WILL INDIA’S TRADE DEFICIT EVER CONVERGE TO ZERO?- AN APPLICATION OF BOUNDS TESTING APPROACH TO CO-INTEGRATION

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Abstract
We have tried to examine whether India’s trade deficit, the excess of imports over exports, will ever become zero in the long run. The Bounds Testing Approach (BTA) developed by Pesaran, et al., (2001) is applied to the Husted (1992)’s inter-temporal budget constraint with 47 pairs of the real values of exports, Rs. Crore, and imports, Rs. Crore, of India. BTA, which is an autoregressive distributed lag model, is preferred to the conventional methods of co-integration or error correction because BTA does not require a priori the stationarity of the time series variables involved in an empirical study. The optimum lag order of our BTA model turns out to be 5, which is determined in accordance with the Akaike information criterion, Schwartz Bayesian Criterion, and Jarque-Bera test of normality. The results show that India’s exports and imports are co-integrated. Exports and imports are linked to each other in a fixed manner. This finding is also supported by Engle and Granger (1987)’s method of co-integration. But, the Husted’s export equation indicates that the co-efficient of the augmented imports is 0.898, which is statistically significant at 1% level. Since the coefficient is less than unity but positive, the trade deficit will continue widening and may become a serious problem in the near future for India to deal with. Perhaps, India’s economic reforms with regard to trade openness will have to be modified so that the trade deficit could be reduced or kept within sustainable limits.

Keywords: India, Trade Deficit, Bounds Tests, Co-integration

JEL Code: C12, C51, F1, F14, O53

1. Introduction
The trade deficit, the excess of imports over exports, which India has been incurring for several decades, has been becoming wider and wider since 1993, though economic reforms were introduced in the external sector in the second half of 1991. Economic reforms primarily aimed at promoting exports. Figure-1 indicates that India’s exports and imports, which were almost stagnant during 1960-1985, have been rising at a faster and faster rate since 1985. On the other hand, Figure-2 shows that the trade deficit has also been rising since 1993. But, if the trade deficit continues rising, India will have a serious problem to tackle, for India will have to draw increasingly on its reserves of foreign exchange or the surplus in the account of services or capital flows. Since foreign exchange stock or surplus on account of services or capital flows has its own limitations of financing the trade deficit for a long period, India may have to modify its trade or other policies sooner or later to narrow down the trade deficit before another external crisis like that in the middle of 1991 sets in.

But, will India’s trade deficit ever become zero? We present an empirical answer to the question by estimating Husted (1992)’s equation for the inter-temporal consumption

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balance of a country and then testing the equation for co-integration by means of the Bounds Testing Approach [Pesaran et al (2001)].

For the purpose, the rest of the article consists of five sections: II- Background, III- Methodology, IV- Data, V- Empirical Results, and VI- Conclusion.

2. Background

This section gives a brief account of India’s trade policies since 1960 and a few relevant models of co-integration between exports and imports.

2.1: Three phases of India’s trade policies since 1960

*Phase-I, 1960-77: Inward-looking attitude*

During this period, the Indian exchange rate remained almost fixed though Indian rupee was devalued in 1966, linked to pound-sterling in 1971, and pegged to a basket of currencies in 1975. The trade policy in the first half of this period was pessimistic about the growth of exports. Planners thought that Indian exports had a limited foreign market, and the terms of trade would be against a developing country in the long run. This pessimistic attitude became week in the second half of the period, when efforts were made to maintain a high level of exports so that the rising import requirements of developmental policies could be met and to make the expansion of exports as an integral part of the industrial policy so that the export industries could become more competitive and productive. At the same time, export earnings were parsimoniously used to keep the balance of trade within manageable limits. The role of state trading agencies in foreign trade was facilitated. Import tariffs, licensing restrictions, and import substitution were exercised to regulate imports and to ensure an adequate supply of imported inputs to industries. As a result, the deficit in the balance of trade could be kept at a low level over the period 1960-77. This is evident from Figure-1 and Figure- 2.

*Phase- II, 1978-92: Formative period*

The foreign exchange market, which was defunct during the first phase, began functioning when the Reserve Bank of India allowed the Indian banks to make transactions in the foreign exchange market. RBI pegged the Indian rupee to the currencies of a few countries with which it traded goods. Every day, RBI would announce two exchange rates, one for purchasing and another for selling the foreign exchange. The banks worked at these rates under the condition that net balance of daily transaction should almost be zero. On the other hand, RBI imposed several restrictions on the use of foreign exchange, resulting in the emergence of an efficient parallel market for foreign exchange. RBI realised that the macro economic policy along with structural reforms in the foreign exchange market had been counterproductive. Indian balance of payments had deteriorated so badly that the Gulf crisis of 1990-91 forced India to introduce drastic reforms with regard to the foreign exchange market and the export-import policy in the following years. The trade policy aimed at encouraging exports. Efforts were made to upgrade the production base of export industries, to make the export sector more competitive through improved access to capital goods and raw materials at international prices, and to provide fiscal and monetary incentives for the diversification of exports. Incentives were given to the export oriented production, and trading houses were established. On the other hand, import procedure was liberalised, savings in imports were encouraged through an efficient import substitution, and the imports of non-essential items were discouraged. Figure-1 indicates that imports and exports rose significantly
during this period but the deficit in the balance of trade also widened. The rising trade deficit is also shown by Figure- 2.

**Phase- III, 1992 Onwards: outward orientation**

This phase, because of the balance of payments crisis that India faced in 1991, was marked by reform measures aimed at widening and deepening the foreign exchange market and liberalising the controls on the use of foreign exchange. The regime of a pegged exchange rate was replaced by the Liberalised Exchange Rate Management System (LERMS) in March 1992, which initially involved a dual exchange rate system. Under the LERMS, all foreign exchange receipts on current account transactions were required to be surrendered to the Authorised Dealers (ADs) in full. The rate of exchange for conversion of 60 per cent of the proceeds of these transactions was the market rate quoted by the ADs, while the remaining 40 per cent of the proceeds was converted at the Reserve Bank’s official rate. This dual exchange rate system was replaced by a unified exchange rate system in March 1993, whereby all foreign exchange receipts could be converted at market determined exchange rates. On unification of the exchange rates, the nominal exchange rate of the rupee against both the US dollar and a basket of currencies got adjusted lower, nullifying the impact of the previous inflation differential.

With the introduction of economic reforms in the second half of 1991, India started making efforts to eliminate quantitative restrictions, and licensing and discretionary controls on imports. India wanted to create an expanding production base of tradable goods and services which could not only withstand external competition but also provide the stimulus necessary to ensure sufficient export earnings for meeting the import needs of the country. To this effect, India formulated the EXIM Policy for 1992-97. This policy aimed at phasing out quantitative restrictions in the form of licensing and other discretionary controls and succeeded in accelerating India’s transition towards a globally oriented economy by stimulating exports and facilitating imports in essential inputs and capital goods. Imports were regulated by means of a positive list of freely importable items. Quantitative restrictions on imports of most intermediate inputs and capital goods were eliminated. Controls on exports were liberalised to the extent that goods may now be exported without any restriction except the few items in the negative list were regulated because of strategic considerations, environmental and ecological grounds, essential domestic requirements, employment generation, etc. The EXIM Policy 1992-97 was found to be successful.

While building upon the gains made by the previous EXIM Policy, the EXIM Policy for 1997-02 continued the process of trade liberalisation and procedural simplification. In order to ensure export competitiveness, the Policy exempted exports under all export promotion schemes from the applicability of the special additional duty of 4 per cent introduced in 1988-99. The Policy also removed quantitative restrictions. Import of 894 items were made license free and another 414 items could be imported against special import license.

To carry out the economic reforms further, the Foreign Trade Policy for 2004-09 aimed at reducing peak rate of basic custom duties from 12.5 per cent to 10 per cent, and reducing the customs duty on polyester fibers and yarns, etc. The policy announced initiatives to include broadening the scope of Vishesh Krishi and Gram Udyog Yojana by including forest-based products like artistic wooden furniture, etc., and a number of new agricultural products. The Policy launched a new scheme for duty free import of capital
goods related to infrastructure meant for agro processing for the purpose of promoting agricultural exports and providing employment. The Policy also promoted exports from 100 per cent export oriented units by extending incentives under various schemes to such units as were not availing of the benefits of information technology. According to Figure-1, though both exports and imports rose at a much higher rate during this period than that during the preceding period, the deficit in the balance of trade also widened faster. The widening trade deficit is also evident from Figure-2.

![Figure 1: Patterns of exports and imports, Rs. Crore](image1)

![Figure 2: Balance of trade, Rs. Crore](image2)

2.2: Five relevant models of co-integration
Keong et al(2004) investigated whether there existed a long run relationship between exports and imports of Malaysia. Husted(1992)’s regression equation for the trade balance was estimated with time series data on Malaysia’s nominal and real exports and imports for the period 1959-2000. The residuals of the estimated equation were tested with Johansen and Juselius(1990)’s technique for the presence of co-integration between exports and imports. The results indicated that these two variables were co-integrated and would converge to equilibrium in the long run, implying that Malaysia would succeed in stabilising its trade balance without violating its inter-temporal budget constraint.
Erbaykal and Karaca (2004) examined whether the trade deficit of Turkey was sustainable or whether there was a co-integration relationship between Turkey’s exports and imports. Husted (1992)’s linear equation for the trade balance was estimated with quarterly time series data on nominal and real exports and imports for the period 1982-2005. The series of residuals from each estimated equation was checked for the presence of unit root. The results indicated that exports and imports were co-integrated but the coefficient of imports was less than one, implying that the trade deficit would continue rising. Narayan and Narayan (2005) examined whether there was a long-term relationship between exports and imports for 22 least developed countries by means of the Bounds Testing Approach (BTA) developed by Pesaran et al. (2001). The results indicated that exports and imports are co-integrated only for 6 out of 22 countries, and the coefficient on exports was less than unity, meaning the trade surplus or the excess of exports over imports would continue rising. Moreover, the Hansen test (1992) showed that the parameters were stable. Upender (2007) investigated whether there was a long-run relationship between India’s exports and imports. The error-correction model was applied to the times series data on exports and imports over the period 1949/50-2004/05. The results showed that exports and imports were co-integrated. But, the elasticity of exports with regard to imports was greater than unity, implying that the ratio of exports to imports would keep rising. Konya and Singh (2008) looked into the possibility of co-integration between India’s exports and imports over the period 1949/50-2004/05. Two sets of time series data on the values of India’s exports and imports in terms of rupees and dollars were considered for the estimation of Husted (1992)’s linear equation for the trade balance. The resultant two series of residuals were checked for the presence of co-integration by means of Johansen and Juselius (1990)’s technique. The results showed that there was no co-integration or long-run relationship between exports and imports, indicating that India’s trade policy had not been effective in closing or sustaining the trade deficit. Our BTA model is similar to the one adopted by Narayan and Narayan (2005). We have preferred a BTA model to other models of co-integration because it does not require a priori the variables to be stationary. We elaborate our BTA model in the next section.

3- Methodology
We begin with Husted (1992)’s equation for the consumption level that a country will have during a year subject to the inter-temporal budget constraint. The constraint can be written as follows:

\[ C_t = Y_t + B_t - I_t - (1+r_t)B_{t-1} \]  

Where,

- \( C_t \) = Consumption, Rs., during year \( t \);
- \( Y_t \) = Income, Rs., during year \( t \);
- \( B_t \) = Borrowings, Rs., during year \( t \);
- \( I_t \) = Investment, Rs., during year \( t \);
- \( r_t \) = Rate of interest, per cent, for year \( t \); and
- \( B_{t-1} \) = Debt, Rs., at the end of the previous year.

On the basis of some plausible assumptions, Husted (1992) transformed equation (1) into the following equation for estimation.

\[ X_t = a + bM_t + e_t \]  

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Where, \( X_t \) = Exports, Rs., during year \( t \); 
\( MM_t = r_tB_{t-1} + M_t \).
Where, \( M_t \) = Imports, Rs., during year \( t \); \( MM_t \) = augmented amount of imports, Rs.;
\( a \) and \( b \) = two parameters to be estimated, \( e_t \) = an error term.

For the economy to keep its balance of trade in equilibrium from year to year, equation (2) should satisfy two conditions. One, the coefficient \( b \) must be +1. It means that, every year, export earnings must be equal to the augmented amount of imports, sum of current imports and the interest payment on the trade deficit in the preceding year. Another, the error term should be stationary for the co-integration or long-run relationship to exist between exports and augmented imports.

But, equation (2) requires a little modification. India has witnessed three regimes of exchange rate; namely, Phase-I: 1960/61-1976/77, Phase-II: 1977/78-1991/92, and Phase-III: 1992/93 onwards. These regimes we represent by two dummy variables \( D_1 \) and \( D_2 \) and re-write equation (2) in the following form:

\[
X_t = a + bMM_t + eD_1 + fD_2 + e_t \quad . . .
\]

Where, \( D_1 = 1 \), for Phase-I: 1960/61-1976/77; \( =0 \), otherwise; \( D_2 = 1 \), for Phase-II: 1978/79-1991/92; \( =0 \), otherwise; \( e \) and \( f \) = parameters for the dummy variables.

We estimate equation (3) in two forms. One, we use least-square method to compute \( a, b, e, \) and \( f \) parameters. This way, we will come to know the sign and significance of each parameter. Another, we apply the Bounds Testing Approach as suggested by Pesaran et al(2001) to the equation so that we could know whether exports and augmented imports are co-integrated.

We shall now describe the Bounds Testing Approach, an exercise of autoregressive distributed lag structure, as follows:

\[
\Delta X_t = \beta_0 + \beta_1 X_{t-1} + \beta_2 MM_{t-1} + \sum_{i=1}^{p} \beta_{1i}\Delta X_{t-i} + \sum_{j=0}^{p} \beta_{2j}\Delta MM_{t-j} + \beta_3 D_1 + \beta_4 D_2 + e_t \quad (4)
\]

where \( \Delta X \) and \( \Delta MM \) are the first differences of the \( X \) and \( MM \) variables respectively; \( \beta_0, \beta_1, \beta_2, \beta_{1i}, \) and \( \beta_{2j} \) are parameters to be estimated by the method of ordinary least squares, \( p \) is the length/size of lags, and \( e_t \) is the random term.

How is \( p \) to be determined? We use Eviews-5.1 to compute equation (4) for all the possible sizes of \( p \), by keeping \( p=0, =1, =2, =3, \) and so on, and take up that size of \( p \) which gives the lowest value of the Akaike information criterion(AIC) or Schwartz Bayesian Criterion(SBC).

BTA tests for the absence of any level relationship between \( X_t \) and \( MM_t \) through the exclusion of the lagged levels variables \( X_{t-1} \) and \( MM_{t-1} \) in equation (4). It implies that our test for the absence of a conditional level relationship between \( X_t \) and \( MM_t \) consists of the following null and alternative hypotheses:

\( H_0: \beta_1 = 0, \) and \( \beta_2=0 \) \( H_1: \beta_1 \neq 0, \beta_2 \neq 0; \beta_1 \neq 0, \beta_2 = 0; \) or \( \beta_1 = 0, \beta_2 \neq 0. \)
We carry out the null hypothesis by means of the Wald test, which reports an F-value. But, the test statistic of this F-value has a non-standard distribution which depends on (i) whether the variables included in equation (3) are stationary at the original or first-differenced level, (ii) the number of regressors in equation (4), and whether equation(4) includes an intercept or a trend or both. Taking into account these factors and many other things, Pesaran et al(2001) developed pairs of critical values by means of stochastic simulations, using sample sizes of 1000 observations with 40,000 replications. The critical value corresponding to I(0), which means the variables are stationary at the original level, is called the lower bound; and the critical value corresponding to I(1), which means the variables are stationary at the first-differenced level, the upper bound. The pairs of lower and upper bounds are prepared up to 8 regressors and for various cases of restricted or unrestricted intercept and trend. If the computed F-statistic under the null hypothesis of no co-integration exceeds the upper critical value, I(1), the null hypothesis is rejected. If the computed F-statistic falls below the lower critical value, I(0), the null hypothesis can not be rejected. But, if the computed F-statistic lies within the upper and lower bounds, a conclusive inference can not be made. In such a case, we need to know whether both the time series are stationary at the original or first-difference level before any conclusion can be known because the bonds test is, then, only applicable for I(0) or I(1) time series. On the other hand, Narayan(2005) generates and reports a new set of similar lower and upper bounds for smaller sample sizes ranging from 30 to 80 observations with 7 regressors. Since ours is a small sample of 45 pairs of observations on exports and augmented imports, we extract appropriate critical values from the article by Narayan(2005).

4. Data
We have used a set of 47 pairs of yearly observations on real exports(X), Rs. Crore, and real imports(M), Rs. Crore, with base year 1978-79 for the period 1960/61-2006/07. We took the annual data on nominal exports, Rs. Crore, and nominal imports, Rs. Crore, from the Economic Survey 2007-08, Ministry of Finance, Government of India. To convert the nominal series of exports and imports into real series, we employed the index numbers on the unit values of exports and imports. These index numbers were prepared with base year 1978-79 from the data given in the statistical information published by the Reserve Bank of India and the Economic Survey 2007-08. Moreover, variable (M) was converted into variable (MM) by taking the rate of interest at 5%, which is the reverse repo rate, the rate at which the Reserve Bank of India borrows cash from commercial banks(source: a news paper).

5. Empirical results
We begin by analysing the least-square results of equation (3). For the purpose, the estimated form of this equation can be presented as follows:

\[ X = 138687.5 + 0.898 \text{MM} - 138777.9 \text{D}_1 - 140093.7 \text{D}_2 \ldots ; \text{DW}=2.013, \quad R^2=0.995 \quad (5) \]

\[ (5.071) \quad (68.074) \quad (-4.207) \quad (-4.243) \]

Equation (5) reveals that all the coefficients are statistically significant at 1%. The coefficient on MM is positive and less than unity. But, is it statistically different from 1? The Wald test indicates that the difference between 0.898 and 1 is significant at 1% level. So, if imports increase by a given amount, exports will rise by a smaller amount,
implying that the deficit in the balance of trade will be widening as imports continue rising. The higher the amount of imports, the greater the deficit in the balance of trade.

To know whether the imports and exports are co-integrated, we shall analyse the estimated form of equation (4). We have estimated equation (4) by keeping \( p=0, 1, 2, \ldots, 7 \) because seven is the highest order of lags for which the Narayan’s(2005) article gives pairs of upper and lower bounds for a small sample with 30 to 80 observations. This way, we have eight computations of equation (4), out of which we shall select the one with the lowest value of AIC or SBC. But, such an equation should satisfy two conditions. One. the residuals of the equation should not be serially correlated in terms of the Ljung-Box Q-statistic (op. cit. Gujarati, p. 813). The Q-statistic should be calculated for each equation over a range of lag orders, the lower and upper lag orders being equal to the one-fourth and the one-third of the number of observations of the sample respectively (op. cit. Gujarati, 812). Another, the residuals of the equation should form a normal distribution in accordance with the Jarque-Bera test (op. cit. Gujarati, pp. 148-49). Accordingly, we estimated equation (4) by means of Eviews-5.1, an econometric computer-based software. The empirical results so obtained are presented in the following table, where \( T \) is the number of observations and \( p \) is the lag order:

<table>
<thead>
<tr>
<th>( T )</th>
<th>( p )</th>
<th>AIC</th>
<th>SBC</th>
<th>Ljung-Box Q-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>45#</td>
<td>0</td>
<td>24.14 24.38</td>
<td>Q11=22.87 0.029 0.041 0.055 0.072</td>
<td></td>
</tr>
<tr>
<td>44#</td>
<td>1</td>
<td>23.51 23.83</td>
<td>Q11=15.08 0.236 0.296 0.299 0.366</td>
<td></td>
</tr>
<tr>
<td>43#</td>
<td>2</td>
<td>23.21 23.62</td>
<td>Q11=14.05 0.287 0.331 0.359</td>
<td></td>
</tr>
<tr>
<td>42#</td>
<td>3</td>
<td>22.65 23.15</td>
<td>Q10=17.00 0.095 0.130 0.169 0.217</td>
<td></td>
</tr>
<tr>
<td>41#</td>
<td>4</td>
<td>22.74 23.33</td>
<td>Q10=19.52 0.034 0.064 0.082 0.108</td>
<td></td>
</tr>
<tr>
<td>39##</td>
<td>6</td>
<td>21.97 22.64</td>
<td>Q10=9.106 0.522 0.656 0.729</td>
<td></td>
</tr>
<tr>
<td>38#</td>
<td>7</td>
<td>20.80 21.66</td>
<td>Q9=9.53 0.389 0.584 0.102</td>
<td></td>
</tr>
</tbody>
</table>

Note: A bracket contains a lag order, \( \text{Pr} \) means probability. # and ## mean Jaque-Bera test is significant at 1% and 5% levels respectively.

Table-1 suggests that equation (4) computed with \( p=5 \) should be chosen for further analysis. This equation does not have the smallest value of AIC or SBC but has a normal distribution for its residuals and no serial correlation for its residuals.

The computed form of equation (4) with \( p=5 \) can be presented as follows:

\[
\Delta X_t = 1714.596 - 2.701X_{t-1} + 2.022MM_{t-1} + 1.256\Delta X_{t-1} + 1.185\Delta X_{t-2} + 2.390\Delta X_{t-3}
\]

\[ [0.082] \quad [-3.921] \quad [3.359] \quad [2.098] \quad [2.467] \quad [5.156] \]
+ 2.052ΔX_{t-4} + 1.007ΔX_{t-5} + 0.459ΔMM - 1.191ΔMM_{t-1} - 0.498ΔMM_{t-2} \\
[2.808] [1.734] [8.100] [-2.038] [-0.990] \\
+ 0.807ΔMM_{t-3} + 0.082ΔMM_{t-4} + 1.763ΔMM_{t-5} - 1843.303D_1 - 12996.970D_2 \quad (6) \\
[2.428] [0.418] [5.926] [-0.086] [-0.702] \\
Note: Bracket contain t-values. \\
DW= 1.865, \quad R^2 = 0.99 \\

Now, our task is to apply the Wald-test to equation (6) under the null hypothesis that \( \beta_1 \) (coefficient of \( X_{t-1} \)) = 0 and \( \beta_2 \) (coefficient of \( MM_{t-1} \)) = 0. The test provides us with an F-value which is to be compared with the lower and upper bounds selected for a certain level of statistical significance. All this information is mentioned in the following table:

<table>
<thead>
<tr>
<th>Table-1: Results from the estimation of equation (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computed Wald test, ( H_0: \beta_1 = \beta_2 = 0 )</td>
</tr>
<tr>
<td>( T = 40 ) and ( p^* = 5 )</td>
</tr>
<tr>
<td>Lower bounds, I(0)</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
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<tr>
<td>Upper bounds, I(1)</td>
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</tbody>
</table>


It is evident from Table-2 that the F-statistic is greater than the upper bound at 1% level of significance, which means the null hypothesis of no co-integration is rejected. Hence, exports and imports are not co-integrated. There does exist a long run relationship between exports and imports in India.

Furthermore, in order to strengthen our understanding about the long-run relationship between exports and imports, it may interesting to test for the co-integration between these variables by means of some other method. For the sake of simplicity, we have chosen the OLS method suggested by Engle and Granger(1987). The method involves checking for the non-stationarity or unit root of the residuals of equation (5) under the condition that the residual series does not have an intercept or a trend.

We applied the DF-test to the series of the residuals, and obtained the following regression:

\[
\Delta \text{RESD}_t = \lambda \text{RESD}_{t-1} \quad \ldots \quad (7)
\]
\[
= -1.108\text{RESD}_{t-1} \quad \ldots \quad (7.1)
\]
\[
(-6.742)
\]

where \( \text{RESD}_t \) = residual for the t-th year, \( \Delta \text{RESD}_t = \text{RESD}_t - \text{RESD}_{t-1} \), \( \lambda \) = coefficient, and the bracket contains the t-value of \( \text{RESD}_{t-1} \) variable.

The null hypothesis for equation (7) is that \( \lambda \) is zero, meaning that the residuals have a unit root or are non-stationary. The absolute value of -6.742 is greater than the absolute value of -2.617, which is the critical/tabled value of \( \lambda \) at 1% level. So, the null hypothesis of unit root is rejected. That is to say, the residual series is stationary and exports and imports are co-integrated.
The OLS test supports the finding of the Branch Testing Approach that the exports and imports are co-integrated.

6. Conclusion
Our application of the Bounds Testing Approach to Husted’s equation for trade balance brings out two main points for conclusion. One, there does exist a long-run relationship between India’s exports and imports. The time series of exports and imports are co-integrated. This finding is also supported by the OLS method of co-integration. Another, the coefficient on the augmented import variable is not statistically equal to zero. In fact, it is positive and less than zero, implying that the trade deficit will continue rising. Considering these two points together, we can say that India’s trade policy to promote exports have not been successful in reducing the trade deficit. Perhaps, India’s trade policy requires modification to close the trade deficit or to keep the trade deficit within tolerable limits.

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