

ABSTARCT

Economic policies are basically the outcomes of the interaction between interest groups and institutional infrastructure of the governments. Political powers in each government exert pressure on political and economic institutions to influence the public policy choices. But in devising such policies, welfare of the individuals and society must be given high priority. Such welfare orientation on the behalf of Governments in trade policy formation is also required because trade policy is one of the most important tools in promoting the welfare of the whole society through its redistributive nature in case of revenues earned by governments. This study has tried to analyze how much Government decisions regarding trade policy choices are promoting 'welfarism' in these societies and how these policies are ultimately affecting the economic performance of these developing nations. Overall this research has been partitioned into three parts. First part is about to deal with the political economy aspect of trade policy formation in developing countries. For the first time, such an empirical relationship has been developed for considering only developing nations. 56 nations have been included in the analysis and only those nations have been dropped from for which data was not available from relevant sources. Moreover developing countries have been further divided into two broad categories i.e. democratic and autocratic to analyze whether governments of democratic developing nations are more welfare concerned in policy making or governments of autocratic developing nations are designing such policies in which welfare of masses is being weighted much as compared to the vested interests of politicians. For this purpose a structural approach presented by Grossman & Helpman (1994) has been applied on data for arriving at the estimates of 'welfarism' in their trade policies. This model takes into account both industry wise and nation wise analysis. MFN tariff rates are being taken as trade policy tool and 20 major industries using digit-2, rev3 ISIC classification have been chosen for making analysis. Time period is from 1995-2013 due to non-availability of output data beyond this time limit. Findings showed that democratic governments are more concerned to welfarism in their trade policy decisions as compared to the governments of autocratic nations. Both quantitative and qualitative analysis has been conducted in this regard. Qualitatively results have been discussed by taking into consideration the nature of political systems of these nations like whether developing countries having parliamentary system are more concerned with nation's welfare in their policy designing or nations having presidential systems are offering more efficient policies.

After arriving at these welfare estimates, an attempt has been made in the second section to analyze quantitatively how political orientation in these developing nations, their political legitimacy, their state fragility and their governance performance is affecting the decision making process regarding trade policy formation. Same sample has been used as in the case of first section. Various types of pooled ordinary least square estimation techniques have been applied for cross sectional and time series panel. Results proved that constitutional distribution of powers in any political regime matters more in bringing more welfarism through policy choices as compared to any other institutional characteristics confirming the importance of de jure institutions.

Lastly in the third section of this research, a triangular relationship between economic growth and trade policy has been developed by incorporating the role of institutions into this nexus. A broad taxonomy of trade policy measures has been used for reaching at this conclusion whether the trade policy of developing nations are really contributing to their economic growth or not. Incidence based measures and outcome based measures of trade policy have been employed in this analysis. Moreover for the first time, endogeneity of trade policy is being tried to capture by

Using diversified institutional parameters i.e. how political, economic, de jure and de facto institutions affect decision making capacity regarding trade in a nation, which ultimately help in shaping the right policy choice. Time span is again from 1995-2013 but the sample size has been increased to 83 developing nations after trimming the collected 132 number of nations on the basis of non-availability of data for various institutional and trade policy variables at initial stages. Instrumental variable technique SYS-GMM technique is being applied here for capturing the endogeneity problem of trade policies in Trade Policy-Growth nexus. Results are supporting existing theory and literature regarding the relationship between various measures of trade policies and economic performance. Moreover it has also been observed that institutional parameters are explaining more to the Trade policy-Growth nexus in developing nations as compared to fixed factor like geography. Role of integration, economic institutions, political institutions and their governance have been more conducive in this regard. The policy recommendations on the basis of all these results imply that neoliberal policies in trade can be decisive for developing nations if in nations system is well integrated with good governance along with political and economic institutions. These results also support 'New Institutional' school of thought which actually emphasizes not only upon the role of institutions but their governance as well for better economic development. Therefore this study suggests to policy makers that such a policy framework should be designed for developing nation which covers both of these aspects side by side 'Neo-liberalism' along with 'New Institutionalism' in policy making.

Keywords: Political Economy, International Trade, Institutions, governance