

Ar2

Studi in onore di Augusto Sinagra

Volume VI
Miscellanea

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ARACNE editrice S.r.l.

www.aracneeditrice.it
info@aracneeditrice.it

via Raffaele Garofalo, 133/A-B
00173 Roma
(06) 93781065

ISBN 978-88-548-6258-6

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I edizione: ottobre 2013

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MISCELLANEA

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Export Led Growth and Emerging Economies

SULE AKER, AHMET AKER*

SUMMARY: I. Introduction, II – 2. Methodology, 14 – 3. Conclusion, 17 – 4. Annex, 17.

I. Introduction

The economic performance of emerging economies in the last decades has been impressive. The economic growth figures of these countries shattered many beliefs and paradigms relating economic growth to religion and culture. WEBER'S «Protestant Ethic» argument stating that the Protestant belief and value system is a precondition for economic growth, for example has proven to be wrong. Likewise, analysts categorizing Hinduism and Islam as religions responsible for the economic backwardness of countries can be considered short-sighted. As emerging markets' share in global income and output rise, many dogmas are needed to be revised.

Emerging economies are those countries that are growing and industrializing fast. The E7 countries are the seven largest economies of the emerging markets. They are Brazil, China, India, Indonesia, Mexico, Russia and Turkey, in alphabetical order. The terminology is not standardized yet, nor is the list of countries in this group. However, because of the economic growth potential and the huge populations in this category, the E7 is considered a very important group of countries after the G7 which comprises of the United States, United Kingdom, France, Germany, Japan, Italy and Canada. Moreover, the economic downturns and recessions in the G7 countries diverted the

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focus on the E7 as these countries' economic growth figures continue to be impressively high. *Table 1* shows the economic growth rates of the E7 countries in 2010 (source: World Development Indicators).

Table 1.

Countries	Brazil	China	India	Indonesia	Mexico	Russian Federation	Turkey
Economic growth (%)	7.5	10.3	9.7	6.1	5.5	4.0	9.0

On top of their economic success, the E7 is also attracting attention, because they are recently organizing and forming a group of their own as an international organization. With rapidly growing economies, huge populations and very large markets, it will not be surprising to see their influence increasing in global politics.

One question which is extremely relevant is: what is behind this economic success of the emerging economies? In this research this is the question which is being addressed. The major finding of the paper is that most of the E7 countries are growing by exporting, Indonesia excepted. No significant correlation is found for Turkey either for the time period analyzed which covers the years between 1996 and 2009. Turkey is actually a late comer to the scene of rapidly growing emerging countries as the acceleration of economic growth in this country begins in 2010 with a growth rate of 9.2 percent followed with 8.5 percent in 2011. The growth rate for 2012 is estimated to be between 4 and 5 percent¹. The surge of exports in Turkey is also a late comer compared to the other E7 countries with the first surge of exports starting with a 35 percent increase in 2003, rising from 51 billion dollars to 69 billion in that year alone. The export growth in Turkey maintains its tempo reaching 240 billion in 2011².

In the methodology section of this paper, economic growth and different macroeconomic variables in the E7 are correlated using the multiple regression analysis. The results show that economic growth is significantly correlating with exports in Brazil, China, India, Mexico and the Russian Federation. This is quite to be expected as export-led growth strategy seems to be an historically valid and well proven strategy for countries to achieve economic growth. Export-led growth has been one of the most successful strategies to increase income and

1. See <http://www.hazine.org.tr/tr/index.php/ekonomi/ueretim-ve-bueyueme>.

2. See TURKISH INSTITUTE OF STATISTICS, 2012.

wealth of the countries for decades: United States (1920–), Germany and Japan (1950–), the *Four Asian Tigers* (1960–), China (1980–), India (1990–) and many others raised their GDPs through massive exporting as is very evident from data from the World Bank³.

Export-led growth has been a major model for economic development particularly in the 1970's and especially after the spectacular economic success of the *Four Asian Tigers* (South Korea, Singapore, Hong Kong and Taiwan)⁴.

However, after the global financial crisis which was triggered by the sub prime mortgage crisis in the United States and the economic crisis of 2008, which still prevails in North America and Western Europe, doubts have been expressed as to whether export-led growth strategy would still continue to be contributing to the economic growth of the emerging economies⁵.

Basically, two factors may pose a threat to export-led growth strategy: demand shortage in the developed countries and rising protectionism overall. Demand shortages appearing in the developed countries with the start of the 2008 downturn and recessions is well documented⁶.

In similar manner, YUSUF argues that because there is excess production capacity for major industries in East Asia, crises in the major consumer markets like the United States and rising energy and resource costs, the export-led growth paradigm may come to an end⁷. As *Table 2* shows, the exports (as % of GDP) 2006-2010 for the E7 have initially decreased for most of the sample except Mexico, however they started recovering after 2009 (source: World Development Indicators). Mexican exports have not been affected by the crisis⁸.

3. See <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/>.

4. PALLEY, *The Rise and Fall of Export-Led Growth*, Working Paper No. 675, Levy Economics Institute of Bard College, 2001, in http://www.levyinstitute.org/pubs/wp_675.pdf.

5. This doubt is particularly well expressed by KLEIN-CUKIER, *Tamed Tigers, Distressed Dragon*, in *Foreign Aff.*, July/August 2009.

6. See again PALLEY, *op. cit.*.

7. See YUSUF, *The Past and Future of Export-led Growth*, 2010, in <http://blogs.worldbank.org/growth/past-and-future-export-led-growth>

8. CHANG argues that no country has industrialized without the three core policies of trade protection, industrial policy and macroeconomic management focused on industrialization and economic growth (*Kicking Away the Ladder: Development Strategy in Historical*

Table 2.

	Brazil	China	India	Indonesia	Mexico	Russian Federation	Turkey
2006	14	39	21	31	28	34	23
2007	13	38	20	29	28	30	22
2008	14	35	24	30	28	31	24
2009	11	27	20	24	28	28	23
2010	11	30	22	25	30	30	21

2. Methodology

In this study the economic growth and various macroeconomic variables are correlated in E7 countries. The first hypothesis tested is that economic growth is a function of exports and unemployment. It is proposed that economic growth and unemployment (inversely) and exports (positively) are correlated in the E7 countries.

$$g = f(u, x)$$

The multiple regression equation of the hypothesis is shown in *Equation (1)* where economic growth of the countries is the dependent variable and unemployment and exports are the independent variables:

$$g_i = a_i + b_{1i}U_i + b_{2i}X_i + e_i \quad \text{Equation (1)}$$

Where:

- g is the GDP annual percentage (%) growth;
- a is the constant of the equation;
- β_1 is the coefficient of correlation for unemployment;
- U is the unemployment rate as percentage of total labor force;
- β_2 is the coefficient of correlation for exports;
- X is the exports of goods and services as percentage of the GDP;
- e is the error term of the equation;
- i is the E7 countries: Brazil (Br), China (Ch), India (In), Indonesia (Is), Mexico (Me), Russian Federation (Rf), Turkey (Tu).

Perspective, London, 2002). RAJA claims that because the United States constitutes 50% of the world current account deficits, the slow down of US economy will mean a contracting export market for everybody including the emerging economies (*Rethink Export-led Growth Paradigm*, Says UNCTAD, in *Third World Resurgence*, August/September 2010).

Results of the regression are as follows:

For Brazil

$$g_{Br} = 7.937 - 0.481U_{Br} + 0.585X_{Br} \quad (2)$$

$$(t = -1.975)(t = 2.4)$$

$$(sign. = 0.074)(sign. = 0.035) \quad R^2 = 0.405$$

For China

$$g_{Ch} = 7.011 - 0.431U_{Ch} + 1.166X_{Ch} \quad (3)$$

$$(t = -1.671)(t = 4.523)$$

$$(sign. = 0.123)(sign. = 0.001) \quad R^2 = 0.739$$

For India

$$g_{In} = 3.048 + 0.209U_{In} + 0.344X_{In} \quad (4)$$

$$(t = 0.582)(t = 0.961)$$

$$(sign. = 0.573)(sign. = 0.357) \quad R^2 = 0.261$$

However, if different macroeconomic variables are tried:

$$g_{In} = 1.684 - 0.371FDI_{In} + 0.634X_{In} + 0.501PORT.INV_{In} \quad (5)$$

$$(t = -1.072)(t = 1.777)(t = 2.968)$$

$$(sign. = 0.309)(sign. = 0.106)(sign. = 0.014) \quad R^2 = 0.645$$

For Indonesia

$$g_{Is} = 18481 + 0.173U_{Is} - 0.791X_{Is} \quad (6)$$

$$(t = 1.046)(t = -4.789)$$

$$(sign. = 0.318)(sign. = 0.001) \quad R^2 = 0.712$$

If lagged FDI is added:

$$g_{Is} = 22222 + 0.143U_{Is} - 0.888X_{Is} - 0.352FDI.LAGG_{Is} \quad (7)$$

$$(t = 0.876)(t = -5.067)(t = -2.192)$$

$$(sign. = 0.404)(sign. = 0.001)(sign. = 0.056) \quad R^2 = 0.810$$

Exports and lagged Foreign Direct Investment (FDI) are negatively correlating with economic growth in Indonesia. There could be two explanations for this observation. It can be that foreign multinational firms exporting (mostly minerals and raw materials) are not bringing the export revenues back to Indonesia. Secondly, as Indonesia grows and incomes of the domestic consumers increase, producers may divert their products to the domestic market rather than the foreign markets, and they may become more hostile to the foreign firms competing in their domestic market.

For Mexico

$$g_{Me} = -18271 - 0.342U_{Me} + 0.545X_{Me} \quad (8)$$

$$(t = -1.368)(t = 2.181)$$

$$(sign. = 0.198)(sign. = 0.052) \quad R^2 = 0.340$$

For Russian Federation

$$g_{Rf} = -9297 - 0.472U_{Rf} + 0.690X_{Rf} \quad (9)$$

$$(t = -2.481)(t = 3.629)$$

$$(sign. = 0.031)(sign. = 0.004) \quad R^2 = 0.610$$

No significant correlation between unemployment, exports and other macroeconomic variables is obtained for Turkey.

3. Conclusion

If managed cleverly, export-led growth strategy seems to be one of the driving forces behind the fast and continuous economic growth of the E7 countries. The economic growth in Brazil, China, India, Mexico and Russian Federation are significantly and positively correlating with exports. The global crisis and contracting demand in United States and Europe may pose a challenge for the sustainability of this strategy. However, most of the E7 countries kept their export levels and/or increased their exports in recent years. The explanation can be that, with falling incomes, consumers demand for cheaper imports increased in the West.

A more important threat to export-led growth strategy may come from rising protectionism in developed markets. However, trade protectionism cuts both ways. While protecting the producers, the protectionist Governments may lose the support of their exporters. Therefore, protectionism can become a difficult tool to employ in the short-term.

4. Annex

Regression for Brazil

Model 1

Table 3.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.637 ^a	.405	.297	1.80720

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 4.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.498	2	12.249	3.751	.057 ^a
	Residual	35.926	11	3.266		
	Total	60.424	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 5.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	7.937	4.752		1.670	.123
UNEMPL	-1.131	.573	-.481	-1.975	.074
EXPORTS	.391	.163	.585	2.400	.035

^a. Dependent Variable: EC.GROWT

Regression for China

Model 1

Table 6.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860 ^a	.739	.692	1.02579

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 7.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.794	2	16.397	15.583	.001 ^a
	Residual	11.575	11	1.052		
	Total	44.369	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 8.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	7.011	2.161		3.244	.008
UNEMPL	-1.485	.889	-.431	-1.671	.123
EXPORTS	.298	.066	1.166	4.523	.001

^a. Dependent Variable: EC.GROWT

Regression for India
Model 1

Table 9.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.511 ^a	.261	.127	2.05533

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 10.

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	16.446	2	8.223	1.947	.189 ^a
Residual	46.468	11	4.224		
Total	62.914	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 11.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	3.048	2.205		1.382	.194
UNEMPL	-.164	.283	-.209	-582	.573
EXPORTS	.179	.187	.344	.961	.357

^a. Dependent Variable: EC.GROWT

Model 2

Table 12.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.803 ^a	.645	.539	1.49390

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 13.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	40.597	3	13.532	6.064	.013 ^a
	Residual	22.318	10	2.232		
	Total	62.914	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 14.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.684	2.364		.712	.493
	FDI	-5.93E-05	.000	-.371	-1.072	.309
	EXPORTS	.330	.186	.634	1.777	.106
	PORT.INV	1183E-04	.000	-.591	2.968	.014

^a. Dependent Variable: EC.GROWT

Regression for Indonesia

Model 1

Table 15.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.844 ^a	.712	.660	2.94654

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 16.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	236.389	2	118.195	13.614	.001 ^a
	Residual	95.503	11	8.682		
	Total	331.892	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 17.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	18.481	5.425		3.407	.006
UNEMPL	.411	.393	-.173	-1.046	.318
EXPORTS	-.544	.114	-.791	-4.789	.001

^a. Dependent Variable: EC.GROWT

Model 3

Table 18.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.900 ^a	.810	.747	2.57946

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 19.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	255.085	3	85.028	12.779	.001 ^a
	Residual	59.882	9	6.654		
	Total	314.968	12			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 20.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	22.222	6.762		3.286	.009
UNEMPL	.377	.430	.143	.876	.404
EXPORTS	-.620	.122	-.888	-5.067	.001
FDI.LAGG	-3.98E-04	.000	-.352	-2.192	.056

^a. Dependent Variable: EC.GROWT

Regression for Mexico
Model 1

Table 21.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583 ^a	.340	.220	2.94990

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 22.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.229	2	24.614	2.829	.102 ^a
	Residual	95.721	11	8.702		
	Total	144.949	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 23.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-18.271	11.653		-1.568	.145
	UNEMPL	-1.322	.966	-.342	-1.368	.198
	EXPORTS	.900	.413	.545	2.181	.052

^a. Dependent Variable: EC.GROWT

Regression for Russian Federation
Model 1

Table 24.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781 ^a	.610	.539	3.76369

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 25.

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	243.733	2	121.867	8.603	.006 ^a
Residual	155.819	11	14.165		
Total	399.552	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 26.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-9.297	7.061		-1.317	.215
UNEMPL	-1.088	.439	-.472	-2.481	.031
EXPORTS	.686	.189	.690	3.629	.004

^a. Dependent Variable: EC.GROWT

Regression for Turkey
Model 4

Table 27.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693 ^a	.481	.325	4.17136

^a. Predictors: (Constant), EXPORTS, UNEMPL

Table 28.

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	161.117	3	53.706	3.086	.077 ^a
	Residual	174.003	10	17.400		
	Total	335.120	13			

^a. Predictors: (Constant), EXPORTS, UNEMPL

^b. Dependent Variable: EC.GROWT

Table 29.

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-5.585	13.324		-.419	.684
	IMPORTS	1.420	.469	.880	3.028	.013
	FDI	-2.40E-04	.000	-.382	-1.469	.173
	EXPORTS	-1.072	.626	-.445	-1.712	.118

^a. Dependent Variable: EC.GROWT