What Does Liberalisation Do for Exports and Growth?

By

David Greenaway and David Sapsford


I. Introduction

The issue of what is the most appropriate trade strategy from the standpoint of stimulating industrialisation and growth has generated considerable controversy. The links between trade orientation and exports, and exports and growth have both been subject to empirical scrutiny. Recently, two developments have added an additional twist to the analysis. First, liberalisation and changes in trade strategy have occurred in a large number of developing countries; second, endogenous growth theory has resulted in some reappraisal of the determinants of growth.

This paper takes as its motivation these developments and addresses two questions: are exports and growth related, and if so how? Does liberalisation impact on exports and growth and if so how? The two questions are obviously linked – one needs to answer the first before addressing the second. Our approach is to test a model of growth which has exports as one of its arguments and then to use this model to see how the relationship is affected by liberalisation. This is part of a wider study using a database of 104 countries. However, the detailed analysis of growth and liberalisation pertains to a (non-random) sample of 19 countries, these being the countries in a major World Bank study which concluded that liberalisation unequivocally led to both export growth and output growth.

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The paper is organised as follows: Section II briefly reviews the literature on exports and growth and Section III that on how liberalisation affects exports and growth. Section IV discusses the results of the empirical analysis whilst Section V concludes.

II. Exports and Growth

There exists an extensive empirical literature on exports and growth. Table 1 presents a brief summary of the data, methodology and conclusions from a set of studies conducted between 1977 and 1993. Many of these find evidence of some association between exports or export growth and economic growth. Several find evidence of a difference in the effect of exports on economic growth between countries above and below some critical level of some variable, indicated in the table as "Threshold effect". A few brief comments are in order.

Michaely's 1977 study uses rank correlation methods while Balassa [1978] and Kavoussi [1984] use rank correlations and OLS regression analysis. Michaely is unusual in working with the growth in the share of exports in GDP as his "export" variable, arguing that since exports are part of the national product a positive correlation of the two variables is almost inevitable. This has been challenged by later writers, who have continued to use exports per se in their analyses. The general conclusion from all the rank correlation studies is that high levels of economic growth are significantly associated with high levels of export growth.

The production function methodology originated in work by Michalopoulos and Jay [1973] and is used by Balassa [1978; 1984], Tyler [1981], Kavoussi [1984], Moschos [1989] and Salvatore and Hatcher [1991]. In all these studies the growth rate of either GNP or GDP is regressed upon the growth rate of exports and a set of additional explanatory variables, usually related to the labour force and investment. All conclude that exports contribute significantly to the rate of economic growth of the developing countries studied.

Evidence on the existence of a "threshold effect" is mixed. Michaely [1977] divided his sample of 41 countries on the basis of their per capita income levels, and found that while for the 23 countries in his higher-income group the rank correlation between economic

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1 This section draws upon Greenaway and Sapsford [1993].