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Economic Convergence for Developing and Developed Countries: A Cointegrated Time Series Data Analysis Comparison for Rwanda And Japan from 1970 To 2013

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ABSTRACT

The main aim of this research is to examine the economic growth of developing and developed countries and see if those categories will converge economically by comparing the per capita growth models for the developed with developing countries. To realize this catch up event, assume that the economic growth rates in developing countries are on average higher than those in developed countries as most of the developing countries still having in abundance natural resources and many economic areas to be exploited. We compare the economic growth of Rwanda and Japan which are developing and developed countries respectively, having a similar history leading them to the catastrophic fall down of their national economies (for the Rwanda civil war and the genocide of 1994 and for Japan, the second World War and the effects of the atomic bombs launched at Nagasaki and Hiroshima in 1945). We use GDP per capita(Y1) in the model depending on Consumption (X1), Gross capital formation(X2), Exports of goods and services(X3) and imports of goods and services (X4) from 1970 to 2013). By Johansen Cointegration approach, we verify the long run correlation and goodness of the models. Findings reveal that all independents variables in the study contribute significantly to the per capita of those countries, but the potentiality of each counties category are different as for the developing countries the most contributors is a negative contributor to per capita where in the developed countries the most contributor is the positive one. The study concludes that, however GDP per capita growth rate in developing countries is on average higher than those in developed countries considering their opportunities, it can take a long time for poor countries to catch up with the rich even never as those poor countries also will arrive at a point where their economy will growth at a low rate as the developed countries. We recommend to developing countries, to reduce the importation of goods and services as a said negative contributor to the per capita, encourage local products consumption, empowerment of the Gross capital formation to encourage production beyond domestic consumption for all products and expand the growth of other sectors that are useful in accelerating the economy. For developed countries, however the most contributor is a positive to the per capita, this most contributor is the consumption, this imply that they consume a greatest part of their production. We recommend to the developed countries, to reduce the consumption and exports goods at low prices. Those will promote the situation convergence. Otherwise it can't be realized soon with the normal situation.

KEYWORDS Gross Domestic Product per capita; economic growth; Consumption; Gross capital formation; Exports of goods and services and imports of goods and services

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