

Merchandise Trade Flows and Economic Growth: Post-WTO Era in India

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Our paper attempts to contribute to the existing literature by exploring the causal linkages between India's merchandise trade flows and economic growth by considering Gross Fixed Capital Formation (GFCF) as an intermediary channel. It primarily seeks to understand whether the on-going export-oriented policies improve India's economic growth and/or is there a necessity to focus more on the import channel. Considering quarterly data in the post-WTO era (1996Q3 to 2019Q3), we empirically examine the long-run and short-run validity of the four alternative hypotheses, namely, export-led growth, growth-led export, import-led growth and growth-led import. Our analysis finds evidence only for the import-led growth through the GFCF in the short-run.

I The Context

Ever since India's accession to WTO, its volume of trade, as well as, the number of trading partners has improved many folds. Trade data from UN Comtrade points out that compared to 1995, values of exports and imports increased by ten and fourteen times respectively in 2018. With respect to trading partners, India exported (imported) to (from) 203 (145) trading partners in 1995 which rose to 222 (220) in 2018. In fact, during this period India had entered into ten free trade agreements, six preferential trade agreements and are currently in talks for 22 trade negotiations (*Economic Survey 2019-2020*). Over the years 1995-2018, the average Trade-GDP ratio of India has been around 38.71 per cent which has largely been dominated by merchandise trade-GDP ratio (Fig. 1).

In comparison with India's performance at the world level, India's average share in the world export basket over the period 1995-2018 has been only 1.15 per cent and that in imports 1.64 per cent. Both the shares have been increasing but the annual growth of import share (6.21 per cent) has been more than that of exports (5.16 per cent). On the other hand, in India's trade basket, the value of share of exported items fell annually by 0.7 per cent, while that of imports improved by 0.5 per cent (Fig. 2). Such a pattern has given rise to India's

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