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Is There Cause for Export Optimism? An Inquiry into the existence of a second-generation of successful exporters

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IS THERE CAUSE FOR EXPORT OPTIMISM?

This paper attempts to show that developing countries other than those in the successful "newly industrialized" group can and have been successful in developing their exports of manufactured products.

In order to demonstrate the accuracy of this notion, annual compound growth rates of exports of manufactured sector of some fifty-six developing countries were calculated for a period covering 1970 to 1979. This value was then compared to that obtained for "newly industrialized" countries as a group.

The comparison shows that at least twelve developing countries have had truly exceptional growth rates in exports and have in fact outperformed the newly industrialized countries during the seventies. Additionally it was also found that the destination markets and the product mix of these successful countries was by and large the same as for the "newly industrialized countries" when in a similar stage of economic development.

The conclusion drawn from this study is that several developing countries have shown they can overcome two large exogenous shocks, the oil price rise of 1973 and the slow growth in industrialized countries in the late 1970's.

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Introduction

Sluggish world economic activity since 1973 was reflected in a slow down of exports from developing countries for both non-fuel primary goods and manufactures. This contributed to a resurgence of export pessimism, a growing concern that such an environment combined with possible increased protectionism by industrial countries (ICs) would all but preclude developing countries (DCs) repeating the export success experienced by the newly industrialized countries (NICs) 1/ in the sixties and early seventies. We do not attempt here to evaluate such views of a faltering engine of growth as represented in Lewis (1980). 2/ Nor do we propose to predict the future evolution of developing countries' exports. Rather, we attempt simply to observe whether the facts of the 1970s export experience are consistent with the pessimistic view. As a working hypothesis, if export pessimism is to be justified we should expect that during the seventies no non-NIC developing country would be able to expand manufactured exports more rapidly than the NIC's, and in particular not to the traditional DC markets, and for the same categories of consumer goods as had been the basis of the NIC's earlier export drive. If one finds in the facts that the converse is true, there may then be grounds for a greater degree of optimism. Therefore, based on evidence about manufactured goods exports by non-NIC developing countries in the seventies, we ask: are there any countries that have experienced outstanding export

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1/ As defined and discussed in OECD (1979).

2/ A review of Lewis hypothesis is found in Riedel (1981), while some evaluation of the potential for South-South trade which Lewis (1980) recommends as an alternative to South-North trade is undertaken in Havrylyshyn and Wolf (1982).

growth in this period? Did they do so before or after the 1973-75 recession period? Have they based their performance on the same commodities as had the NICs earlier? And did they export to the same markets as the NICs had done?

On the basis of trade data from the UN system, we isolated twelve countries whose export growth over the period 1970-79 exceeded not only that of non-NIC developing countries on average, but also exceeded that of the NICs. This was done for manufactured goods only, as our interest is in finding cases of possible followers of the NICs. For lack of adequate disaggregated price deflators, the growth rates are for current price export values. While this qualifies comparisons across periods, it is unlikely to affect the comparison across countries for a given period, as the commodity composition of export baskets turns out to be broadly similar (Section 3). The growth rate comparison was made with reference to a subsample of fifty-six developing countries chosen on the basis of data availability over the entire period 3/. In 1973 and 1978 the sample accounted for about 55% of manufactured goods exports of all non-NIC developing countries. 4/ The NIC category is as given by the OECD study of 1979 with the addition of India. The appendix lists the countries in each of the categories.

1. Were There New Exporting Countries in the Seventies?

It is not our objective to propose yet another category of countries one might call NECs (new exporting countries); rather we wish only to show

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3/ That is, countries for which data were missing in any one of the years 1970, 1973, 1975, or 1979, were generally excluded. Countries considered to be prospective "high export growth" cases were however, always included.

4/ Total for all developing countries taken from UNCTAD, Handbook of Trade and Development Statistics.

that there occurred in the seventies several cases of new exporting countries experiencing very rapid expansion of manufactured goods exports. At least twelve countries are identified, as Table 1 shows, where export growth rates exceeded not only those of our sample DCs, but also those of the NICs from 1970 to 1979. These were, in order of 1970-79 export growth rates: Sri Lanka, Cyprus, Thailand, Indonesia, Jordan 5/, Malaysia, Peru, Tunisia, Philippines, Uruguay, Colombia, and Morocco.

Two of these are only marginally above the NICs' growth rate. Colombia, as a recent Bank study by Morawetz (1980) shows, has faltered of late with a decline in exports from 1973 to 1975, and a growth rate in 1975-79 below the NIC level, though still higher than the average of non-NIC developing countries. Morocco's growth was also only slightly above the NICs' and also declined in the post 1973 period. However, both were well above the growth rates for non-NIC developing countries, and for that reason alone should be included. Indeed, one might add some marginal cases with growth rates lower than those of the NICs but above the non-NIC developing countries, on the criterion that anything close to the performance of the NICs in this period is outstanding.

Thus, one might include also the Ivory Coast, Chile, Honduras and Costa Rica with growth rates over the period of about 24%, 21%, 20%, and 19% respectively. Furthermore, our procedure of identifying cases of NECs may have excluded some countries with a very recent surge in exports not yet well

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5/ This excludes re-exports for Jordan; in fact, the data are for "domestic" exports, also in three other cases: Sri Lanka, Philippines and Thailand. For the others, export data unfortunately, includes re-exports, however, in most of these there is no reason to suppose that this distorts the conclusions. One possibly important case with a small volume is Cyprus, re-exporting to Libya and Algeria.

Table 1: ANNUAL GROWTH RATES OF MANUFACTURED EXPORTS: INDIVIDUAL NEW EXPORTERS, BY RANK ORDER

	Exports $Million	Annual Growth Rates				Exports $Million
	1970	1970-73	1973-75	1975-79	1970-79	1979
Sri Lanka	4.2	110.8	-30.5	54.5	53.5	121.4
Cyprus	5.1	36.9	107.8	41.3	52.3	226.8
Thailand	32.2	96.4	14.0	39.3	49.4	1,195.8
Indonesia	12.2	70.9	18.7	27.8	49.3	448.2
Jordan	4.2	37.3	51.5	40.4	41.7	97.0
Malaysia 1/	106.4	48.2	38.4	32.8	39.9	1,556.7
Peru 1/	14.9	24.2	31.5	48.2	39.6	214.4
Tunisia	34.8	34.0	41.5	37.7	37.3	604.1
Philippines	79.2	40.5	8.6	39.6	32.4	988.1
Uruguay 1/	17.6	31.8	51.8	36.6	31.6	295.0
Colombia	58.3	74.1	-0.3	20.7	30.7	648.8
Morocco	47.2	40.1	21.9	24.4	28.8	460.0
NECs Total	426.0	51.6	23.4	33.9	37.0 2/	7,268.0
NICs Total	7,641.0	35.6	18.5	23.5	26.2	62,145.0
Sample DCs	1,792.0	25.8	15.4	17.0	19.5	8,899.0

1/ 1979 values are not available for Malaysia, Peru and Uruguay. The $ value of exports shown is for 1978, and the growth rate in the fourth column is for 1975-78.

2/ The 1979 total NEC value is obtained by estimating 1979 values for Malaysia, Peru and Uruguay as 1978 value times (1.2); this estimate is also used for the growth rates shown with a 1979 terminal year.

documented given the lag of data collection; Chile would more certainly be included if recent rapid export growth were the criterion.

Clearly, there were indeed several cases of "export boom" countries in the seventies casting some doubt on the export pessisism views. But not only is it important that there were such cases, it is further notable (see Table 2) that their volume of exports, (though quite small at the beginning of the decade at $425 million, or 6.9% of exports by non-NIC developing countries), by virtue of their rapid growth rate reached a level of $7,268 million, or nearly one fourth (23.1%) of non-NIC exports by 1979. Further, the exports of NECs were, by the end of the decade, nearly 12% as large as those of the still-dominant NICs. Note that while faster growth of NEC export implies other exporters (including some NIC's) were losing relative market shares, the NEC expansion was not at the expense of NICs or other DC's in an absolute sense, for all of these had positive export growth over the period.

The use of Malaysia merits a separate comment. We have in this note taken the OECD definition of NIC's as "major exporters of manufactured goods," hence Malaysia is not considered a NIC. One may however, dispute the OECD definition, and argue that by the early 1980s, Malaysia was joining the group. The issue is largely semantic for our purposes, as the growth rate comparisons are little affected (NEC 1970-79 rate only falls to 36.0 if Malaysia is excluded), and the overall conclusion that several new countries had an export boom is unchanged.

2. Did the New "Export Booms" Precede or Postdate the Mid-decade Slowdown?

Export pessisism, and the related fear of a "new protectionism", are both strongly based on the weakening of industrial country markets in the period 1973-75. It is therefore interesting to observe how the NEC's performance varied over the decade. One can see in Table 2 that the

Table 2: NEW EXPORTING COUNTRIES: VALUE AND GROWTH OF MANUFACTURED EXPORTS

	Value of Exports (Mill.of $)		Growth Rate (Annual)			
	1970	1979	1970-73	1973-75	1975-79	1970-79
1. New Exporting Countries	426	7,268 1/	51.6	23.4	33.9	37.0
Value as % of non-NIC/DC Exports	(6.9)	(23.1)				
Value as % of NIC Exports	(5.6)	(11.7)				
2. Non-NIC Developing Countries						
(sample of 55)	1,792	8,899	25.8	15.4	17.0	19.5
3. Total non-NIC Developing Countries	6,136	31,643	*	*	*	*
4. Newly Industrialized Countries	7,641	62,145	35.6	18.5	23.5	26.2

1/ See note 2 in Table 1.

* Not calculated as inclusion of countries in total varies for different years because of missing data.

recession's impact in 1973-75 was perhaps somewhat more strongly felt in the NECs than in the NICs. In the former, growth dropped by more than half; in the latter by less than half. This conforms to recent findings (by the OECD and others) that the NICs generally (and more outward-looking economies specifically) reacted best to the oil-price shock. Nevertheless, the growth rate of the NECs remained well above that of the NICs. Further, it is perhaps surprising--and certainly noteworthy--that in the period 1975-79, when slow growth and increased protection of industrial countries are alleged to have closed off new market opportunities, the NECs rebounded much more strongly than did the NICs -- not to speak of the non-NIC developing countries in general -- and outpaced the export growth of the NICs by a substantial margin, growing at 37% per annum in 1975-79, compared to 26.2% for the NICs and 19.5% for non-NIC developing countries.

It is apparent that outstanding export growth rates occurred in several countries before the 1973-75 slowdown, however it must be noted that in five of those twelve cases the initial export base after 1970 was miniscule, ranging from $4 to 15 million, and only two countries had exports near $100 million -- Malaysia and the Philippines. Thus, high growth on a low base may not be considered so outstanding, especially in a period when world markets were very dynamic. However, that well-above average growth rates in exports were sustained during the 1973-75 slowdown and further into the last half of the decade in a climate of only mild upswing, is surely to be considered outstanding. Thus, at least a dozen countries now accounting for exports of manufactured goods of over $7 billion have demonstrated the ability to repeat the experience of the newly industrialized countries in the face of slower world growth in trade and an allegedly less receptive climate in industrial country markets.

3. Did New Exporters Sell Traditional Products?

The lists of top seven products (at the 2-digit SITC (Standard International Trade Classification) level of product aggregation) for NICs and NECs in the years 1970 and 1979 (Table 3) suggest that the NECs are basing their rapid export growth on much the same products as had the NICs. Of the top seven products for NECs in 1979, five were the same as in the top seven list for NICs in 1970: clothing, textile yarns and fabrics, electrical machinery, non-metal mineral manufactures, and miscellaneous manufactures. Indeed, the reliance of the NECs on the two traditional products, textiles and clothing in 1979 was even stronger (at 39%) than it had been for the NICs in 1970 (27%). This point is of no small import, in view of the frequent fears that industrial country markets for these traditional items have been saturated by NIC exports.

A comparison of the top seven products in 1970 and 1979 for each of the categories of countries (NICs, NECs) reveals some advances in trading strengths very much along the lines predicted by comparative advantage. The NICs by 1979 relied less on the traditional products of a labor-intensive nature (clothing, textiles,and miscellaneous manufactures were 38.8% of exports in 1970, and 30% in 1979) and relatively more on engineering products requiring somewhat higher inputs of skills and technological sophistication (transport equipment, non-electrical machinery, and iron and steel). 6/.

The NECs would appear to be following behind the NICs with a lag of 5-10 years. In 1970, while already relying on textiles, clothing 7/ and

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6/ In this product group it was more complex iron and steel forms and products which NICs exported, in contrast to cruder forms exported by the NECs in 1970; use of 2-digit SITC aggregation masks this difference.

Table 3: SEVEN TOP EXPORT PRODUCTS FOR NICs AND NECs, 1970-79

(2-digit SITC)

	NICs				NECs			
Rank	1970	Share %	1979	Share %	1970	Share %	1979	Share %
1	Clothing	15.95	Clothing	13.93	Wood & Cork Manufactures	18.24	Textile Yarns & Fabrics	23.40
2	Miscellaneous Manufactures	11.95	Electrical Machinery	12.21	Textile Yarns & Fabrics	16.31	Clothing	15.64
3	Textile Yarns & Fabrics	10.89	Transport Equipment	9.97	Non-metal Mineral Manufactures	11.74	Electrical Machinery	7.42
4	Electrical Machinery	8.75	Textile Yarns & Fabrics	8.88	Iron & Steel	8.30	Wood & Cork Manufactures	7.27
5	Transport Equipment	7.11	Non-electrical Machinery	8.42	Fertilizers	5.90	Chemical Elements & Compounds	6.65
6	Non-Electrical Machinery	6.85	Miscellaneous Manufactures	7.06	Miscellaneous Manufactures	4.40	Non-metal Mineral Manufactures	6.27
7	Non-metal Mineral Manufactures	6.08	Iron & Steel	6.99	Leather, Fur and Manufactures		Miscellaneous Manufactures	6.17
% of Total Manufactured Exports		67.6		67.5		69.4		72.8

miscellaneous manufactures for 31% of non-manufactured exports, the NECs were still strongly oriented to exports of resource based non-manufactures such as wood products, fertilizers, non-metal mineral manufactures, iron and steel products (of a crude sort as noted in footnote 3) and leather products. By 1979 the three traditional manufactured items accounted for 46.5% of the total, the resource based items had declined in rank, and more sophisticated engineering goods (electrical machinery) rose in share from 2.6% in 1970 to 7.4% in 1979.

In sum, it is evident that the new exporters are indeed following along the same path of rapid export growth as had the NICs earlier, beginning with some manufactures of resource goods and modest amounts of the traditional trio of textiles, clothing and miscellaneous manufactures, then advancing to a strong focus on the traditional items plus a modest beginning in consumer engineering products. Again, we find the evidence on exports by product category casts some doubt on the export pessimism view that the traditional products cannot provide the impetus for export expansion in developing countries in the same way they had done for the NICs earlier. While the magnitudes of exports of these products by our group of new exporting countries is still not large compared to exports by the NICs, neither is it insignificant, being 18% of the value of NICs exports (in 1979 \$3,330 million compared to \$18,643). Furthermore, the growth rates of exports for the traditional products are much higher for the NECs, well above 40% compared to less than 20% for the NICs.

4. Did New Exporters Export to the Same Markets as NICs?

The general pattern of market destinations for the manufactured goods exports of the NECs can be described in stylized facts, as seen in Table 4. First, the most important markets in order were industrial countries, non-NIC developing countries, NICs, capital-surplus countries, and centrally-planned economies, with respectively, the following shaares of NEC exports in 1979: 57.9%, 18.7%, 16.1%, 6.0%, and 1.3.

Secondly, between 1970 and 1979 the importance of IC markets increased from 49.0 to 57.9% despite the slowdown in economic activity there; that of capital-surplus markets increased sharply, but from a new low level of 2.4% to 6.0%; the share of NIC destinations fell slightly from 18.2% to 16.1%; and finally the share of non-NIC developing countries fell markedly from 25.5% to 18.7%. This relative shift towards industrial countries in a period of rapid export growth by a group of apparently successful exporters corroborates the conclusion reached in the recent Bank study of trade among developing countries, that more export-oriented economies tend to trade less with other developing countries and more with industrial ones.

The third fact pertains to the increased similarity of NEC destination patterns and those of the NICs. In 1970 NEC exports went to ICs in a lesser proportion than the exports of NICs (49% vs 64.3%), and in greater proportion to non-NIC developing countries than those of the NICs (25.5% vs 19.7%). By 1979 the destination patterns were much more similar, with both NICs and NECs sending about 60% of their exports to industrial countries and about 20% to other developing countries. One difference that remains is that NEC's exports go to capital-surplus countries and especially to NICs in greater shares than do the exports of NICs. The much higher share of NEC exports going to NICs (14.4%) may be an important early sign of the opening opportunities in NIC markets for other developing countries, as the NIC economies advance beyond comparative advantage in traditional labor intensive products. This remains to be verified by more precise data on the types of products NECs sell to NICs, a task we have not undertaken for this study.

A fourth and final fact on destination patterns is that most of the individual countries follow the general pattern. Cyprus and Jordan are exceptions to the orders of magnitude of importance of different markets, with 33.6% and 77.6% of their respective exports destined for capital surplus countries. The proximity of Jordan to the Gulf states, and that of Cyprus to Libya and Algeria is probably the explanation for this. Colombia and Indonesia are exceptions to the trend of shifting towards IC markets and away from DC markets. In both cases the importance of IC markets fell, while that of non-NIC DC markets increased.

5. Conclusion

When one observes that in the climate of slower economic activity since 1973, the twelve countries of the new industrialized group have been able to continue export expansion at rates well in excess of the average for world trade and above that of other developing countries, and that despite the continuing dominance of these NICs, about a dozen developing countries have been able to increase their exports of manufactured goods even more rapidly than the NICs, it becomes difficult to resist rejection of export pessimism and adoption of a more optimistic (though not sanguine!) view of export prospects for developing countries. The evidence of export performance by the most successful new exporters of the seventies, (despite some of the obvious statistical inadequacies) does quite clearly say that many other countries besides the NICs can and have followed the same path to successful exporting as had the NICs earlier. We have not in this brief note attempted to explain why the twelve countries identified did well and others did not; this is a task for continuing analysis. But we have demonstrated that there is indeed cause for export optimism. Indeed, one is tempted to hypothesize on export booms that they always recur somewhere; in the best of times (the sixties) and in the worst of times (the late seventies) it would appear to be true that "exportatores faciunt saltus"; perhaps they can do as well in uncertain times such as the eighties.

APPENDIX

Composition of LDC groupings

Sample LDC:

Bahrain, Barbados, Bolivia, Brunei, Burma, Central Africa, Chile, Colombia, Congo, Costa Rica, Ecuador, Egypt, El Salvador, Ethiopia, Figi, French Guiana, Gabon, Gambia, Ghana, Guadeloupe, Guatemala, Honduras, Indonesia, Iran, Ivory Coast, Jordan, Kenya, Liberia, Libya, Madagascar, Malawi, Mali, Malta, Martinique, Morocco, Netherland-Antilles, Nicaragua, Nigeria, Pakistan, Panama, Paraguay, Peru, Philippines, Reunion, Sri Lanka, Sudan, Thailand, Togo, Trinidad, Tunisia, Turkey, Cameroon, Tanzania, Venezuela, Zaire, Zambia

NICs: (based on OECD study of newly industrializing countries)

Argentina, Brazil, Greece, Hong Kong, India, Israel, Mexico, Portugal, Singapore, South Korea, Spain, Yugoslavia

NECs:

Colombia, Cyprus, Indonesia, Jordan, Malaysia, Morocco, Peru, Philippines, Sri Lanka, Thailand, Tunisia, Uruguay

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