The Impact of International Trade on Economic Growth: Evidence from Sri Lanka

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The objective of this paper is to identify the causal relationship between export and import of goods and services and economic growth of Sri Lanka over the period of 2010 to 2019 using quarterly data. Johansen's Cointegration test, Vector Error Correction Model (VECM), VEC - Granger causality test and pairwise Granger Causality test were used to investigate the relationship. Empirical results confirm the evidence of long-run equilibrium relationship among the exports, imports, and Gross Domestic Product (GDP). Further, findings reveal that, there is a bi-directional causality between exports and GDP and unidirectional causality between imports and GDP in short-run. These results provide empirical evidence that exports and imports, thus, are seen as the source of economic growth in Sri Lanka. Hence, private public participation to promote exports, tariff relief, export diversification, export market diversification to trigger exports and necessary policy actions to encourage non-consumer import is more important to stimulate economic growth.

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