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Export Led Growth in India: A Declining Strategy or a Continuing Catalyst? A Time Series Approach

Malavika K and Binu R
Research scholar, Department of Commerce, University of Kerala, Thiruvananthapuram, Kerala, India
Assistant Professor and Research Guide, Department of Commerce
Government College for Women, Vazhuthacaud, Thiruvananthapuram, Kerala, India
malavikameenakhi@gmail.com, binur235@gmail.com

Abstract: *Understanding the relationship between productivity and trade performance is essential for long-term economic growth in an era of data-driven economies. In order to determine whether exports still serve as a catalyst for economic growth in the face of changes in global productivity, this study re-examines the Export-Led Growth (ELG) hypothesis in the Indian context. Through an analysis of the short- and long-term relationships between exports and economic growth from 1960 to 2024, this study re-examines the viability of the Export-Led Growth (ELG) hypothesis in India. The study uses an Augmented Dickey–Fuller unit root test, the Johansen cointegration technique, a Vector Error Correction Model (VECM), and a Vector Autoregression (VAR) framework to analyse annual time-series data on GDP and exports. According to the empirical findings, GDP and exports have a stable long-term cointegrating connection and are integrated of order one. The Export-Led Growth hypothesis for India is supported by the VECM-based Granger causality analysis, which shows the existence of unidirectional long-run causality running from exports to economic growth. However, there is no evidence of short-term causality between the factors. Positive shocks to exports have a long-lasting and favourable effect on economic growth, according to impulse response analysis. The results indicate that exports remain a major driver of long-term economic growth even in the face of structural shifts in the mix of India's trade and the changing global economic landscape. The report emphasizes how crucial export-oriented and diversification-focused trade policies are to maintaining India's current growth trajectory.*

Keywords: Export-Led Growth Hypothesis, VAR, Johansen Cointegration, VECM, India

I. INTRODUCTION

India is an interesting case study to test Export Led Growth Hypothesis due to its vibrant nature followed by the implication of time bound trade policies and reforms. The Export-Led Growth (ELG) hypothesis has long been considered a key paradigm for comprehending the relationship between economic performance and trade expansion. Examining the viability of the ELG hypothesis is still especially important for developing nations like India, where trade liberalization and globalization have altered industrial and macroeconomic structures. This mechanism leads to the expansion of production and composition of export to the market, supported by planned intervention from the government; which uphold the economic postulate of increasing labour, capital and expanding exports [1].

According to the theories of classical economists, countries can grow overall by increasing exports to larger markets in addition to increasing labour and capital levels within the economy [2]. Through enhanced production technology, economy of scale, allocative efficiency, increased investment, more foreign currency, specialization, capacity utilization, employment opportunities, and increased creativity and innovation, exports promote economic growth. Moreover, exports may result in increased imports of intermediate goods, which boosts output growth and capital

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accumulation [3]. A nation's income will rise as a direct result of exports. A country's GDP will rise in proportion to its income [4]. The debate over economic growth's determinants will only get more heated because there are so many variables that affect it [5]. Additionally, fiscal policy is essential for fostering economic growth, especially when it comes to investments in human capital [6].Therefore, access to international trade, market diversification, private and public consumption, gross domestic demand, price level, standard of living, foreign demand, legal, political, and geographic factors are all factors that determine economic growth. The ELG strategy may be effective in countries with access to large export markets. However, depending on the presence of accessible foreign demand, exports have a significant impact on the economic growth for developing countries [4]. In order to provide insights into the strength and direction of the export-growth relationship in a liberalized trade environment, this study aims to empirically investigate whether India's growth trajectory is consistent with the Export-Led Growth hypothesis.

This study is significant because it will provide a clearer understanding of the relationship between exports and economic growth in India. By re-examining the Export-Led Growth Hypothesis with recent data and advanced econometric methods, it will offer valuable insights into whether exports continue to be a major driver of economic growth in India. The findings could help policymakers design more effective trade and export promotion strategies, especially in the context of changing global trade dynamics and India's focus on self-reliance. Additionally, the study's conclusions could be useful for researchers, economists, and government officials in shaping future economic policies and fostering sustainable growth. Despite India's sustained export expansion over the past six decades, the extent to which export growth continues to act as a catalyst for long-term economic growth remains empirically ambiguous. This study addresses whether the Export-Led Growth strategy in India has weakened over time or continues to play a significant role in driving economic performance.

II. REVIEW OF LITERATURE

The Export-Led Growth (ELG) hypothesis posits that expansion of exports acts as a catalyst for economic growth by enhancing productivity, exploiting economies of scale, improving resource allocation, and facilitating technological diffusion. Classical and neoclassical trade theories suggest that countries can achieve higher growth by integrating with international markets, thereby expanding production capacity and income levels. Over time, this hypothesis has been widely tested across countries using different econometric frameworks, producing mixed and often context-dependent results.

A. Evidence from Cross-Country and Panel Studies - Several cross-country and panel studies provide partial to strong support for the ELG hypothesis. Using a panel causality framework for BRICS economies, [7] finds support for both export-led and domestic demand-led growth, though domestic demand contributes more strongly to overall economic growth. Similarly, [8] report evidence supporting ELG in selected South Asian economies, while [6] confirms the validity of ELG in both the short and long run for Sub-Saharan African countries. However, sector-specific panel evidence suggests that the export–growth relationship is not uniform; [4], examining agricultural exports in ASEAN countries, find exports to be insignificant or negatively associated with growth in certain contexts.

B. Empirical Evidence from India - Empirical findings for India remain inconclusive and contested. Several studies support the ELG hypothesis, identifying unidirectional causality from exports to economic growth [2], finds strong evidence of export-led growth in India using a VAR framework, while [9] and [10] also report support for ELG using cointegration and causality techniques. In contrast, other studies suggest bidirectional causality or growth-led exports, implying feedback effects between exports and output [11], [12], [13]. Some studies reject the ELG hypothesis altogether for India, reporting no long-run equilibrium relationship between exports and GDP [3], [14]. These conflicting findings highlight the sensitivity of ELG outcomes to data period, variable selection, and econometric methodology.

C. International Evidence from Developing and Emerging Economies - Country-specific studies further reinforce the heterogeneous nature of the export–growth nexus. Evidence supporting ELG has been documented for Chile [15], Pakistan [16], Namibia [17], and Taiwan [18]. Conversely, studies on Malaysia [19] Turkey [20], Greece [21], Sri

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Lanka [22], and Nigeria's services exports [23] find weak, mixed, or no support for the ELG hypothesis. These results suggest that export composition, institutional quality, and stages of development play a crucial role in determining the effectiveness of export-led strategies.

D. Methodological Approaches in ELG Studies - Methodologically, earlier studies relied largely on bivariate models and single-equation approaches, which often failed to capture feedback effects and dynamic interdependence. More recent literature increasingly employs multivariate time-series techniques such as VAR, VECM, ARDL, and Toda–Yamamoto causality tests to address endogeneity and structural interactions [2], [13], [24]. Despite these methodological advancements, empirical conclusions remain far from settled, particularly for long-span data covering multiple policy regimes and structural transformations.

Research Gap - There is disagreement over whether export-led growth (ELG) is still a good long-term strategy for India despite a great deal of research. The majority of studies only look at pre- or post-liberalization eras, have small sample sizes, or have few variables. This study re-examines the ELG hypothesis using a long-span VAR framework over 1960–2023 to determine whether exports continue to drive economic growth in light of India's changing trade structure and changes in the global economy.

III. OBJECTIVES OF THE STUDY

The primary objective of the study is to analyse the nature and pattern of India's export and economic growth in India
The specific objectives are:

- To investigate the causal relationship between export and GDP of India
- To test the validity of the Export-Led Growth (ELG) hypothesis in the Indian context.

HYPOTHESIS OF THE STUDY

H_{11}: There exists a long-run cointegration relationship between exports and GDP in India.
H_{12}: Exports Granger-cause GDP in India, supporting the Export-Led Growth hypothesis.

IV. RESEARCH METHODOLOGY

Using long-span annual time-series data, this study uses an empirical and quantitative research design to investigate the validity of the Export-Led Growth (ELG) hypothesis in India. The analysis is based on secondary data from the Reserve Bank of India, the Ministry of Commerce and Industry, and the World Development Indicators (World Bank) for the years 1960–2024. GDP serves as a proxy for economic growth, while total exports—both expressed in current U.S. dollars—are used to gauge export performance. The variables are converted to their natural logarithmic form in order to minimize scale effects and possible heteroskedasticity.

A typical time-series econometric framework is used in the empirical approach. The stationarity features of the series are first examined using the Augmented Dickey–Fuller (ADF) unit root test. Determining the sequence of integration is crucial before moving on to additional analysis since non-stationary variables can produce erroneous regression findings. The findings suggest that the variables are integrated of order one, I(1), since both ln(GDP) and ln(EXPORT) are non-stationary in levels but become stable after first differencing. The test uses the following equation

$$\Delta y_t = \alpha + \beta_t + \lambda y_{t-1} + \ldots\ldots\ldots + \delta_{p-1}\Delta y_{t-p+1} + \varepsilon_t \qquad (1)$$

Where;

α is a constant, ß is the coefficient on a time trend, p is the autoregressive process' lag order, and Ɛ is the white Gaussian random error term. Modelling a random walk involves imposing the limitations that ß=0 and α=0 correspond to. In contrast, modelling a random walk with a drift is equivalent to using the constraint ß=0, and modelling a random walk with a time trend is equivalent to using the constraint α = 0 [22].

The study uses the Johansen cointegration technique(1988) to test for the presence of a long-run equilibrium link between economic growth and exports because the variables are integrated of the same order. In the Johansen framework the following system is estimated

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$\Delta z_t = \Gamma_1 \Delta z_{t-1} + \ldots\ldots\ldots + \Gamma_{k-1} \Delta z_{t-k-1} + \pi z_{t-1} + \mu + \varepsilon_t$

$t = 1, \ldots\ldots, T$ (2)

Where;

Δ is the first difference operator, z is the vector of variables, εt is the white-noise error term, μ is drift variables, and π is a $(p \times p)$ matrix of the form $\pi = \alpha\beta'$, where α and β are both $(p \times r)$ matrices of full rank, with α carrying the corresponding adjustment coefficients in each of the r vectors and β containing the r cointegrating relationships. Two test statistics—the trace and eigen-value statistics—are employed in the Johansen framework to assess the cointegration. The maximum Eigenvalue test is similar to trace statistic however it arises from changing the alternative hypothesis from $r \geq r0+1$ to $r = r0+1$; with the idea to enhance the statistical power of the test by limiting the alternative to a cointegration rank which is just one more than H0 [22].

Information criteria such as the Akaike Information Criterion (AIC), Bayesian Information Criterion (BIC), and Hannan–Quinn Criterion (HQC) are used to identify the ideal lag length for the underlying Vector Autoregression (VAR) model prior to cointegration testing. In a multivariate situation, the Johansen framework makes it possible to determine the type of long-term associations as well as the quantity of cointegrating vectors.

A Vector Error Correction Model (VECM) is estimated to represent both the short-term adjustments between exports and GDP and the long-term equilibrium dynamics after cointegration is confirmed. The rate at which departures from long-run equilibrium are corrected over time is reflected in the error correction term (ECT), which is obtained from the cointegrating equation. The significance of the ECT is used to infer long-term causality, and Wald tests on the differenced terms inside the VECM framework are used to investigate short-term causality.

Impulse Response Functions (IRFs) are used to examine the dynamic relationships between exports and economic growth in more detail. IRFs provide information about the strength and duration of export shocks on economic growth by tracking how one variable responds over time to a one-standard-deviation shock in another variable. To make sure the estimated model is adequate and stable, diagnostic tests are performed, such as tests for heteroskedasticity and autocorrelation. All econometric estimations are carried out using standard time-series techniques, ensuring robustness and reliability of the empirical results.

V. ANALYSIS, INTERPRETATION, AND FINDINGS

TABLE I: SUMMARY STATISTICS

Variable	Mean	Median	Minimum	Maximum
GDP	8.34E+11	2.97E+11	3.70E+10	3.91E+12
EXPORT	1.59E+11	2.55E+10	1.65E+09	8.27E+11
Variable	Std. Dev.	C.V.	Skewness	Ex. kurtosis
GDP	1.05E+12	1.2592	1.4239	0.81285
EXPORT	2.33E+11	1.4613	1.4111	0.76712
Variable	5% Perc.	95% Perc.	IQ range	Missing obs.
GDP	4.32E+10	3.29E+12	1.18E+12	0
EXPORT	1.80E+09	7.48E+11	2.75E+11	0

Source: Secondary data

Over the study period, both GDP and exports showed significant growth and variability, according to the descriptive data. In both situations, the mean is higher than the median, indicating a distribution that is biased to the right due to recent rapid expansion. Exports are comparatively more volatile than GDP, and both show high standard deviations and coefficients of variation, indicating significant volatility and structural changes over time. Moderate excess kurtosis and positive skewness indicate the presence of extreme values and modest non-normality. These features support the analysis's usage of log transformation, unit root testing, and cointegration-based models.

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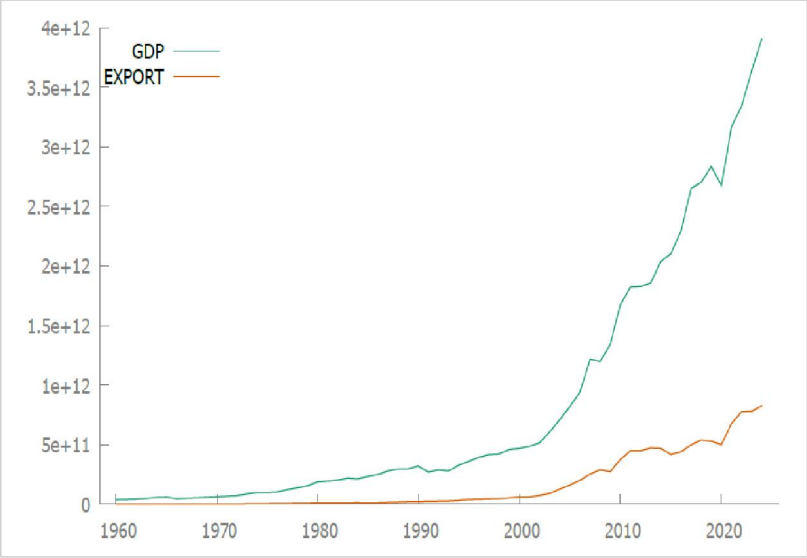

Fig. 1: Time series plot of GDP and Export of India from 1960-2024

Source: Secondary data

TABLE II: ADF UNIT ROOT TEST RESULT

Variable	Specification	Test Statistic	p-value	Stationarity
GDP	Constant	1.899	0.9998	Non-stationary
GDP	Constant & Trend	1.268	1	Non-stationary
EXPORT	Constant	3.969	1	Non-stationary
EXPORT	Constant & Trend	2.191	1	Non-stationary
ln(GDP)	Constant	0.163	0.97	Non-stationary
ln(GDP)	Constant & Trend	−2.048	0.574	Non-stationary
ln(EXPORT)	Constant	−0.144	0.943	Non-stationary
ln(EXPORT)	Constant & Trend	−3.242	0.076	Non-stationary
Δln(GDP)	Constant	−7.701	0	Stationary
Δln(GDP)	Constant & Trend	−7.655	0	Stationary
Δln(EXPORT)	Constant	−5.452	0	Stationary
Δln(EXPORT)	Constant & Trend	−5.403	0	Stationary

Source: Author's estimation from secondary data

Since the test statistics do not reject the null hypothesis of a unit root, the Augmented Dickey–Fuller (ADF) test results show that GDP and exports in levels, both in original and logarithmic forms, are non-stationary under specifications with a constant and with a constant plus trend. This implies that during the course of the investigation, both variables exhibited stochastic trends.

However, under both assumptions, Δln (GDP) and Δln(EXPORT) become stable at the 1% significance level after taking the first difference of the logarithmic series. The rejection of the unit root null hypothesis is confirmed by the extremely negative test statistics and zero p-values. These findings suggest an order one, I(1), integration between GDP and exports.

Both variables meet the requirements for using Johansen cointegration analysis and estimating a Vector Error Correction Model (VECM) to investigate the long-run and short-run dynamics of the Export-Led Growth hypothesis because they are non-stationary in levels but stationary in first differences.

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TABLE III: VAR LAG SELECTION

Lag	Log Likelihood	LR p-value	AIC	BIC	HQC
1	132.7693	—	−4.156371*	−3.948744*	−4.075000*
2	136.4618	0.11689	−4.146288	−3.800243	−4.010670
3	138.2956	0.45285	−4.075265	−3.590803	−3.885400
4	140.3647	0.38762	−4.011958	−3.389077	−3.767845

Source: Author's estimation from secondary data

AIC, BIC, and HQC are among the information criteria used to choose the ideal lag duration for the VAR model. The asterisks show that all three criteria reach their minimum levels at lag 1. Additionally, at larger lag orders, the likelihood ratio (LR) test is unable to reject the null hypothesis, indicating that adding more lags does not substantially enhance the model. As a result, lag 1 is chosen as the ideal lag length for the VAR framework, which is then used to the VECM estimation and Johansen cointegration test.

TABLE IV: JOHANSEN COINTEGRATION RESULT TABLE (RESTRICTED CONSTANT)

COINTEGRATION RANK RESULT

Null Hypothesis (Rank)	Eigenvalue	Trace Statistic	p-value	Max-Eigen Statistic	p-value
$r = 0$	0.57424	58.346	0	54.648	0
$r \leq 1$	0.05615	3.698	0.4706	3.698	0.4697

NORMALIZED COINTEGRATION VECTOR(LONG RUN RELATIONSHIP)

Variable	Coefficient
ln(GDP)	1
ln(EXPORT)	−0.6902
Constant	−10.373

ADJUSTMENT COEFFICIENT

Equation	Adjustment Coefficient
Δln(GDP)	−0.1496
Δln(EXPORT)	−0.1866

Source: Author's estimation from secondary data

According to both the trace and maximum eigenvalue statistics, the Johansen cointegration test fails to reject $r \leq 1$, suggesting that there is at least one cointegrating link between GDP and exports, but it does reject the null hypothesis of no cointegration ($r = 0$) at the 1 percent significance level. This demonstrates that the two variables have a long-term equilibrium connection. The Export-Led Growth theory is supported by the normalized cointegration vector, which demonstrates a positive long-term relationship between exports and economic growth. Over time, a 1% rise in exports results in a 0.69% increase in GDP. Deviations from long-run equilibrium are rectified over time, according to the negative and significant adjustment coefficients for both Δln (GDP) and Δln(EXPORT). In particular, the annual adjustment of roughly 15% of GDP and 19% of exports disequilibrium confirms long-term causality and system stability.

TABLE V: VECM BASED GRANGER CAUSALITY RESULT

Dependent Variable	Short-run causality (χ^2 / p-value)	Long-run causality (ECT coefficient / p-value)	Causality Direction
Δln(GDP)	Δln(EXPORT): Not significant	−1.1075 (0.0000)	EXPORT TO GDP

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Δln(EXPORT)	Δln(GDP): Not significant	0.0833 (0.6890)	No causality

Source: Author's estimation from secondary data

Because the short-run coefficients of the differenced variables in both equations are statistically insignificant, the VECM-based causality analysis shows no short-term causal association between exports and economic growth. This implies that changes in GDP do not always follow short-term variations in exports, and vice versa.

On the other hand, the GDP equation's error correction term (ECT) is negative and extremely significant, suggesting that there is a long-term unidirectional causal relationship between exports and economic growth. This suggests that when the system deviates from its long-term equilibrium, fluctuations in GDP are the main way that adjustments are made, with exports serving as the catalyst for equilibrium restoration. The ECT's negligible role in the export equation implies that economic expansion has no long-term causal impact on exports. Overall, our findings demonstrate the modest contribution of exports to short-term economic growth dynamics, while also providing significant long-term support for the export-led growth hypothesis.

TABLE VI: VECM DIAGNOSTICS RESULTS

Diagnostic Test	Lag Order	Test Statistic	df	p-value
ARCH LM Test	1	9.47	9	0.3951
Autocorrelation (Rao F-test)	1	1.492	F(4,118)	0.2091

Source: Author's estimation from secondary data

Since the null hypothesis that there are no ARCH effects cannot be rejected at standard significance levels, the ARCH LM test findings show that there is no conditional heteroskedasticity in the model. This implies that the error variance remains constant throughout time. Likewise, as the test statistic is statistically insignificant, the Rao F-test for autocorrelation reveals no indication of serial correlation in the residuals. These findings guarantee the validity and reliability of the calculated coefficients by confirming that the estimated VECM is well-specified and that the residuals meet the fundamental assumptions of homoskedasticity and lack of autocorrelation.

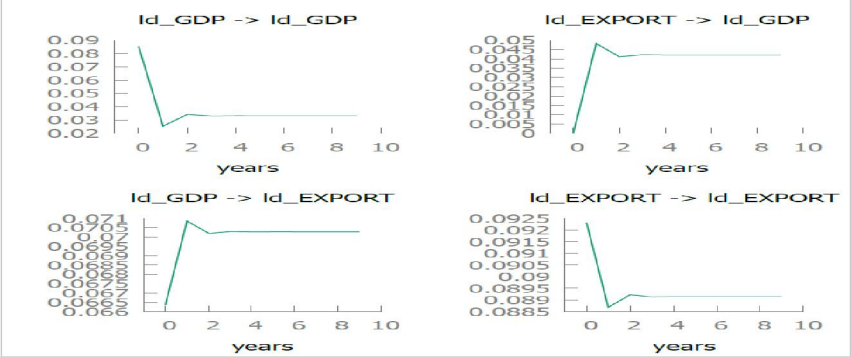

Fig. 2: Impulse response function

Source: Author's estimation from secondary data

The impulse response data demonstrate that GDP initially reacts favourably to its own shocks, but the effect quickly diminishes and stabilizes over time, suggesting transient persistence. The Export-Led Growth theory is supported by the fact that a shock to exports causes a positive and long-lasting reaction in GDP, indicating that export shocks eventually contribute to economic growth.

Similar to this, exports react favourably to GDP shocks, but the size is comparatively less and stabilizes rapidly, suggesting that growth has little effect on exports. As time passes, both variables' reactions to their own shocks become less pronounced, indicating system stability and equilibrium convergence.

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TABLE VII: FORECAST ERROR VARIANCE DECOMPOSITION RESULTS

PERIOD	GDP EXPLAINED BY GDP (%)	GDP EXPLAINED BY EXPORT (%)	EXPORT EXPLAINED BY GDP (%)	EXPORT EXPLAINED BY EXPORT (%)
1	100	0	34.06	65.94
2	77.4	22.6	36.51	63.49
3	69.46	30.54	37.08	62.92
4	63.82	36.18	37.4	62.6
5	59.96	40.04	37.58	62.42
6	57.11	42.89	37.71	62.29
7	54.92	45.08	37.8	62.2
8	53.19	46.81	37.86	62.14
9	51.79	48.21	37.91	62.09
10	50.63	49.37	37.96	62.04

Source: Author's estimation from secondary data

The Export-Led Growth hypothesis for India is further supported by the results of the forecast error variance decomposition. Although its own shocks account for the majority of short-term GDP fluctuations, exports' impact on GDP gradually grows over time. Export shocks account for almost half of the GDP forecast error variance by the tenth period, suggesting that exports are a significant factor in long-term economic growth. GDP, on the other hand, accounts for a relatively smaller and consistent share of export variance, with export swings being mostly explained by their own innovations. This asymmetric relationship emphasizes how exports, not the other way around, have a greater impact on economic growth. All things considered, the variance decomposition results offer solid dynamic proof that exports serve as long term catalyst for India's economic growth.

VI. CONCLUSION

Using annual data, this study looked at the short- and long-term relationships between exports and economic growth in India between 1960 and 2024. The use of cointegration techniques was justified by the Augmented Dickey-Fuller tests, which verified that both ln(GDP) and ln(EXPORT) are stationary at log first differences but non-stationary at levels. Hypothesis H_{11} was supported by the Johansen cointegration test, which showed that there was only one long-term cointegrating relationship between GDP and exports. The GDP equation's error correction term is negative and statistically significant, according to the Vector Error Correction Model (VECM) results, suggesting that GDP adjustments are the main means of correcting long-run equilibrium deviations. The Export-Led Growth hypothesis (H_{12}) for India is confirmed by the Granger causality analysis based on the VECM, which also shows that exports have a significant long-term impact on GDP while GDP has no significant impact on exports. These results were supported by impulse response analysis, which demonstrated that export shocks have a long-lasting positive impact on GDP. Variance decomposition results indicate that the contribution of exports to GDP fluctuations increases over time, explaining nearly half of GDP variance in the long run. Conversely, GDP accounts for a smaller and relatively stable share of export variance, confirming the dominance of export-led growth in India.

The ongoing success of the ELG strategy seems to be more closely associated with the shifting export mix, which is characterized by a move toward services, technology-intensive products, and knowledge-based industries like electronics and pharmaceuticals. This suggests that India's export-led growth is now fuelled by productivity increases, diversification, and innovation integrated into the export structure rather than just volume expansion. From a policy standpoint, the findings suggest that export-oriented strategies continue to be a feasible and successful driver of long-term economic growth in India, so long as they are backed by measures that improve market diversification, export competitiveness, and technical advancement. Therefore, maintaining growth in an increasingly competitive global

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market requires strengthening global value chain integration, encouraging innovation-led trade policies, and supporting high-value exports.

Overall, by offering long-horizon empirical data from India, the study adds to the continuing discussion over the sustainability of export-led growth. Although the study only looks at GDP and total exports, future studies could expand this framework to include sectoral exports, productivity metrics, currency rates, and structural breaks to better understand the ways in which exports affect economic growth. The understanding of export-led growth dynamics in emerging economies going through fast structural change would be significantly enhanced by such expansions.

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