**Empirical Investigation on the Relationship between Exports and economic Growth; in selected LDCs country Groups (1988-2018)**

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**Abstract**

This study re-examines the export-led growth hypothesis for the two developing country groups i.e. the Middle East and North African and, South Asian countries. The exports are measured as the annual growth rate of exports, and economic growth as the annual growth rate of GDP. Utilizing standard time series procedures of unit root testing via (ADF, PP) tests, cointegration, error correction modeling and Granger causality tests. Using time series data for the period of (1990-2018).It was found the evidence for long-run cointegration relationships between the exports and economic growth in both cases. But there is no evidence for significant relations between them. Further, there is no Granger causality between economic growth and exports in the two directions for the Middle East and North African countries. But for the South Asian countries, we note a unidirectional causality from economic growth to exports, i.e. the growth in both country groups was not propelled by an export-led growth strategy. Exports aren’t thus seen as the source of economic growth in both cases.

**Key words: Exports, Economic Growth, Causality, Middle East, South Asia**

**JEL Codes: F10, F43**

**1. Introduction**

Classical and neo-classical economists believe that the contribution to international trade can have a positive influence on economic growth, while many arguments exist to support the belief that exports directly lead to greater economic growth because they contribute to the accumulation of foreign exchange, Facilitating the dissemination of knowledge and increasing input efficiency. Thus, the pace of growth, In the event of any of these three cases, they can be described as the "growth engine" (e.g.; Riedel 1984;Titus,2008 &Sunanda,2010). Furthermore, Export expansion might affect economic growth by generating positive externalities on other sectors of the economy via more efficient management styles, improved production techniques and economies of scale (Ghatak & Price, 1997).

Efforts focused on the relationship between export growth and economic growth, explaining the causes of this phenomenon, and conducting several empirical studies to test the hypothesis in different countries of the world. The export-led growth hypothesis, as a rule, is supported by the following four arguments. First, within the international trade multiplier context, export growth is expanding production and employment. Second, the foreign exchange offered by export growth allows the import of capital goods, which in turn increases the production potential of the economy. Third, the size and competition of export markets are causing economies of scale and accelerating technical progress in production. Fourthly, given the theoretical arguments cited, the strong correlation between export growth and production is interpreted as empirical evidence in favor of the underlying hypothesis. (Kugler,1991).

Discussions on the role of exports in enhancing economic growth.(Bhagwati,1988 and Balassa, 1978) and others pointed to the obvious positive impact of exports on economic growth. The export-based growth hypothesis discussed by(ELG), (e.g;Tyler,1981; Palacha,1985 and Sunanda,2010) followed by several studies that indicated the importance of exports in generating growth (eg;Hallaert,2006 & Numerous empirical studies have found that rapid export growth accelerates economic growth (Matsane, 2012).

This study attempts to test the export-led growth hypothesis in two groups of developing countries, namely the Middle East, North Africa, and South Asia. It also determines the trend of the causal relationship between exports and economic growth, during the period 1988-2018. The parameters of the variables are expected to be positive and have a significant impact on GDP growth. The expected positive sign of the export variable is derived from the assumption that the export sector produces external factors leading to increased production in other sectors. The first section presents the theoretical framework and presents a review of previous literature on the relationship between exports and economic growth. The second section will discuss the methodology and data utilized. The results are presented and discussed in Section three and, Section four summarizes the conclusions.

**2. Theoretical framework and literature review**

**2.1. Trade as an engine of economic growth**

Trade theory claims that exports boost the local economy through several channels. The increase in exports leads to an increase in real production and encourages local companies to specialize in the production of export goods, leading to an increase in productivity. Also, more skilled labor is used in the country's export sector. As a result of these developments, the industry will be divided into two groups as a more productive and inefficient non-commercial sector (Gokmenoglu et al, 2015). Exports can be seen as an engine of growth in three ways (Titus OA, 2008); As an element of total production. An increase in the demand for domestic exports can promote production growth, increasing employment and income in the exportable sector. Second, export growth can indirectly affect growth through effective resource allocation, efficient use of capacity, exploitation of economies of scale, and catalyzing technological improvement due to competition in overseas markets (Ben-David and Loewy, 1998). Thirdly, exports can provide foreign currencies that allow for increased levels of capital and intermediate goods imports, which in turn stimulate the capital formation and thus stimulate production growth (Rizavi et al, 2010). According to Nasser and Manouchehr (2000), export-oriented policies contribute to economic growth through various summarized methods (Hatemi & Manouchehr,2000):

• The Keynesian hypothesis that increased exports and through the multiplier of foreign trade leads to the expansion of production.

• Exportation provides foreign currency to allow increased imports of capital goods and intermediate goods, which leads to economic growth.

• Exports increase efficiency through competition.

• Competition prompt economies of scale and diffusion of technology defined in production, which is an important potential source of growth.

**2.2. Literature review:**

Balassa (1985) noted that gains from trade would be greater in economic growth if the export promotion strategy was followed, as this strategy ensured more efficient use of productive resources. Similarly, (John Asafu.,1999) found, Real output, exports, and imports are to be cointegrated in the and that Granger causality runs from exports and imports to real output. (Baharumshah, & Rashid,1999) results confirm that economic growth causes export growth for manufacturing exports. (Hamuri S. & Iphasina,2003) studied the effects of trade on growth in four African countries. The results indicated a different way of causality and non-causality between exports and growth among (OECD) countries.

(Furuoka,2007), do not support the “export-led growth” hypothesis. Rather, there exists a mutually reinforcing long-run relationship between exports and economic growth, and also detected unidirectional causality from economic growth to exports. (Narayan, 2007) found evidence supporting the export-led growth hypothesis in the long-run. (Rizzavi,2010) shows that openness played an effective role in the output growth of South Asian countries during 1980-2008. (Shujaat A., 2012) results show that causality runs only from GDP to exports in both the short and long-run periods. The result indicates that both in the short and long run only growth in production cause exports growth. (Muhriji & Divya,2014) used a three-step procedure of first conducting a Vector Auto Regression (VAR) analysis followed by a Granger Causality Test and an Impulse Response Function. He found a consistent VAR Results; Further, the Granger Causality Test determines that economic Growth causes Export growth. Finally, there are much higher responses to export through a change in economic growth. (Saaed & Hussein,2015) results show that there is unidirectional causality between exports and imports and between exports and economic growth. These results provide evidence that growth in Tunisia was propelled by a growth -led import strategy as well as export-led import. (Huang & Ramirez,2016) shows that Exports seem to promote economic growth in three of the four countries that have cointegrated data, which supports the exports-led growth hypothesis found in some of the extant literature. They do not find cointegration because the variables are stable at different orders from I(0) to I(2). (Bakari & Krit,2017) defined that there is unidirectional causality between imports and economic growth. In addition, the results show that there is no causality relations between exports and output growth. (Noor, 2018) Conducted a study to obtain evidence on the relationship between export, import, and economic growth. He finds a cointegration relationship between economic growth, exports, and imports. Results also indicated that the causality runs from GDP to exports.

The results of (Samad A., 2019) find unidirectional causality running from GDP to export was found in India. Bidirectional Granger causality between financial development and export growth was found in Thailand. Pairwise Granger causality results, because of lack of cointegration, found that GDP Granger caused Exports in Indonesia. So; the relationship between export growth and economic growth remained relevant in both theoretical and empirical literature. Many empirical studies have been conducted over the last decades to test the role of exports in economic growth, either using time-series or cross-sectional data. These studies have been conducted along with a number of different methods.

**3. Data and Methodology:**

**3.1. Data:**

The data used are time series data covering the period 1990-2018 in the mentioned country groups. The variables included in this study are the Exports of goods and services (as annual growth rates of goods and services) and the Real Gross Domestic Product (as annual growth rates) is an indicator to measure economic growth, Data were sourced from the World Bank Statistics sources.

**3.2. Model specification:**

the methodology of early researches on the relationship between exports and economic growth was based on their correlation coefficients (Michaely (1977). The second set of studies followed the approach of whether exports lead production or not by estimating production growth regression equations based on neoclassical growth calculation techniques to analyze the function of production, including exports or export growth as an explanatory variable., and most studies in the 1980s used the Granger causality test to examine the ELG Hypotheses (e.g.; Dutt et al,2015& Bilas,2015). This set of models has been criticized for methodology because it assumes a prima facie assumption that export growth leads to output growth and does not take into account the direction of the causal relationship (Chien and Huang, 2002).

The third group of relatively recent studies focuses on the causal link between export growth and economic growth. The concepts of the root of unity and common integration were added to studies using the causal relationship test, according to them, export growth can boost economic growth and vice versa. Finally, there have been relatively new studies involving the application of cointegration and error correction techniques (Enkayake E.M., 1999). will follow this relatively new methodology which does not suffer from shortcomings in the methodologies of previous studies.

The relationship between exports and economic growth will be analyzed using a simplified model of linking GDP growth rate as a dependent variable for exports, as in the following equation (e.g.; Nath,2005; Busee &Koniger,2012):

Y = f (X) ……. (1)

Where it states: Y,GDP and X, for Exports.

the mathematical form will take the following formula:

Yt = βo + βXt ……. (2)

Where Yt 'is the GDP growth rate, X is the export growth rate, adding the random variable, we get the formula of the standard model:

Yt = βo + βXt + Et…… (3)

While we have two country groups, we will replace:

Yt=EG = annual growth rate of real GDP

Xt=EX Exports annual growth rate (an alternative or approximations of total Exports of goods and services, alternative variables related to calculated growth are used that are directly observable.

Et = Error term.

Considering the two country groups we will have two models as following:

EGmt= β0 +β1EXmt+ Et…… (5)

EGsat= β0 +β1EXsat+ Et…… (6)

Where it states:

EGmt, EGsat,: for annual growth rates of GDP in middle east &north Africa and south Asia country groups respectively.

EXmt, EXsat; for annual growth rates of exports in the mentioned above country groups respectively.

The statistical properties of the underlying variables were investigated to examine the relationships between them. The analysis is done through the following steps:

1.For the stationarity test, The Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) Unit Root Tests are employed.

2.The short and long-run relationship was estimated, using co-integration tests i.e. (Johansen, Engle-Granger and or autoregressive distributed lags modeling approach (ARDL)), this will be due to the results of the stationarity test.

3.The Granger causality test is used to test the direction of the relationships.

4.Another step of analysis has been carried out to explore the structural stability and diagnostic test

**4. Empirical findings:**

**4.1. Unit root tests:**The Findings of the ADF and PP tests are presented in Table 4.1below;

Table 4.1 The Results of ADF and PP TestS

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Order of integration | variables | Augmented Dickey-Fuller | | | Phillips-Perron | | |
| intercept | Trend and intercept | None | intercept | Trend and intercept | None |
| Level | EGm | -5.280595 | -5.574433 | -2.06979\* | -5.28059 | -5.574433 | -2.069797\* |
| Level | EXm | -1.543911 | -1.128423 | 0.427120 | -1.65820 | -1.113624 | 0.536273 |
| 1st difference | EXm | -4.819349 | -4.956432 | -4.793209 | -4.81934 | -4.956432 | -4.793209 |
| Level | EGsa | 4.678596 | -5.437993 | -1.102326 | 4.67859 | -5.437993 | -1.102326 |
| Level | EXsa | -4.334484 | -4.464260 | -2.073773 | -4.34963 | -4.450781 | -1.830117 |

Source: Eviews10; Authors calculation

\*5% significance level, all other variables stability orders are significant less than 1%.

Table 4.1 reports the test results using both methods which are conducted with the trend, intercept and none. The unit root tests confirm that the dependent variable EG is stable at the level; for middle east-north Africa and south Asian cases. The same test results show that exports are stable at the level for the middle-east and at the first difference for the other case. However, all the results are significant at the 1 % level or lower.

**4.2. Cointegration Tests**

The necessary step to establish if a model empirically exhibits meaningful long-run relationships. The cointegration among underlying variables is utilized. There are several tests of cointegration, other than Engle and Granger (1987) procedure, among them is; Autoregressive Distributed Lag cointegration technique or bound cointegration testing technique (ARDL).

**4.2.1 The case of middle-east and North African countries:** The (ARDL) procedure can be applied because the underlying variables are stable at different orders. While (EGm) is stable at level I.e. I(0), the (EXm) is stable at the first difference i.e. I(1). The findings are as following:

**4.2.1.1. Bound test:** Bound F-statistic (bound test for cointegration) is employed in order to establish a long-run relationship among the variables. This bound F-statistic is carried out on each of the variables as they stand as an endogenous variable while others are assumed as exogenous variables (Nkoro, et al.2016). ARDL bound test findings are showed in the table (4.2) below:

Table (4.2) bound test result

|  |  |  |
| --- | --- | --- |
| Critical values | F. Statistic | |
| 9.068721 | |
| 1(0) | 1(1) |
| 10% | 3.02 | 3.51 |
| 5% | 3.62 | 4.16 |
| 2.5% | 4.18 | 4.79 |
| 1% | 4.94 | 5.58 |

Source: Eviews10; Authors calculation

In table (4.2) it is noticed that the statistical value (F) is (9.068721), which is greater than the maximum critical values at the level of (1%) which equals (5.58), so, The results suggest the existence of a level relationship (a long-run relationship) for the dependent variable and its repressor since the null hypotheses are rejected at 0.01, 0.05 or 0.10 levels.

**4.4.1.2. Long-run coefficients:**

In Table (4.3),a positive but none significant impact of Exports (EXm) on economic growth rates (EGm), i.e., the exports have no significant effects on economic growth in the long-term periods rather than the Bound test findings in table (4.2).

Table (4.3) Long-run estimates for the ARDL Model

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Long Run Coefficients | | | | |
| Prob. | T- Statistic | Std - Error | Coefficient | Variable |
| 0.8901 | -0.139634 | 0.053661 | -0.007493 | EX |
| 0.0590 | 1.978418 | 2.133905 | 4.221756 | C |

Source: Eviews10; Authors calculation

**4.2.1.3 Short-run relationship:**

Table (4.4) shows partially different results; it was also found a none significant short-run relationship between Exports (EXm) and economic growth, when we consider for (EXm) with one lag, whereas for D(EXm) there exists a positive and significant short-run effect of exports on economic growth but, only at 10% level of significance.

Table (4.4) short-run estimates for the ARDL Model

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Long Run Coefficients | | | | |
| Prob. | T- Statistic | Std - Error | Coefficient | Variable |
| 0.0765 | 1.847500 | 2.271015 | 4.195700 | C |
| 0.0000 | -5.187435 | 0.191584 | -0.993828 | EGm(-1) |
| 0.8900 | -0.139661 | 0.053319 | -0.007447 | EXm(-1) |
| 0.0985 | 1.715970 | 0.151645 | 0.260218 | D(EXm) |

Source: Eviews10; Authors calculation

The results of the error correction model showed that the error correction slowdown coefficient reveals the speed (or slow) of the variables returning to the equilibrium state. The negative signal shows the short-run dynamic model convergence and, the negative and moral coefficient associated with slowing the error correction limit is a more effective way of demonstrating cointegration. In this model, the value of the error correction coefficient CointEq (-1), which means the error correction speed, is negative and is (-0.993828) and, we note that it has a strong statistical significance at the level of 0.000%, which increases the accuracy and validity of the equilibrium relationship in the long run, which means the error correction speed, is negative and is about (-0.993828) , and we note that it has a strong statistical significance at the level of 0.000%, which increases the accuracy and validity of the equilibrium relationship in the long run. it also indicates that the growth rate in one slow period reached (-0.993828), with a negative signal and a probability of 0.000, which means that the annual growth rate passes shocks in the short term by (-1.993828) years, that is, the growth rate is due to its long-term equilibrium over a period of (1.993828) or two years and, passes full shocks during mentioned period.

**42.2. The case of South-Asian countries:**

While the unit root test indicates that both variables are stable at the level then, Engle-Granger test will be adopted which intern could be done within two steps:

1. Estimating the cointegration regression by OLS, obtaining the residual (ût).

2. Applying unit root test for ût.

To test an equilibrium assertion, the null Hypotheses that ût has a unit root against the alternative that it has a root less than unity will be tested. The OLS regression estimators are in the table (4.5) below:

Table (4.5) OLS regression estimators

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| EX | -0.004608 | 0.040039 | -0.115090 | 0.9092 |
| C | 6.150294 | 0.506429 | 12.14443 | 0.0000 |
| R-squared | 0.000457 | Mean dependent var | 6.103302 |  |
| Adjusted R-squared | -0.034010 | S.D. dependent var | 1.640427 |
| S.E. of regression | 1.668090 | Akaike info criterion | 3.923576 |
| Sum squared resid | 80.69318 | Schwarz criterion | 4.016091 |
| Log likelihood | -58.81543 | Hannan-Quinn criter. | 3.953734 |
| F-statistic | 0.013246 | Durbin-Watson stat | 1.580926 |
| Prob(F-statistic) | 0.909167 |  | |

Source: Eviews10; Authors calculation

It is obvious that the coefficient of exports is non-significant then we accept the Null hypotheses i.e., there is no relationship between export growth and economic growth in South-Asian countries. Furthermore, there is a very low and negative value of Adjusted R-squared. To test of been there a cointegration between the two variables we follow the second step; i.e. the stationary test of the residuals via (ADF) tests. Following the results in a table (4.6) we find that the residuals (Ut) are stable at level and significance at 1% level or less. This indicates the presence of cointegration between export growth and economic growth in South-Asian countries.

Table (4.6)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Order of integration | variables | Augmented Dickey-Fuller | | |
| intercept | Trend and intercept | None |
| Level | Ut | -3.525607 | -4.390494 | -3.589102 |

Source: Eviews10; Authors calculation

However, the 5.0% critical τ value is −3.29. With the MacKinnon (1991) critical values adjusted for the number of variables Since the computed τ (= t) value is more negative than this, which is significant, our conclusion is that the residuals from the regression of EXsa on EGsa are I(0); is stationary. This means rejection of the null Hypothesis, therefore there is evidence of a cointegration relationship between EXsa and EGsa.

**4.4.3. Structural stability tests of estimated Models:**

The figures (1&2) &(3,4) below, shows structural stability of the time series for Middle East and North African and, South Asian countries. however, the total cumulative sum control chart CUSUM remaining for this pattern is an average line within the boundaries of the critical region, indicating the stability of the pattern at a large 5% boundary in figures(1,3,4), which indicates the structural stability of the parameters, because they are all within the limits of confidence during the study period, even the cumulative sum of the squares of the residuals (CUSUM of Squares) Figure (2), shows some breakpoints during the period (1997-1994).

|  |  |
| --- | --- |
| Figure (4) | Figure (3) |
| Figure (6) | Figure (3) |

Figures(1-4): CUSUM & CUSUM of Squares recursive test

Source: Eviews10; Authors calculation

**4.4.4 Diagnostics tests:**

Here we will test for both serial correlation and Heteroscedasticity between the errors. For testing the hypothesis of non-correlation of errors, we use a serial-correlation test (Breusch-Godfrey Serial Correlation- BG) since it valid in the presence of stochastic repressors such as lagged values of the dependent variable for higher-order autocorrelation. The BG test computes the Lagrange multiplier test for non-independence in the error distribution (Ljung &Rumana, 2012). Hence table (4.9) shows that Lagrange multiplier LM <𝜒2 and probability values are not significant at 5%, this indicates that there is no subjective correlation for the remainder of the estimated a model, and we then reject the Null Hypothesis of being there a serial correlation between the errors.

Table (4.9) Breusch-Godfrey Serial Correlation outputs

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Breusch-Godfrey Serial Correlation | | | | Country groups |
| 0.5440 | Prob. F (1,26) | 0.625206 | F-statistic | Middle East |
| 0.4735 | Prob. Chi-Square (1) | 1.495312 | Obs\*R-squared |
| 0.5677 | Prob. F (1,26) | 0.578222 | F-statistic | South Asia |
| 0.5291 | Prob. Chi-Square (1) | 1.273235 | Obs\*R-squared |

Source: Eviews10; Authors calculation

There are several tests to detect that the residuals are homogeneous or not, among them the ARCH test. It was found that the model does not suffer from the problem of Heteroscedasticity, while the value of LM <𝜒2 and the probability values are not significant at 5%, and this indicates the Homoscedasticity of the residuals estimated, as shown in the table (4.10) below:

Table (4.10) Heteroscedasticity Test: ARCH

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Heteroscedasticity Test: ARCH | | | | Country groups |
| 0.7693 | Prob. F (1,26) | 0.087845 | F-statistic | Middle East |
| 0.7588 | Prob. Chi-Square (1) | 0.094284 | Obs\*R-squared |
| 0.2629 | Prob. F (1,26) | 1.305267 | F-statistic | South Asia |
| 0.2477 | Prob. Chi-Square (1) | 1.336211 | Obs\*R-squared |

Source: Eviews10; Authors calculation

**4.5. Granger causality test:**

The regression analysis deals with the dependence of one variable on others, however, it does not necessarily imply causation Or the direction of influence. But in regressions involving time series data, the situation may be somewhat different (Gujurati,2004).

Since there is cointegration between the variables, the final step is to test for the direction of causality using the vector error correction model. The presence of a cointegrating vector allows for the use of a vector error correction model to test causality. according to a test developed by Granger (1969), a variable (in this case exports) is said to Granger cause another variable (GDP growth) if the values of exports help to predict growth rates. To test whether exports Granger causes growth, this paper applies the causality test developed by Granger (1969) (Gujarati, 2004).

The results of the Granger causality test are presented in Table (4.11) the results for the Middle East and North African countries show that there no Granger causality between economic growth and exports for the two directions. For the South Asian countries, we note a unidirectional causality from economic growth to exports. These results provide evidence that growth in both country groups was not propelled by an export-led growth strategy. Exports aren’t thus seen as the source of economic growth in mentioned countries.

Table (4.11) Granger causality

|  |  |  |  |
| --- | --- | --- | --- |
| Null Hypothesis: | Obs | F-Statistic | Prob. |
| EXm does not Granger Cause EGm | 28 | 0.85992 | |  |  | | --- | --- | | 0.7866 |  | |
| EGm does not Granger Cause EXm |  | 0.24250 | 0.4364 |
| EXsa does not Granger Cause EGsa | 28 | 1.28858 | |  |  | | --- | --- | | 0.2941 |  | |
| EGsa does not Granger Cause EXsa |  | 4.52390 | 0.0215 |

Source: Eviews10; Authors calculation

**5. Conclusions:** The aim of the study is to carry out the relationship between exports and economic growth. For this purpose, the main questions are how the Exports impact economic growth. This study re-examines the export-led growth hypothesis for the two developing country groups i.e. the Middle East and North African and, South Asian countries. the exports are measured as the annual growth rate of exports, and economic growth as the annual growth rate of GDP. Using standard time series procedures of unit root testing via (ADF, PP) tests, cointegration, and error correction modeling and Granger causality tests.

Unit root tests, using both methods which are conducted with the trend, intercept and none confirm that the dependent variable EG is stable at the level; for middle east-north Africa and south Asian cases, but the EX is stable at the level for the Middle-East and EX is stable at the first difference South Asian country group case. However, all the results are significant at the 1 % level or lower. It was found the evidence for long-run cointegration relationships between the exports and economic growth in both cases. But there is no evidence for significant relations between them.

The findings of the causality test show that there no Granger causality between economic growth and exports in the two directions for the Middle East and North African countries. But for the South Asian countries, we note a unidirectional causality from economic growth to exports.

The above findings indicate that growth in both country groups was not propelled by an export-led growth strategy. Exports aren't thus seen as the source of economic growth in both cases.

The test of the model efficiency using Wald residuals statistics found that the model has no ARCH effect, the residual is normally distributed and the model does not have serial correlation and free from Heteroscedasticity. Given the slight n the results from the two cases It is also possible that due to the proliferation of free trade agreements exports are no longer the prime determinant of economic growth as most countries, including many developing countries, have the ability to export to most other countries. The factors of economic growth remain the subject of future research projects. Finally, the study suggests that output growth and export promotion strategies can be pursued with a focus on sustainable and inclusive growth.

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