Relation export and economic growth

Economics

Main features of this period are that the economic policies characterized as interventionist and protectionist were carried out within the development plans. Accordingly, policies were mainly designed to protect domestic industry from foreign competition and increase the government controls over the allocation of resources and production of goods. And Kara, 2002: 41) The 24th January 1980 Decisions were announced in order to prevent inflation, to fill in the foreign financing gap, and to reach a more outward-oriented and market- based economic system.

Within the framework of these decisions, the government accepted exported growth strategy and sustained the external competitiveness of the Turkish economy through exchange rate policy and export subsidies. These initial moves also proved to be helpful in regaining the confidence of international creditors. The MIFF Stand-by and World Bank adjustment loans were rapidly arranged and disbursed in conjunction with additional debt relief operations. On the other hand, the sass witnessed a deliberate contraction in real wages, which aimed at producing an exportable surplus and enhancing export competitiveness through lower labor costs.

These export-oriented policies succeeded in raising exports inconsiderably. Its 2 billion dollar worth of export in 1980 reached at about 100 billion dollars in 2007.

The European Union (ELI) candidacy in 2001 has particularly contributed to this progress. In the developing countries, export is seen as favorable because of the following reasons. It uses more advanced technologies and better capacity utilization due to the larger market. It is also the source of

the foreign exchanges that are very scarce in most developing countries throughout the world. With these foreign exchanges, it could import better quality inputs and more capitals.

Of course, these entirely shift he country's production possibility curve further. The remainder of the paper is organized as following. Section 2 briefly explains what export-led growth hypothesis is about. Section 3 deals with the empirical studies. Section 4 Tab, Aztar, 2008 1 537 gives the details the methodological issues and about data set. Section 5 gives the concluding marks.

2. EXPORT-LED GROWTH [LEG] HYPOTHESIS in the production of commodities that they are most efficient at producing in relation to other countries, and trade those commodities with the rest of the world.

It is possible to say that a country can export its commodities and consequently raise reign currency, with which it can import the other commodities in need. The better a country is at producing its specialized commodities, the more revenue it will raise from its exports and the more it will be able to procure imports. This trade theory has given birth to a new direction for economic policy, namely the export-led growth [LEG] hypothesis (Gauzing, 2000). The LEG hypothesis postulates that export expansion is a key factor in promoting long-run economic growth.

Several arguments can be theoretically put forward to Justify the LEG hypothesis. From a demand-side respective, it can be argued that sustained demand growth cannot be maintained in small domestic markets, since any economic impulse based on the expansion of domestic demand is bound to

be exhausted quickly. Export markets, in contrast, are almost limitless and hence do not involve growth restrictions on the demand side. Therefore, exports can be a catalyst for income growth as a component of aggregate demand (Herder et. Al. , 2004).

The main notion of the LEG hypothesis is that producing for export markets increases efficiency, which in turn increases productivity, hence raising more revenue leading o economic growth. In addition, microeconomic theory on production possibility frontiers is directly related to the export-led growth model. In synthesis, a production function is specified with exports as an explanatory variable, and this produces a tie between aggregate output and exports which constitutes the basis of a vast amount of empirical studies available in the trade and development literature (Gauzing et. Al. , 2000). 538 The theoretical model, which incorporates exports into the Cob-Douglas function, is shown as follows: 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 for the export variable is derived from the assumption that the export sector yields externalities that result in higher output by the non-export sector.

According to Obdurateness and Munched (2000), the export- oriented policies contribute to economic growth from the different ways summarized s follows: Keynesian argument is that an increase in exports leads through the multiplier to output expansion. Export relaxes the binding foreign exchange

constraint to allow increases in imports of capital and intermediate goods which lead, in turn, to economic growth. Exports increase efficiency via competition. Competition gives rise to the economies of scale and diffusion of the technical knowledge in production, which is a potentially important source of growth.

The LEG hypothesis is also explained by a large number of authors' different point of views. For instance, Sahara and Pontifications (2003) argue that an increase in export could cause an output growth through better management styles, some positive externalities, increasing the scale economies, dynamic competitiveness and efficient allocation. If these factors occur in export sector, there will be reallocation of resources in favor of the export oriented businesses. Read about comparison export promotion vs import substitution

This could even adversely affect the other sectors, due to the positive net effect and the improvement that could happen in foreign exchange market will have a positive impact on the output level. Mint (1954-55) and Ran and Dowling (1990) saw the export as a beneficial to the balance of payment since the developing countries always are in shortage of foreign currencies rather than reallocation of resources. Shaping (1991) draw attention to the external effects of the export orientation that more skilled managers and labors would move to import competing sectors allowing the productivity to increase.

Thus, the LEG Tab, Aztar, 2008 1 539 hypothesis implies that export growth lead to economy-wide productivity growth. Gauzing (2000) explains that the

LEG strategy leading to development through economic growth has become a central part of free market economic doctrine in such a way that international financial institutions like the World Bank, the MIFF and official government aid agencies have been favor of export (I. E. Export promoting policies) as a condition for providing loans or development aid. As well as promoting economic growth, export-oriented policies are also proposed as a way to pay off debts.