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A Causality Analysis on the Empirical Nexus Between Export and Economic Growth in Post-Soviet Countries: Evidence from Georgia

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Abstract

Today foreign trade is inevitable for a country like Georgia where resources and markets are limited for the sustainable and economic growth of the country. The role of export in the economic performance of Georgia was clearly demonstrated by the experience of collapse of national economy after the independence from Soviet Union and consequent political barriers to trade with Russia. The paper tries to assess empirically the relationship between export and economic growth in Georgia using annual data over the period 1972–73 to 2010–12. The research is based on econometric time series techniques. Granger causality and cointegration test were used to test the hypothesis of economic growth led by export. The paper is based on the following research questions whether there is bidirectional causality between GDP growth and export, or whether there is unidirectional causality between the two variables or whether there is no causality between GDP and export in Georgia or whether there exists a long run relationship between GDP and export Georgia. Before conducting the causality test unit root properties of the data are examined using Augmented Dickey Fuller test. The Johansen cointegration test is done to indicate an existence of long run equilibrium relationship between the two variables. The data indicates that Georgia can expand its domestic market by exporting both manufactured item and agricultural goods and services. Exports increase contribute to GDP, and as a whole they contribute to the economic growth of the country. The result shows that there is bidirectional Granger causality between total export and GDP and in short run both variables does not cause each other. The determination of the causal pattern between export and growth has important implications for policy-makers decisions in order to implement appropriate growth and development strategies.

Keywords: Econometric modeling, economic development, Georgia, trade and development