The Role Of Exports In Economic Growth With Reference To Ethiopian Country

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Abstract: This study applies the Cobb-Douglas function model to analyze the effects of exports on economic growth in context of Ethiopian economy. To determine the relationship between export and economic growth, an attempt will be made to use econometrics techniques of analysis (co-integration system) by using the RATES software package for the time series data from 1950 to 1986. The lack of capital stock data is overcome by using the ratio of real investment to real gross domestic product (I/Y), in a place of capital stock while lack of labour force data is overcome by using the real gross domestic product per capita. The results suggest that the real export and (I/Y) are co-integrated with real GDP per capita. These results support the idea that the rate of growth of real exports has a positive effect on the rate of economic growth in context of the Ethiopian economy. Even strong positive relationship exists between real export and real growth domestic product per capita in long run rather than in short run when I compare real exports with that of (I/Y). Thus, the contribution of real exports to economic growth in context of Ethiopian economy is greater in long run than in short run.

Introduction

There are two extreme views which have attempted to assess the relationship between exports and economic growth, i.e., some have regarded export as it contributed positively to economic growth. Others have regarded export, as it does not have contribution to economic growth. Even some have regarded export as it has contributed negatively to economic growth. For example, H.V.Berg and J.R.Schmidt (1994:p:250-51), O.A.Onafwara (1996,p:346) and D.E.A.Giles, J.A.Giles and E.McCann (1992,p:196) suggest that growth of export stimulates economic growth. In other words, there is a positive association between the growth of export and economic growth. The reasons most of them give are:

First, export growth may reflect a rise in the demand for the country’s outputs, and this in turn will be realised in economic growth.

Second, by raising the level of exports, additional foreign exchange will be generated, and this facilitates the purchase of productive intermediate goods.

Third, a growth in exports may lead to greater productive efficiency (perhaps through economies of scale or technical improvements as a result of contract with foreign competitors and enhanced output. Productivity growth is also assumed to be the result of specific policy choices, namely policies that expand exports.

Fourth, there are externalises associated with export sectors; export earnings allow a country to use external capital without running into difficulties servicing foreign debt.

On the other hand, arguments have also been made (see, for example, D.E.A.Giles, J.A.Giles and E.McCann (1992,p:196) in support of the opposite view point; i.e., it has been argued that export hinders the development of country. The reason some authors give for the fallrity of the export as the contribution to economic growth is that the strategy the country may depend crucially on the type of good that is being traded like primary commodities exporting. Moreover, D.E.A.Giles, J.A.Giles and E.McCann (1992,p:196) also stated that there is no effect of export on economic growth. Their hypothesis is rejected the existence of the effect of export on economic growth. As some of them stated, the positive relationship between real gross domestic product and real exports does not exist in developing countries like Ethiopia, which depend on exporting primary commodities.

In general the empirical evidence associated with the effect of export on economic growth is very mixed. Accordingly, the objective of this paper is to test the validity of the hypothesis, i.e., the effects of exports on economic growth in context of Ethiopian economy. In other words, the aim of this study is to investigate the magnitude of the link between exports and economic growth of the country in question.

Thus, this paper uses the data on Ethiopia to investigate the effects of exports on economic growth using the co-integration system. Since Engle and Yoo(1987, p:143) stated that a co-integrated system can be represented in an error correction structure which incorporates both changes and levels of variables such that all the elements are stationary. This error correction structure provides the framework of estimation, forecasting and testing of co-integrated system.

The paper comprises three major parts. The first part examines the methodology and the data used while the second part presents the result from the data. Finally, it is summarised.