

Outward orientation: Economic development policy for small economies

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For the small or developing economies in the world, their economic development rely mostly on foreign investment and international trade, and is known as the outward-orientation of economic development policy. This paper will explore the empirical examination study of the international integration degree of Sri Lanka comparing with similar economies, Taiwan, Singapore, and South Korea. It examines how their opening in terms of its financial market and international trade is related to the economic growth of each of the four small economies not only in time-series but also in cross-country data. The economic development of those economies could be provided as examples and the comparison with Sri Lanka could lead to a suitable and sound economic policy for most developing countries in the world. We use a random coefficients model, a seemingly unrelated regression model, and covariance structures for the time-series cross-sectional data. (William H. Greene, 2000) The results of this empirical study could examine the process of the economic development of not only the other three small economies but also Sri Lanka. The success of the other three economies could demonstrate the value of their economic development policy and its suitability for developing countries. However, the limitation is that we cannot include social and political factors into the economic model, although the wealth and sufficiency for the society resulted from the economic consistent development could lead the social change and political stability.

Key words: Outward-orientation; Economic development policy; Small Economies; Social change; Political stability