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Catching up with the West: a perspective on Asian economic development

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I. Introduction

Following closely my remit, this paper reviews and assesses Asian economic development in the recent post-1980 period, as well as over the somewhat longer time-span since WWII. Its chief purpose is to draw analytical and policy implications from this experience. This is a challenging but pleasant task, since, conceived at least in narrow economic terms (growth of per capita incomes), the Asian story is generally speaking one of outstanding success. Indeed, it would be no exaggeration to say that post-World War II economic expansion in a number of Asian countries are the most successful examples of industrialization and fast growth over a sustained period in the entire history of mankind. Recall that Japan in 1950 produced less than 5 million tonnes of crude steel per annum and a little over 30 thousand motor vehicles of all types. The US output of steel at that time was nearly 90 million tonnes and it produced about 7 million automobiles per year. By the mid-1970s the Japanese had caught up with the US in the production of steel and replaced West Germany as the world's largest exporter of cars. By 1980 Japan overtook the US to become the largest producer of automobiles in the world.

The Japanese experience has by no means been unique. It was self-consciously emulated by countries like Korea and Taiwan, with results that are perhaps even more spectacular. In 1955, Korea was unequivocally industrially backward. Its net value of manufacturing output per head was US$8 compared with US$7 in India and US$60 in Mexico.[1] Since then, Korea has managed to transform itself from being largely an agricultural society to the point where it is the second most important country in the world (through its firm Samsung) in electronic memory chip (DRAM) technology. By the year 2000, the country is expected to become the fourth largest car producer in the world. Nothing could be more symptomatic of the changing map of world industry when reversing historic roles, a hitherto developing country like Korea becomes a chief foreign direct investor in the heart of the industrial West, i.e. the UK.[2]

The 1980s have been rightly termed the "lost decade" for countries on the other two developing continents, i.e. Sub-Saharan Africa and Latin America. However, notwithstanding this enormous setback to development on these two continents, as well as slower economic growth in the world as a whole, the Asian industrialization and catch-up drive has continued unabated in the 1980s and into the 1990s. As we shall see below, economic expansion in Asia during this period has not just been confined to a few countries,but has been widespread. It has involved rising standards of living for billions of people, much of the human population.

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[1] Maizels (1963), cited in Amsden and Hikino (1994).

[2] The Korean giant LG Group recently decided to install a factory in Wales and invest US$2.6 billion. This is apparently the largest single investment in the European Union from outside the member states. (See further, The Economist, p.24, July 13, 1996.)

Understanding and making analytical sense of this extraordinary Asian drama is indeed a heartening but rather vast task. There is also no consensus on what are the right lessons to be learnt from the East or South East Asian experience, let alone on whether or not these lessons are applicable elsewhere in the new conditions of the liberal and globalised world economy. Therefore, to keep this paper in manageable limits, its analytical part will be confined to an examination of a small number of relevant issues.

Specifically, the paper will concentrate on the extraordinarily high rates of savings and investment, particularly those of the private corporate sector, of these highly successful Asian economies. In fact, the corporation itself and the relationship between the corporation and the government will receive special analytical attention.

These emphases on the corporation, savings and investment, it will be argued, are not only more significant for the emerging post-Uruguay Round global economic order, but they also provide the microeconomic dimension which is normally missing from the vast literature in this field. Such emphases are also more directly relevant for any lessons that might be drawn for the Latin American economies.

However, before the paper proceeds to an analysis of the above issues, the next section will set out in quantitative terms the main features of Asian economic development in a comparative international perspective. Section III will outline the more important analytical and policy questions raised by this record, of which only a small subset will be closely examined in the sections that follow.

II. Asian economic development in a comparative international context

Some important features of Asian economic development over the last three decades or so are summarised in tables 1 to 6. The following points which emerge from these tables as well from other available information (not reproduced here) deserve attention.

1. As table 1 indicates, in the last fifteen years, developing East Asia has been by far the most dynamic region of the world economy. Although the East Asian economies were growing very fast even in the previous fifteen years (1965-1980), the gap between their growth rates and those of other developing regions, such as Latin America, was relatively small (7.3% vs. 6% for Latin America). However, in the 1980s, economic growth collapsed in Latin America (from 6% per annum to 1.6% per annum) while there was a trend increase in East Asian economic growth to 7.8% per annum.

2. Disaggregated data by sector (table 1) suggests that it was not poor agricultural but rather the abysmal industrial performance which was responsible for the collapse of economic growth in Latin America in the 1980s. Nevertheless, East Asia did record particularly strong agricultural growth during that decade.

3. In reflecting on East Asian economic expansion, the Chinese economy, because of the size

of the country's population, deserves special consideration. As disaggregated data for individual countries in table 3 shows, the Chinese economy expanded at a rate of nearly 10% per annum in the 1980s, a shade below the Korean pace. In the 1990s, the Chinese growth rate has been even faster and somewhat greater than Korea's. However, the important point is that when a South Korea grows at 10% a year for fifteen years, this is an extraordinary achievement for the world to take note. However, when China with a billion people achieves a similar growth rate, this is not just extraordinary, but an epoch-making event.

4. Turning to the other main populous country, India, its performance until 1980 was relatively poor by international standards. However, since then there has been a marked improvement. During the 1980s, India was one of the few countries in the world to have achieved a significant trend increase in its growth rate. While table 3 indicates some subsequent deterioration in performance between 1990 and 1994, if the 1995 data is included - when the economy grew at 7% a year and industry for the first time achieved growth rates similar to those seen in the East Asian NICs - the overall picture for the 1990s becomes more positive.

5. Apart from the important differences in the pace of economic development of the East Asian and South Asian countries like India, it is customary and analytically useful to distinguish between two groups of countries within East Asia - specifically between North East (Japan, Korea and Taiwan[3]) and South East (Malaysia, Thailand, Indonesia[4]) Asian countries. The latter group of countries have followed rather different economic policies to those in North East Asian nations but have been just as successful during the last decade.

However, in this context UNCTAD (1996) observes that although the recent economic record of these two groups is indeed similar, taking a longer perspective reveals a significant performance gap between the groups. The exact result will depend on which periods and which countries have been considered, but the annual per capita GDP growth rates of Japan and the first-tier NICs have, on average, been roughly 2 percentage points higher than those of the second-tier NICs over the last three decades or so. The cumulative impact of this growth gap over 30 years is significant. For example, Malaysia's per capita income in 1961 was almost three times that of Korea's and almost twice that of Taiwan, (Malaysia then included Singapore, so purely "Malaysian" income would have been somewhat lower). It remained higher than the Korean per capita income until 1981, but in 1993 was less than half that of Korea, and about one-third that of Taiwan.[5]

6. The Asian countries excellent record of economic growth during the last fifteen years has certainly translated into impressive increases in the average standards of living of the population, reductions in poverty, increasing real wages and rising employment.

(a)Adjustment to GDP growth rate figures in table 1 for the rates of growth of population, terms

[3] Korea and Taiwan are also referred to as the "first-tier" NICs

[4] These are also referred to as "second-tier" NICs

[5] See further UNCTAD (1996), page 13.

of trade and net factor payments abroad, suggest that during the 1980s average per capita income in Asian countries rose by fifty percent. This compares with a decline of 15 percent in Latin America and 25 percent in Sub-Saharan Africa (UN, 1990).

(b)ILO (1995) provides evidence that in the 1980s, in the fast-growing East and South East Asian economies such as Taiwan, Korea, Singapore, and Malaysia, labour shortages emerged and there was significant immigration of labour from neighbouring low-income countries. Manufacturing employment rose at a rate of over 6 percent per annum during this decade in these dynamic economies whilst, at the same time, real earnings increased at an average rate of 5 percent per annum.

(c)With respect to poverty, available evidence for the 1980s for individual fast-growing NICs, suggests sizeable reductions in its incidence. Thus in China the incidence of absolute poverty fell from 28 percent of the population in 1980 to 10 percent in 1990; in Indonesia the corresponding reduction was from 29 to 15 percent; in the Republic of Korea from 10 to 5 percent, and in Malaysia from 9 to 2 percent.

(d)A remarkable feature of East and South East Asian development during the relevant period has been that not only has the rate of growth been very high, but income distribution has become more rather than less equal. World Bank (1993) notes "For the eight HPAEs, rapid growth and declining inequality have been shared virtues, as comparisons over time of equality and growth using Gini coefficients illustrate".[6]

The above positive East Asian record stands in striking contrast to that of Latin America and Sub-Saharan Africa in the recent period. ILO (1995) reports that in Latin America between 1980 and 1992, there was a steady fall in modern sector employment, with paid employment falling at a rate of 0.1 percent per annum during the 1980s. This reversed the trend of the previous three decades when steady economic growth had led to a significant expansion of modern-sector employment. In most Latin American countries, the average real wage fell during the 1980s, recovering in only a few countries towards the end of the decade. Minimum wage fell on average by 24 percent in real terms across the region, while average earnings in the informal sector declined by 42 percent.

III. Analytical and policy issues

The central analytical and policy question raised by East Asian economic experience is of course, what are the causes of the fast economic growth in these countries?

There is no agreement on this question. Indeed, there is a continuing controversy in which the

[6] It will be argued below that this conclusion of declining inequality may require some important qualifications.

main protagonists are the World Bank with some orthodox economists on one side and a number of academic economists, not all of whom are heterodox, on the other.[7] This debate is important for two reasons. Firstly, the World Bank professes to base its policy recommendations for countries around the globe on what it regards as the lessons to be drawn from the experience of these highly successful East Asian countries. Secondly, from an analytical point of view, the debate is clearly of central importance, precisely because of the fast growth of these economies over a sustained period. Thus, the resolution of this debate would inevitably have an important bearing on our general ideas on growth and development.

With the publication of World Bank (1993), Singh (1994b) notes that there has been some useful narrowing of differences between the two sides, but there remains a wide gulf on a range of significant issues. These have been reviewed and commented on in Singh (1995a). The more important ones are:

(i) the question of the effectiveness of industrial policy;

(ii) the issue of "openness": how open were the East Asian economies during their periods of fast growth?

(iii) the nature of competition in domestic product and capital markets;

(iv) the role of savings and investment in East Asian economic growth;

(v) the question why the Asian countries did not have a debt crisis while the Latin Americans did;

(vi) the relationship between technology policy, industrial policy and international competitiveness;

(vii) the relationship between the "fundamentals", macroeconomic stability and industrial policy.

An analysis and resolution of these issues will determine what are the right lessons to be learned from the East Asian economic model or models. However, the economic record of these countries also raises other significant issues which are listed below.

Firstly, can the Asian experience be replicated? Apart from anything else, it is suggested that the international economic environment is totally different to-day from that in which the East Asian NICs achieved their formidable success. For example, in the post-Uruguay round emerging world trading order, many of the interventionist industrial and commercial policy instruments used by Japan, Korea and other countries will no longer be permissible.[8]

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[7] See World Bank (1991, 1993); Amsden (1994a); Fishlow et al (1994); Ito and Krueger (1995); Singh (1994b, 1995a).

[8] See further Singh (1996a); ODI (1995); UNCTAD (1995); Greenaway and Milner (1995);

Secondly, is fast East Asian economic growth sustainable in the direct, narrow sense of the term? The subject draws its significance from the following considerations: (a) the slow-down in the Japanese economy in the 1990s which may be expected to have adverse effects on economic growth in other countries in the region; (b) secondly, the large current account deficits of the second-tier NICs and hence their vulnerability to capital outflows. It will be recalled that prior to 1980, countries like Brazil had been growing fast for a considerable period. Then suddenly Brazil, Mexico and the rest of the Latin America stumbled into a decade long crisis. In the current situation, given their present vulnerability to surges of capital flows, what is there to stop a similar fate being visited on the South East Asian NICs?

Thirdly, an alternative view to that above is that there now exists among the East and South East Asian countries a large degree of economic co-operation. This has fostered a regional dynamic which has acquired an autonomy of its own. These factors, it is suggested, would allow these countries to sustain high rates of economic growth regardless of the state of the world economy including that of Japan. Indeed, some would argue that currency appreciation and slower economic growth in Japan help developing East Asian countries positively by leading to greater Japanese FDI in these countries.[9]

Fourthly, there are special analytical issues raised by the epoch-making Chinese record. Specifically, if freely functioning internal and external markets are essential for economic growth as the Bretton Woods Institutions routinely insist, how have the Chinese been able to grow so fast with such low levels of development of capital and labour markets and highly segmented product markets? Similarly, the Chinese experience raises the important question whether privatisation of the means of production is at all necessary for adequate (from the perspective of achieving fast economic growth) development of markets to occur.[10]

These are all large questions and cannot be properly treated within the confines of this paper. The rest of the paper therefore limits itself to only one of the main themes above, namely, what are the right lessons from the Asian experience. But even within that context, the paper considers just one of the main issues, that of savings and investment. How have the East Asian economies been able to achieve such high rates of savings and investments, particularly in the private corporate sector. This involves inter alia an analysis of the relationship between the government, the corporation and the financial system in these exemplar economies.

This analysis therefore departs from the old debate about industrial policy and getting prices "right" or "wrong". It hopefully will shed some useful light on an important dynamic aspect of

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Agosin, Tussie and Crespi (1995).

[9] See further, UNCTAD (1996).

[10] For the view of the Bretton Woods Institutions on the necessity of free and flexible markets for fostering economic growth, the classic statement is World Bank (1991). For the difficulties that the Chinese experience over the last 15 years creates for this thesis, see Singh (1994a, 1996e).

the East Asian experience and may also have implications for Latin American countries which are afflicted with the problem of low savings and investment rates.

IV. Savings, investment and total factor productivity growth in East Asia.

The successful East Asian countries are today characterised by very high rates of savings and investments, but this was not always the case. As Tables 2 and 3 which report savings and investment rates for nine Asian and nine Latin American countries indicate, the median Asian economy saved and invested nearly 30% of its GDP in the 1990s compared with a figure of about 20% for the Latin American countries. In the 1950s and 1960s the Latin Americans were saving and investing appreciably more than the Asians (see column 1 of Tables 2 and 3). Between 1955 and 1965 domestic savings in Korea were only 3.3% of GDP compared with over 35% in the 1990s.

UNCTAD (1994) notes with respect to Japan that gross domestic fixed capital formation in that country increased from 24 percent of GNP in the early 1950s to almost 40 percent in the 1960s. The ratio of private equipment investment to GNP doubled between the early 1950s and the late 1960s, reaching 17 percent. In terms of purchasing power parity Summers-Heston data, Young (1994) estimates that between 1960 and 1980, gross fixed investment to GDP ratio doubled in Taiwan, tripled in Korea and quadrupled in Singapore.

Studies by Young (1994) and Lau and Kim (1994) have established the primacy of the accumulation process in accounting for fast economic growth in the East Asian countries within the "growth accounting" framework. These contributions show that the rapid economic expansion achieved by these countries could not be attributed to their faster growth of total factor productivity (TFP), or the so-called "residual" which is loosely identified with "technical progress" in such analysis. Young's empirical results suggested that Korea and Taiwan had lower TFP growth than Bangladesh over the period 1970-85. In other words, in terms of TFP methodology, most if not all the economic growth of countries like Korea can be explained by the fast expansion of factor inputs, including inter alia capital inputs arising from very high rates of capital accumulation.

An interesting neoclassical interpretation of these new empirical findings on TFP growth in East Asia is provided by Krugman (1994). He argues, on the basis of these results, that the high growth rates of the East Asian miracle economies are not sustainable. In his view, this is because it is unrealistic to expect countries which are already investing 40 per cent of their GDP to be able to raise their rate of investment much higher still. Krugman goes on to point out that these countries similarly already have highly educated and high quality labour forces, which limits the scope for further improvement in these spheres also. In these circumstances, without technical progress, eventual decreasing returns to investment will set in and limit the growth potential of these economies.

This is, however, not the only possible interpretation of the observed phenomena. Working in the tradition of the classical economists and that of Kaldor (1965,1967), Akyuz and Gore (1996) and Singh (1996b) suggest on the contrary that high rates of investment lead to greater turnover of machines and therefore faster technical change, greater learning by doing, more and quicker

product development and hence greater international competitiveness. Therefore, in this alternative non-neoclassical analysis there is no reason why eventual decreasing returns should set in with high rates of investment.[11]

The finding of low or zero TFP growth in the East Asian economies has also been interpreted by some economists to suggest that there is nothing "miraculous" about these countries' growth since it can all be explained by the accumulation of physical and human capital. There is a simple neoclassical story which ascribes the former basically to sound 'fundamentals'. It is suggested that prudent macroeconomic management - consequent low rates of inflation and low exchange rate fluctuations - coupled with good initial conditions (land reform, favourable human capital endowment) led to fast growth of household incomes. This in turn generated high rates of savings and investment. In this account, some countries were subject initially to financial repression (eg Korea in the mid 1960s). But once this was eliminated and real interest rates became positive, household savings rose further, as did investment.[12]

The analysis below, following the work of Akyuz and Gore and Singh referred to previously, presents a more complex view of the accumulation process in East Asia. It stresses the essential role of profits in providing both the inducement to invest and the means to pay for investment. Profits are also of course a consequence of investment. As the propensity to save out of profits is greater than that from other sources of income, higher profits also lead to higher savings. This investment-profitability-savings nexus was not, however, a spontaneous outcome of the invisible hand of the market or simply of "sound fundamentals", but rather government policy measures and the government-business interactions were central to generating and sustaining it. At the aggregate level the net result was greatly increased propensities to save and invest and the ex-ante equality of savings and investment at high rates of economic growth.

This conceptualisation of the East Asian experience is in the Kaldorian tradition. Instead of static resource allocation and getting prices right or wrong, it emphasises the dynamics of the accumulation process (mediated through high profits), the associated technical change and the growth of productivity. The argument is illustrated below by considering the cases of Japan and South Korea.

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[11] If a country has zero TFP growth, it does not mean that it has achieved no technical progress in the ordinary usage of these terms. This becomes obvious when one considers the fact that notwithstanding the absence of TFP growth, the Korean economy, for example, has been continuously producing and exporting ever more sophisticated range of products over the last three decades. For conceptual critiques of the neoclassical production function and its analysis of "technical progress" see among others, Kaldor (1958) and Scott (1989).

[12] World Bank (1993) is a considerable improvement on this orthodox neoclassical analysis. It acknowledges that governments in these fast growing East Asian countries adopted a host of measures to raise both the levels of savings and investment, as well as to influence the allocation of investments. It accepts that fast growing East Asian countries did not eliminate financial repression.

V. Investment, profits and savings in Japan in the high growth period (1950-1970)

The period of post-war Japanese economic history which is most relevant from the perspective of developing countries is that of the 1950s and 1960s. This is not only because it was a high growth period, but more significantly at the beginning of this time span, the Japanese level of industrialisation, as noted before, was not all that different from that of today's semi-industrial countries. Indeed in 1952 the value of Japanese exports was lower than that of India's (Krueger, 1995).

During the two decades 1950-1970, the Japanese economy expanded at a rate of 10% per annum; its industrial output rose by 13% per annum, its share in world's exports of manufactures increased by 10 percentage points. These extraordinary growth rates were accompanied by very high rates of investment and savings as the data in tables 7 and 8 show. In the absence of readily available data for developing countries, the two tables provide comparative statistics only for industrial countries. Nevertheless, information that exists for other than industrial economies suggests that Japanese investment and saving rates during this period were among the highest of all countries - developed, developing or centrally planned.

Two further points in relation to Japanese savings and investment record require particular attention. The first is, and it is a central point, that most of this high investment occurred in the private sector and in the corporate economy. In view of its relatively small size, the government sector's share of total investment in Japan was quite low compared to other countries. Secondly, it is notable that savings rates in each sector of the Japanese economy (household, corporate and government) were higher than those of other industrial countries in table 8.[13]

Table 9 suggests that Japanese net manufacturing profits as a proportion of manufacturing output were generally much higher than those of other industrial countries. In 1970, for example, Japanese profits were more than twice as high as those recorded in the UK and the US in that year, and almost twice as high as those in Germany and Italy.

VI. The role of the Japanese state

These high Japanese profits arose in important part from heavy state intervention which guided the Japanese economy during this period. The government's objectives with respect to such intervention were fully articulated in a number of government documents. One of the most important of these was: "The Five Year Plan for Economic Independence", issued in 1955, following the end of US occupation. The Plan emphasised the inter-locking triad of "growth, investment and exports." High rates of investment were required to develop modern industry, to shift labour from low productivity to high productivity sectors. Similarly national savings had to be mobilised to fund investment. The country could not simply rely on foreign aid to finance its investment needs - hence the words "Economic Independence" in the title of the Plan. Similarly, exports were necessary to pay for the imports of raw materials, machinery and technology. This

[13] The only exception to this statement is that Finland's government savings was slightly higher than those of Japan.

was thought to be particularly important for a country which was not well endowed with natural resources and which no longer had an empire to provide them.

It is important to note that the above analysis of Japan's situation was not just a vision of the planners, but widely shared by the public. The latter is exemplified by the popular slogan of the period: "prosperity through exports and stability through savings". The overall vision was translated into practice by different branches of the government in different ways. Ackley and Ishi (1976, p 160-61) provide a useful and instructive account of its macroeconomic implications as perceived by the relevant government agencies in this sphere. These implications, according to the two authors, included the following:

(a) Government tax and expenditure policies that would encourage saving, investment and exports, including heavy governmental investment in productive (but not in social) capital.

(b) A monetary policy involving interest rates and easy credit designed to stimulate highly capital-intensive private investment (but not housing or consumer durables) and to provide an indirect form of export subsidy.

(c) A significant role for the government as financial intermediary to ensure that adequate amounts of both personal and governmental savings flowed to the favoured kinds of investments.

(d) The encouragement of a rapid growth of aggregate demand so long as the current account of the balance of payments remained positive and export prices did not rise; but a readiness to check expansion of demand whenever the continuation of either of these conditions was threatened; yet a willingness to tolerate rising domestic prices, especially if they supported import-competing domestic production or did not significantly encourage imports of consumer goods.

(e) Although never made explicit, the ready sacrifice of stability for growth.

To put it another way, the government had two main proximate objectives: to attain a current account equilibrium at as high a growth rate as possible; to increase the private sector's propensities to invest and save so as to substantially raise the long term growth rate of the economy. In addition to the macroeconomic measures outlined above, at the microeconomic level, the Japanese government sought to achieve these objectives by building up the strength and capabilities of its corporations so that these could compete with their counterparts from advanced countries in the international market place. For this purpose a number of measures were taken which directly helped increase the resources available for corporate investment. These were coupled with a range of indirect policies which affected positively the external environment of the corporate sector and thereby also helped raise profits. These measures have been discussed in detail in Singh (1996b), and will therefore, only be summarised below.

1) Corporate Fiscal Incentives: The direct policy instruments used by the government to promote corporate growth included inter alia a wide range of fiscal incentives. Tsuru (1993)

notes that by the mid-70s Japanese corporations had available to them over 25 tax free reserves including for items such as a reserve for price fluctuations, for overseas market development and for overseas investment losses.

2) Domestic Competition Policy: Among the indirect policy measures one of the most important was the lax enforcement of anti-trust laws, which helped corporations earn supernormal profits. Anti-trust laws in Japan are regarded not as an end in themselves but as an integral part of government's overall industrial policy. The laws are enforced by the Fair Trade Commission which has much less power (and this was particularly true during the high growth period) than MITI, the agency in control of industrial policy. MITI displayed important anti-competitive biases: it favoured large firms in the belief that this was essential for competing in international markets; it disapproved of 'excessive "competition"' as that may lead to price wars and thereby diminish the corporate inducement to invest.

During the high growth period, MITI encouraged a variety of cartel arrangements in a wide range of industries – export and import cartels, cartels to combat recession or excessive competition, rationalization cartels, etc.[14] Although these cartels were formed for specific periods of time and were not always fully effective, they nevertheless helped restrict competition considerably in the domestic product market. However MITI combined these anti-competitive actions simultaneously with vigorous encouragement of domestic oligopolistic rivalry among large firms and the promotion of international competitiveness. MITI's purpose in these endeavour was not to achieve pareto efficiency or to maximise consumer welfare but rather to promote rapid technological progress and fast growth of productivity in Japanese industry. Okimoto (1989) notes that in general, whether competition was promoted or restricted depended on the industry and its life-cycle: in young industries, during the developmental phase, the government discouraged competition: when these industries became technologically mature, competition was allowed to flourish. Later, when industries are in competitive decline, the government again discourages competition and attempts to bring about an orderly rationalisation of the industry.[15]

3) Import Controls: During the rapid growth period the Japanese government effectively protected its industry from external competition by both tariff and particularly non-tariff measures. Although in the 1960s the government started on a program of eliminating or relaxing protective measures to conform to OECD norms, protection remained highly effective even until the end of the 1970s. This is indicated by the fact that as late as 1978, manufactured imports constituted only 2.4% of the Japanese GDP; the corresponding proportion in Britain and other countries of the EEC was five to six times larger. Even in the US which traditionally, because of its continental size, has a relatively closed economy, the volume of imported manufactured goods in the late 1970s was proportionally almost twice as large as in Japan (see

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[14] According to Caves and Uekusa (1976), in the 1960s, cartels accounted for 78.1 percent of the value of shipments in textiles; 64.8 percent in clothing; 50.0 percent in non-ferrous metals; 47 percent in printing and publishing; 41.2 percent in stone, clay and glass; 34.5 percent in steel products, and 37.2 percent in food products.

[15] For a fuller discussion of the issues raised see Amsden and Singh (1994).

CEPG,1979).

4) Low Interest Rates and Policy Based Finance: The government implemented low interest rate policy in general and provided through the so-called 'policy based' finance preferential rates for MITI's favoured firms and industries. These lowered the cost of capital, helped increase corporate resources for investment and also induced firms to invest according to government's priorities.[16]

5) Administrative Guidance and Coordination and Sequencing of Investment: The government also used other important measures for raising and maintaining at a high level the corporate propensity to invest. Through its so-called "administrative guidance", the MITI performed the important task of addressing the problems of coordination failure which are ubiquitous in the real world of incomplete and imperfect markets. This was especially so during Japan's high growth period as what in effect MITI did at that time was to orchestrate investment and technological races among oligopolistic firms in favoured industries. Such races were carefully controlled as otherwise excess capacity might have been created which would have adversely affected the future corporate inducement to invest. Thus in a number of industries (eg steel) undergoing large investment programmes, the government "guided" firms not to all invest at the same time but rather to establish new capacity by turn. It is important to appreciate that the government's role in Japan, unlike in Soviet type planning, was one of "guidance" of the private corporate sector rather than of "command". MITI's coordinating role was performed through extensive consultations with trade associations and through what are known as the "deliberations councils".[17] As Lockwood (1965, pp. 149) observes,

> "The industrial bureaus of MITI proliferate sectoral targets and plans; they confer, they tinker, they exhort. This is the economics by admonition to a degree inconceivable in Washington or London. Business makes few major decisions without consulting the appropriate governmental authority; the same is true in reverse".

In general the measures outlined above led to greater rents and profits for the private corporate sector than would otherwise have been the case. These enabled Japanese firms to undertake high rates of investment, to improve the quality of their products, and also to capture markets abroad. The latter was of particular importance to firms, since in return for its favours (protection, policy based finance), MITI often imposed on them export and world market share performance targets.[18] To sum up, the most important factors which distinguish Japanese government policies at the level of firm and industry from those of other dirigiste economies include:

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[16] Shinohara (1982); JDB/JERI (1993).

[17] See further JDB/JERI (1993) and World Bank (1993).

[18] Other kinds of performance standards were also asked for, most notably those involving technological upgrading. See further Amsden and Hikino(1994).

(a) emphasis on exports;
(b) enforcement of strict performance standards;
(c) maintaining oligopolistic rivalry among large firms in mature industries as opposed to promotion of single "national champions" (which many countries are prone to do)[19]; and importantly
(d) the close relationship between government and business.

VII. Profits and savings

The above account of the government's role in sustaining the investment-profits-exports nexus is incomplete in two important respects. First, it has not considered the question of savings. Secondly the role of the financial system in creating this virtuous circle has not been discussed. We take up these issues in turn below.

It was noted earlier that each sector of the Japanese economy saved more than its counterparts elsewhere. High profits and high corporate inducement to invest were clearly in part responsible for high corporate savings. However, as we shall see below the Japanese financial system also played a significant part in facilitating such savings.

In addition to encouraging corporate investment and savings,the high profits in the Japanese economy were also in part responsible for the high savings propensities of the Japanese household sector[20]. There are two reasons for this. Firstly, in the Japanese national accounts, the unincorporated businesses are included in the household sector. During the 1950s and 1960s, the incidence of such businesses in the Japanese economy was much greater than in other industrial countries. In view of the intense competition these enterprises face, their propensity to save and invest out of profits tends to be very high.

The second reason concerns the workers' bonus payments. These payments, which were directly linked to profits, constituted sixteen percent of workers' annual incomes in the relevant period. There is evidence that during the 1950s and 1960s, the workers regarded the bonuses as windfall incomes out of which they had a higher propensity to save than out of their regular incomes. UNCTAD (1994).[21]

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[19] See further Boltho (1976)??

[20] Akyuz and Gore(1995), UNCTAD(1994).

[21] There are a number of other factors also which can, to some degree, account for the high savings propensities of the Japanese household sector [Maddison, 1992; Kojima, 1995; IMF, 1995]. These include the fast rate of growth of household incomes, the age and employment structures of the population, the lack of publicly provided social security. Moreover, low income elasticity of demand for foreign goods, the low level of development of financing and credit facilities for consumers, formal and informal controls on imports of consumer durables can also be expected to have helped play a significant part in keeping household consumption low. See Felix (1994).

VIII. The corporation and the financial system in Japan

The evidence of high Japanese profits by comparative international standards presented in the previous section has been of a macroeconomic kind - the share of manufacturing profits in total manufacturing output. However, we have not considered microeconomic data on the rates of return achieved by Japanese manufacturing corporations. Here there is an apparent anomaly which highlights the important complementary role of the financial system in sustaining the investment-profits-saving nexus in the Japanese economy during the high growth period.

Comparative data on corporate rates of return in the US and Japan, for example, indicate that, unlike the share of profits in value added, the US rates of return were considerably greater than those earned by Japanese corporations. Kojima (1995) reports that between 1960 and 1964, the average rate of return of US manufacturing firms was 6.3 percent per annum and that of Japanese corporations was 3.2 percent; for the period 1965 to 1969 the corresponding figures were 6.9 percent and 3.3 percent respectively. These differences in observed rates of return could in principle arise simply from differences in accounting conventions between the two countries or other similar factors. However, detailed work by Blaine (1993) on this issue indicates that even if the data were corrected for such differences, the US rates of return will still be considerably greater than those of the Japanese firms.

The lower Japanese profitability at the micro economic level (relative to the US) is not necessarily inconsistent with the much higher share of profits in aggregate output in the former country, compared with the latter. Indeed many economists regard it as a virtue of the Japanese financial system which allows Japanese firms to continue to survive and to invest even when their rates of return are very low. Moreover, the implied lower "hurdle rate" allows Japanese managers to undertake investments that US firms would find unacceptable. For all the reasons outlined earlier, this gives Japanese corporations a competitive advantage.

Singh (1995c) refers to the work of the MIT Commission on Industrial Productivity (1989), which regarded this factor as a major reason why U.S. firms lost out to the Japanese corporations in the U.S. home market in a wide range of electronic products. The Commission investigations showed that when a Japanese firm entered one of these markets, there was a fall in the rate of return of the existing U.S. firms in the industry due to greater competition. This often resulted in the U.S. firms leaving that industry fairly quickly and diversifying and investing their resources elsewhere since they could not accept such low returns. Japanese companies were however able to sustain these low rates of return for long periods.

Similarly, comparative survey data on managerial objectives repeatedly show that, unlike their American counterparts, Japanese corporate managers are much more interested in pursuing market share than earning a high rate of return on assets or increasing the wealth of the shareholders [Abegglen and Stalk, 1995; Kojima, 1995]. All this raises the important question as to why the Japanese managers are able to ignore performance variables commonly used in the US or the UK, such as movements in share prices or changes in earnings per share since the last financial statement.

The answer lies essentially in the differences in the nature of the financial system in Japan compared with that in Anglo-saxon countries. There are two aspects of the Japanese financial system which are particularly relevant in this respect: (a) the absence of hostile takeovers, and (b) the long-term relationship which typically exists between the leading Japanese corporations and their respective "main banks" in the kieretsu.

There are many reasons why hostile takeovers are rare in Japan. Among the most important of these are the distribution of shareholdings in the large Japanese corporations and the relative effective power of shareholders versus stakeholders in these corporations. In such corporations, typically three quarters of the shares are held in "safe hands", by company's suppliers, buyers, its main-bank, and other such stakeholders. Only a quarter of the shares are owned by outside shareholders, who in any case do not effectively have the protection or rights available to minority shareholders in the US or the UK.

These factors make it virtually impossible to mount a hostile takeover bid against a large Japanese corporation.[22] This helps to insulate Japanese managers from the "short-termism" to which the Anglo-saxon managers are subject.[23] The latter are obliged to pay constant attention to changes in earnings per share every quarter, for if they do not come up to the stockmarket's expectations in this respect they may become subject to the danger of takeover.

In contrast, the Japanese corporations have long term relationships with their lead banks.[24] These institutional features enable Japanese managers to pay scant regard to the verdict of the stock market; to aggressively pursue long term strategies such as increasing market share; and to reinvest most of their profits rather than to pay out large dividends.[25]

The above characteristics of the relationship between the corporation and the financial system in Japan complemented government policies in the 1950s and 1960s in maintaining the investment-profit-savings nexus. In this context it is also useful to note that the structure of the

[22] See further Odagiri(1994); Odagiri and Hess(); Singh(1995c).

[23] There is a large literature on the stock market and the short termism that it typically engenders. For a recent review, see Singh (1995c). See also Stein (1988, 1989); Cosh, Hughes and Singh (1990); Porter (1992); Kojima (1995); Froot, Perold and Stein (1992); Jacobson and Aaker(1993). For an opposite point of view on the subject see Marsh (1990).

[24] Instead of the takeover mechanism, the managers in the Japanese system are subject to internal organisational and other types of disciplines. See further Aoki (1990); Odagiri (1994); Aoki and Dore (1994).

[25] Dore (1985) points out that in some years the total dividend payments by Japanese corporations were less that the aggregate amounts managers spent on their perks and entertainments. He also notes from a sociological perspective the relatively low social status of the stock market in the Japanese society. The top graduates in the University of Tokyo - an elite institution - still prefer to have careers with the government or the corporations than with the stock market or institutions connected with it.

financial system itself was not independent of government policies. There is evidence that after World War II, the government deliberately adopted a number of measures which helped consolidate the existing bank-based financial system rather than to establish one based on the stockmarket.[26]

IX. The government, the corporation and the financial system in Korea

The relationship between (a) the government and the corporations and (b) between the corporations and the financial system were even more important in initiating and maintaining high corporate as well as overall investment and savings rates in Korea than in Japan. This is for the following substantive reasons.

First, available comparative flow of funds data for developing countries (Honahan and Atiyas, 1993) suggest that unlike Japan, Korea does not have a higher savings rate than other countries for each sector of its economy. The high overall savings rate of the Korean economy is essentially due to its much larger corporate savings relative to other countries. With respect to household savings, countries like India and Turkey, for example, have a larger savings rate in that sector than Korea (India 14.8%, Turkey 11.5%, Korea 10.3%). However, business savings in Korea were 8.3% of GDP compared with 3.4% in Turkey and 1.8% in India.[27]

Secondly, the history of Korean development during the last three decades is the history of the expansion and diversification of the chaebol - the huge conglomerates which produce a wide range of industrial and consumer products. A small number of these very large firms have dominated the Korean economy throughout this period. The top ten chaebol accounted for 21% of manufacturing sales in 1977 and 30% in 1985. By 1989, the share declined slightly to 27%. However, at the international level, among the 500 largest industrial companies in the world in 1990, there were 11 Korean companies - the same number as from Switzerland - whereas in the 1960s there was none. The government played a central role, as will be seen below, in the creation and development of the chaebol.

Thirdly, because of the low initial level of Korean development relative to that of Japan, the Korean state has been much more deeply and directly involved in all spheres of the economy, particularly in building up the competitive strength of its corporations. After democratisation and continuing pressure from industrial countries to liberalize, the government's influence has declined compared with what it was in the high growth period of the economy (1965-1985). It is nevertheless still substantial, but the following analysis, as in the case of Japan and for similar reasons, will concentrate on the earlier high growth period.

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[26] See further Aoki and Patrick (1994); Rajan (1996).

[27] As Honahan and Atiyas readily admit, the comparative "flow of funds" data on which these ratios are based are far from being perfect. Apart from the deficiencies of the data themselves, the statistics do not refer to the same periods for the three countries. The Korean figures are averaged over the period 1980-1984, while those for India and Turkey cover the years 1970-1982 and 1970-1981 respectively. But this appears to be the best data we have.

IX.1 The role of the state: A comparison with Japan

Rapid economic development and industrial catch-up in Korea began with the military coup[28] of General Park and very much bears the stamp of his economic philosophy. Applying what he regarded as the lessons of Japanese economic development, Park made the large private corporation the main vehicle for "late industrialization" in Korea. However, Park also thought that to ensure that private business acted in the social interest it needed careful and constant guidance from the government, particularly at Korea's stage of development.

The Korean government followed broadly similar policies to those of Japan in its quest for rapid economic growth, but there were significant differences. It is only these differences that will be reviewed below.

(a) In Korea, far more than in Japan, the government played a direct role in helping to create large conglomerate organizations by promoting mergers and directing entry and exit of firms according to the requirements of technological scale economies and world demand conditions. As UN (1993) notes with respect to Korean industrial structure:

> Such a structure is the deliberate creation of the government, which utilised a highly interventionist strategy to push industry into larger-scale, complex technologically demanding activities while simultaneously restricting FDI inflows tightly to promote national ownership. It was deemed necessary to create enterprises of large size and diversity, to undertake the risk inherent in launching high-technology, high-skill activities that would remain competitive in world markets. The chaebols acted as the representative and spearheads of the government strategy: they were supported by protection against imports and TNC entry, subsidised credit, procurement preference and massive investments in education, infrastructure and science-technology network.

(b) Although on the face of it Japan and Korea have similar group banking systems, there is a crucial difference between them. For much of the high growth period, the Korean financial system was effectively under state control. Although the Japanese banks were subject to government influence and guidance they were nevertheless private. In the Korean case, however, where the main bank is state-controlled, the relationship between the group and the bank becomes rather different. It provides the state with an extra degree of information and control over corporate activities than would otherwise be the case. Lee (1992) suggests that in effect what the Korean government did was to create an internal capital market for allocation of investment resources. Following Williamson (1975), he argues that in view of the various imperfections of a free capital market, particularly in a country at Korea's stage of development, an internal market of this kind may be more efficient.

(c) There is also a significant organizational difference between the Japanese kieretsu and the

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[28] General Park Chung-Hee seized power in 1961. He later became President and was assassinated in 1978.

Korean chaebol. Following the dissolution of the zaibatsu, the ownership of large Japanese corporations is not in the hands of families but is widely dispersed, leading to the separation of ownership from control and thus to the complete professionalisation of the management function. However, in Korea the ownership still lies predominantly with the entrepreneurial families. Consequently, family members have often occupied the top managerial jobs and the professionalisation of management has been a slow process in that country (Amsden, 1990).

(d) Singh (1996b) notes that as in Japan, the Korean government played a critical role in enhancing and maintaining at a high level the corporate inducement to invest. However, the state in Korea was not just a referee or a ringmaster in orchestrating investment races, it was also a nursemaid and a fairy godmother to the chaebol. During the 1970s when the government implemented its extremely ambitious "heavy and chemical industry" (HCI) program, it virtually became a co-partner with the leading chaebol and "socialised" the risks involved.

These risks - both technological and market - in the production and sale of sophisticated new products were indeed formidable for the Korean private corporations. Left to themselves, the private sector may not have undertaken these risky investments at all. However, goaded by the government, provided with finance at subsidised rates through the nationalised banking system, the fiercely competitive top chaebol were more than willing to fully participate in these new ventures. This is well illustrated by the story of the production of microwave ovens by the Korean company Samsung Industries, as told by an institution, the World Bank, not particularly known for its support of the state nursemaiding of industrial production.

The government's Economic Development Board was a key player in Samsung's success. Government officials were keenly aware that the Republic of Korea could not rely forever on low wage manufacturing. Just as the United States had lost countless textile industry jobs to Korea, they reasoned, so Korea would one day find it could no longer compete for labour-intensive manufacturing jobs with low-wage neighbours such as China and Indonesia. To prepare for that day, government officials, working in consultation with the private sector, developed incentives for new knowledge- and capital-intensive industries. Incentives varied widely and included the government's building industrial parks, subsidising utilities, giving tax rebates for exports, and making cheap loans for investment in new products. By 1980, urged forward by subsidies and incentives, Korean industry had moved into steel, ships, and even cars and was about to leap into world class electronics.

Samsung made good use of these measures; company managers met frequently with government officials to trade ideas and projects. Even so, penetrating the world microwave market dominated by Japan was no easy task. By the late 1970s, when global production hit 5 million per year, Samsung had made a total of only 1,460 microwave ovens. The company's first break came in 1980, when a US department store, looking for cheaper substitutes, ordered several thousand ovens. Soon production had risen to 100,000. When General Electric, unable to keep pace with the Japanese competition, decided to stop manufacturing microwaves itself and import the ovens under its own label instead, Samsung was a logical choice. The company has never looked back, and it now exports

> the ovens under its own name as well as buyers' labels. (World Bank, 1993, pp. 130)

(e) Although both Japan and Korea emphasized exports in their industrial strategies, the Korean authorities have pursued this objective much more vigorously. This is reflected in some comparative statistics: in Japan's high growth period the share of exports in GDP increased only to a small degree, from 6.5% in the early 1950s to less than 9% in the early 1970s. Korean exports, on the other hand, rose from less than 5% of GDP in 1963 to nearly 35% in 1980 (Krueger, 1995).

IX.3 Investment, savings and profits

Unlike for advanced countries, very little data is available on comparative profits and rates of return for developing countries. However, recent research by Jang (1995) on Korean profits at the macroeconomic level indicates that the profit share (gross manufacturing profits as a proportion of gross manufacturing output) during the period 1963-1975 was quite high, ranging between 40% and 45%. In the late 1970s, the share began to decline and in the 1980s it ranged between 30% and 39%. The reasons for this decline must lie partly in the tighter labour market conditions and the increasing power of workers and trade unions, especially in the period leading up to democratization in 1989. However, as in the case of Japan, the Korean profits particularly during the high growth period, were higher than what they would otherwise have been without the government policies of protection against imports and the absence of adequate domestic competition policies.[29]

The previous sections have analyzed the role of the government and the financial system in inducing and sustaining high corporate investment rates in the Korean economy. We turn now to the important question of savings. How did the domestic savings ratio rise from 3.3% of GDP during 1955-1965 to almost 35% between 1980-1995? In the 1960s and 1970s foreign savings played a major but waning role in Korean economic growth. By the 1980s, foreign savings had become negative (i.e. Korea was running a current account surplus) and domestic savings had greatly increased as a consequence of rising savings both in the corporate and personal sector. The growth in corporate sector savings was largely due to the high corporate investment rates and high retention ratios of the Korean corporations. However, the government, through its anti-consumption policies was also involved in helping raise the personal sector's propensity to save. These anti-consumption policies included instructions to the banks, largely state owned, not to extend consumer credit, prohibitive tariffs or non tariff barriers on imported luxury goods. One result of these policies, was a very low car ownership in Korea. Chang, 1994 (pp. 109-110) observes:

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[29] Nevertheless, even more so than in Japan, the government encouraged fierce rivalry among large oligopolistic firms and enforced strict performance standards on firms receiving any state benefits. Moreover, during the 1980s the government embarked on a gradual programme of liberalisation as well as of greater competition in the domestic markets. For a fuller discussion, see Amsden and Singh (1994).

"Despite Korea being a major exporter of passenger-cars, Koreans have owned far fewer passenger cars than people in other developing countries with a comparable income level...Given such a clear (stated and revealed) anti-consumption bias, Korean macroeconomic policy may be more appropriately understood as "investment management" rather than as "aggregate-demand management". (

The following aspects of the observed enormous growth of Korean savings during the last three decades deserve attention.

First, it could be argued that the rise in personal savings is entirely due to the growth in household incomes and have little to do with the government's anti-consumption policies. Growing per capita incomes were no doubt important in increasing the propensity to save. However, as UNCTAD (1994) rightly notes, income growth is not translated automatically into high savings growth. There was relatively little increase in the average savings ratios of many leading Latin American countries from 1960-1980 despite a fairly fast increase in per capita incomes. Similarly, in the 1990s, although Latin American growth has revived there has been no increase in the savings rate in many countries (Edwards, 1995).

Secondly, Korean savings seem to have been invariant to changes in real interest rates. For much of the high growth period in Korea there was considerable financial repression, and yet savings continued to rise (Dornbush and Park, 1987; Cho and Khatkhate, 1989).

Thirdly, savings in Korea during the high growth period would also have been positively affected by the high level of corporate profits for the reasons mentioned earlier with respect to Japan. During the 1970s, bonus payments to workers constituted between 14% and 33% of the total Korean wage bill, a somewhat higher figure than cited earlier for Japan. Similarly, as in Japan, profits of unincorporated enterprises in Korea are included in the household sector; for reasons mentioned earlier, the propensity to save out of such profits and to invest is likely to be very high.

X. Summing up

To sum up, the foregoing analysis of the accumulation process in Japan and Korea has emphasised the significance of government policies and of government business interactions, as well as that of the relationship between the corporation and the financial system. These policies and the relationships have been critical in the operation of the observed virtuous circle of high investment - high profits - and high savings in these economies during their respective [periods of fast economic growth.

The workings of the investment-profits-savings nexus in the two exemplar East Asian economies may be contrasted with the situation ion Latin American countries and in the former USSR. There is evidence (see Section XII below) that profits in many Latin American economies have been very high, but these have not lead either to larger investment or savings rates. In the former Soviet Union on the other hand, there have been high rates of investment and savings but these have not been related to market generated profits. Such investment has therefore not had the same large positive impact on economic growth as that experienced by the

East Asian economies.[30]

XI. Implications for development thinking

We now bring together the threads of the previous discussion in order to examine its implications for development thinking and practice. The next section will consider what useful policy lessons, if any, can be drawn from this analysis for the Latin American countries in the context of the new global economic order.

With regard to development thinking, the first point which emerges from this paper concerns the role of large domestically owned third world firms in economic development. This subject has received very little attention in the literature. The literature emphasises capital accumulation but studies it by and large at a macroeconomic level. The question of investment allocation is indeed examined at a microeconomic level, but it is done within the context of cost-benefit analysis of investment projects. However, economists have been slow to recognise the fact that industrialisation and development are actually carried out by firms, organisations and managements. We have not so far begun to develop an analytical perspective on the nature and role of these entities in carrying out industrial development. There is no theory of the third world firm. Is a large third world firm much like a large firm in the advanced countries or are there important differences between the two?

To illustrate the significance of this point it is useful to draw attention to Aoki's (1990) work on the differences between Japanese and Anglo-Saxon firms. Aoki has emphasised the differences between the two groups of firms with respect to (a) their relationship with their workers; (b) their respective managerial cultures; (c) relationships with the providers of finance; (d) relationships with their suppliers and sub-contractors; (e) their respective ownership patterns. He has formalised these differences into a distinct theory of the Japanese firm.

There are indeed very important differences between large third-world firms and those in the US and Western Europe both today and in the past when these countries themselves were industrialising. It is a remarkable fact that the large private sector third-world firms tend to be highly diversified industrial groups operating in a number of unrelated fields, i.e. they are what might be called "irrational" conglomerates. This kind of 'group' business organisation seems to have arisen in countries with diverse cultures, institutions and historical development. Such widely diversified groups comprise the leading firms in India, Korea, Mexico, Brazil, Argentina and many other countries. Of the 31 largest private industrial enterprises in the semi-industrial countries in 1987, 27 were diversified groups which were mostly family controlled.(Amsden and Hikino, 1994).

The large third world firms have been increasing their share of world output. In 1962 there were only four third world firms - two from South Africa, one from India and one from Turkey

[30] Akyuz and Gore (1996). With respect to the Soviet Union, Delong and Summers make a similar point in explaining why high investment rates in plant and equipment in that regime did not generate the same degree of economic growth as in the market economies.

among the five hundred largest industrial enterprises in the world. By 1992 this number had risen to thirty three, which included twelve Korean companies.[31]

The special characteristics of contemporary giant third-world firms need systematic investigation. How for example, do large Latin American "groups" differ from Asian "groups". Is it true that, as some students suggest, in the typical Latin American "group", corporations control the group bank, while it is the other way round in East Asia?

Secondly, the main part of the paper has provided an analysis of the high corporate rates of savings and investment in East Asian economic development. Apart from its own interest, this emphasis is also significant for another important analytical and policy reason. It will be recalled that the recently concluded Uruguay Round Agreements have, in addition to trade liberalization, also extended multilateral rules and disciplines to a number of policy areas affecting industrial development and competitiveness with regard to both goods and services. Such policies -- generally defined as industrial policies -- have been extensively used in the past, notably by fast growing East Asian countries, to foster exports and to achieve rapid structural change and economic growth.

However, a number of these policies will fall foul of the Agreements, particularly in respect to provisions on trade related investment measures (TRIMS) (See further Singh, 1996a). This could seriously handicap developing countries who wish to emulate the example of the successful East Asian economies.

There is however a way out of this predicament. This is because even though the post-Uruguay Round trading regime may restrict the use of a number of instruments of industrial policy with respect to the promotion of exports and the control of imports, it does not regulate government policies towards domestic savings and investments. In analytical terms, the focus on raising the propensities to save and invest can be regarded as an alternative way of enhancing a country’s long term international competitiveness.

Historically, the East Asian governments have promoted international competitiveness by following both sets of policies simultaneously - i.e. the normal industrial and commercial policies with respect to exports and imports as well as policies which enhance savings and investments. Pursuing complementary means to attain the same ends would appear to be the optimal policy stance for even if one set of measures do not fully succeed, the others may work better and help reach the target. However, if the WTO regime effectively rules out over time traditional industrial policy, the other policy measures acting on the propensities to save and invest, can by themselves, still promote technical change and international competitiveness. This will particularly be so for the more developed of the industrialising countries, for example, Malaysia, Korea, or Thailand.

Thirdly, another implication of the analysis of savings, investment and profits in this paper for development thinking concerns income and wealth distribution. As noted earlier a striking aspect of the success of the exemplar East Asian countries is that they have been able to

[31] The source of these data is Amsden and Hikino (1994).

achieve fast economic growth while maintaining a relatively equal distribution of income. However, an important question is what has happened to wealth distribution? It is well known that in Japan and Korea, the land reform under US auspices led to a relatively equal initial distribution of income and wealth. However, in the subsequent industrialisation of these countries, corporate profits, savings and investment increased enormously. Industrial concentration may not have increased but it has remained high. [Amsden and Singh, 1994]. One would expect in these circumstances that, other things being equal, the wealth distribution in the urban economy will become more unequal. UNCTAD (1994) suggests that there is indirect evidence that this is what has actually happened. If so, this may require revision of political economy interpretations which are extant and which assume that neither income nor wealth distribution has worsened in East Asian economies.[32]

The question of wealth distribution in these countries therefore requires systematic research. If the wealth distribution, despite high corporate profits, savings and investments, did not become more unequal over time, what market or non-market mechanisms prevented that? If it did become more unequal, what are its implications for the political economy of these countries? In principle it is quite possible that even if there is no trade off between growth and income inequality there may well be one between growth and wealth inequality.

XII. Lessons for Latin America?

I turn now to the more difficult question: what are the lessons of the East Asian story for Latin American countries? Can the Latin Americans learn anything from the East Asians on, for example, how to improve their corporate savings and investment record? This is a complex issue because although the lessons of the East Asian experience are clear enough, there does not appear to be the appropriate political conjuncture for Latin Americans to be willing either to heed such advice or to learn from that experience.

This Latin American political conjuncture, whereby most governments in the region are in one form or another following the Washington Consensus and abandoning long-held dirigiste policies, coincides with a broader movement in the world economy towards liberalisation and globalisation. In this overall context, the following points in relation to the relevance of the East Asian experience for Latin America seem to me to be significant.

First, it is clear that the successful East Asian countries have not followed the "market friendly" approach as enunciated in its classic form in World Bank (1991). Market friendly can mean all things to all people. In order to prevent the concept from being a mere tautology, the World Bank (1991), to its credit, defined market friendly fairly precisely as follows: a) intervene reluctantly, b) apply checks and balances, and c) intervene openly. As is evident from the discussion in this paper as well as from much scholarship in this area[33], the East Asian governments did not intervene reluctantly: rather, they pursued vigourous and purposeful

[32] See for example Alesina and Perotti (1996); Alesina and Rodrik (1994a).

[33] See Amsden (1989); Wade (1990); Singh (1995a, 1995b).

industrial policies.[34] Nor did they intervene openly or transparently as evidenced by the widespread use of administrative guidance. They did, however, apply checks and balances in the form of performance standards (notably with respect to exports) in return for subsidies and other government concessions. In relation to corporate investment and savings, the government again, as seen in previous sections, had a major role in raising and maintaining at a high level the corporate propensity to invest. It used, inter alia, trade, financial and competition policies to create "rents" which boosted corporate profits, but it also took steps to ensure that these rents were not consumed but were translated into investment. With the blessings of the government, if not its outright control, the financial system worked in such a way that the managers were able to pursue long-term investment strategies rather than being constrained by short-term goals of profitability and earnings per share. Thus, these prolonged high corporate investment rates which have been critical to East Asian growth were not simply the result of getting the macroeconomic fundamentals right and in achieving low and stable inflation but rather the outcome of a visible process of government intervention.

Secondly, in the current context of liberalisation and globalisation, the East Asians have been reluctant liberalizers. Contrary to the Bretton Woods Institutions, the East Asian countries during the last three decades have not sought close integration with the world economy but rather what I have called elsewhere a "strategic integration" - i.e. they have integrated up to the point and in the spheres where it was in their interest to do so. Thus, they have traditionally been open with respect to exports but not so open with respect to imports. It was noted in the introduction to this essay that by the year 2000 South Korea is expected to become the fourth largest car producer in the world. Even now it has sizeable exports to the United States and Western Europe and yet in 1995 the country imported only 4,000 cars. Although somewhat self-serving, many students of the Japanese economy would endorse the following recent complaint[35] from the Federation of Swedish Industries concerning the "Asian way" of doing business:

> ...it is necessary to face the new challenges presented to the present international trading system by "the Asian way" of regulation and of business. So far this challenge has been encountered mainly in relation to Japan, which has adhered to (almost) every letter in the GATT agreement, and at the same time managed to circumvent the spirit of the agreement by maintaining various formal and informal non-tariff barriers to imports, which have resulted in continued large surpluses. Only recently have these barriers begun to be dismantled, but the surplus is still large. These barriers combined with structural surpluses have shaken the confidence of the general public and of many economic operators in the fairness of the system, and contributed to continuous and rising pressures for increased protection in Europe and in North America from sectors which feel hurt by such policies. We also see the Koreans and the Chinese emulating

[34] There is a dispute about the effectiveness of industrial policy, but most economists accept (including World Bank (1993)) that such dirigiste policies were actually implemented by the successful East Asian states.

[35] See, for example, Johnson, Tyson and Zysman (1989).

important parts of the Japanese practices, while the records of South East Asian nations are more mixed.[36]

The East Asians have similarly been less than forthcoming in implementing financial liberalisation.

Thirdly, both in relation to trade and financial liberalisation, the contrast between the East Asian and the Latin American countries could not be more striking. The Latin Americans have enthusiastically reduced tariffs and trade barriers as well as capital controls.[37] The central issue is: will the liberalisation experiment succeed in terms of evoking an adequate supply response? Although the jury is still out, so far the evidence is not very favourable to the Washington Consensus. Despite the huge capital inflows in the 1990s, the Latin American growth rate in the first half of the decade has only been about 3 percent per annum. This is roughly half the long term rate (6% p.a. between 1965 and 1980, see Table 1) achieved in the bad old days of dirigiste policies. More importantly it is also coincidentally less than half the rate required, on past statistical relationships, to provide remunerative employment for just the new entrants to the fast growing Latin American labour forces.[38] Similarly, in relation to corporate profits and investment, Palma (1996) reports for a sample of six Latin American countries for which he had comparable data that the share of profits in GNP in these economies increased by ten percentage points (from 50 to 60 percent) with the recovery that started in 1987. However, corporate savings and investment hardly increased at all. There is also evidence that the commodity composition of Latin American exports is moving in the adverse direction, i.e. towards those products where world demand is expected to grow slowly.[39]

It would appear to an observer of Asian economic development that the precipitate and uncontrolled trade liberalisation which occurred in Latin America in the 1980s was probably not well-timed. It took place when Latin American industry was competitively weak because of the low levels of investment during the course of the debt crisis. However, the situation seems to have been made doubly difficult for the real economy in many countries by the financial liberalisation which has been implemented towards the end of the last decade. In the wake of the financial crisis which overwhelmed Mexico in December 1994, Latin American economies have already paid a heavy price for this liberalisation in terms of loss of output. Further, stock markets have played a key role in the internal and external financial liberalisation process which has taken place. Apart from the macroeconomic effects of financial liberalisation, it is arguable that the consequent growing hegemony of the stock market in these economies may at the microeconomic level hinder rather than help industrialisation and economic growth. Long ago Keynes observed (Keynes, 1936, p. 139) that " when the capital development of a country

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[36] See Hagdahl and Ekdadl (1996, pp. 11).

[37] For an interesting analysis of the reasons for the Latin American enthusiasm for liberalisation, see Rodrik(1994b) and Krugman (1995).

[38] See further Singh and Zammit (1994).

[39] UNCTAD (forthcoming).

becomes the byproduct of the activities of a casino, the job is likely to be ill-done." The enormous fluctuations on the Latin American stock markets in the recent period unrelated to any fundamentals,[40] would appear to confirm Keynes' characterisation of such markets as casinos. Even if the Latin American industry can bear the burden of trade liberalisation, the cross of financial liberalisation may be crippling.[41]

However, as noted earlier, the jury on the supply response and the real economy is still out. If adequate supply response continues to be elusive, at what point will the architects of the Washington consensus be willing to admit that the experiment has failed?

XIII. Postscript

In response to the above question which came at the end of the paper actually presented at the Conference, John Williamson, in an intervention, provided a clear answer. He thought that five more years were needed to properly assess the validity of the policy program prescribed by the Washington consensus. Senor Bianchi, in making an eloquent intervention in support of John Williamson's plea that more time is required, pointed out that these ideas have been implemented for the longest period in Chile where they have been extremely successful. In a comment on the original paper, Professor Lui drew attention to the case of Hong Kong as an East Asian example of fast economic development which did not require dirigiste policies.

These and other interventions and comments were very helpful as it allows us now to explore a bit further the ideas put forward above in the last section of the paper. It will be useful to begin first by commenting briefly on the cases of Chile and Hong Kong, before discussing directly John Williamson's idea of allowing "five more years" for the neo-liberal program.

XI11.1 Chile

Senor Bianchi is of course quite right to draw attention to the case of Chile, which, alone among Latin American economies has achieved successful economic growth over the last ten years. The Chilean example, however, immediately raises the question of why only its real economy has responded successfuly and adequately to Washington consensus policies and those of other countries have not? Leaving aside the question of the long-term sustainability of the Chilean model (see below), this suggests that there may be unique aspects of the Chilean political economy which may not be present in other Latin American countries. Thus, even if the Chilean model was sustainable, it may not be replicable in other countries on the continent .

The unique features of the Chilean political economy which come immediately to mind are: a) the Pinochet military dictatorship which assumed power in 1973 and b) the associated early introduction of the neo-liberal model in that country. The latter involved internal and external

[40] El-Erian and Kumar (1995) report that between 1983 and 1993 stock market volatility in Mexico was nearly fifteen times as large as that in the US or Japan. See further Smith and Walter (1996) and Calvo et al. (1996).

[41] For a fuller discussion of the issues raised in this paragraph see, Singh (1996c, 1996d).

liberalization including, notably, the destruction of the power of the trade unions and the consequent more or less complete deregulation of the labour market. In the external sphere, Chile first abolished all non-tariff barriers and over a relatively short period of time thereafter reduced tariffs to an average level of 10%[42]. This more or less free-trade regime was combined with the liberalization of capital movements. In the event, the neo-liberal model was not successful in the first decade of its operation. Unregulated capital flows resulted in a huge surge of loans from abroad during the period 1978-1981, contracted mainly by the private sector. This led to an unsustainable appreciation of the currency, and the ensuing financial crisis resulted in a huge 15% reduction in GDP during the depression of 1982-1983.

The recovery from the depression and the fast economic growth of the last decade was greatly facilitated by the rise in the price of the copper in 1987 and another surge in capital flows which began in Chile somewhat earlier than in other Latin American countries.[43] However, these favourable external shocks were only translated into sustained growth by, inter alia, two fundamental factors. Firstly, the government, having learned the hard lessons of the previous surge of capital inflows, has in the recent period adopted highly pragmatic and interventionist policies towards such inflows and the management of the exchange rate. It is now fully recognized that is important for exports and for the real economy that a competitive real exchange rate should be maintained, and it is acknowledged that this cannot simply be left to the market forces.

Consequently, the Chilean authorities have adopted policies to influence both the level and the composition of capital inflows, encouraging long-term inflows such as FDI and discouraging speculative short-term capital flows. Ffrench-Davis, Agosin and Uthoff (1995) note that the Chilean government has used four basic instruments to neutralize any effects that, as a result of the influx of short-term capital, may be inconsistent with the objectives of the export development strategy. These instruments are: the application of taxes and reserve requirements to capital inflows; an exchange-rate policy based on dirty floating of the exchange rate in relation to a reference value pegged to a basket of currencies; open market operations to sterilize the monetary effects of exchange-rate dealings, and the prudent supervision of financial markets.

Apart from these regulations and interventions in the foreign exchange and in the financial markets, there is a second major factor which has been salient in the Chilean authorities ability to maintain a competitive real exchange rate. This derives from the fact that the labour markets in Chile are more unregulated and "flexible" than in other countries. Consequently, unlike a nimber of other Latin American economies the Chilean government does not have to use the nominal exchange rate as an anchor to reduce unflationary expectations. (Such policies, experience suggests, inevitably lead to real appreciation of the currency during episodes of

[42] See further ...

[43] The rise in copper prices not only helped alleviate the balance of payments constraint, but as the copper sector was state owned, it also made a sizeable contribution towards correcting the fiscal disequilibrium. Copper exports rose from 5.2% of GDP in 1981 to 14.1% in 1987-88. See further Frenkel (1995).

capital surges).

Further, notwithstanding its undoubted success both in exports and overall economic growth in the last ten years, there are important questions about how good an example Chile is for other countries to follow and about the sustainability of its export performance. The first point is that Chile's exports are basically local natural-resourced based and largely unprocessed. Compared with the standards of Asian NICs, Chile's manufactured exports are tiny - only $1.3 billion in 1992 versus for example $70 billion for Taiwan in the same year. Taiwan's population is about a third more than that of Chile, but even on a per capita basis, Chile exports were $96 per capita and Taiwan's $3500.

Secondly, as table 10 suggests, the commodity composition of Chilean exports is among the most unfavourable of the 15 leading industrialising countries in the sample. Only 12 per cent of Chile's exports to the OECD countries go to the twenty dynamic sectors where demand is growing fastest. The corresponding figures for the first-tier Asian NICs (Hong Kong, South Korea, Taiwan) are in the 80s. Chile is often compared with the second-tier NICSs (Thailand, Indonesia, Malaysia) in terms of its export achievement. However, the shares of the latter countries' exports going to the most dynamic sectors of OECD demand are 61 per cent in Malaysia and 67 per cent in Thailand. Indeed table 10 suggests that among the Latin American countries the Mexican and Brazilian export structures are much more dynamic than those of Chile.

Of course it could be argued that despite an unfavourable commodity composition of its exports, a country can achieve fast expansion of its exports by increasing its share even in slow growing markets. That is in fact what Chile has done over the last decade or more. This will however be more difficult in the future as Chilean real wages rise. This is not only because most Chilean exports go to sectors where demand growth is slow , but in many of them, the scope for further productivity improvements may also be limited. Data presented in table 11 suggests that after more than 80% of the Chilean exports which go to the less dynamic sectors, so in about half of these, Chile was increasing its market share whilst in the other half, its share was declining. (In the small dynamic portion of its exports Chile did have a rising market share) By way of contrast , for Korea, not only were most (82 per cent) of its exports in the dynamic sectors (see table 10), but Korea also had a rising market share in 83 per cent of these dynamic products (table 11). The essential reason for the export dynamism of Asian NICs lies in their purposive industrial policy programme to continuously upgrade their respective industrial and export structures as real wages rise. This accords with the "flying geese" pattern of development ascribed to the Asian countries[44]. Chile has also upgraded its exports over the last twenty years but the improvements have been confined to restructuring within the slow growing sectors rather than a progressive movement towards the more dynamic sectors. Lall (1995 p151), observes:

"...that despite two decades of stringent policy reforms intended to free its economy from government intervention, Chile has failed to transform its manufacturing sector into an engine of export growth. It has not been able to "do a Taiwan

[44] There is a large literature on this subject. For a recent review, see Rowthorn (1996).

> China". It is not that Chile lacks the human resources it needs to develop its industrial exports. It has one of the best educational systems in Latin America, as well as a base of entrepreneurship and substantial experience with industrialization as far back as the nineteenth century..........The presence of human capital has helped Chile in boosting resource-based exports, but the creation of new competitive advantages in industry has been severely constrained, in the absence of policy support, by the learning costs inherent in upgrading and deepening industry."

XIII.2 Hong Kong

Hong Kong is certainly an example of a country which has followed broadly laissez faire policies with regard to trade and capital flows and achieved fast economic growth. However, as in the case of Chile there are special features of the Hong Kong situation which require attention. First, Hong Kong started with an enormous advantage of a pool of skilled labour and entrepreneurs with capital who migrated from Shanghai after the Chinese revolution.

Secondly, Hong Kong has long been an entreport city with well established firms possessing considerable export capabilities. There has therefore been much less need than in other NICs for the government to intervene to build up production and export capacities.

Nevertheless it is important to note that Hong Kong has not been as successful as other Asian NICs in upgrading its industrial and export structure. Although table 11 shows that more than 90 per cent of Hong Kong's exports are in the dynamic sectors, table 12 indicates that in about half of them Hong Kong has been losing its market share. Rising real wages in the colony has lead to the relocation of its industry abroad (mainly to mainland China). Consequently Hong Kong has suffered massive deindustrialisation in the last 10 years, with a 35 per cent fall in manufacturing employment. There is evidence that Hong Kong's decision makers are deeply worried about the erosion of the city's industrial base. The Financial Times (1993) noted in its survey of Hong Kong:

> "The laissez faire prop against which the Hong Kong government has leaned since 1841 has prevented it from adopting the ambitious strategies that have spawned the computer components and telecommunications products of Singapore, South Korea and Taiwan. But as Hong Kong continues to evolve into a financial and services centre, the pressures of some of the highest land and labor costs in Asia appear to have given the government second thoughts about its stance....The government is taking serious measures to encourage the inflow of overseas technologies, so that Hong Kong can retain some kind of industrial base....The government has toned down its laissez faire inclinations to permit a new applied research and development scheme. This is a $HK 200m. fund, which will match the investment of any start-up company which fulfils certain criteria, in exchange for an

> equity stake. This represents the first step towards direct government funding for research and development, and by implication, the creation of a Government industrial policy."[45]

It is also true that despite the deindustrialisation, the Hong Kong economy has continued to prosper. This is because the colony has been able to shift from manufacturing into high value financial services. It is perfectly possible for a city state with a small population and an increasingly industrialised hinterland to exist largely, if not entirely on the basis of the production and export of services. But for most countries,this is normally not feasible because of the high income elasticity of demand for manufactures and the much more limited scope for the exports of services relative to those of industrial products.[46]

XIII.3 'Five More Years'

At one level John Williamson's suggestion that the Washington Consensus (WC) programme requires five more years to show its full results may seem reasonable. The programme embodies enormous institutional changes - a much diminished role for the state and a correspondingly far larger space for the markets to function freely; and in the external sphere, a move away from a 'sheltered' economy to greater openness and a much closer integration with the world economy. It clearly takes time for economic agents to accept and adapt to the far reaching environmental changes of this type and magnitude.

Unfortunately however, the WC programme is not simply a scientific experiment to advance the cause of economic or social science but something which affects the actual lives and well-being of hundreds of millions of people. Citizens of Mexico, for example, have already waited for more than ten years - Mexico after all has been Washington's star pupil ever since the beginning of the debt crisis in the early 1980s. The Mexican people and those in a number of other Latin American countries may simply not be prepared to wait for another five years, particularly if the programme continues not to work in terms of real economic growth, jobs and poverty alleviation. The result may then be another violent swing of the pendulum which could go too far in the other direction and thereby jeapordise such gains as the WC has secured in the sphere of stabilisation (eg. the correction of fiscal disequilibria in many countries).

As two leading proponents of the reform, Burki and Edwards (1996)[47] have recently noted,

"The slow recovery of the ...(Latin American) economies is troublesome for a number of economic, social and political reasons. In many countries, modest economic performance over the last few years is generating impatience and a sense of disappointment with the reform process. An increasing number of people are

[45] Quoted in Lall (1995, p139).

[46] See further Singh (1977, 1987); Rowthorn and Wells (1987?).

[47] Mr Shahid Burki is the Regional Vice-President for the Latin-American Caribbean region at the World Bank. Professor Sebastian Edwards is a consultant to the World Bank.

disillusioned and beginning to look at alternative policies. Although this disenchantment has not been translated into an activist "anti-reform" movement, it is slowly generating "reform-skepticism." What makes this particularly disturbing is that the reform-skeptics do not have a coherent plan and tend to offer an assortment of mutually inconsistent policies with an unmistable populist flavor."

Burki and Edwards go on to suggest ,

"The sluggish behaviour of ...(Latin American) labor markets - low wages and slow employment creation - constitutes one of the gravest concerns of Latin American populations and has serious economic, social and political consequences. It contributes to poverty - many of the poor are unemployed, or employed at very low wages in the informal sector - and it erodes the political support of reformist governments. There is some preliminary evidence suggesting that in many - if not in most - Latin American countries the positive impact of lowered inflation on political support is beginning to fade and voters are now demanding improved performance in terms of higher growth, wages and employment. If these are not delivered, it is likely that voters will begin to desert the reformist ranks, increasing the risk of populist relapse."

If in the light of the above considerations, five years would appear to be too long to wait, can anything be done in the interim? Burki and Edwards prescribe a continuation of the reform process towards its next phase. They acknowledge that these "institutional "second generation" reforms are technically very difficult and are likely to take time to be implemented and to generate their beneficial effects. Countries will tend to proceed cautiously and are likely to make mistakes. This process may generate frustration and, at times, disenchantment. A great deal of leadership and consensus building will be needed to push forward with the much needed next phase of the reform process." Specifically, for the two World Bank economists the next phase of the WC would give priority to the reform of the labour market, the educational and health systems and above all it would redefine the role of the state. The latter, in this conception would essentially be a "night-watchman", if not a "minimalist" state.

Although the Burki and Edwards assessment of the gravity of the present situation is well taken, there are difficulties with their diagnosis and remedies. There are two points that are particularly problematical. Firstly, the two authors ascribe low wages and the rise in unemployment and underemployment in Latin-American countries largely to the rigidities of the labour market. This conclusion is however difficult to accept in the light of evidence over the last 15 years. In static terms, there may well be many rigidities and imperfections in Latin-American labour markets, but it is important to appreciate that over time the latter have responded well and quickly to economic changes. Real wages fell by as much as 50% in countries like Mexico during the economic downturn of the 1980's and rose somewhat in the subsequent upturn. In other words, markets have been "dynamically" flexible. True, real wages in Mexico or in other countries have not been as flexible as in Chile. But, even if that were desirable for most Latin-American countries, it would not be feasible in their present democratic context.

The second main difficulty with the Burki-Edwards proposals is that these involve further institutional changes which are likely to take a long time to deliver. The proposed "second-generation" reforms do not address the question of people's present frustrations and impatience with the WC policies - a central issue that the two authors themselves highlight as seen above.

In the spirit of provoking a constructive debate this paper would like to propose a rather different course of action. The underlying hypothesis here is that under the aegis of the WC, the Latin-American countries opened up too much and too suddenly to the international economy, both in the financial and product markets, so as to be able to sustain a desired current account position at the socially necessary growth rate of 5-6% per annum. This hypothesis is motivated by the Asian experience and the analytical considerations presented in the main body of the paper.

If this analysis is correct, as a minimum, Latin-American countries should carefully control financial flows. The volatility of unregulated international capital flows leads to fluctuations in the exchange rates and stockmarket prices. The interactions between these two inherently unstable markets often leads to a negative feedback loop which in turn generates fluctuations in real economic variables (consumption, investment, exports, etc). All this creates an unstable and uncertain economic environment which inevitably effects the private sector's inducement to invest. Further, in view of the apparently high income elasticity and low price elasticity of the demand for imports by Latin-American consumers the speed and the degree of trade openness which has been implemented also needs to be questioned. These measures may have assisted stabilisation but they have evidently not been helpful to the Latin American industry. The result is that many of these economies are running sizeable current account deficits even when they are operating well below their productive potential or the socially necessary growth rates. Thus some import controls, particularly against luxury products will not only be directly helpful to the real economy by alleviating the balance of payments constraint, it may also help to raise the propensity to save. As Taylor (1996) notes, during the recent period, under the combined impact of trade and financial liberalisation the Mexican private savings fell from 15% to 5% of GDP.

To sum up, instead of a doctrinaire pursuit of free trade and unimpeded capital flows, what is being proposed to help the Latin American real economy in the short to medium term is a set of pragmatic policies. These policies involve interalia, considerable regulation of external capital flows, but preferably also a relatively modest degree of control over imports. Unfettered capital markets and unrestricted trade liberalisation do not represent the optimal degree of openness for most Latin American economies at the present juncture.

TABLE 10

SECTORAL ORIENTATION OF EXPORTS OF SELECTED DEVELOPING COUNTRIES IN 1990

(Share in total exports of exports in fast-growing OECD import sectors[a])

Country		Country	
Hong Kong	91.0	Mexico	61.2
Taiwan Province of China	83.9	Tunisia	57.9
Singapore	83.3	Morocco	49.8
Republic of Korea	82.0	Turkey	49.4
		Brazil	35.5
Thailand	66.7	Argentina	20.9
Malaysia	60.8	Colombia	16.0
Indonesia	39.5	Chile	12.3

Source:ECLAC, Comparative Analysis of Nations data base.

[a] A fast-growing OECD import sector is defined as one in which imports into OECD countries as a proportion of total OECD imports rose from 1963 to 1990.(Reproduced from UNCTAD (1996)).

TABLE 11

DYNAMISM AND COMPETITIVENESS OF EXPORTS FROM SELECTED ASIAN AND LATIN AMERICAN DEVELOPING COUNTRIES, 1990

Percentages

	H/C	L/C	H/U	L/U
Republic of Korea	82.9	17.1	0.0	0.0
Taiwan Province of China	83.8	15.2	0.0	0.0
Hong Kong	43.8	6.3	47.2	2.7
Singapore	83.4	16.0	0.0	0.6
Malaysia	60.7	39.3	0.0	0.0
Indonesia	43.8	6.3	47.2	2.7
Thailand	66.6	31.3	0.0	2.3
Mexico	59.1	34.4	2.0	4.5
Brazil	33.7	53.3	1.8	11.2
Argentina	17.6	36.8	3.3	42.3
Chile	11.4	46.7	0.9	41.0

Note: ....?
Source: UNCTAD (1996)