

Year: 2009
Volume: 54
Issue: 1

STUDIA

Universitatis Babeş-Bolyai

OECONOMICA

AN INVESTIGATION OF CO-INTEGRATION AND GRANGER CAUSALITY BETWEEN TRADE OPENNESS AND ECONOMIC GROWTH IN PAKISTAN

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Abstract. This paper elucidates the causality between trade liberalization and economic growth in Pakistan using time series econometric analysis. There are many studies on the issues of exports, imports and economic growth but few have addressed the issue of trade liberalization in Pakistan. In this study, quarterly data covering the time period from 1975:1 to 2003:4 on exports, imports and gross domestic product (GDP) has been used for the empirical analysis. Trade openness is calculated using two distinct approaches. Real GDP is used as a proxy variable in the analysis. Time series analysis is carried out in terms of Augmented Dickey-Fuller test of stationarity, Engle-Granger co-integration test, error correction model and Granger causality test, for the empirical analysis of the relationship between trade openness and economic growth. According to the results, all variables are found non-stationer at level and can be co-integrated. Therefore, there exists a long term or equilibrium relationship between the trade openness and GDP growth rate. Finally, it is concluded that the policy of trade liberalization should be significantly executed for greater trade openness in order to accelerate GDP growth rate and consequently to alleviate poverty besides the improvement in some other important macroeconomic variables in the country.

JEL Classification: F43, F49, O47, O53, C22

Keywords: Trade Openness, Economic Growth, Co-integration, Granger Causality

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