



## **EXPORT-BASE THEORY**

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# INTRODUCTION

- Neoclassical Approach of Regional Growth
- Economic historians.
- Developed from "without" rather than form "within" (resource-based regions in North America)
- The basis of economic growth: firms and industries that exports goods and services to other regions.







# History

- Innis 1920; North 1955; Andrews 1953; Duesenberry 1950
- Case in North America (northwestern):





## **EXPORT-BASE THEORY: Bases**

- Impulse for development of a region: from outside.
- Application: how local economy works?
- Two sectors:
- "Basic Sector" (Export): goods and services outside the local area.
- "Non-basic sector" (local): that mainly serve local markets.



6



(Figure from: Mulkey, 2000)





### EXPORT-BASE THEORY: Two sectors

- Connection between the two sectors: export multiplier
- The income of a region:
- 1) Y = Yx + YL
- Dependency of demand:
- 2) YL = (c q) Y
- c = propensity to consume 0 < c < 1
- q = propensity to import 0 < q < = c



#### EXPORT-BASE THEORY: Two sectors

1 and 2 together:
3) Y = Yx + (c - q) Y
4) (1 - c + q) Y = Yx
Divide both sides by (1 - c + q)
5) Y = 1 / (1 - c + q) Yx
Export multiplier



#### **EXPORT-BASE THEORY:** Export Multiplier





### EXPORT-BASE THEORY: Example

- Region A
- Propensity to consume (c) = 0,7
- Propensity to import (q) = 0,35
- Export multipliers = 1,54

Yx	YL	Y
1000	538,46	1538,46
1100	592,31	1692,31
1200	646,15	1846,15



#### EXPORT-BASE THEORY: Example

### Leaking Resources?



Graph from: Mulkey, 2000



- μ -(c-q) μ = 1 •  $\mu$  (1-c+q) = 1
- $\mu$  -(c-q)  $\mu$  = 1

(GRAPH)

- $\mu = 1 + (c-q) \mu$
- = 1+(c-q)(1+(c-q)+(c-q)2+....)• =  $1+(c-q)\mu$
- $\mu = (1 + (c-q) + (c-q)2 + (c-q)3 + \dots)$
- We can write this as:
- 7) Yx (1 + (c-q) + (c-q)2 + (c-q)3 + .....)

#### Explanation This can be explain by: 6) Y = Yx + Yx (c-q) + Yx (c-q)2 + Yx (c-q)3 + .....



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### **CONCLUSIONS:** Weakness of the theory

- Mono-causal theory: every thing depends on exports.
- Export demand is exogenous.
- Does not apply to all regions and situations: small regions and specialized regions. Definition of region.
- Not every region can export.
- It assumes perfectly elasticity of the supply. (Change in prices)





#### **CONCLUSIONS** Weakness of the theory

- The model does not explain how specialization happens.
- Simplest form: raw material exports.
- It ignores internal factors: local entrepreneurial activity and government development programs.







### **CONCLUSIONS: Strengths of the theory**

- Important economic relations between sectors in practical meaning.
- In high specialized regions: explain the importance of the sector.
- Shows the effect of a change in the important sector.

#### More extended forms:

- Advantage over the Neoclassical approach: influence of demand and supply.
- Kaldor (1970): manufacturing vs. land-based activities.







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# THANK YOU FOR YOUR ATTENTION!

