EXPORT-LED GROWTH OF A SMALL OPEN ECONOMY IN THE POST-GLOBALISED WORLD[1]

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Abstract: *Inability to reach global partnership for equitable development (one of the MDGs) and perils of international financial crisis have turned the attention of development economists to resilient growth paradigm. While several advanced countries apparently misunderstood resilience for increasingly protectionist, anti-globalist measures, majority of small open still developing economies continue to pursue 40-year-old export-led growth strategy. Hence, this chapter is concerned with viability of export-led growth paradigm for small open economies in the post-globalised world.*

Key Words*: export-led growth, small open economy, (re)industrialisation, post-globalised world, global supply chains, WTO*

1. Introduction

Millennium development goals were eight broadly set international development objectives established under the auspices of the United Nations back in 2000. The last but not the least important among them aimed at setting a global partnership agenda for equitable and sustainable development of underprivileged, transitional, less developed parts of the world economy.

Inability to reach Millennium development goals (along with the outbreak of international financial crisis) has turned the attention of development economists and advocates of MDG global partnership agenda for development to yet another grail – namely resilient growth paradigm. Prudential aspect of resilience aside, international economic dynamics seems to have quickly became increasingly protectionist, anti-multilateral and often denying the four freedoms in not entirely opposed to off-shoring, recently to the extent that both academic and business circles have adopted the term post-globalisation. Even though neoliberal agenda -guided by distorted reading of the so-called Washington consensus- proved to be utter failure and suffered evident and righteous fall from grace [Malovic, 2012], dangerous swift to the

[1] This chapter is a part of research projects III47009 (*European integrations and social and economic changes in Serbian economy on the way to the EU*) and OI179015 (*Challenges and prospects of structural changes in Serbia: Strategic directions for economic development and harmonization with EU requirements*), financed by the Ministry of Science and Technological Development of the Republic of Serbia.

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other extreme appears to be equally disturbing and ultimately ill advised. Be that as it may, in a world of extreme income inequality, subpar or dried-out aggregate demand and race to the bottom in terms of simultaneous exporting efforts of all (and developing countries in particular), we could arguably ask ourselves to what degree is export-led growth strategy, still officially preached by the Bretton-Woods institutions and national policymakers alike, even viable for a small open economy in the post-globalised world any more. That indeed, i.e. the retrospect and especially the prospect of export-led growth of a small open economy in the contemporary post-globalised world, constitutes the central subject of this chapter.

The rest of the text is organised as follows: section 2 deals with basic export-led growth theory, its predecessor, its anatomy and amassed affirmative evidence of its success; section 3 pinpoints key weaknesses and unintended distortions of export-led growth strategy; section 4 offers policy relevant appraisal of usefulness of export-led growth approach in the post-globalised world and introduces some mending extensions crucial for small open economies to continue embracing it; finally in section 5 we go on to summarise the chief conclusions.

2. Export-Led Growth Theory and Evidence

It is beyond reasonable doubt that some of the greatest credits in respect to speed, extent and persistence of economic development through history are due to successes of international trade [Rodriguez-Rodrik, 2001]. Which ever the grass-roots of above average growth and relative advantage of small open economies may be, either productivity gained by superior technology [Ricardo-Torrens theory], superior availability of resources [Heckscher-Ohlin-Samuleson's model], spatial (geographic) concentration [Krugman-Fujita-Venables, 2001], or institutions [Rodrik, 2000], [Levchenko, 2007], robust growth and rising income have invariably been tightly correlated with trade liberalisation and export performance [Daruich-Easterly-Reshef,2016].

Moreover, spectacular growth experience of "East-Asian Tigers" (Japan, S. Korea, Taiwan, Hong Kong, Singapore) and most recently China, coupled with their even more explosive export performance from early 1960s to 1990s inspired both multilateral institutions and many national policymakers to embrace export-led industrialisation strategy themselves. Even though correlation does not necessarily speak of causality, spectacular co-movement of export results and GDP *p.c.* in 2010, in spite of global financial meltdown and 2009 contraction of international trade, is by the same token hard to ignore, as illustrated in *Figure 1*.

Figure 1: Correlation of GDP p.c. and export performance in 96 countries

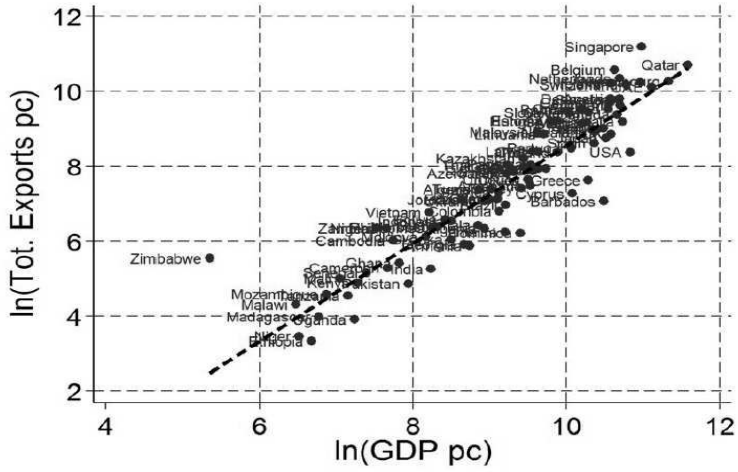


Figure 1: Total Exports per capita and development (GDP in PPP per capita) are highly correlated, with correlation coefficient equal to 0.92. Source: COMTRADE and Total Economy Database. Data in 2010. Number of countries: 112.

Source: [Daruich-Easterly-Reshef, 2016]

Thus, export-led growth paradigm initially rose to prominence in the late 1970s, following the equally influential reign of the Prebisch-Singer hypothesis (of declining terms of trade for developing countries with so-called primary products constituting the bulk of their export supply) and henceforth import-substitution growth strategies that dominated development policy thinking from early 1950s [Palley, 2003], [Palley, 2011]. It came into being when international debts began accumulating after the first and second oil shocks during the 1970s, when effectiveness of import substitution in terms of real growth suddenly wasn't enough any more: foreign exchange was badly needed in order to pay for almost fivefold increase of the oil price [Gereffi, 2013]. However, a bit more careful analysis of just what exactly constitutes export-led growth strategy among "East Asian Tigers", proverbial champions of export-led industrialization, invariably invokes a lot of confusion and striking heterogeneity in their individual circumstances as well as policies adopted. For example, Japan nurtured fierce competition within their respective industries but coordinated joint invasion of foreign markets under the famous MITI, Korea and Taiwan deployed even more activist government intervention towards strengthening export sectors, while Hong Kong remained a poster-child of free market economy. South Korea and Japan grew amidst big self-sufficient corporate conglomerates (kor. *chaebols*, jap. *keiretsu*), whereas Taiwan and Singapore relied primarily on SMEs [Ito-Krueger, 1996], [Dornbusch, 2000], [Perkins, 2001]. That notwithstanding, Yusuf (2001) synthesizes three main ingredients of macroeconomic climate in which South-East Asian export-led growth

miracle was born: *1)* strong fundamentals encompassing stable and predictable business environment with low but positive inflation, prudent fiscal stance, competitive exchange rate policies, financial market development, efforts to minimize price distortions and optimize share and quality of human capital, *2)* technocratic bureaucracy insulated from political pressures and therefore capable of conceiving and implementing long-run development strategy and *3)* export-led growth strategy itself.
Now, a distinction is in order between intrinsic conventional exports, which constitute necessary and integral part of growth, and export-led growth outbound trade. While former represents mathematical identity (after all every small country needs foreign exchange in order to pay for its imports), the latter is a deliberate and multiplicative outcome of adopting explicit industrial and trade policies to expand exports. Such government policies have ranged from but haven't been limited to setting export performance targets and corporate quotas to be met, state-owned banks' credit support or heavy initial investment in chosen champion sectors, generous tax, trade and cultivating incentives for export-oriented firms, all the way to repressing wages and labour rights to keep unit labour costs competitive enough and dumping goods in overseas markets [Lin-Lee-Huang, 1996, p.197], [Lim, 2014, p.11].

Nevertheless, it is fair to say that in many instances those first versions of export-led growth strategies (that by and large produced the most impressive results) rode on the wave of and heavily combined import-substitution industrialisation along the lines of infant-industry argument with officially or covertly proclaimed export targets. The strategy of fostering domestic manufacturing industry by discouraging or limiting imports of foreign final products is known as import-substituting industrialisation [Krugman-Obstfeld-Melitz, 2010]. Indeed, in the face of market failures (externalities), trade restrictions could in fact increase real GDP, although they are seldom the first-best means of doing so [Rodriguez-Rodrik, 2000, p. 267]. Thus, case studies show that export-led growth strategies have been carried out with vigorous government participation, well above merely preventing an anti-export bias [De Melo-Robinson, 1990], so that often times import substituting firms and industries at wide enough scale economies and competitiveness achieved, subsequently slipped into export promotion hubs.

Evidence of success in export promotion thus far is in the end of the day an empirical issue. Alas, huge and numerous record of empirical research in retrospect appears to be somewhat ambiguous. Giles and Williams (2000), who reviewed most of econometric work studying relationship from exports to growth, differentiated the existing literature into three separate strands. Panel studies use cross-country correlation coefficients and overwhelmingly confirm export-led growth hypothesis, even after ex-post correction for spurious correlation problem (due to exports being constitutive part of GDP), notwithstanding the caveat that there may be a need for a minimum development threshold before statistically significant association could be detected. These concerns led to deployment of OLS based linear regression applications, as the second strand, which were nonetheless cross-country predicated. Some authors warned against endogeneity problems in such regressions, yet

simultaneous equation estimation principle typically didn't change their findings. However, Giles and Williams (2000) report rejection of export-led growth paradigm in single country studies, with scattered disagreement for the same country from one study to the other. Finally, three quarters of time-series based studies in the last century utilise some variation of Granger causality test to check the export-led growth strategy success [*Ibidem*]. Nonetheless, same authors conclude that regardless of the VAR, ARMA or VECM methodology deployed, export-led growth outcomes captured by standard causality techniques usually lack robustness to either specification or method, hence, there is little agreement between results of time-series investigations of export-led growth [Giles-Williams, 2000, p.16].

Be that as it may, novel studies like Konstantakopoulou (2016), yet again put a seal of approval to export-led growth strategy in small open Southern European countries which entered the EU and more recently the Eurozone. After all, even for small open transition economies of Central and South-East Europe, that are still out of the E(M)U and that came about after dissolution of bigger states or trade blocks, export-led growth strategy has been the only relatively quick fix to counteract falling domestic consumption and domestic aggregate demand.

Having said that, what may be the underlying reasons for still undeniably pretty ambiguous empirical results of testing the validity of export-led growth strategy? The next section tackles potential weaknesses and distortions of export-led growth approach in practice of developing and transition economies.

3. Weaknesses and Distortions of Export-Led Growth Approach

First of all, from a Neo-Keynesian perspective, boosting growth by tapping foreign aggregate demand may produce a substitution effect in respect to domestic demand dynamics with zero sum or insufficient outcome for the aggregate growth. Moreover, if many or majority of developing countries increase export supply of fairly similar structure more or less at once, there will be terms of trade deterioration which may or may not bring about satisfactory rate of growth [Johnson, 1955], [Palley, 2003]. That said, it seems that export-led growth approach's hidden weakness is that it works when followed by a handful of forerunners rather than being proven effective as the mainstream growth strategy [Lawrence-Weinstein, 1999].

In addition, if primary products or more generally low value-added export constitute the bulk of overseas supply of small open developing economies, foreign aggregate demand of developed countries for such goods can hardly grow significantly, hence we face export displacement paradigm coupled with potential race to the bottom in export prices, along the lines of J. Bhagwati's immiserising growth and its offsprings [Palley, 2003]. That said, Feenstra (2004, pp.343-348) formally demonstrates that immiserising growth need not occur only if foreign demand for imports is inelastic or growth reduces the output of the importables at fixed prices,

but also due to a sort of Rybczynski effect when the source of growth is factor-neutral technological progress in exportables industry.

Furthermore, expanding export capacities often requires borrowing in foreign currency, a debt which may become formidably difficult to repay if international crises or other external shocks produce huge volatility of foreign demand as they occasionally do and simply render developing countries' export capacity an excess one [Palley, 2003]. Therefore, export-led growth takes advantage of opportunities for international trade, but it also exposes national economy to ever more volatile external shocks [Lin-Lee-Huang, 1996, p. 218]

More broadly, trade openness in practice does not exhibit decisively negative relationship with growth performance. For instance, initial level of openness as measured by export-to-GDP ratio was proved to had been immaterial to growth performance of Taiwan and Korea [Lin-Lee-Huang, 1996, p.199]. As Rodriguez and Rodrik (2001, p. 262) rightly observe, "(…) if there is an inverse relationship between trade barriers and economic growth, it's not the one that immediately stands out from the data". This is not to say that countries with lower policy-induced barriers to trade grow comparatively faster, *caeteris paribus*, but rather that economic development presupposes crucial and highly sensitive roles for the macroeconomic, ethical, natural and psychological environment that public policies are designed to generate, transform and/or preserve. In turn, path dependency of institutional and technological progress (or lack thereof) implies that trade liberalisation in wise and successful historical examples did not shy away from infant-industry argument, import-substitution components of overall export promotion strategies and occasional tweaking of internationally set rules of engagement [Malovic, 2012, *passim*].

However, even when trade openness does impact growth significantly and positively, Rodriguez and Rodrik (2001, p.267) warn us that increasing exports or indeed growth rate does not necessarily enable higher welfare: trade policies can raise national welfare without altering the rate of growth or even slow down growth and still be welfare-improving. Yarborough and Yarborough (2000) underscore that balanced growth brings no improvement in welfare if it goes hand in hand with demographic explosion, just as welfare rise on account of swift population decrease may prove to be short lived. Cheap labour-intensive growth also may last only so long if it's not enhanced by capital accumulation and climbing up the technology leather within maximum two political cycles [Malovic, 2012]. Beyond textbook examples of market failures and positive externalities in import-competing industries, Grossman and Helpman (1991) claim that even in endogenous growth setting with increasing or at least non-diminishing returns, where trade openness usually exerts considerable and positive impact on subsequent growth performance, temporary trade restrictions may be associated with higher growth if barriers promote technologically more advanced sectors in economy. In other words, trade openness promotes innovation and technological progress only if forces of relative advantage push economies resources towards sectors that achieve and generate further productivity advances. Moreover, Baldwin's and Seghezza's (1996) conclusion, drawing from their extensive cross-

country study, suggests that trade openness influences growth solely via its impact on investment, however, openness positively affects investment across the board, quite regardless of the capital-to-labour ratio of their respective exports. That said, much more than trade barriers or wildly volatile transport costs as culprits, short- to medium-run terms of trade swings in small open economies are nowadays largely generated by deliberate nominal exchange rate management [Malovic, 2014*].

Be that as it may, continuous technical progress may not be essential for the very impetus of initial growth, yet it is *sine qua non* for avoiding diminishing returns to kick in [Malovic, 2012]. Many authors are justifiably obsessed with improving export competitiveness through national branding and stricter quality control [Domazet, 2016]. Nonetheless, if national economies aim above simple price competitiveness (of labour-intensive industries with at best neutral technological progress), national export competitiveness boils down to superior productivity of both exporting and import replacing sectors, or as P. Krugman famously asserted, productivity isn't everything, but over a long term it is almost everything. Having said that, even though international competitiveness is usually reanimated and balance of payments adjustment initiated via tweaking of the exchange rate, it should be attained through structural adjustment and continuing increase in productivity rather than by never ending competitive devaluations [Malovic, 2012]. Alas, since we now seemingly know that trade liberalisation doesn't influence productivity directly [Baldwin-Seghezza, 1996], a closer retrospective look at East Asian growth miracle cum changes in industrial productivity apparently uncovers that exports might have played a wee smaller role in that achievement than generally perceived. Namely, another weakness of export-led growth approach stems from the fact that high productivity in certain industries sure enough leads to exports, while reverse causality from exports to productivity typically does not exist [Yusuf, 2001]. What's more, Lawrence and Weinstein (1999) report that based on empirical analyses for Japan and Korea, imports tend to have stronger effect on productivity than exports do. After all, dominant literature on export-led growth strategy over the last quarter of a century emphasized the drawbacks of picking the national winners or even the very ability of governments to carry out such export/led industrialisation, faced with rules of origin, intellectual property rights and some such regulation internationally enforced by the likes of WTO, EU etc. In similar fashion, Krueger (2017) reminds us that imports create employment and enable competitiveness improvement too, which is why export-led industrialisation shouldn't fall prey of an attempt to export everything at any cost and minimise imports, for then export promotion would end up just as unsustainable as broad range socialist style import substitution thoroughly criticised by Krugman, Obstfeld and Melitz (2010), *inter alia*. In a nutshell, low cost imports sustain jobs in export-oriented industries, whereas high cost imports signal inferior technology and subpar competitiveness of domestic output and ultimately export supply [Krueger, 2017]. Indeed, De Melo and Robinson (1990) elegantly demonstrate that Marshallian externalities, which formalise the impact of export promotion on growth, arise not

only from exporting efforts, but even more forcefully from acquisition of technology embodied in imported capital equipment.

Another potential distortion comes from the rent-seeking corruptible behaviour inherent to human nature, particularly in societies of weaker ethical and institutional fibre. Even though empirical research by and large confirms the view that policymaker should pursue an interventionist policy in order to coordinate private sector activities [*Ibidem*], it is to no avail if government officials given the task of setting it up lack vision, expertise or moral ground to deliver. There were examples of government officials who tried to come up with export promotion while dully following perplexing prescriptions of neoliberal doctrine, others devised clumsy and hard line protectionist policies with blatant ignorance of bilateral and international treaties their countries had long ago entered into, yet others were in reality busy generating rents for themselves or their political masters [Perkins, 2001].

Lastly, but not least important, export-led approach based on attracting labour-intensive FDI that seek cheap workers as the destination's key advantage (often times propped up with host country subsidising FDI as a sweetener or indeed the main course), in most instances pauperises the economy and with a "promising" time lag pushes it even deeper into economic backwardness [Lim, 2014].

Finally, Daruich, Easterly and Reshef (2017, p.1), based on extensive empirical study of hyper-specialisation of exports, suggest that "(…) export performance depends, to a larger extent than previously appreciated" on forces outside reach of export promotion strategy and national industrial policies.

4. Usefulness of Export-Led Growth Strategy and Mending Extensions

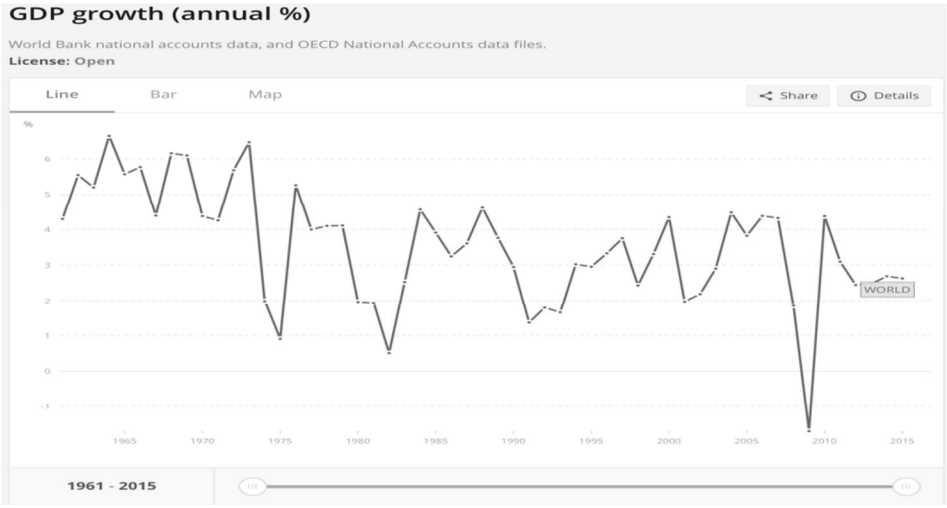
Even though export-led industrialisation strategy served well many developing or in the meantime developed economies over the last four decades or so, with spectacular export and growth rates, thereby lifting entire populations out of poverty [Lim, 2014], pinpointed weaknesses and distortions of the export-led approach inevitably question the usefulness and viability of the strategy in the present time.

Oddly enough, despite the worldwide popularity and widespread application of export-led growth strategy, global economic growth has ominously slowed down (and particularly so in poorer developing countries), as broadly evident from *Figure 2*.

Potential weaknesses of export-led strategy aside, there must be something exogenous which lately altered the effectiveness of the approach. Feenstra (2010) claims that production offshoring and globalisation of national economies have three crucial macroeconomic implications: a) increased and less predictable business cycle volatility, b) inherently controversial price determination, terms of trade and price competitiveness issues and c) impact on productivity. All of it invokes what J. Bhagwati (1998) called kaleidoscopic relative advantage, because firms geographically fragmentise production by choosing least-costly host country for each production and

assembling stage, so that such rapid movement of investment and activities across the world -for some chiefly in response to wage stripping- implies that one may posses hard-won advantage in foreign trade today only to lose it as soon as tomorrow [Feenstra, 2010].

Figure 2: World GDP growth dynamics over the global adoption cycle of export-led growth strategy



Source: The World Bank and OECD

Namely, back in the day, when now developed countries were industrialising themselves, industrial policy meant building self-sustained national supply chains at home, driven by belief that small open economies cannot become export competitive without broad and complete industrial base [Gereffi, 2013]. Today, however, nations industrialise by joining global supply chains for assembling final goods, providing tradable services or making specialised intermediate goods and other inputs. Actually, if we divide history of export-led approach in three phases, the first depicted by post WWII rise of Japan and Germany, the second being South-East Asian success, this third stage of export-led growth paradigm falls under the so called globalisation's second unbundling, where we don't face just spatial divisibility of production and final consumption, but also the hard reality that there can be no meaningful national growth strategy carried out with national resources any more: contemporary export-led strategy is, whether we like it or not, a fragile and complex partnership of small open developing countries, transnational corporations and advanced economies [Baldwin, 2011], [Palley, 2011]. In other words, nations presently seek to industrialise by simply joining the bandwagon of already established but constantly evolving global supply chains, rather than (re)building their production capacities from scratch. This is arguably easier and cheaper, yet also more sinister at the same time, since extensive

global outsourcing, associated with the simplest forms of labour intensive export-led industrialisation, might have alarming corollaries for institutions development, technology & know-how absorption, external competitiveness and value-added in small open economies over the medium and longer run. Put simply, lower hanging fruits are easier to grab but equally likely to lose on account of cheaper and/or bigger competitor. Moreover, lowering unit labour costs under external pressures represses salaries and overall wage share in national income, uncovering now clearly visible trend of decoupling productivity growth from real wage dynamics, even though real wages should be determined by marginal productivity of labour. Thus, more and more of achieved increase in productivity is going to capital owners rather than to workers. Consequently rising inequality due to falling wage shares of national incomes have stirred up social strife, caused plummeting of private consumption and ultimately provoked unprecedented slackening and volatility of both national and global aggregate demand [Lim, 2014]. Hence the growing concern that economic gains of participation in global supply chains do not necessarily translate in secure employment and sustainable development, but may instead bring some measure of macroeconomic upgrading hand in hand with considerable deterioration of labour benefits and social welfare [Gereffi, 2013].

Furthermore, small open economies today arguably do not meet several either internal or external historical, political and/or economic conditions vital for success of the old style export-led growth industrialisation. First of all, export-led growth gained critical popularity if not literally came into being because import substitution strategies simply weren't designed to earn enough foreign exchange imperatively needed for buying oil or repaying external debts accumulated after the first and second oil shock [Palley, 2011], [Gereffi, 2013]. Secondly, emergence of multinationals and globalisation phenomenon in absence of stricter WTO rules enabled impressive expansion of electronics and semiconductor industries among early champions of export-led growth strategy [Yusuf, 2010]. Thirdly, not even that would be sufficient if Japan at the onset, or Korea, Taiwan and H. Kong didn't benefit from their strategic importance in the Cold War theatre. Fourthly, much of its economic miracle, East Asian tigers owe to *endaka* era, period of strong and further appreciating yen, which forced Japanese *keiretsu*s to relocate labour-intensive stages of their production elsewhere on the continent [Lim, 2014].

That said, due to aforementioned hyper-modular and spatially dislocated features of globalised production, contemporary international trade is generally (and especially so for higher-income economies) much more vibrant in intermediate goods than in final products. The implication being that sliced up multistage production processes scattered across different territories render traditional foreign trade statistics increasingly unreliable as a yardstick for policy making or effectiveness of export-led growth strategy for that matter. Significance of stark discrepancies between value-added and conventional international trade measures becomes more readily apparent once one realizes they are compiled as well as published in gross terms, inclusive of raw materials, intermediate goods and alike, which are being double counted whenever

they cross customs border more than once [Malovic, 2013]. In addition, Kumritz and Quast (2017) report that in as much as global value chains offer a new way for developing countries to industrialise, low- and middle-income small open economies are still seldom situated in upstream activities, i.e. typically export less domestic value-added, albeit both their share and the structure of their participation in international trade is rapidly converging to that of high income post-industrialised economies. Domestic value-added as well as foreign value-added content of intermediate tradables have been increasing at the expense of their opposite numbers in final goods, while returned domestic value-added has more than tripled from 1995-2011; unfortunately, much of the promising trend among developing countries is attributable to the dozen or so South-East Asian economies, while the rest of the developing world fares much worse and lags badly behind [*Ibidem*].

In conclusion, modern flying geese paradigm is seeking for ways of faster upstream transition of small open economies within the global value chain, thereby hopefully enabling sustainable growth for majority of developing world based on technological rather than wage competitiveness. To that end, Santos, Ribeiro and Carvalho (2013) zoom on at formidable importance of product structure and destination of exports as opposed to extensive and unselective export-led growth fed by competitive depreciations of national currencies. Drawing from voluminous literature, they advise narrowing down number of export destinations and argue for trade with technologically advanced high-income countries, which obviously expedites the climb up the learning curve and quality ladder [Santos-Ribeiro-Carvalho, 2013], provided that exporting firms prove capable of surviving the all-encompassing WTO rules and regulations, furious quality competition and tough ecological prerequisites of penetrating such highly sophisticated markets [Malovic, 2014].

Thus, even though export-led growth strategy has probably always been oversimplified and oversold [Palley, 2011], only recently that realisation has picked up as a consequence of two watershed moments: global financial crisis and the sheer magnitude and macroeconomic impact of alarming income inequality [Gereffi, 2013]. Thereafter, everyone is painfully aware of the fact that export-led industrialisation in a post-globalised world may and often times does encounter difficulties, industrial policies are notoriously hard to set right, export promoting policies swiftly get imitated or nipped into a bud by rulings of the WTO, anti-dumping procedures and alike, while global demand stay shrank and deeply saturated by goods thrown at markets armed with traditional comparative costs advantage only. In spite of the WTO rules explicitly disallowing many critical aspects of government interventions to restrict imports, expand export-oriented manufacturing and control the kind as well as frequency of foreign investment, there are still ways to go about export-led approach if equipped by sufficient knowledge, patience and subtlety in the realm of commercial law, policy sequencing or utilising non-trade barriers and covert government support [Perkins, 2001], [Rodrik, 2010].

However, inherited structure of industry and financial system of small open economies as well as profoundly transformed post-globalised international trade pillar

nowadays have considerable bearing on what mending extensions of traditional export-led approach may be in order to ascertain continuing success of the strategy at hand. Domestic consumption-driven growth may be the option for emerging giants like China, Brazil or even India, but certainly not for small open economies for lack of both big enough numbers and deep enough purses in autarkical consuming context. Import-substitution comeback, again, is unwise and unrealistic for the exact same reasons that sent tremor to export-led industrialisation approach, i.e. because of global value chain production and trade logic supplemented by the WTO or various trade integrations rulebooks, along with traditional shortcomings of larger scale import substituting programmes as outlined in Krugman, Obstfeld and Melitz (2010). Economic isolation would, of course, be even faster shortcut to serfdom, every bit as bad as non-selective obedient following of neoliberal doctrines which high-jacked the original J. Williamson's Washington consensus. The only viable option remains the investment-led growth strategy, *i.e.* higher investment financed by greater domestic savings at first and foremost, which will have to be a principle source of sustainable resilient growth in the long term [Yusuf, 2010]. Over the long run, national savings are the utmost important and reliable ingredient of intended investment in export promotion strategy. In the absence of well-developed, deep and wide enough financial markets, investment should be predominantly based upon corporate profit retention and heavy reinvesting rather than on proverbially battered and bruised household savings. That notwithstanding, primary source of growth has to be capital accumulation, although total factor productivity and pushing export supply towards the technological frontier would have to assume a vital role in medium to long run.

5. Conclusion

Export-led growth strategy still remains the most promising recipe to emerge from almost 60 years of national development efforts. Nevertheless, export-led industrialisation in its traditional form has become untenable for plethora of economic – be they contextual (globalization), regulatory (WTO and regional trade blocs), distributional (drastic inequality of incomes and opportunities) or functional (outsourcing and hyper-modularity of off-shore production), as well as political reasons (rise of populist right wing movements & leaders and return of protectionism).

Export-led growth strategy today has to be much more discrete, nuanced and knowledge/ingenuity based than it was before when it comes to trade and industrial policy mix, to rely less on obsolete or too expensive self-sufficient home capacities, but on precisely chosen higher value-added segments of global value chains and constant improvement of technological base for economic activity.

For small open economies, the only promising path seems to be paved by domestic investment-led export promotion concentrated in higher income countries, rather than thus far practiced indiscriminate export maximisation, recently advised

domestic consumption growth or broader comeback of import substitution development strategy.

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