

Export and Economic Growth: An Empirical Analysis for India

Purna Chandra Padhan *

Recent advances in time series analysis have permitted the investigation of the long-run and short-run relationship between export and economic growth in terms of cointegration analysis and error correction mechanism. The paper empirically examines the relationship between export and economic growth in the short-run and long-run by using Indian data over the period, 1950-51 to 2000-2001. There is some evidence of cointegration to establish a long-run relationship between export and economic growth found through Johansen and Johansen Juselius Cointegration tests. Using the Granger Causality test we find empirical support for unidirectional Granger causality running from export to economic growth.

I Introduction

Economic growth is one of the major objectives of each and every country in the world. The main fundamental question is how to achieve higher economic growth. What are the factors that cause higher economic growth, which should need utmost importance? Economic researcher and policy makers suggest various factors that can contribute to higher economic growth, export being one of them. A large number of studies have examined how exports are beneficial for the economy. A common consensus among them is that, export may lead to greater capacity utilization, economies of scale, incentives for technological improvements and efficient management due to competitive pressure abroad¹. Therefore the relationship between export performance and economic growth has been a subject of considerable interest among researcher and policy makers. The relationship can be expressed in two ways. The first view is that, higher export leads to higher economic growth and the second one is that, higher economic growth lead to higher export growth. Therefore controversy started on the issue and resulted in a debate. This theoretical debate can be verified and solved thorough empirical investigation.

After experiencing a long period of colonial rule, India implemented different five-year plans with the objective of growth, development and self-reliance. Various efforts were vigorously encouraged by government to enhance the growth of the economy and to increase export. The export promotion and import substitution strategy were encouraged during 60's to boost the external sector and increase trade balance. Setting up of various exports processing zones were one of the outcomes of this process. During 70s and later India developed various rules and regulation, which led to a highly protected economy where government intervention was the basic function of the economy. The key outcome was introduction of various tariffs and quotas in exports and imports, which undermines

* Faculty Member, Gokhale Institute of Politics and Economics, Pune.
E-mail: pcpadhan@yahoo.com

¹ Balassa (1978), Keesing (1967,1979), Krueger (1980) and Bhagwati and Srivasan (1978).