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The Impacts of Export in Stimulating Economic Growth in Ethiopia: ARDL Model Analysis

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Abstract : The purpose of the study was to empirically investigate the impacts of export performance and its volatility on economic growth in the Ethiopian economy. To do so, time-series data of the sample period from 1974/75 – 2017/18 were collected from databases and annual reports of IMF, WB, NBE, MoFED, UNCTD, and EEA. The extended Cobb-Douglas production function of the neoclassical growth model framed under the endogenous growth theory was used to consider both the performance and instability aspects of export. First, the unit root test was conducted using ADF and PP tests, and data were found in stationery with a mix of I(0) and I(1). Then, the bound test and Wald test were employed, and results showed that there exists long-run co-integration among study variables. All the diagnostic test results also reveal that the model fulfills the criteria of the best-fitted model. Therefore, the ARDL model and VECM were applied to estimate the long-run and short-run parameters, while the Granger causality test was used to test the causality between study variables. The empirical findings of the study reveal that only export and coefficient of variation had significant positive and negative impacts on RGDP in the long run, respectively, while other variables were found to have an insignificant impact on the economic growth of Ethiopia. In the short run, except for gross capital formation and coefficients of variation, which have a highly significant positive impact, all other variables have a strongly significant negative impact on RGDP. This shows exports had a strong, significant impact in both the short-run and long-run periods. However, its positive and statistically significant impact is observed only in the long run. Similarly, there was a highly significant export fluctuation in both periods, while significant commodity concentration (CCI) was observed only in the short run. Moreover, the Granger causality test reveals that unidirectional causality running from export performance to RGDP exists in the long run and from both export and RGDP to CCI in the short run. Therefore, the export-led growth strategy should be sustained and strengthened. In addition, boosting the industrial sector is vital to bring structural transformation. Hence, the government has to give different incentive schemes and supportive measures to exporters to extract the spillover effects of exports. Greater emphasis on price-oriented diversification and specialization on major primary products that the country has a comparative advantage should also be given to reduce value-based instability in the export earnings of the country. The government should also strive to increase capital formation and human capital development via enhancing investments in technology and quality of education to accelerate the economic growth of the country.

Keywords : export, economic growth, export diversification, instability, co-integration, granger causality, Ethiopian economy
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