

The Determinants and Potentials of India's Textiles Exports: A Gravity Model Approach

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Abstract

Textiles industry contributes 12.2 percent to India's total global exports. To devise an appropriate trade policy concerning textiles and to improve the trade balance position of India, reliable estimation of determinants of textiles export flows is essential. This paper attempts to estimate the export potential of Indian textiles in two aggregate products, fiber (SITC 26) and yarn and fabrics (SITC 65) using the Gravity model. A panel regression model is analyzed for a time span of 1988 to 2017. An augmented gravity model is utilised to examine India's textile export flows by employing a random effects model. Further, the study employed the PPML estimator for the robustness of the results. The estimation results reveal that the gravity equation fits the data well and yields convincing elasticities of income, distance and cultural, historical, and geographical attributes. The GDP of both India and her trading partners, population of India and importing country and real exchange rate (proxy for prices) are significant determinants of export of Indian textiles. The study also finds that India has the highest untapped export potential with Japan, Canada, Pakistan, France, Australia, Spain and Korea in case of SITC 65. In case of SITC 26 India has the potential to export with France, Japan, Spain, Egypt, Nepal, Iran, and Germany and has transcended its export potential with the rest of the countries. The study concludes with some policy recommendations for escalating the exports of Indian textiles and to realize untapped potentials.

JEL Classification: F10, F17, C23

Key words: India; Gravity Model; Panel estimation; Trade Potential, PPML Estimator.

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