

causality tests in exploring the export expansion hypothesis, finding evidence to support the export expansion hypothesis in only four of the 37 countries that they considered. In fact, six of the 37 countries supported the export-reducing growth hypothesis. They conclude that the evidence casts doubt on the efficacy of export promotion policies in fostering economic development.<sup>28</sup> Dodaro also employs causality tests and discovers that there is weak support for the export expansion hypothesis and weak but stronger support for the alternative hypothesis that GDP growth promotes export growth.<sup>29</sup> Bahmani-Oskooee and Alse show that there is a long-run positive relationship between real exports and real output in less developed countries (LDCs) and that the growth of one is reinforced by growth in the other. In other words, exports and GDP exhibit bidirectional causality.<sup>30</sup>

There is also evidence which shows that diversion of resources from domestic production to export production may be beneficial for growth. Aside from the usual argument that small domestic markets need to produce for the export market to exploit economies of scale, production inputs may themselves become more productive. Feder, for example, presents data which show that the marginal productivities of factors of production may in fact be higher in the export sector than in the domestic sector. Furthermore, domestic production is able to capture some of the positive externalities from the export sector. For example, the export sector may be exposed to new and more productive technologies which can be used to increase productivity in the non-export sector. As a result, the export sector is more efficient at allocating resources than the domestic sector, and this is why exports generate growth.<sup>31</sup> This, however, is not necessarily just a case for export promotion, but is part of a broader argument for a better, more market-driven domestic allocation of resources.

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<sup>28</sup>Woo S. Jung and Peyton J. Marshall, "Exports, Growth and Causality in Developing Countries," *Journal of Development Economics*, Vol. 18, No. 1 (May/June 1985), 1-12. They argue that the time series analysis that they conduct is a more accurate methodology than the cross-sectional analysis usually conducted in these studies, since the stability of coefficients may not hold across countries.

<sup>29</sup>Dodaro, *op. cit.*

<sup>30</sup>Mohsen Bahmani-Oskooee and Janardhanan Alse, "Export Growth and Economic Growth: An Application of Cointegration and Error-Correction Modelling," *Journal of Developing Areas*, Vol. 27, No. 4 (July 1993), 535-42.

<sup>31</sup>Feder, *op. cit.*