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Argue why developing countries, which follow export-led economic growth strategy will outperform developing countries, whose policy is based on import-substitution policy.

Guideline:

- **a.** ***Identify 10 developing countries representing the first category***
- **b.** ***Identify 10 developing countries representing the second category***
- **c.** ***Compare the two groups' performance using real economic gross domestic product growth rate***
- **d.** ***Compare the two groups' performance using human development index (HDI)***
- **e.** ***Consider 20 years of time-frame for your analysis***
- **f.** ***Use graphs and tables to indicate your collected data (include sources of your data by listing references under the tables and graphs)***

INTRODUCTION

Given that today's globalized economy can be explained by the Ricardian model of trade, no nation is incapable of engaging in the global marketplace. Whether it be services, natural resources, raw materials, or manufactured goods, any nation has something they can export to another because there is some product or industry in which they have a comparative advantage. Conversely, every nation needs something that can be imported from another. It's not an exaggeration to say that modern nations live and breathe by the state of their economic policies, with the balance between imports and exports affecting the overall development and growth of those nations' economies. To determine whether an import or export-based economic policy produced greater economic growth we analyzed data on the gross domestic product and quality of life (as measured by the Human Development Index) for 20 developing countries over a 10-year period.

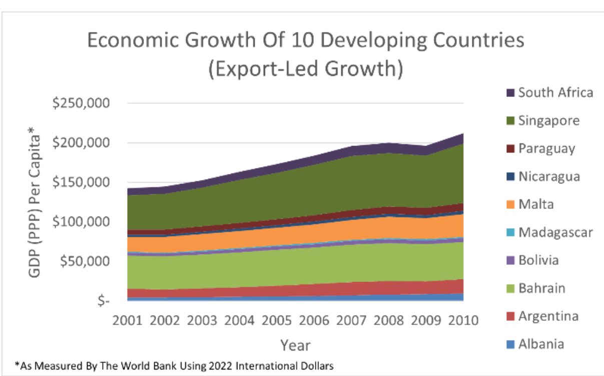
IMPORTS VS. EXPORTS

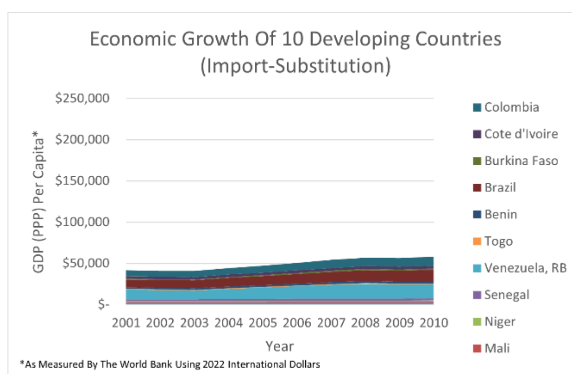
This study of how nations can utilize trade policies to stimulate their economic growth is known as Development Economics, a field which over the past century has supported two opposing methods to stimulate growth. On one hand, protectionist and autocratic nations place high tariffs on imports to make them more expensive for the consumer than domestically produced goods. This practice is known as import-substitution and seeks to reduce how reliant a nation is on the products of foreign firms in order to stimulate domestic manufacturing and industry. The alternative to import-substitution is the method of export-led growth, where a nation focuses on the export of a specific good or service for which the nation is aptly suited, stimulating economic growth by embracing the comparative advantage that they possess. (Bell 1987, p.818).

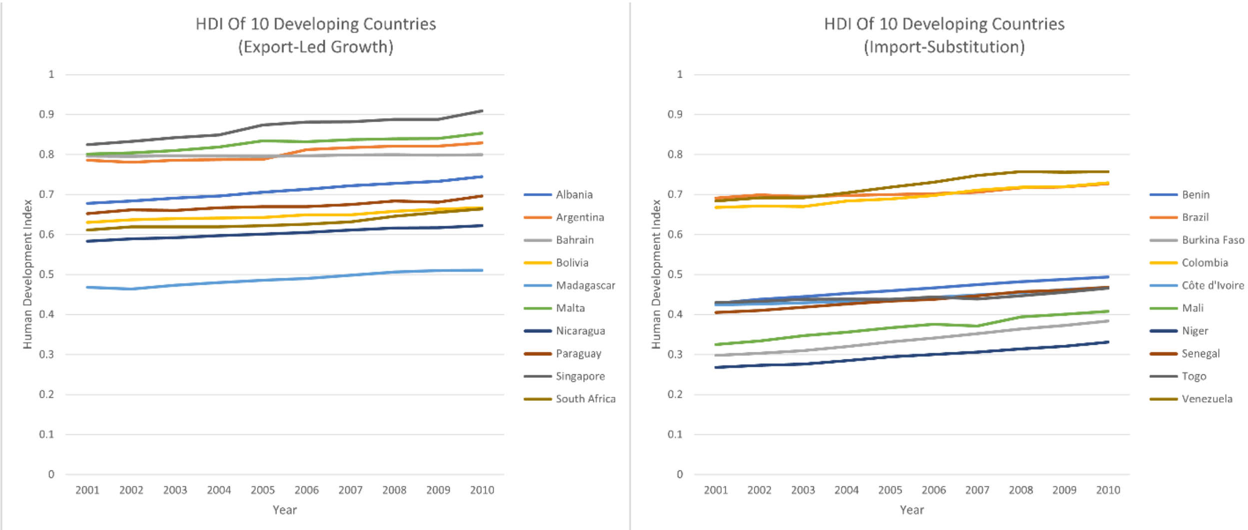
Methodology

The availability of data had an overstated effect in our selection of the 20 developing nations suitable for our analysis. Using the World Bank's statistics on yearly effective tariff rates for individual nations, calculated by taking a weighted mean of tariff rates on all products across all industries, we selected 20 developing nations that had data available for the period between 2001 and 2010. We then collected data on the percentage of GDP attributable to exports for each of the 20 countries previously identified. We then used this data to split the sample of 20 developing nations in half. One half which averaged a yearly effective tariff rate greater than 7% and the other half which averaged greater than 28% of their GDP from exports. These figures were taken as good indicators that these groups were pursuing economic policies of import-substitution and export-led growth respectively.

Once our two groups were identified, we created time series charts tracking the GDP (PPP) per capita in 2022 international dollars and the Human Development Index scores for each group over the period between 2001 and 2010. The results are as follows:







Conclusions

As the charts above clearly indicate, the economic and quality of life outcomes of the developing nations studied pursuing export-led growth far outpace the results of nations pursuing import-substitution policies. While there are some outliers, with Brazil, Colombia, and Venezuela possessing relatively high HDI scores, the rest of the 17 nations studied reinforce the previously stated relationship: that export-led growth led to better economic development than import-substitution.

Works Cited

Bell, Clive (1987). "*Development Economics*," The New Palgrave: A Dictionary of Economics, v. 1, pp. 818, 825.

Tariff rate, applied, weighted mean, all products (%). Data. (n.d.). Retrieved April 6, 2022, from https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS

Exports of goods and services (% of GDP). Data. (n.d.). Retrieved April 6, 2022, from https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS