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DOES EXPORT GROWTH EXPLAIN LONG-RUN GDP GROWTH IN INDIA AND SRI LANKA?: EVIDENCE FROM THIRLWALL'S LAW

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The present study examines the long-term GDP growth rate in India and Sri Lanka using Thirlwall's (1979) balance- of-payments constrained GDP growth (BOPCG) model. Thirlwall's BOPCG model survived more than three decades through various empirical studies that examined the long-term GDP growth dynamics of various countries across the world using export growth and import elasticity of imports. In order to test for long run relationship between export growth and GDP growth in India and Sri Lanka we apply cointegration analysis using annual data on real GDP, real exports, and real imports for the period 1950-2013. Unit root tests suggested that real GDP and real exports are integrated of order one, I(1). Both trace and max eigenvalue statistics suggested that real GDP and real exports are cointegrated. Results show that there exists a long-run relationship between export growth and GDP growth in case of India and Sri Lanka.

Thirlwall's law remarkably predicts the following GDP growth in India for four sub-periods out of six sub-periods: 5 percent for 1961-1970, 3 percent for 1971-1980, 6 percent for 1991-2000, and finally 6 percent for 2001-2013. However, the model was further off for two sub-periods: 1951-1960 and 1981-1990. However, we find quite a different picture in case of Sri Lanka. Except the near accurate prediction for the period 1966-1975, the prediction of GDP growth for Sri Lanka by Thirlwall models was quite far apart from the actual growth observed during different sub-periods. The results are puzzling and we need to research the puzzle further to understand which factors contributed to the results observed in the study.

Keywords: *Balance of Payments Constrained Growth. Income Elasticity of Imports, Export Growth, Thirlwall's law, Cointegration, India, Sri Lanka*