SYNOPSIS OF EXPORTS AND ECONOMICS GROWTH: FURTHER EVIDENCE

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For industrial-based countries, which are focused in this paper, two major international trade policies are export-oriented and import-substitution policies. To verify the relationship of export and economic growth, this paper proves the hypothesis that more favorable condition for GNP growth exists in export-oriented policies than in the other.

The rationale for the above hypothesis is that these export-oriented policies provide five important merits: (1) better resource allocation according to comparative advantage, (2) greater capacity utilization due to larger market, (3) permission of the exploitation of economies of scale, (4) technological improvements in response to competition aboard, and (5) contribution to an increase in employment in labor-surplus countries. Moreover, after the easy stage of import substitution is over, two mains disadvantages would take place: (1) rising costs due to loss in economies of scale in small national markets and (2) relatively capital intensive nature of the products involved. For the later, there would be a shift of labor from export industries to these industries; reducing consumption possibility and efficiency due to Harry Johnson (1967)

For the test, it is separated into three parts based on the sample from eleven developing countries; separating into four groups whose policy ranges from intensively export orientation to vigorous import substitution. The first section deals with overall relationship between export growth and output growth as well as relationship of the degree of export orientation and output growth. Applying Spearman’s rank correlation, the result shows the significantly high positive correlation for both relationships; implying the crucial role of export and trade orientation in economic growth.

Yet, the export growth is not the only variable determining growth. Generally, in production function, output is jointly affected by domestic and foreign investment, and labor. Hence, the test in the second section takes this fact into account. By the method of Michalopoulos and Jay (1973), export growth is additionally included in the regression of output on above basic factors. The result indicates an improvement in explanatory power of the model after inclusion; again signifying the importance of export in output growth determination.

In the last section, the implications of intercountry differences in export performance for the rate of economic growth are explored. The idea is, in the period of interest, what the economic growth rate would be if the actual export growth of each country were replaced by the average growth rate of all countries in sample for that period. The outcome is that economic growth would fall for the countries whose the export growth was above average and the otherwise is true for the ones whose the export growth was below average. The conclusion is that trade orientation has been an important factor contributing to intercountry difference in the growth of incomes.