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# Can Asia sustain an export-led growth strategy in the aftermath of the global crisis? Exploring a neglected aspect☆

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ABSTRACT

Employing panel data for Asian countries to distinguish between different kinds of export- and tradable-led growth, we find that the proportion of a country's manufactured exports that is destined for industrialized countries, a variable largely ignored by existing studies, is robustly associated with growth. This finding has crucial implications given the expected deceleration of industrialized country import growth in the coming years. Most importantly, and contrary to some recent studies, prospects for continued growth, now centered on domestic tradable consumption or on developing countries as markets, may be limited. South–South trade may not be a good substitute for South–North trade.


## 1. Introduction and background

This paper empirically investigates future prospects for the so-called ''Asian growth model'' by attempting to identify the nature of such growth in the years predating the current global economic crisis. In the process, we identify the proportion of a country's exports that is destined for industrialized countries as a statistically significant determinant of Asian growth. This finding, which has important implications for future growth, can be broadly motivated at the firm level by recent theoretical and empirical work following Melitz (2003). At the macro/economy-wide level, however, this variable has been ignored as a potential determinant of growth.

The term ''export-led growth,'' whether interpreted to mean growth driven by *net* exports (i.e., trade surpluses) or simply exports, has been closely associated with East Asian countries in recent decades. Indeed the pursuit of export promotion is what, according to some, has distinguished the East Asian performance from that of other less successful countries,[1] making it a desirable template for many developing countries across the globe. In particular, relatively rapid growth along with current account surpluses in Asian developing countries following the Asian financial crisis of 1997–98 and the global

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[1] See, for example, Bhagwati (1990).

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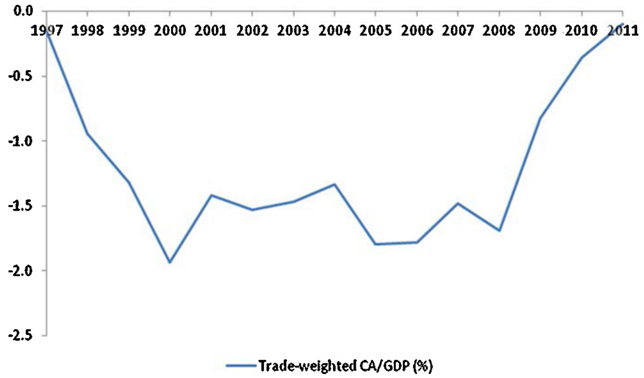


**Fig. 1.** Weighted current account as a proportion of GDP for the 23 industrialized countries in our sample (1997–2011). Sources: Penn World Tables 7.0, World Development Indicators, UN COMTRADE, and authors' calculations.

recession in 2001 have generated renewed interest in export-led growth. Unprecedented growth in China along with its rapid accumulation of foreign exchange reserves have only served to confirm the perceived efficacy of such a growth model. Will the export-led growth strategy retain its efficacy, if, as expected, slower industrialized country growth in post-crisis years reduces global imbalances? A bit of background may help analyze this question.

Viewpoints on post-crisis Asian prospects range from skeptical to optimistic, partly reflecting varied interpretations of pre-crisis Asian growth. On the optimistic side, some scholars have recently argued that developing countries have "decoupled" from the US and Europe, and that the slowdown in the developed countries should, therefore, not significantly affect the prospects of the South. Canuto, Haddad, and Hanson (2010), for example, suggest that we may be witnessing the emergence of "Export-Led Growth V2.0," where South–South exports substitute for South–North exports. This interpretation implies that exports, especially manufactured ones, contribute to growth regardless of their destination.

A somewhat optimistic message also emerges from Rodrik (2009), who has argued that, rather than exports or trade surpluses, Asian growth successes were based on broader tradable sector growth. Thus, there is something special about this sector which, in Asian countries, is typically associated with industrial production. We refer to this later as the tradable-led growth strategy. If Rodrik's argument is empirically valid, then shrinkage of global imbalances should not be an obstacle to post-crisis growth since domestic demand for tradables can substitute for exports.

Skeptics, however, have pointed out that the existence of a fallacy of composition or adding-up constraint undermines the sustainability and/or universal applicability of the export-led growth strategy. For one country to export more, at least one other country has to import more. Simultaneous pursuit of export-led growth by all developing countries, especially if concentrated in a similar range of products, could only be successful if demand from developed countries grows at a correspondingly rapid pace, and/or if the terms of trade move against the growing countries, thus increasing competitiveness in an imperfect substitutes framework. [2] Such a strategy, in other words, requires that developed countries run trade deficits, which may beyond some point become unsustainable. Thus, universal pursuit of export-led growth is likely to yield diminishing returns.

The recent global financial crisis has served to highlight the adding up constraint. For this constraint becomes even more relevant if, as widely expected, developed countries grow at a slower pace or are less willing to run trade deficits following the crisis. Indeed, current account imbalances have already shrunk. This can be seen from Fig. 1, which illustrates weighted current account deficits as a percentage of GDP for the 23 industrialized countries in our sample (see Section 3 and Table 2 for details of the sample).[3] Interestingly enough, after a long period of deficits since the Asian crisis of 1997–98, industrialized countries have, as a group, returned to nearly balanced current accounts in the aftermath of the 2007–08 global downturn.

Finally, a consideration that has received far less attention is the possibility that exports may have different effects depending on their destination. As discussed in Section 2, a more recent strand of literature, inspired in large part by Melitz (2003), has emphasized the role of exports as harbingers of productivity growth. Insofar as knowledge spillovers, technology transfer, and adoption of new management techniques are more likely to result from manufactured exports to developed

[2] Barring the unlikely case where developing country products are perfect substitutes for developed country products, or where there is complete pass-through of exchange rate changes into developing country export prices when measured in domestic currency terms, a devaluation will translate into a deterioration in the terms of trade. In logical terms, the simultaneous pursuit of export-led growth by a number of small developing countries becomes analogous to the large country case.

[3] The current account to GDP (CA-GDP) ratio was obtained for the period 1997–2011 from the United Nations Conference on Trade and Development (UNCTAD) *STAT* database. The annual weights assigned to each developed country for calculating the CA-GDP ratio were based on the share of total manufactured exports to developed countries from the 43 Asian countries in our sample that went to that particular country that year. In other words, we weighed the industrialized countries according to their importance as an export destination for Asian countries.