

India's Revealed Comparative Advantage in Merchandise Trade

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With the withering away of 'protectionist' policies, the trade pattern of India is likely to march in the direction of its comparative advantage. This paper assesses India's Revealed Comparative Advantage (RCA) in merchandise trade. The structure of comparative advantage in India and its change from 1996 to 2005 is evaluated. Data as per the Harmonized System (HS) of classification are used to compute the index of RCA for exports as well as for imports. India appears to enjoy comparative advantage in the exports of labour-intensive items like textiles and scale-intensive items such as chemicals, iron and steel.

The paper also evaluates India's RCA in exports and imports in different types of goods categorized on the basis of their production. These include 'Ricardo', 'Heckscher-Ohlin', 'Product-cycle' goods and 'Others'. India appears to have a comparative advantage in the exports of Ricardo and Heckscher-Ohlin goods. Product-cycle goods, in contrast, do not display any improvement in the RCA universe. On the import front, it is the Ricardo goods where India appears to enjoy comparative advantage. The production with standard technology shifting towards developing economies like India implies a relative absence of RCA in the imports of Heckscher-Ohlin goods.

I Introduction

International trade thrives on the comparative advantage that economies offer as proactive players in the world market. While Ricardo laid down the basic tenets of comparative advantage, Balassa (1965) developed the concept of Revealed Comparative Advantage (RCA). The term thus connotes that countries specialize and export items, which they can produce at lower cost in comparison to the world. In Balassa's (1986) view, the comparative advantage that a country enjoys primarily depends on its physical and human capital endowments. Moreover, trade orientation also impacts an economy's advantage *vis-à-vis* the other countries. Hence, as a country traverses road to development, its comparative advantage is expected to 'shift'. Accumulation of human and physical capital and a change in the trade policies alters the comparative advantage of the various sectors of the economy.

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