Trade Performance and Economic Growth: Evidence from Sri Lanka

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Introduction

The Sri Lankan economy has achieved the 5 percentage growth level approximately for recent four decades. Due to that, we should have responsibility to answer the question like whether these achievements are in the effective or not? When we answer this type question in the economical perspective. We should focus on the other macro-economic variables as money supply, unemployment rate, exchange rate, price stability etc. Even though, 5 percentage growth levels is the sati factionary one in the South Asian Region (Velnampy and Achchuthan, 2013). Further, in the Asian region, china and India have already achieved the 8 percentage growth level. And also output gap between advanced and emerging economies has been narrowing over the past decade and is expected to narrow even further going forward (Sri Lankan Economic Outlook, 2012). In this context, Export growth is recognized as the main determinant of the production and employment growth of an economy. Research scholars argued the relationship between export, import and economic growth differently and interestingly.

Research Problem

In the export earnings of the Sri Lanka, industrial goods have the great share comparing with agricultural out puts. In the industrial goods, textile sector is viewed as the potential one. Meantime, in the agricultural sector, tea is recognized as the potential one (Economic and social statistics of Sri Lanka, 2012). Sri Lanka's export performance since 2000 has not been sati factionary one. Expanding trade deficit in 2011 and 2012 is partly explained by the unimpressive performance of the export sector. Further, global economic downturn is not the only reason for the low export growth in Sri Lanka (Kelegama, 2013).

In the Sri Lankan context, Sri Lankan government introduced the 2013 as the development oriented fiscal year, in which, the small medium enterprises are nourished through the incentives and tax holidays. In this context, in the 2013 Budget, some tax incentives and holidays have been included.Researchers should check the influence of the export and import on the economic growth in the Sri Lankan context. The Sri Lankan government has taken the strategic policies to rise up the economic growth through the export oriented business development in the Sri Lanka especially in the year of 2013. Therefore this study is viewed as the fruitful one in the developing or emerging countries context to take the cues about the influence of the export and import on the economic growth.

Objectives

The main objective of the study is to find out the impact of tradable sector performance on economic growth.

Secondary objectives are:

- To find out the trend in export, import and Economic growth
- To find out the relationship between export, import and economic growth
- To suggest the Policy makers in the external sector to formulate the economic policy in the developing countries perspective to enhance the economic growth.

Methodlog

This study was conducted in SriLanka perspective, especially on export, import, and economic growth context. Data on the export, import and economic growth from the year 2006 to 2016 were collected for the study purpose.Secondary data which are collected from the Central bank reports, Sri Lanka have been utilized in this study. Further, textbooks, journals, magazines in the Economic perspective were utilized for this study. This analysis was carried out to identify the last Ten years on the export, import and economic growth. And, Regression analysis is used to find out the significant impact of export and import on the economic growth. (SPSS – 16.0 versions have been utilized in this study).

Discussion of Finding

Based on the overall study, in the Sri Lankan context, the imports and exports have the positive relationship and also, import and export has the significant impact on the economic growth. Further, the export and import have been associated by 64 percent, which denotes that, there is a positive association between export and import.

In the supportive way, Usman, Ashfaq and Mushtaq (2012**)** found that, the export has the significant influence on the economic growth in the Pakistan context. Further, Kogid, Mulok, Ching, Lily, Ghazali and Loganathan (2011) noted that, in the Malaysia, the import have indirect relationship with the economic growth, which is also in the significant level. Based on the table, performance of the external sector was in the problematic way.

Table 1: Performance of the External Sector

Year	Indices	value
2014	Export value index	2.7
	Import Value index	-1.5
2015	Export value index	-9.4
	Import Value index	-11.8
2016	Export value index	-1.5
	Import Value index	-5.1

Especially in 2015 and 2016, both export and import value indices have been negative value. Some scholar sated that; financial crisis might be big reason for the particular

incident. In contrast, Kelegama, (2013) has pointed that global economic downturn is not the only reason for the low export and import growth in Sri Lanka. In further research, we have to check the performance of the external sector in the Sri Lankan perspective.

Conclusion

Finally, we have suggested that, the small medium enterprises should be motivated towards export orientation. Meantime, the restrictions in the import of the raw materials to the industries should be implemented in the flexible way through the fiscal and monetary policy. Further, the Sri Lankan government should formulate the industrial structure master plan in order to build an export oriented system. In nutshell, Entrepreneurship is a key driver of our economy. Small business started by entrepreneurially mined individuals creates wealth and high majority of employment opportunities.

Keywords: Export; Import; Agriculture Goods; Industrial Goods; Macro Economic and Economic Growth

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A Causality Analysis of Governance Indicators and Foreign Direct Investment Inflow in Sri Lanka

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Introduction

Recently, a novel type of interest is evolving in attracting Foreign Direct Investment (FDI) with the use of governance indicators. It is visible that foreign investors pay a great attention to the governance structure of the countries in which they undertake an investment (Kolstad et al, 2012). Therefore, it is emphasized inthe literature that a country should try to establish strong and high quality governance structure to attract more FDI flows.

Recent empirical evidence tends to confirmthe hypothesis that growth and productivity difference among countries are related to differences in governance infrastructurein different ways (Hall& Jones, 1999). This study therefore focuses on the linkagebetween governance infrastructure and FDIflows.It is plausible that theinternational business literature has acknowledged the importance of country-specific governance instruments in determining FDI and no literature found in use of governance indicators in attracting FDI in Sri Lankan context. In order to bridge this gap, thestudy aims to identify the causality of governance indicators on FDI. Aggregate and individual worldwide governance indicators for six dimensions of governance are Voice and Accountability (VA); Political Stabilityand Absence of Violence/ Terrorism (PSNV); Government Effectiveness; Regulatory Quality (RQ); Rule of Law (ROL); Control of Corruption (COC) (Kaufmann et. al., 2009).

Literature Review

Many researchers have investigated the factors influencing inflows of foreign direct investment. Rusike (2008) in his study analyzed the determinants and trends of inward FDI to South Africa for the period of 1975-2005 and he found exchange rates and openness and financial progress were key factors to determine the inflow of FDI. Further, Zeshan (2014) that VA, PSNV, GE, RQ, COC and governance index have positive and significant relationship with FDI inflows in Pakistan.

Materials and Methodology

The secondary data from 1996 -2015 has been collected from World Bank Development Database and Central Bank Report of Sri Lanka on annual basis. According to Kaufmann (2009), VA and PSNV capture the process by which governments are selected, monitored, and replace while GE and RQ explains the capacity of the government to effectively formulate and implement sound policies in a country and further ROL and COC

explain the respect of citizens and the state for the institutions that govern economic and social interactions.

Granger Causality Test has been applied in order to determine the causality of worldwide governance indicators (WGI) including VA, PSNV, GE, RQ, ROL, and COCon inflows of FDI in Sri Lanka. The Granger-causality test (Granger, 1969) is used for the study to investigate direction of causation between FDI and governance variables. The outcome from the Granger-causality test was used to determine whether the variables under study can be used to predict each other or not. At the same time, the variables used in the granger-causality test were all assumed to be stationary. Finally, the causality test helps to ascertain whether a uni-directional or bi-directional (feedback) relationship exists between FDI and governance indicators.

Results and Discussion

Initially, Pearson Correlation technique has been used to determine theassociationamong the dependent and independent variables and also to check the existence of autocorrelation problem among the independent variables. The results of correlation have been presented in Table 1 shown below;

Table 1: Results of Correlation Matrix

	PSNV	VA	GE	RQ	ROL	COC	LNFDI (USD)
PSNV	1	-0.366	.576**	-0.212	-0.438	-.566**	.559*
VA	-0.366	1	-.570*	.463*	.894**	0.267	-.840**
GE	.576**	-.570*	1	-.513*	-0.344	-0.359	.662**
RQ	-0.212	.463*	-.513*	1	0.411	0.236	-.559*
ROL	-0.438	.894**	-0.344	0.411	1	0.412	-.768**
COC	-.566**	0.267	-0.359	0.236	0.412	1	-0.253
LNFDI (USD)	.559*	-.840**	.662**	-.559*	-.768**	-0.253	1

***. Correlation is significant at the 0.01 level (2-tailed).*
**. Correlation is significant at the 0.05 level (2-tailed).*

The results of correlation matrix depicts that there is a problem of auto correlation among the independent variables of governance indicators. At the second stage, ADF unit root test has been applied for checking stationarity of all the variables due to time series nature of the dataset. The results of Augmented Dickey Fuller (ADF) unit root test are reported in Table 2.

Table 2. Results of ADF Unit Root Test

Variables	T- ADF Statistics	Outcome
LNFDI	-6.7(0.000)	Stationary at level
COC	-4.9(0.0011)	Stationary at first difference
PSNV	-3.8(0.0115)	Stationary at level
VA	-3.97(0.0084)	Stationary at second difference
GE	-4.6(0.0029)	Stationary at first difference
RQ	-3.4(0.0236)	Stationary at first difference
ROL	-3.34(0.031)	Stationary at second difference

Stationarity results in Table 2 describes that FDI and control of corruption variables are stationary at first difference, whereas ROL and VA are stationary at second difference. Results of the Unit root test indicates that the all variables are stationary at second difference. Therefore, it can be concluded that the optimal lag length of this model is two. Thus granger causality test was carried out for FDI and other variables for lag 2 which the results were shown in Table 3.

Granger proposed that if causal relationship exists between variables, these variables can be used to predict each other. The causality test helps to ascertain whether a uni-directional or bi-directional (feedback) relationship exists between governance variables and FDI. To achieve this, we employed the granger-causality statistic to test the statistical causality between the variables as well as to determine the predictive content of one variable beyond that inherent in the explanatory variable itself. The researcher's choice for the granger procedure is because it consists the more powerful and simpler way of testing causal relationship which is explained in Table 3.

Table 3: Granger Causality between FDI and Governance Variables

Null Hypothesis	F-Statistic	Causal Inference
FDI Does Not Granger Cause COC	1.45844 (0.263)	No Causality
COC Does Not Granger Cause FDI	5.61723 (0.0175)	Causality
GE Does Not Granger Cause FDI	0.15525 (0.8578)	No Causality
FDI Does Not Granger Cause GE	2.83156 (0.0958)	No Causality
PSNV Does Not Granger Cause FDI	0.90205 (0.4297)	No Causality
FDI Does Not Granger Cause PSNV	1.45482 (0.2691)	No Causality
ROL Does Not Granger Cause FDI	0.18919 (0.8299)	No Causality
FDI Does Not Granger Cause ROL	4.29854 (0.0369)	Causality
RQ Does Not Granger Cause FDI	2.36551 (0.1330)	No Causality
FDI Does Not Granger Cause RQ	0.42033 (0.0369)	Causality
FDI Does Not Granger Cause VA	3.50093(0.0608)	No Causality
VA Does Not Granger Cause FDI	1.05262 (0.3770)	No Causality

Based on the results in Table 3, the values of F statistics suggest that COC Granger-causes FDI (P value < 0.05). Thus, it can be argued that past index values of COC contribute to the prediction of the present value of FDI. Further, findings of the study suggest that FDI granger causes ROL and RQ index.

In conclusion, the government of Sri Lanka should provide more attention to improve COC since this governance indicator becomes a predictor for FDI inflow of the country. This finding implies that COC becomes a major determinant of FDI inflow where the policy makers should devise strategies to strengthen the control of corruption.

Further, inflow of FDI becomes a causality to determine ROL and RQ index. Indeed, foreign investors use the pattern of FDI in Sri Lanka to determine the improvement of regulatory management, regulatory reform of the government and stability of law and security of the country.

Keywords: Foreign Direct Investment; Governance indicators; Granger Causality

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