Abstract

The present study examines the direction of causation between exports growth and economic growth in Pakistan, using as a direct approach (Granger Causality test), and an indirect approach (Amended Granger Causality test) along with taking into account the non-stationarity as well as the co-integrating properties of all the series used in the study. The main objective of the study is to find out the direction of causation from exports to growth or from economic growth to exports growth, both or none in case of Pakistan. The empirical results support a long-run relationship among the export and economic growth variables. Though export growth causes output growth (50%), but converse is not true in most case (66.67%). Primary exports are found to be 100% insignificant in enhancing real GDP while opposite is true in all the cases (100%). The study concludes semi-manufactured exports contribute to growth in three out of five models along with a bidirectional causality (20%) and in the reverse case of GLE , 20% reverse causation was also found. As far as manufactured exports are concerned, they confirm their significant and prominent contribution to the economic development (as they constitute 78% of total exports) ELG was found to be significant in 80% of modals evaluated while opposite (GLE) was insignificant in 100% of modals considered. This study has tried to fill an important gap in the literature as it is the first comprehensive study, which has attempted to address all the shortcomings in the earlier empirical studies as far as Export/ Growth relationship is concerned with special reference to Pakistan.