The Causal Relationship between Export and Economic Growth for Sri Lanka

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ABSTRACT. The role of trade policy on economic growth has been the focus of considerable academic effort. Openness, namely the sum of exports and imports to Gross Domestic Product (GDP), has been considered one of the main determinants of economic growth. Export-led growth postulates that exports consist the principal channel through which the liberalization process can affect the output level and eventually the rate of economic growth. Therefore this study investigates the relationships between export and economic growth in Sri Lanka. An econometric model has been developed and estimated in order to determine the direction of causality in both, short and long run. The annual time series used for the estimation cover the time period 1977 – 2009. The variables used in this study of export and economic growth of Sri Lanka are gross domestic product (GDP), exports of goods and Services (EXP), imports (IMP), gross fixed capital formation (GFCF) and per capita income (PCI).
The results reveal that export expansion leads to economic growth. It is also checked that whether there is uni-directional or bidirectional causality between economic growth, exports, imports, gross fixed capital formation and per capita income. The traditional Granger causality test suggests that there is uni-directional causality between economic growth, gross fixed capital formation, per capita income, exports and imports and bidirectional causality between export and per capita income.

Key words: Export, Economic Growth, Causality.

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