Chapter 6
Export-Led Recovery in Portugal: Can It Also Sustain Growth?

Gonçalo Carvalho
University of Coimbra, Portugal

Marta Simões
GEMF, CeBER, University of Coimbra, Portugal

António Portugal Duarte
GEMF, CeBER, University of Coimbra, Portugal

ABSTRACT

The recent expansion of Portuguese exports can not only promote post crisis recovery but also accelerate economic growth if the theoretical predictions on the relationship between exports and growth are correct. The export-led growth hypothesis advocates that export expansion is key in promoting long run performance. However, controversies remain on the causal relationship between the variables. We investigate this nexus for Portugal over the period 1970-2012 by estimating a bivariate VAR model with output and exports and applying cointegration, Granger causality and impulse response analysis. The results show a long-run equilibrium relationship between exports and output supporting the export-led-growth hypothesis. We also investigated the growth impact of exports of manufactured and non-manufactured products. The findings point to the existence of a positive impact of manufactured exports on output and a “limiting” effect of non-manufactured exports supporting in this way the view that what a country exports matters for growth.

INTRODUCTION

After joining the European Economic Community (EEC) in 1986, the Portuguese economy enjoyed a phase of sustained economic growth until the early 2000s, recording an annual average growth rate of real GDP per capita of more than 3 per cent (Andrade, Duarte & Simões, 2014). However, since around the year 2000 up to 2010 growth receded to less than 1 per cent a year (accompanied by declining exports...
Export-Led Recovery in Portugal

performance) and the recent evolution of the Portuguese economy has been strongly affected by the austerity policies recommended by the Troika (the IMF, the European Central Bank and the European Commission) following the sovereign debt crisis, which resulted in Portugal agreeing to a bailout programme in May 2011 and exiting the three year Economic Adjustment Programme in June 2014. The need to reduce the deficit and public debt are the main objectives that have underpinned austerity policies and resulted in a depleted domestic demand and the need to promote exports as a driver of recovery. According to the OECD (2014), p. 4 “The authorities have been implementing a wide-ranging structural reform agenda, which is helping to rebalance the economy towards the export sector.” Portugal showed impressive export growth (as high as 10% a year), especially when compared with other Southern European countries like Spain and Italy, with Portuguese exports going from 27 per cent of GDP in 2009 to 39 per cent of GDP in 2013 (Arnold, 2015).

Besides their role as a driver of economic recovery, given the dismal growth prospects faced by the Portuguese economy an even more important question is whether exports have the potential to ignite and sustain economic growth in Portugal. The potential of exports to be the engine of growth is known in the economic literature as the Export-Led Growth (ELG) hypothesis and has given rise to substantial research (Giles & Williams, 2001a; 2001b; Palley, 2011). A fundamental issue that remains open to debate concerns the existence of a feedback relationship between exports and output that implies a Growth-Led-Export hypothesis (GLE) (Kónya, 2006). The ELG hypothesis is justified on the basis that competition in international markets fosters economies of scale and increases efficiency by concentrating resources in sectors in which the country has greater comparative advantage. These positive externalities promote economic growth (Balassa, 1978). On the contrary, the GLE hypothesis advocates that economic growth leads to productivity gains, creating a comparative advantage for the country that facilitates exports (Santos, 2012). Additionally, countries that record high growth rates but have relatively low absorption rates must necessarily export the surplus of goods and services (Mishra, 2011). In any case, the two hypotheses are not mutually exclusive and a reciprocal/feedback relationship between the two variables may exist (Kónya, 2006).

This chapter investigates the dynamics among exports and output over the period 1970-2012 for Portugal. The main aim is to examine whether the expansion of Portuguese exports may constitute an opportunity for its long run macroeconomic performance. For this purpose, we estimate a bivariate VAR model with output and exports and apply cointegration, Granger causality and impulse response analysis to take into account both the ELG and GLE hypotheses. Following the suggestion of several authors according to whom what a country exports matters for growth (Herzer, Nowak-Lehmann & Siliverstovs, 2005; Hausmann, Hwang & Rodrik, 2007), we will also take into account the composition of exports by investigating the separate effects of manufactured and non-manufactured exports on output.

The chapter is organized in three sections, besides the introduction. Section 2 gives an overview of the theoretical and empirical literature on the relationship between exports as a whole and economic growth, and the relationship between the composition of exports and growth. In section 3, we describe the estimation methodology and present and discuss the results obtained. Finally, section 4 contains the main conclusions.
Related Content

A Marijuana Legalization Model Using Benefits, Opportunities, Costs and Risks (BOCR) Analysis
[www.igi-global.com/article/a-marijuana-legalization-model-using-benefits-opportunities-costs-and-risks-bocr-analysis/131434?camid=4v1a](www.igi-global.com/article/a-marijuana-legalization-model-using-benefits-opportunities-costs-and-risks-bocr-analysis/131434?camid=4v1a)

St. Stephen's Hospital Hervey Bay: Study of Developing a Digital Hospital
[www.igi-global.com/chapter/st-stephens-hospital-hervey-bay/138643?camid=4v1a](www.igi-global.com/chapter/st-stephens-hospital-hervey-bay/138643?camid=4v1a)

Four Eras of CRM Selling: Why Big Data and Predictive Analytics Will Unlock the Science of Selling
[www.igi-global.com/chapter/four-eras-of-crm-selling/176787?camid=4v1a](www.igi-global.com/chapter/four-eras-of-crm-selling/176787?camid=4v1a)

Pain Assessment through Facial Expression
[www.igi-global.com/chapter/pain-assessment-through-facial-expression/138640?camid=4v1a](www.igi-global.com/chapter/pain-assessment-through-facial-expression/138640?camid=4v1a)