

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

An Analytical Study on The Export Led Growth Strategy and India's Development

Dr. R. Uma Devi

Ph.D., MBA, Assistant Professor

PG Department of Commerce, Dr. S. R. K. Govt. Arts College

Pondicherry University, Yanam, Puducherry, India

Abstract:

Globalization leads to economic transformation throughout the world which necessitates structural reforms. Developing country like India needs huge capital, infrastructure, improved technology etc. to compete with other countries and emerge as a developed one. Over the past decade, India is facing chronic financial crisis and to overcome this problem, it needs plenty of foreign exchange which can be earned through exports. Export growth is one of the key determinants of economic growth. By recognizing the significance of exports, the Government of India adopted it as an economic strategy. Industries producing export goods may receive governmental subsidies and better access to the local markets. This strategy enables to gain enough hard currency to import goods more cheaply from other countries. It implies opening domestic markets to foreign competition in exchange for market access in other countries. Now-a-days India has been one of the world's fastest growing economies and its success depends mainly on trade reforms, especially of Export-Led Growth strategy in view of its large internal market. On this backdrop, the present study is undertaken to analyze the strategy of Export-led Growth in the development of the economy.

Keywords: Exports, economic growth, export-led growth, Import Substitution Policy

1. Introduction

Since World War II, many countries in the world are facing hard time economically. During this time, many foreign markets were closed and facing severe economic crisis. In such stage, Latin American and Asian countries found that *Import Substitution Industrialization* is the solution to overcome the crisis. Later these countries focused on the growth strategy for the faster growth of the economy which resulted in *Export-Led Growth Strategy* and considered it as the best strategy to promote development. It considered the best as it enables huge profits, allows a country to balance their finances, as well as surpass their debts. The increased exports in turn hike productivity and vice versa which is an upward spiral cycle.

1.1. Causes for the shift towards Export-led growth strategy

As Economic Growth is the foremost goal of policymakers across the world, various strategies are adopting by the countries in order to pursue it. Over the last two decades, the world is concentrated on Growth-oriented Strategies and Export-Led Growth is one of such strategy. The East Asian "tigers" - the Republic of Korea and Taipei, China - have pursued *Import Substitution Policies* in the earlier phases of their rapid growth (1950-60s) to build up their own domestic manufacturing capacity and substitute domestically produced goods for imports and later shifted to *Export Promotion*. Till Mid-Seventies development policy rested on this model, but many countries felt slower growth and accelerated inflation due to non-improvement in this model. Hence they recommended production for export rather than production for domestic markets. They preferred export-led model as it focuses on market -directed economic activity. Import-substitution requires government provided tariff and quota protections which lead to productive inefficiency and rent seeking. Finally, it is also evidenced by the development of Japan after the severe distortion in the World War II, and the growth achieved by the East Asian economies which strongly relied on increased exports for their success in achieving rapid growth rates during mid-1990s.

1.2. Exports vs. Economic Growth:

At present, the exports and economic growth have been the burning issues which are interdependent concepts. There is an ambiguity that whether strong export performance stimulates the growth or vice versa. This is of prior importance in framing the policies for exports and growth strategies adopted for nation's export promotions. There are two important strategies while determining the role of export strategies in economic growth viz., *Export-Led Growth* and *Growth-Led Export*. In *Export-Led Growth Strategy*, export promotion encourages the production of goods and services in large scale. The exports contribute to diffusion of technology through other countries and also cause economies to scale for developing countries due to penetration into the world market. While in *Growth-Led Export Strategy*, the production pattern is influenced by domestic demand. Growth-led

export strategy has a special significance for developing countries like India, as the domestic demand of India is vast enough to sustain faster economic growth. Since the mid-1980s, the adoption of export-led growth strategy incurred mixed results in the world. Majority of countries have achieved and sustained rapid growth by adopting export promotion as an important component of their economic policies, but some countries have experienced low growth rates. This is due to the overdependence on a narrow set of exports and markets. The global economic crisis also reveals a limitation that the large exposure of exporting countries facing to financial vulnerability.

1.3. *Export-Led Growth: Theory and Empirics*

- The expansion of exports can lead to economic growth and trade openness which enables a comparative advantage by increasing efficiency.
- The expansion of exports will create job opportunities and improve quality and equality of labour.
- Trade liberalization opens the doors for the inflows of FDI which in turn enables capital formation, updated technical know-how, employment generation and trade opportunities etc.
- Exports contribute a significant share in GDP and exports as a percentage of GDP is an indicator of growth rate.
- Reliance on exports exposes countries to commodity price volatility.
- Exports also benefit the agriculturists who cultivate cash crops in vulnerable situations when markets experience sudden changes.
- Wages of unskilled labor in export-dependent economies have not risen, while those of skilled labor have exacerbating inequality.

2. Literature Review

The literature obtained from various researches has given valuable data in order to analyze the importance of liberalized economic policies, especially *Export-Growth Strategy* in the growth of the economy.

Michaely (1977), Feder (1982), and Marin (1992) found that countries exporting a large share of their output seem to grow faster than others. The growth of exports has a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities. Ram (1985) viewed that Exports facilitate exploitation of economies of scale, increased capacity utilization, strengthen inducement for technological change and relax the foreign resource constraint and may raise the productivity of labor and capital. Models by Grossman and Helpman (1991), Rivera-Batiz and Romer (1991), and Romer (1990) explains that expanded international trade increases the number of specialized inputs, increasing growth rates as economies become open to international trade. Buffie (1992) considers how export shocks can produce export-led growth to growth-driven exports. In contrast to the export-led growth hypothesis, scholars such as Bhagwati (1988) have noted that an increase in GDP generally leads to a corresponding expansion of trade. Neoclassical trade theory stresses the causality that runs from home-factor endowments and productivity to the supply of exports (Findlay 1984). In the case of Austria, Kunst and Marin (1989) found empirical evidence of growth-driven exports. The product life cycle hypothesis developed by Vernon (1966) also has attracted considerable attention among international trade theorists in recent years. Segerstrom, Anant, and Dinopoulos (1990) use the product life cycle hypothesis as a basis for analyzing North-South trade in which research and development races between firms determines the rate of product innovation in the North. The most interesting economic scenarios suggest a two-way causal relationship between growth and trade. According to Bhagwati (1988), increased trade produces increased GDP, and more income facilitates more trade - the result being a 'virtuous circle.' This was supported by Grossman and Helpman (1991) in their models of North-South trade.

Most studies focus on the causal link between exports and output growth in developing nations. Michaely (1977), Heller and Porter (1978), Balassa (1978) and Feder (1983) viewed that export growth promotes overall economic growth. Love and Chandra (2005) have supported that export-led growth has a strong role in the development of South Asia region. Some researchers like Serletis (1992), Henriques and Sadorsky (1996), Yamada (1998) have examined the export-led hypothesis with emphasis on industrialized countries. They have tested strategy in different economies such as UK, Canada etc. Henriques, Sadorsky (1996), Slovenia (2003) viewed that the econometric methods employed in such hypotheses testing have been significantly influenced by the work of Granger (1969, 1988), Sims (1972), Engle and Granger (1987), Johansen (1988, 1995), and Juselius (1990) etc.

Yagahmaian and Ghorashi (1995) oppose the neoclassical theory of export led growth and state that both high export performance and economic growth are result of continuous process of structural change. Batra and Pattanaik (1971) produced the paradoxical proposition that an exogenous improvement in the terms of trade can worsen, rather than improve, welfare if a country has distortionary wage differential. Sharma and Panagiotidis (2005) have used the co-integration and causality tests to test the validity of export-led growth hypothesis for period from 1971-2001 in India, the result states that export-led growth hypothesis does not hold true for India only big export shocks results in some influence on the GDP. Dhawan and Biswal (1999) after studying the relationship, with the help of multivariate co-integration technique, between real GDP, real exports and terms of trade for India during the period 1961-93 conclude that causality from exports to GDP appears to be a short run phenomenon. However, Nidugala (2001) uses an augmented production function with exports as a regressor and finds evidence in support of the export-led growth hypothesis for India, particularly in the 1980s.

It is evidenced that countries with strong export performance have strong growth performance and vice versa. Bhagwati (1988) opined that there is a reciprocal relationship between the two economic indicators – exports and development. He viewed that export growth in India drives GDP growth and vice versa. With regards to developed or industrialized countries, Marin (1992)

finds that the hypothesis of export-led growth cannot be rejected for the United States, the United Kingdom, Germany, and Japan. Kunst and Marin (1989) found that the growth-driven export hypothesis couldn't give fruitful results for Austria.

3. Methodology

The need to analyze the effect of export-promotion policies of India arises because of the recent considerable importance that the Government of India (GOI) has placed on it. Given the fact that India has an overwhelming accumulation of debt, high poverty and inequality levels, an analysis such as this would provide first-hand empirical evidence on whether further efforts in promoting exports are warranted.

3.1. Objectives of the Study

Due to the considerable importance given to exports, the present topic, “AN ANALYTICAL STUDY ON THE EXPORT LED GROWTH STRATEGY AND INDIA'S DEVELOPMENT” is undertaken to fill certain pertinent gaps found in previous researches on this concept. The general objective of the study is to empirically test the Export-Led Growth strategy for India's development and compare its export performance with other Asian countries.

The specific objectives are:

- To evaluate the trends of exports in India
- To analyze the need and significance of export-growth strategy
- To find out the constraints in implementing the export-growth strategy
- To specify and estimate a dynamic econometric time series model on the relationship between exports and economic growth of India.
- To test the causal relationship between exports and growth.
- To conduct a comparative analysis of India with other Asian countries in testing the export-led growth strategy

The study mainly based on secondary data such as annual data of various variables: real GDP, real Exports, real Gross Fixed Capital Formation (GFCF) and Labor Force (LAB). Gross Domestic Product, Exports, and Gross Fixed Capital Formation are measured in millions of US\$ (1995 based) and Labor Force is measured in units. In order to make the study more meaningful and easy, it was represented in tables and applied some macro economic concepts for analysis.

4. Analysis

Since 1990s, India is facing a hard time with severe financial crisis. In order to overcome this problem, the GOI has liberalized the trade policies and welcomed FDI inflows into various sectors. Even still India is struggling for the growth perspectives. Now-a-days the rupee value has come down drastically, unemployment increased enormously. In order to come out of the recession, the GOI considered that exports are the only source which brings out the country from the chronic crisis and hence adopted the *Export-Led Growth Strategy* to faster the growth rate.

4.1. The Export-Led Growth Hypothesis

The Export-Led Growth Hypothesis (ELGH) considers that export is the main source of the Government exchequer and is a major contributor of capital formation. Economists consider exports as an “*Engine of Growth*” and can be concluded that the association between exports and growth is attributed to the possible positive externalities for the domestic economy arising from participation in world markets. Export-led growth leading to development has become a central part of Free Market Economic Doctrine in such a way that international financial institutions like the World Bank and IMF and official government aid agencies have made producing for export (i.e. export promoting policies) a condition for providing loans or development aid. Export-led growth is believed to be the final path to economic recovery after stabilization and structural adjustments of the economy have taken place. Removing trade barriers is supposed to aid this process by insuring that the market will allocate resources efficiently, allowing business to cut costs by importing the cheapest goods available. It also encourages foreign investors to bring in new technology and capital.

As an engine of growth, it encourages and supports export-oriented production and can contribute to a more efficient allocation of resources within countries as well as amongst the world. In the development process, exports and export policies are regarded as crucial growth stimulators. The growth of exports plays a major part in the growth process by stimulating demand and encouraging savings and capital accumulation etc. Exports also increase the supply potential of the economy which in turn raises the capacity of import. Classical economists believed that ELGH as a development strategy enables development could be transmitted through trade. Hence the economies opened their doors for international market in order to grab comparative advantage through the promotion of exports and accordingly planned more efficient production and allocation of resources as the country can concentrate on the production of goods in which it has a comparative advantage based on its factor endowments. Thus, world trade markets allow producers and consumers of the participating countries to benefit from lower prices, better quality products, more diverse supply of goods and higher growth. Hence the developed and developing countries prioritized the strategy for the growth of the economy.

The objective of this study is to investigate the causal relationship between exports and economic growth of India. If the causality runs from export to GDP, which implies that exports oriented policies contribute to the economic growth. On the other hand, causality running from output to export, which implies GDP growth, promotes exports. If output increases exports increase which in turn result in increased growth rate and vice versa. Hence it can be concluded that output, exports and growth factor are

interdependent concepts and growth of one component enables the growth of other components. This analysis has been proved by incorporating the exports into the Cobb-Douglas function which can be explained as follows:

$$Y = f(K, L, X)$$

Where Y is output, K is capital, L is labor and X is exports of goods and services. The expected signs in the model would be positive for all three variables because they are all expected to have a positive effect on overall output. The expectation of positive signs comes from the premise that the more capital and labor used, the higher the output. The positive sign expected from the export variable is derived from the premise that the export sector yields externalities that result in higher output by the non-export sector.

4.2. Export-Led Growth vs. Domestic Demand-Led Growth

Initially the export-led growth model as optimal growth strategy has given fruitful results. But later the East Asian countries shifted towards *Domestic Demand-Led Growth*. The pursuit of investment and export-led growth based on high (domestic and imported) private savings often requires constraining the growth of domestic consumption expenditures. The expenditures approach defines Gross National Product (GNP) as the sum of consumption, income, Government spending, the trade balance and net foreign inflows which can be represented by the following equation:

$$GNP = Y = C + I + G + TB + NFI \quad (1)$$

Where Y, C, I, G, TB, and NFI represent income, consumption, government spending, the trade balance, and net foreign factor income respectively which are expressed in real terms.

$$Y \equiv C + I + G + CA \quad (1A), \text{ where } CA = \text{Net Exports} + \text{Net Foreign Factor Income}$$

A current account surplus reflects an excess of income over expenditures and vice versa.

In recent years, India has experienced savings and investment rates that are unprecedented even when compared against the standards set by the East Asian tigers. Moreover, India's saving and investment rates began a steep upward now-a-days.

The analysis is performed in terms of the Macroeconomic Accounting Identity:

$$GDP = Y = C_p + C_g + I + X - M$$

Where GDP stands for Gross Domestic Product, C_p is private consumption, C_g is government consumption, I is gross domestic investments or gross domestic capital formation (GDCF), X and M are exports and imports of goods and services, respectively.

An export-led development growth strategy results in:

- (i) High export growth, accompanied by high GDP and income growth; and
- (ii) Improvement in net export growth, i.e., higher exports growth than import growth.

Conversely, that growth is domestic demand-led if domestic demand is growing, accompanied by GDP and income growth. The above equation makes clear that consumption of the private and government sectors plus investments are the domestic demand components, while $(X-M)$, or net exports, is the other component of aggregate demand.

4.3. Demand-side Growth Accounting Exercise

In order to prove the growth strategy, it is inevitable to test the relationship between the domestic demand and net exports. For this purpose, a growth accounting analysis was adopted on the components of demand and expenditure of five Asian countries. By comparing these components, it can be clear that how far the strategy of export-led was achieved.

Table 1 gives the shares of the expenditure components of GDP at constant prices for the five countries, PRC, India, Korea, Philippines, and Thailand that provide a relatively wide spectrum of experiences and results. The first two are successful due to their opening up to international trade, and the latter three countries were countries affected by the Asian crisis in 1997–1998. Of the five, China is leading in exports.

| Country | Year | Domestic Demand | Private Consumption | Govt. Consumption | Gross Domestic Capital Formation | Net Exports | Exports of Goods & Services | Imports of Goods & Services |
|-------------|------|-----------------|---------------------|-------------------|----------------------------------|-------------|-----------------------------|-----------------------------|
| PRC | 1973 | 99.1 | 55.7 | 9.4 | 34.1 | 0.9 | 5.0 | 4.1 |
| | 1983 | 100.2 | 54.3 | 12.1 | 33.7 | -0.2 | 13.2 | 13.4 |
| | 1993 | 100.8 | 49.1 | 13.1 | 38.6 | -0.8 | 18.6 | 19.3 |
| | 2003 | 94.2 | 39.6 | 12.0 | 42.6 | 5.8 | 24.4 | 18.6 |
| India | 1973 | 101.6 | 70.8 | 9.1 | 21.7 | -1.6 | 6.7 | 8.4 |
| | 1983 | 103.1 | 71.8 | 10.3 | 21.0 | -3.1 | 6.5 | 9.6 |
| | 1993 | 102.8 | 68.7 | 11.9 | 22.2 | -2.8 | 8.6 | 11.5 |
| | 2003 | 101.1 | 62.8 | 12.0 | 26.4 | -1.1 | 16.7 | 17.9 |
| Korea | 1973 | 100.5 | 64.1 | 15.7 | 20.7 | -0.5 | 16.4 | 16.9 |
| | 1983 | 96.7 | 55.1 | 12.8 | 28.8 | 3.3 | 27.7 | 24.4 |
| | 1993 | 100.2 | 52.3 | 10.5 | 37.4 | -0.2 | 33.9 | 34.1 |
| | 2003 | 94.3 | 52.9 | 12.2 | 29.2 | 5.7 | 45.7 | 40.0 |
| Philippines | 1973 | 100.4 | 69.0 | 11.4 | 20.0 | -0.4 | 19.0 | 19.5 |
| | 1983 | 102.3 | 63.0 | 9.8 | 29.6 | -2.3 | 21.9 | 24.2 |
| | 1993 | 107.2 | 74.8 | 10.0 | 22.4 | -7.2 | 31.3 | 38.5 |
| | 2003 | 105.7 | 73.8 | 9.2 | 22.7 | -5.7 | 39.3 | 45.0 |

| | | | | | | | | |
|----------|------|-------|------|------|------|-------|------|------|
| Thailand | 1973 | 114.4 | 68.7 | 10.0 | 35.7 | -14.4 | 17.1 | 31.5 |
| | 1983 | 109.5 | 63.5 | 13.1 | 33.0 | -9.5 | 19.6 | 29.1 |
| | 1993 | 105.9 | 55.1 | 8.7 | 42.0 | -5.9 | 39.6 | 45.5 |
| | 2003 | 85.3 | 55.4 | 8.7 | 21.2 | 14.7 | 65.7 | 50.9 |

Table 1: Shares of Expenditure Components in Real GDP (1990 Prices)

Source: UN Statistics Division, Key Indicators (ADB 2004)

| Country | Year | Expenditure on GDP | Private Consumption | Govt. Consumption | Gross Domestic Fixed Capital Formation | Exports of Goods & Services | Imports of Goods & Services |
|-------------|---------|--------------------|---------------------|-------------------|--|-----------------------------|-----------------------------|
| PRC | 1973-83 | 9.0 | 8.6 | 14.7 | 8.8 | 40.6 | 52.3 |
| | 1983-93 | 16.1 | 13.6 | 18.0 | 19.8 | 26.7 | 27.7 |
| | 1993-03 | 14.2 | 9.5 | 12.2 | 16.7 | 21.8 | 13.3 |
| India | 1973-83 | 5.0 | 5.2 | 6.0 | 4.5 | 4.4 | 7.2 |
| | 1983-93 | 5.6 | 5.0 | 8.1 | 6.5 | 10.9 | 8.7 |
| | 1993-03 | 8.0 | 6.4 | 8.3 | 11.6 | 26.0 | 18.7 |
| Korea | 1973-83 | 10.6 | 7.7 | 6.0 | 18.7 | 24.8 | 19.8 |
| | 1983-93 | 12.2 | 11.1 | 8.2 | 18.9 | 17.2 | 21.1 |
| | 1993-03 | 7.3 | 7.5 | 10.1 | 3.5 | 13.3 | 10.3 |
| Philippines | 1973-83 | 6.4 | 5.0 | 4.0 | 14.2 | 8.8 | 10.4 |
| | 1983-93 | 1.5 | 3.0 | 1.2 | 1.3 | 1.4 | 8.2 |
| | 1993-03 | 4.7 | 4.5 | 3.5 | 4.9 | 6.5 | 7.2 |
| Thailand | 1973-83 | 8.9 | 7.5 | 14.7 | 7.5 | 11.7 | 7.5 |
| | 1983-93 | 13.3 | 10.2 | 5.6 | 19.7 | 32.0 | 26.4 |
| | 1993-03 | 3.6 | 3.7 | 3.6 | 3.1 | 17.6 | 5.3 |

Table 2: Average Growth rates of Expenditure based on constant (1990) Prices

Source: UN Statistics Division, Key Indicators (ADB 2004)

Table 2 shows the average annual growth rates of GDP and demand components over the intervals 1973–83, 1983–93, and 1993–2003.

| Country | Year | Expenditure on GDP | Domestic Demand | Private Consumption | Govt. Consumption | Gross Domestic Fixed Capital Formation | Net Exports | Exports of Goods & Services | Imports of Goods & Services |
|-------------|---------|--------------------|-----------------|---------------------|-------------------|--|-------------|-----------------------------|-----------------------------|
| PRC | 1973-83 | 9.0 | 9.2 | 4.8 | 1.4 | 3.0 | -0.1 | 2.0 | 2.1 |
| | 1983-93 | 16.1 | 16.2 | 7.4 | 2.2 | 6.7 | -0.2 | 3.5 | 3.7 |
| | 1993-03 | 14.2 | 12.7 | 4.7 | 1.6 | 6.4 | 1.5 | 4.0 | 2.6 |
| India | 1973-83 | 5.0 | 5.3 | 3.7 | 0.6 | 1.0 | -0.3 | 0.3 | 0.6 |
| | 1983-93 | 5.6 | 5.8 | 3.6 | 0.8 | 1.4 | -0.1 | 0.7 | 0.8 |
| | 1993-03 | 8.0 | 7.9 | 4.4 | 1.0 | 2.6 | 0.1 | 2.2 | 2.1 |
| Korea | 1973-83 | 10.6 | 9.9 | 5.0 | 1.1 | 5.4 | -0.4 | 4.8 | 5.1 |
| | 1983-93 | 12.2 | 12.6 | 6.1 | 1.1 | 1.3 | 1.0 | 4.5 | 3.5 |
| | 1993-03 | 7.3 | 6.3 | 3.9 | 1.1 | 1.3 | 1.0 | 4.5 | 3.5 |
| Philippines | 1973-83 | 6.4 | 6.7 | 3.4 | 0.5 | 2.8 | -0.3 | 1.7 | 2.0 |
| | 1983-93 | 1.5 | 2.1 | 2.3 | 0.2 | -0.4 | -0.6 | 1.4 | 2.0 |
| | 1993-03 | 4.7 | 4.8 | 3.4 | 0.3 | 1.1 | -0.1 | 2.6 | 2.8 |
| Thailand | 1973-83 | 8.9 | 9.3 | 5.1 | 1.5 | 2.7 | -0.4 | 2.0 | 2.4 |
| | 1983-93 | 13.3 | 13.7 | 6.5 | 0.7 | 6.5 | -0.4 | 7.3 | 7.7 |
| | 1993-03 | 3.6 | 1.0 | 2.0 | 0.3 | -1.3 | 2.6 | 5.0 | 2.4 |

Table 3: Growth rates of Expenditure components weighted by their share in GDP

Source: UN Statistics Division, Key Indicators (ADB 2004)

Table 3 provides the growth rates of the expenditure components weighted by their shares in GDP. This gives, in growth rate terms, the contribution of each component to the growth rate of GDP.

| Country | Year | Expenditure on GDP | Domestic Demand | Private Consumption | Govt. Consumption | Gross Domestic Fixed Capital Formation | Net Exports | Exports of Goods & Services | Imports of Goods & Services |
|-------------|---------|--------------------|-----------------|---------------------|-------------------|--|-------------|-----------------------------|-----------------------------|
| PRC | 1973-83 | 100.0 | 101.4 | 52.9 | 15.2 | 33.3 | -1.4 | 22.3 | 23.6 |
| | 1983-93 | 100.0 | 101.1 | 45.9 | 13.6 | 41.6 | -1.1 | 21.9 | 23.1 |
| | 1993-03 | 100.0 | 89.6 | 32.9 | 11.3 | 45.4 | 10.4 | 28.6 | 18.1 |
| India | 1973-83 | 100.0 | 106.1 | 73.9 | 12.7 | 19.6 | -6.1 | 35.9 | 12.1 |
| | 1983-93 | 100.0 | 102.3 | 63.2 | 14.8 | 24.4 | -2.3 | 12.5 | 14.8 |
| | 1993-03 | 100.0 | 98.8 | 54.7 | 12.0 | 32.1 | 1.2 | 27.9 | 26.7 |
| Korea | 1973-83 | 100.0 | 93.2 | 46.6 | 10.0 | 36.5 | 6.84 | 38.3 | 35.9 |
| | 1983-93 | 100.0 | 103.1 | 50.0 | 8.6 | 44.5 | -3.1 | 39.0 | 42.1 |
| | 1993-03 | 100.0 | 86.3 | 53.7 | 14.6 | 18.0 | 13.7 | 61.9 | 48.1 |
| Philippines | 1973-83 | 100.0 | 105.3 | 53.6 | 7.2 | 44.5 | -5.3 | 26.4 | 31.7 |
| | 1983-93 | 100.0 | 140.4 | 54.5 | 11.8 | -25.8 | -40.4 | 94.6 | 135.0 |
| | 1993-03 | 100.0 | 102.4 | 71.7 | 7.4 | 23.3 | -2.4 | 56.4 | 58.8 |
| Thailand | 1973-83 | 100.0 | 104.0 | 57.6 | 16.5 | 29.9 | -4.0 | 22.5 | 26.5 |
| | 1983-93 | 100.0 | 103.2 | 48.8 | 5.5 | 48.8 | -3.2 | 54.7 | 57.9 |
| | 1993-03 | 100.0 | 28.6 | 56.0 | 0.38.6 | -36.1 | 71.4 | 137.3 | 65.9 |

Table 4: Contribution of demand components to GDP Growth
Source: UN Statistics Division, Key Indicators (ADB 2004)

Table 4 displays, in percentage share, the contribution of each aggregate demand component in over all GDP growth of the selected countries.

From the above tables, it is clear that India registered positive average annual GDP growth during the three periods, but lower than the People's Republic of China (PRC). The first two periods (1973–1993) were marked by growth in domestic demand as net exports deteriorated. During the last period, when India opened up to the international market, the country exhibited even higher growth, with higher growth in the domestic demand components, but now the trade deficits improved so that net exports contributed slightly to overall GDP growth. During the third period, the growth rates of exports doubled more than imports, with exports outpacing imports, leading to the decline in the trade deficits. Finally, the last period shows an increase in the share of net exports to GDP and a slight decline in the share of domestic demand to GDP.

| PERIOD | PRC | INDIA | KOREA | PHILIPPINES | THAILAND |
|-----------|--|--|---|--|--|
| 1973-83 | DD increasing, NE negative & deteriorating | DD increasing, NE negative & deteriorating | DD increasing, NE positive and improving | DD increasing, NE negative & deteriorating | DD increasing, NE negative & deteriorating |
| 1983-93 | DD increasing, NE negative & deteriorating | DD increasing, NE negative & deteriorating | DD increasing, NE negative & deteriorating | DD stagnant, NE negative and deteriorating | DD increasing, NE negative & deteriorating |
| 1993-2003 | DD increasing, NE positive & increasing | DD increasing, NE negative but improving | DD increase slows NE positive and improving | DD growing and moderately, NE negative and deteriorating | DD growing slowly, NE positive and improving |

Table 5: Phases of Domestic Demand and Net Exports Led Growth in selected Asian Countries
DD means domestic demand; NE means net exports
Source: UN Statistics Division, Key Indicators (ADB 2004)

Table 5 summarizes the results of the growth accounting exercise. It indicates that during the first two periods domestic demand was the main driver of growth, as net exports deteriorated. The period 1993-2003 was accompanied by significant improvements in the net exports position of the selected group of countries except Philippines. PRC and India are experiencing continuous growth and Korea and Thailand hit by the Asian crisis. The PRC and India registered high domestic demand growth in the last period, simultaneously with net export growth. Korea and Thailand evidenced net exports turned from negative to highly positive and contributing significantly to growth, as the domestic demand components grew more slowly. It must be noted that in the East Asian tigers' export growth actually decelerated, even then it was still double-digit. On the other hand, the growth rate of imports decelerated with an improvement in their net exports.

Export growth accelerated very strongly in India during the last period more than imports, leading to the reduction of the country's trade deficit. The Philippines had the slowest growth in exports and it is the only country with deteriorating net exports. The net export share to GDP improved in all five countries. Even countries with negative net exports improved their positions. India was able to reduce its trade deficit in terms of magnitude. Tables 2 and 5 show that the share of domestic demand and its contribution to growth have decreased and conversely, the share of net exports and its contribution to growth have increased during 1993-2003.

In 1990s India adopted a strategy that its high domestic demand growth is accompanied by impressive export growth and improvements in its trade deficits. Successful and sustained growth requires growth in both domestic demand and net exports. The demand-side growth accounting exercise provides some useful and supportive arguments towards domestic demand-led vs. export-led growth. Growth of developing countries like India is based on a combination of both domestic demand components viz., gross domestic capital formation and exports. It is clear that developing countries should have adequate investment levels in order to grow and develop. There also has to be appropriate growth in consumption so that the population's welfare improves. These can be achieved at the same time as the country succeeds in developing and improving its export sector. In fact, both these sectors will be complementary and mutually reinforcing. Countries with high trade deficits will benefit from a more open international trade system and promotion of their exports through price and non price competitiveness.

4.4. Constraints

Export-led growth propelled developing countries to higher levels of economic growth over the past two decades, but the countries are facing some constraints. The following are some of the constraints which have to be tackled efficiently in future for the better results.

- Over-dependence on foreign capital drove the developing economies into large current account deficits, while current account surpluses enabled over-saving in export-led growth economies.
- As the financial crisis forces developed countries to rein in their spending on exports, export-dependent developing economies will be drained of much of their driver of growth and will be forced to shift to measures to expand domestic demand to maintain growth rate.
- Even now the export-led growth strategies of developing countries have not caused today's global imbalance.
- Trade openness and export diversification will remain key drivers for growth and development, but substitutes for currency undervaluation and large current-account surpluses will have to be found.

India, as a fast growing economy opens up to the world trade market with large export market. There is a strong need to push for trade reforms in developed countries to allow more agricultural, industrial, and service imports from the developing world.

5. Conclusion

The study makes clear that the role of export performance is significant in the economic growth process and the developing economies derive the following benefits:

- they generate a greater capacity utilization
- they take advantage of economies of scale
- they bring about technological progress
- they create employment and increase labour productivity
- they improve allocation of scarce resources throughout the economy
- they relaxes the current account pressures for foreign capital goods by increasing the country's external earnings and attracting foreign investment
- they increase the TFP and consequently the well-being of the country

The study enunciated that the growth-led export hypothesis is suitable for Indian economy. As India has been characterized by inward-oriented economy, it gave importance to import substitution over export promotion. Growth-led export strategy can be best suitable for large economy like India due to its size and potentiality of large internal market. India followed growth-led exports strategy for few reasons. First, since Indian market itself is vast, it does not encourage looking outside markets for demands. Second, export-led growth strategy makes vulnerable to the nations for the international economic shocks. However, a balance of payments crisis in 1991 led to the initiation of an ongoing process of trade liberalization, which has led to the openness in the Indian economy. Perhaps the effect of the growth-led export strategy has been so deeply rooted that open market regimes of 1990 is yet to be manifest in export-led growth for India. Hence it can be concluded that the Export-led growth Strategy plays a vital role in the development of the country.

6. References

1. Asian Development Bank, various issues.
2. Bacha, E. 1990. "A Three-Gap Model of Foreign Transfers and the GDP Growth Rate in Developing Countries." Key Indicators of Developing Asian and Pacific Countries. Manila, Philippines.
3. Balassa, B. (1978), "Exports and Economic Growth: Further Evidence", *Journal of Development Economics*, 5, 181-189.
4. Batra, R. and Pattanaik, P. (1971), "Factor imperfections, the terms of trade and welfare", *American Economic Review*, 61(5), 496.
5. Blecker, R. 2002. "The Balance of Payments-constrained Growth Model and the Limits to Export-Led Growth." Oxford University Press.

6. Borden, William (1984). "The Pacific Alliance: United States Foreign Economic Policy and Japanese Trade Recovery", 1947-1955. Madison: University of Wisconsin Press. pp. 187.
7. Chibber, Vivek (2003). "Locked In Place: State-Building and Late Industrialization in India", Princeton University Press. pp. 65.
8. Dhawan, U. and Biswal, B. (1999). "Re-examining export led growth hypothesis: multivariate co integration analysis for India", *Applied Economics*, 31, 525-530.
9. Domar, E. D. (1946). "Capital Expansion, Rate of Growth and Employment", *Econometrica*, **14** (2), 137-147.
10. Engle, R. F. and Granger, C. W. J. (1987). "Co-integration and Error Correction: Representation, Estimation and Testing", *Econometrica*, 55, 251-276.
11. Ertuk, K. 2001/02. "Overcapacity and the East Asian Crisis", *Journal of Post Keynesian Economics*, 24(2):253- 276.
12. Feder, G.(1983). "On exports ad economic growth", *Journal of Development Economics*, 5, 59-73
13. Felipe, J. 2003. "Is Export-led Growth Passé? Implications for Developing Asia", ERD Working Paper No. 48, Economics and Research Department, Asian Development Bank, Manila, Philippines.
14. Gibson, Martha Liebler, and Michael D. Ward. "Export Orientation: Pathway or Artifact?" *International Studies Quarterly*, 36.3 (1992): 331-43.
15. Godley, W. 1999. "Seven Unsustainable Processes", Jerome Levy Economics Institute, Annandale-on-Hudon, N.Y. International Monetary Fund, and various years. *International Financial Statistics*. Washington, DC.
16. Goldstein, Joshua S., and Jon C. Pevehouse. *International Relations*. 8th ed. New York: Pearson Longman, 2008.
17. Granger, C. W. J. (1969). "Investigating Causal Relationships by Econometric Models and Cross-spectral Methods", *Econometrica*, 37 (3), 424-38.
18. Granger, C.W. J. (1988). "Some Recent Developments in a Concept of Causality", *Journal of Econometrics*, 39, 199-211.
19. Gujrati, D. (2004), "Basic Econometric and Key Indicators of Developing Asian and Pacific Countries". *Journal of Development Economics* 32(2):279-96.
20. Heller, P .S. and Porter, R.C. (1978). "Exports and growth: an empirical investigation", *Journal of Development Economics*, 5, 191-3.
21. Henriques, I. and Sadorsky, P. (1996). "Export led growth or Growth driven exports – Canadian case", *Canadian Journal of Economics*, 29(3), 540-55.
22. In P. Davidson, ed., "A Post Keynesian Perspective on Twenty-First Century Economic Problems", Northampton, MA: Edward Elgar.2003.
23. W. R. Mead and S. R. Schwenninger, "The Diminishing Returns to Export-Led Growth", "The Bridge to a Global Middle Class: Development, Trade, and International Finance in the 21st Century", Singapore University Press.
24. Jani, B. (2003). "Causality analysis of export and economic growth", *Journal of Eastern European Economies*, 41 (6), 70-92.
25. Johansen, S. (1988). "Statistical Analysis of Co integration Vectors", *Journal of Economic Dynamics and Control*, 12, 231-54.
26. Johansen, S. (1995). "Likelihood-Based Inference in Co integrated Vector Autoregressive Models", Oxford University Press.
27. Johansen, S. and Juselius, K. (1990). "Maximum Likelihood Estimation and Inference on Co integration -With Applications for the Demand for Money", *Oxford Bulletin of Economics and Statistics*, 52 (2), 169-210.
28. Jomo, K. S., ed. 1998. "Tigers in Trouble: Financial Governance, Liberalization and Crises in East Asia", London and New York: Zed Books.
29. Kaplinsky, R. 2000. "If You Want to Get Somewhere Else, You Must Run at Least Twice as Fast as That: The Roots of the East Asian Crisis, Competition and Change", *The Journal of Global Business and Political Economy* 4(1):1-30.
30. Krugman, P. 1999. "Analytical Afterthoughts of the Asian Crisis." *Journal of Development Economics*, 32(2):279-96.
31. Lian, D. 2004. "The Diminishing Returns to Export-Led Growth", *Equity Research Asia Pacific*, September 21.
32. Lim, J. 1998. "The Philippines and the East Asian Economic Turmoil."
33. K. S. Jomo (2004), "Macroeconomic Fundamentals and Animal Spirits in the East Asian Crises", "After the Storm: Crisis, Recovery and Sustaining Development in Four Asian Economies", Singapore: Singapore University Press.
34. Love, J. and Chandra, R. (2005). "Testing export-led growth in South Asia", *Journal of Economic Studies*, 32(2), 132-145.
35. McCombie, J.S.L., and A.P. Thirlwall. "Economic Growth and the Balance-of-Payments Constrain", New York: St. Martin's, 1994.
36. Michaely, M. (1977). "Exports and growth: an empirical investigation", *Journal of Development Economics*, 4, 49-53.
37. Nidugala, G. K. (2001). "Exports and Economic Growth in India: An Empirical Investigation", *Indian Economic Journal*, 47 (3), 67-78,
38. Serletis, A. (1992). "Export growth and Canadian economic development", *Journal of Development Economics*, 38, 133-45.
39. Sharma, A and Panagiotidis, T. (2005). "An Analysis of Exports and Growth in India: Co integration and Causality Evidence (1971 - 2001)", *Review of Development Economics*, 9(2), 232-248.
40. Sims, C. A. (1972). "Money, Income and Causality", *American Economic Review*, 62 (4), 540-52.
41. Yagahmaian, B. and Ghorashi, R. (1995). "Export performance and economic development: An empirical analysis", *American Economist*, 39(2), 37-45.

42. Yamada, H. (1998). "A note on the causality between export and productivity", *Economics Letters*, 61, 111–14