ASSESSING THE IMPACT OF GREAT RECESSION ON INDIA'S TRADE IN GRAVITY MODEL FRAMEWORK

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Abstract

This study examines the efficacy of trade channel in the transmission of recent Great Recession impulses to the Indian economy. To investigate the impact of Great Recession on India's trade, gravity model of trade was estimated by regressing trade flows on size of economies, level of economic development, geographical distance, and dummies for common border, landlocked country, islands, colonial history, common language, *etc.* For the same, quarterly data in respect of eleven advanced nations (*viz*., Austria, Australia, Canada, Denmark, Japan, Korea, New Zealand, Sweden, Switzerland, United Kingdom and USA) and nine EMEs, including the BRICS nations (*viz*., Brazil, Russia, Indian, China, South Africa), Indonesia, Mexico, Saudi Arabia, and Turkey) for the period from 2001q1 to 2013q4 was considered. Estimations suggest that Great Recession had an adverse impact on India's bilateral import volume and total trade volume after a lag of three quarters. Findings validate that trade channel acted as a conduit for transmission of Great Recession impulses to the Indian economy. This suggests that as the Indian economy becomes progressively more integrated with the global economy, containment of potential adverse shocks emanating from trade sector would call for more pro-active policies. Lessons from the Indian economy could be useful for other similar EMEs.

Keywords: Trade, Gravity Model, Great Recession, Panel data, India.

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