Export-led Development in a Post-Pandemic World

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Outline (1/2)

- Export-led Growth
- What is Special About Exports
- Imports are at the Heart of Export-led Growth
- Export Orientation and Import Substitution are Fundamentally in Conflict
- Two Recent Developments and Export-led Growth

Outline (2/2)

- Evidence: 2 Myths
  - Import Substitution is behind the golden age of growth
  - Industrial targeting was behind the miracle growth
- Outward Orientation: Beyond Growth
- Export-led Development in the Post-pandemic Era
- Concluding Remarks

Export-led Growth

- Growth is the most important component of development (which additionally includes poverty alleviation, urbanization, education and health outcomes)
- The assigned title also calls for focus on the post-pandemic era
- But first focus on the more conventional subject of **Export-led Growth** since even this narrower subject remains controversial
- I will return to other development issues and the post-pandemic context later

What is Special about Exports?

- Exportable products are those in which the country’s costs are lower than those of other countries.
- If economies of scale are present, exporting abroad allows their exploitation
- Competition against the best in the world
- Technology diffusion
- Commitment to free trade shifts the focus on domestic reforms

Imports are at the Heart of Exports

- The reason to export is so that the coutnry may import products in which its own production costs are high
- Imports ought to be cherished not shunned
- To dramatize the point, consider the hypothetical example in which
  - a country exports all its GDP on ships which then sink midway in the ocean.
  - Port records will show a 100% exports/GDP ratio
  - But will the country be better off?
  - The only reason to export is to get the maximum possible imports in return

Simultaneous Pursuit of Exports-led Growth and Import-substitution Industrialization (ISI)

- There is a popular belief that one can pursue export-led growth while simultaneously promoting ISI
- This is a fallacy: IS will necessarily dampen exports
- Under IS,
  - **Output of exportable products shrinks**: Capital moves into import-competing products, which leaves less of it for exportable products
  - **Domestic consumption of exportable products expands**: Higher prices of importable products encourage a shift in consumption towards exportable products
  - Both factors imply less is left for exports
  - At the heart of this is the **Lerner Symmetry Theorem** which says that the effect of a 10% tariff on all imports is identical to that of 10% tax on all exports

Exports and Imports Move in the Same Direction

Two Recent Developments (1/2)

- Sharp reduction in the cost of moving goods and information internationally
- Increased complexity of products and production process whereby the production can be broken into more and more components and activities (for example, the iPhone consists of 1600 different components)
- This means that costs are minimized by producing different components in different locations depending on where the cost is the lowest
- The result is geographical diversification of production process (1600 components of the iPhone are produced by 200 firms located in 43 different countries)

Two Recent Developments (2/2)

- Implications
  - It is **very costly to encourage more value added per unit** of the product by raising tariffs and encouraging the production of more and more components domestically (the Phased Manufacturing Program (PMP) is costlier than ever today)
  - **Better to specialize in a handful of components** and capture a large share of the world market in each
  - Since the components must cross many borders before being assembled into final products, tariffs can quickly escalate the cost of production

Export-led Growth has Worked

Period	Growth Rate	
	Developing	High Income OECD
1961-75	2.9	3.6
1976-94	2.1	2.3
1995-2013	4.2	1.4
1961-73	2.9	4.2
1974-90	1.9	2.3
1991-2013	4	1.4

Claims of Industrial Targeting being Behind the Success of Asian Economies Fail Careful Scrutiny

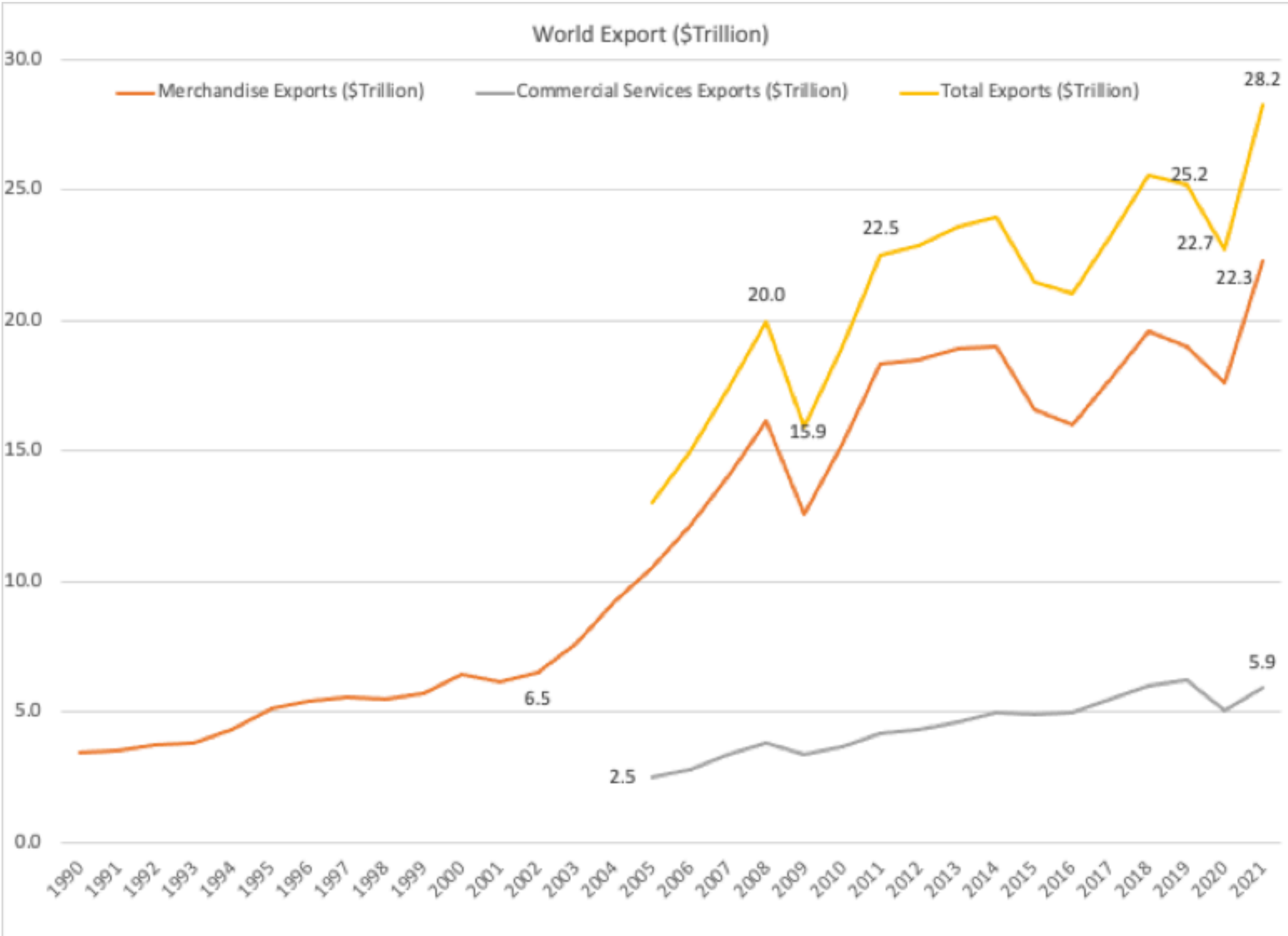
- South Korea grew 9.1% annually under a neutral regime during 1963-73 but only 6.9% under industrial targeting during HCL drive pursued in 1974-82
- A return to the neutral regime restored growth to 8.7% during 1983-95
- Taiwan, Singapore and HK which intervened less than S Korea grew faster

Beyond Growth

- South Korea provides a representative example of miracle economies
  - Poverty fell (from 40.9% in 1965 to 14.8% in 1976) purely through the “pull-up” effect without any substantial redistribution
  - Share of industry and services in employment rose from 32% in 1960 to 82% in 1990 with real wages rising 9-10% annually
  - Urban population rose from 29.1% in 1960 to 74.4% in 1990
  - Life expectancy at birth rose from 55 years in 1960 to 72 years in 1990
  - Net secondary school enrollment ratio rose from 35% in 1971 to 88% in 1991

Will the Post-pandemic Era be Different?

- Three issues here
  - Has the pandemic itself fundamentally altered the way of life so as to make the reliance on exports as the engine of growth problematic?
  - Does the rising tide of protection around the world make export-led growth infeasible?
  - Has export-led growth lost its relevance in view of the shift in technology towards greater capital intensity and automation?
- Short Answer to all: No!!



World Export ($Trillion)
Merchandise Exports ($Trillion)
Commercial Services Exports ($Trillion)
Total Exports ($Trillion)
30.0
25.0
20.0
15.0
10.0
5.0
0.0
28.2
25.2
22.7
22.3
22.5
20.0
15.9
6.5
2.5
5.9
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021