer trade ties among these Euro-zone countries have led to more synchronized business cycle co-movements because common disturbances are more prevalent and intra-industry trade dominates; the bilateral FDI flows have served as a source of disturbance rather than a source of synchronization. Also, trade intensity and FDI flows are positively and significantly correlated, thereby suggesting that more FDI encourages more trade and vice-versa. That is, trade and FDI complement each other. Besides, trade shows a positive relationship with industrial dissimilarity which implies that countries with different industrial structures will enjoy an abundance of inter-industry trade. However, the small magnitude of industrial dissimilarity coefficient in the trade equation suggests that trade-induced specialization has but a weak effect on cycles synchronization. In addition, the results confirm the presence of horizontal intra-industry trade pattern, which was expected in the case of these highly integrated Euro-zone economies. Thus, the reported results favour the New Trade theory over the Heckscher-Ohlin theory. The upshot of the entire analysis is that these Euro-zone economies have replaced vertical trade with vertical FDI flows. Though they are currently following New Trade theory by generating intra-industry trade type, yet they have successfully diversified their production processes even at the higher levels of income.