Appropriateness of Export Led Growth Economic Hypothesis in to Sri Lanka Economy

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Introduction

Economic growth rate is a major economic indicate of a country. There are number of source of economic growth such as natural factors, human capital, physical factors, institutional factors etc. The generalized scheme of preferences (GSP) of the European Union (EU) is a trade agreement that allows developing countries to pay less or no their exports to the EU. Developing countries used a special strategy called "Export led growth hypothesis". Recently there were a change in export sector in Sri Lanka related to the GSP+. There is a sound discussion that GSP+ was a reason for recent development in export sector in Sri Lanka. As well as export relates to development economics and international trade of a country. The definition of export led growth is growth of an economy over time that is through to be coursed by expansion of the country's exports. The study objected to find whether there are any empirical evidence to prove export leg growth hypothesis is existing in Sri Lanka.

Research Problem

Export led growth hypothesis is an economical strategy use in developing country. Sri Lanka economy has been an open economy since 1978. As well as Sri Lanka had GSP+ again. So, the study see whether export effect on Sri Lankan economic growth or not.

Objective

The objective of the studyis to investigate the contribution of Sri Lanka exports towards the economic growth of Sri Lanka and check whether export led growth hypothesis is appearing in Sri Lanka or not.

Theoretical Underpinning and Empirical Evidence Wherever Necessary

Basically, in economic literature there are two approaches to explain the link between export and economic growth. These are in supply side and demand side.Demand side economics is based on the belief that the main force affecting overall economic activity and causing short-term fluctuations is consumer demand for goods and services. In the long run economic growth is determined by factors which influence the growth of long run aggregate supply (LRAS). If there is no increase in LRAS, then a rise in aggregate demand (AD) will just be inflationary. Even through the theoretical background around the economic development was this. This research focus on estimating the relationship between export and gross domestic product (GDP) of Sri Lanka.

Methodology

Vector Auto Regression (VAR) model is a suitable technique to estimate the relationship in unstructured models. Here, VAR model has used to estimate the two dimensional relationships between GDP and Export in Sri Lanka. The general form of the VAR (P) model is as follow,

$$Y_t = c + A_1 Y_{t-1} + A_2 Y_{t-2} + \cdots + A_p Y_{t-p} + e_t$$

Estimations of the study based on secondary data of GDP and export in Sri Lanka from 1969 to 2016.

Key findings, conclusions and recommendations

VAR model requires stationary series. Augmented Dickey Fuller test has used to test the stationary of GDP and Export series. GDP is stationary at second difference (D2GDP) and export is stationary at first difference (DEXPORT). Variables added to the model in stationary form. After that constructed the VAR model and used least square estimation techniques to take the estimated values. VAR (2) model estimates are as follow,

$$D2GDP = \beta_0 D2GDP(-1) + \beta_1 D2GDP(-2) + \beta_2 DEXPORT(-1) + \beta_3 DEXPORT(-2) + e_1 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{Equation (1)}$$

Estimations of equation 01 is as follows,

Table 1:

	Coefficient	Std.error	Prob.values
β_0	-0.542292	0.152938	0.0009
β_1	0.261729	0.162784	0.1143
β_2	-103.0320	55.19467	0.0679
β_3	58.69862	48.29720	0.2301
β_4	26382.49	26137.98	0.3178
R-squared	0.596780		
Adjusted R-squared	0.563864		
Durbin-Watson stat	1.981153		
Prob(F-statistic)	0.000000		

Equation one explain the other variable contribution toward the GDP. Equation two explain the contribution of other factors toward the export. The model of equation 02 as follow.

$$DEXPORT = \beta_9 + \beta_5 D2GDP(-1) + \beta_6 D2GDP(-2) + \beta_7 DEXPORT(-1) + \beta_8 DEXPORT(-2) \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{Equation (02)}$$

Table 2:

	Coefficient	Std.error	Prob.values
β_5	0.001183	0.000416	0.0065
β_6	0.000713	0.000443	0.1138
β_7	-0.229482	0.150166	0.1329
β_8	-0.223992	0.131401	0.0946
β_9	248.8789	71.11277	0.0010
R-squared	0.222456		
Adjusted R-squared	0.158983		
Durbin-Watson stat	1.878388		
Prob(F-statistic)	0.013562		

If we test the significant of these model under the probability values, equation 01 has D2GDP (-1) as a significant term. That means no any significant contribution from export to GDP growth. Equation 02 has two significant terms which intercept and D2GDP (-1). That means there is a contribution of GDP towards the export. So, it's clear that even though GSP+ existing in export sector in Sri Lanka, the Export led growth hypothesis is not appropriate to Sri Lankan Economy. But, there is an open opportunity to develop the export sector contribution until fulfil the gap that in Sri Lankan contest.

Keywords: Export; Export Led Growth Hypothesis; Gross Domestic Product; Sri Lankan Economy; Vector Auto Regressive Model.

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