Terms of trade and economic growth in Japan and Korea: An empirical analysis

Abstract

This study examines the impact of terms of trade and terms of trade volatility on economic growth in Japan and Korea using time series data. The results of the Johansen (1988) cointegration method show that real gross domestic product (GDP) per capita and terms of trade are jointly determined. Generally, an increase in terms of trade volatility will lead to a decrease in real GDP per capita. An increase in oil price will lead to a decrease in terms of trade. The results of the generalised forecast error variance decompositions show that the important contributors to real GDP per capita are different between Japan and Korea. A favourable and a less volatile terms of trade are important for economic growth.