

RELATIONSHIP BETWEEN TRADE OPENNESS AND ECONOMIC GROWTH OF INDIA: A TIME SERIES ANALYSIS

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Abstract

The empirical relationship between trade openness and economic growth of India has been a debatable issue. The existing literature fails to provide an unambiguous answer. The paper examines this empirical relationship for the time period 1970-2010 using Vector Autoregression method and demonstrates that the relationship has evolved over time following the regime change in the early 1980s when the Indian economy started to move from a state-led growth model to a pro-market regime. Therefore, any assumption of a static trade-growth nexus may lead to inaccurate findings. Our econometric results indicate that growth in trade volumes accelerates economic growth of India since 1980-81 onwards. We do not find evidence of any significant association between trade barriers and growth.

Keywords: Trade openness, economic growth, India, time series analysis

JEL classification codes: F14, F43, O40.

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We thank all the seminar participants at Economic Studies, University of Dundee for their helpful feedback.