

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

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by

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B.A., Drury College, Springfield, Missouri, 1980

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A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF ARTS

Department of Economics

KANSAS STATE UNIVERSITY

Manhattan, Kansas

1983

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#### ACKNOWLEDGMENTS

I wish to express my gratitude to Dr. Patrick Gormely, my major Professor, for his guidance, patience and encouragement in the preparation for this report.

I also wish to express my appreciation to Dr. E.S. Bagley and Dr. Mark Newman for serving as members of my graduate committee. Their comments and suggestions were very useful in the completion of this report.

Finally, to my lovely wife, Nancy, who provided love, the spiritual and intellectual inspiration to persevere under difficult circumstances, I can do no more than reaffirm my eternal devotion.

## TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS . . . . .	ii
LIST OF TABLES . . . . .	iv
Chapter	
1. INTRODUCTION . . . . .	1
2. RECENT TESTS OF THE HYPOTHESIS . . . . .	3
A) Spearman Rank Correlation Tests . . . . .	3
B) Regression Analysis Tests . . . . .	9
3. CRITICISM OF THE RECENT TESTS . . . . .	16
4. A RE-TESTING OF THE HYPOTHESIS . . . . .	19
A) Statistical Procedures and Descriptions . . . . .	19
B) The Multicollinearity Problem and the Appropriate Measure for Export Performance . . . . .	22
C) The Importance of the type of Exports to Income Growth . . . . .	36
5. CONCLUSION . . . . .	43
SELECTED BIBLIOGRAPHY . . . . .	45
APPENDICES . . . . .	46

## LIST OF TABLES

1.	Summary of Previous Studies on Relationship between Export Performance and Economic Growth by Spearman Rank Correlation Analysis . . . . .	7
2.	Batchelor's Study on His 5 Regression Equations . . . . .	15
3.	Regression of Growth in GDP per capita on Growth in Exports for the 1970's -- Batchelor's Equations . . . . .	23
4.	Artificial Regressions among Independent Variables for 1970's . . . . .	24
5.	Regression of Growth in GDP per capita on Variables $F_{70}$ , $I_{70}$ , $GI_{70}$ , $g(E)_{70}$ , $e_{70}$ , $eg(E)_{70}$ . . . . .	27
6.	Regression of Growth in GDP per capita on Variables $F_{60}$ , $I_{60}$ , $GI_{60}$ , $g(E)_{60}$ , $e_{60}$ , $eg(E)_{60}$ . . . . .	29
7.	Artificial Regressions to determine the Existence of Multicollinearity in Equation (2) : $g(y) = F I GI g(E)$ , and Equation (5) : $g(y) = F I GI eg(E)$ for the 1960's and 1970's . . . . .	30
8.	Regression of Growth in GDP per capita on Variables with and without Capital Inflow (F) for the 1960's and 1970's . . . . .	33
9.	Regression of Growth in GDP per capita on Variables I, GI and $eg(E)$ for Non Oil- Exporting Countries . . . . .	35
10.	Regressions of Growth in GDP per capita on Variables I, GI and $eg(E)$ for the Low Income Countries, Middle Income Countries and High Income Countries . . . . .	37
11.	Regressions of Growth in GDP per capita on Variables I, GI and $eg(E)$ for Different Groups with Different Composition of Exports for the 1970's . . . . .	40

## Chapter 1

### 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.