

An Empirical Relationship between Trade Liberalisation and Electricity Consumption in Bangladesh

Sakib B. Amin and Priyanka Mallick Proma

Causal relationship between trade openness and electricity consumption has gained little interest of researchers in Bangladesh compared to the policy makers all around the world. These two crucial macroeconomic variables are of utmost importance when it comes to attainment of economic growth. Thus, this paper is carried out to fill in that gap. The initial motivation behind this paper is the idea that since Bangladesh is historically opening up to engaging in bilateral and multilateral trades due to the increasing trade openness, such globalization moves should ideally result in increasing demand for electricity for more production and economic growth. The initial hypothesis is that trade liberalization leads to more electricity consumption in general. This paper examines the causal relationship between trade openness and electricity consumption in Bangladesh economy using annual data from 1980 to 2013. Considering a multivariate model, the Augmented Dickey Fuller (ADF) test is used to check if the variables are stationary or not. Next, the Johansen cointegration method is applied followed by the Granger causality test to check the causal relationship among the variables. Our results reveal that electricity consumption causes trade openness in long-run. Therefore, more electricity consumption leads to more trade. Hence, we suggest that energy growth policies regarding electricity consumption should be adopted in such a way that the development of this sector stimulates economic growth in future. In order to prevent any electricity shortage to satisfy the higher energy demand at the next decades, new electricity power plants must also be developed in Bangladesh in future.

Field of Research: Economics