Trade-Growth Nexus through Demand-Driven Perspective: Recent Evidence from South Africa

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In this study controversial relationship between international trade and economic growth is reevaluated under the guidance of relevant growth theories. It departs from recent papers on trade-growth empirics that utilized supply-focused neoclassical growth models as the fundamental basis of their econometric methodology. As exports represent the demand-side of economic growth, neoclassical approaches ended up with inconsistent results. The export-led growth hypothesis is likewise the center of our analysis to delve deeper into the trade-growth link, yet we consolidate the nexus with demand-driven growth economics.

Our paper brings two new approaches to the literature. One is that balance of payments constrained growth (BPCG) model, a demand-based growth model, is associated with export-led growth researches for the first time. Secondly the most recent time series econometric methods, namely vector error correction model with exogenous variables and corresponding impulse response analyses with forecast error variance decompositions, are implemented on BPCG. In doing so, vector autoregression estimations of the BPCG model are aligned with the theory. The impact of current account disequilibrium is involved in the estimations via import-export ratio which was neglected by former studies on BPCG. Furthermore, world income is inserted as an exogenous variable as it was supposed. As a consequence of our research Thirlwall's Law holds for South African economy, and firm evidence in favor of export-led growth and growth-led import hypotheses is acquired.

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