EXPORTS AND ECONOMIC GROWTH FOR THE 1960'S AND THE 1970'S

by

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INTRODUCTION

There have been many studies of the relationship between economic growth and export growth. The hypothesis which has been tested by many economists is that a rapid growth of exports will accelerate economic growth. The logical grounds supporting this hypothesis can easily be seen by investigating the reasons for exporting.

Why do countries export? Basically, because it is profitable to do so. Trade between countries, like trade between individuals, business firms and regions in the same country, results because both buyer and seller can gain from it. If both parties do not expect to gain, there will be no trade. The law of comparative advantage explains that mutual gains arise from specialization and exchange. Each trading partner gains by specializing in the production of goods which he can produce at the lowest opportunity costs while trading for those goods which he can produce at the highest opportunity costs. This specialization minimizes the cost of production and leads to a maximum joint output between trading partners. The principle works in exactly the same way for trade between countries. We know that the resource base of countries varies. A country may lack some vital resources that it can get only by trading with others. Also, a country's climate, labor force, and other endowments may make it a relatively efficient (low opportunity cost) producer of some goods and a relatively inefficient (high opportunity cost) producer of other goods. As long as the difference in relative efficiency exceeds transportation and other transaction costs, trade will lead to mutual gain because it enables producers in each country to specialize in the production of those goods that they can do the best. Also, it will maximize the global output and enable countries to consume a combination of goods that lies outside the production frontier. This leads to the suggestion that export growth can serve to relax some major constraints on a country's economic growth. More specifically, increasing exports may relax the constraint of imported capital goods to economic growth by increasing the country's ability to import capital goods. Export development also helps to relax constraints that limit the utilization of all resources. Exports tend to stimulate more efficient use of resources, to encourage low cost production, to concentrate investment according to its competitive advantage, and to make economies of scale possible because of market expansion. These elements tend to increase the country's productivity. Furthermore, growing exports encourage the flow of technology, market innovation, and managerial skills which are crucial to economic growth. Finally, exports can indirectly stimulate an increase in consumption, and attract more domestic and foreign investment. All these factors tend to reinforce each other and contribute an increasing rate of growth in real gross national products.