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Relationship Between Foreign Trade and Economic Growth of India: An Empirical Investigation

Ritu Kang Walia and Virander Goyal

INTRODUCTION

The relationship between foreign trade and economic growth is the subject matter of debate among economists and policy makers. Classical and neo-classical economists hold the positive view and according to them foreign trade is 'an engine of economic growth'. Foreign trade enables developing and least developed economies to get beyond its production possibility curve and improve its welfare. The economy can consume more than what it can produce by specialisation and exchange. Economies in general and developing in particular can improve its well-being by specialising in and exporting the relatively less expensive domestic goods on one hand and importing goods which are relatively more expensive on the other hand. On the other hand, structuralists believe that foreign trade has actually operated to the detriment of the poor countries causing deterioration in their terms of trade. However, the empirical linkage between international trade and economic growth is still unclear despite numerous studies conducted in the area with varying outcomes (Balassa, 1978; Bairam, 1988; Medina, 2001; Usman, 2011 etc).

Keeping in view above background, this present study is an attempt to analyse or investigate that is foreign trade an engine of economic growth for Indian economy or not. For this, the paper has been divided into five sections. Section II will explore the relevant literature on present issue. Section III will present objective and research methodology. Growth trend, composition, direction of foreign trade and relationship between economic growth and foreign trade of India will be examined in section IV. Section V will conclude the study with policy implications.

REVIEW OF LITRATURE

There is no dearth of literature on the present issue. To justify the need of the present study, following literature have been reviewed:

Balassa (1978) examined eleven countries that have an established industrial base and found a positive correlation between export and growth. In the same layer, Bairam (1988) explored the model for a developed countries and found that the growth performance of an economy is well-versed by the values of income elasticity of exports and imports. Krueger

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