The Asia-Pacific developing countries and the new world trading system: a historical overview of emerging policy issues

Ajit Singh

University of Cambridge

11 March 1996

Online at https://mpra.ub.uni-muenchen.de/54987/
MPRA Paper No. 54987, posted 2 April 2014 19:18 UTC
THE ASIA-PACIFIC DEVELOPING COUNTRIES AND THE NEW WORLD TRADING SYSTEM: A HISTORICAL OVERVIEW OF EMERGING POLICY ISSUES

Ajit Singh
Faculty of Economics
University of Cambridge
Cambridge
England

I. Introduction

The United Nations Conference on Trade and Development (UNCTAD) recently organised a Workshop in the Philippines, of trade and industry officials from Asia and Pacific countries. The Workshop had a timely purpose: to identify trading opportunities and adjustment strategies to benefit from the liberalisation of world trade as well as to cope with the difficulties which developing countries will face in the Post-Uruguay Round World Trading System. National papers on the subject were presented by officials from the following countries: Brunei, Bangladesh, China, Fiji, HongKong, India, Indonesia, Republic of Korea, Malaysia, Nepal, Pakistan, Philippines, Samoa, Singapore, Sri Lanka, Taiwan Province of China, Thailand and Vietnam.

The object of the present paper is to put these national papers as well as the new world trading system in their context by providing an historical and analytical overview of the main developments in the world economy in the Post-World War II period.

II. Longterm Tendencies in the World Economy

Two long-run tendencies have dominated the world economy in the post-war period, namely, industrialisation of developing countries (the South) and de-industrialisation (in the sense of a declining number or proportion of people employed in manufacturing) of the older industrial countries (the North). The evolution of the relationship between these phenomena and how this relationship is managed by the international community will be a central issue on the world economic agenda well into the new millennium. We will explore here certain aspects of these phenomena.

The paper suggests that in the second half of this century, taking advantage of the propitious
circumstances which opened up at the end of the second World War, the developing countries embarked on an industrial revolution. Between 1950 and 1980 they made remarkable economic and industrial progress. However over the last fifteen years this process has been interrupted in Latin America and Sub-Saharan Africa whilst the Asian countries have continued with their fast pace of industrial development. It is argued here that it is a compelling social imperative for developing countries for this industrial revolution to continue. We shall consider their prospects of success in the new world economic order which is emerging, and suggest ways in which the international community can best help in this task.

III. The Industrial Revolution of the Third World

Following the end of the second world war, a large number of third world countries embarked on a veritable industrial revolution — a revolution that they had been prevented from implementing fifty or hundred years earlier by the rather different world economic and political conditions. With their political independence and with the new world economic conjuncture that prevailed in the post-war period, most poor countries initiated a serious process of industrialisation and, particularly during the 1960s and 1970s, several of them made rapid industrial progress. Even developing countries in Sub-Saharan Africa, which started with extremely unfavourable initial conditions when colonial rule ended, managed to increase their share of world manufacturing production during these two decades. More significantly, a group of nations in Asia and Latin America — the so called newly industrialising countries — were especially successful in establishing a technical, scientific and industrial infrastructure, in training their labour forces and in developing a relatively broad based industrial structure. By the 1970s these countries were providing formidable competition to the North in a range of consumer and producer goods industries (Singh, 1989).

As a consequence of this industrialisation, as well as parallel transformations in agriculture and
in other sectors of the economy, by previous historical standards the overall economic progress in the developing countries after World War II was very impressive. Thus, for example, from 1960 to 1980, despite the fact that the population was increasing at a very high rate of nearly 2.5% per annum, the rate of growth of per capita GDP in the developing countries was over 3% per annum. This rate of material development implied a doubling of productive capacity every 22 years or so; it also compared very favourably with the long term rate of per capita economic growth of about 1.3% per annum which the West European industrial countries achieved during the hundred years between 1850 and 1950.

In statistical terms, the Third World's economic achievements of the three decades 1950-80 are a story without parallel in world development history. During this period, the South surpassed the 80-year record of the North's 19th century (1820-1900) advance. The South did this in half the time, at twice the growth rates and with five times the North's population in the 19th century (Patel, 1992). Arguably the South achieved greater material advance during these three decades than it did in the previous three thousand years.¹

In addition to these economic gains, the Third World countries during this period also made extraordinary social advances. To take a single, but crucial indicator, life expectancy rose from around 40 years in 1950 to 60 years by the mid 1980s - in other words 20 years were added to the life of the average citizen of the South. Life expectancy for the females increased even more than for males almost everywhere in the South.

IV. Social Imperatives for the South's Industrial Revolution

Although the South's economic performance during 1950-80 was excellent by its own previous

¹On this point see further Patel (1992).
standards, as well as by comparison with the historical record of today's developed countries, it was barely equal to the minimal requirements of its people. It is a social necessity for developing countries to grow rapidly for two overriding reasons: to provide jobs for their fast growing labour forces and to reduce poverty.²

Taking the employment challenge first, despite a slow-down in population growth in some countries in the recent period, labour force in Latin American and African economies has been expanding on average at a rate of about 3 per cent per annum. On the basis of past relationships between economic variables, to create jobs at this rate in order to meet the employment needs of just these new entrants to the labour force, the economies of these countries would need to grow at a rate of about 6 per cent per annum³. If the current high levels of unemployed and underemployed in these developing countries are also to be reduced, the growth rate will need to be higher still.

The employment question is directly linked to that of the reduction of poverty. At the microeconomic level a reasonably remunerative job will keep a family out of poverty. At the macroeconomic level, the relationship between the two, even though indirect, is equally close. Just as the creation of sufficient employment opportunities requires a reasonable rate of economic growth, so does the eradication of poverty and meeting the minimum basic needs of the people.

² The following analysis draws on Singh and Zammit, 1995.

³ To illustrate, the rate of growth of labour force in Mexico is about 3% p.a. The long term trend rate of growth of productivity in the period 1950-80 has also been about 3% p.a. This means that GDP needs to grow at nearly 6% p.a. in order just to provide jobs for the new entrants in the labour force. Similarly, the UN Social Report (UN 1993) notes that since about one half of all output accrues to labour, developing economies will need to grow at 6% a year during the present decade, in order to absorb the growing labour force at current levels of income.
Although at any one time, a redistribution of national output may enable a society to better meet the basic needs of its people, on a longer term basis such needs can only be met if there is an expansion of the national economy. Economic growth generates increased employment and household incomes; equally importantly, it increases government revenues, which may be spent on health, education, clean water supplies and other basic needs of the people.

In its influential 1976 report, the ILO estimated that even allowing for some redistribution of incomes, if the minimum basic needs of the poorest 20 per cent of the Third World's population were to be met by the year 2000, their economies would have to grow at an annual average rate of 7 to 8 per cent a year. Co-incidentally, these rates are not all that different from those required to create adequate employment opportunities for the South's growing population, as outlined above.

However, past statistical relationships between industrial and overall economic growth suggest that at the average level of per capita income for developing countries, a one per cent increase in long-term economic growth is associated with about 1.5 per cent expansion in manufacturing value added.\(^4\) This suggests that if developing countries are to grow at 6 per cent or more per annum in order to meet the minimal basic and employment needs of their people, industry would have to expand at a rate of about 10 percent per annum. Hence the social necessity for the South's industrial revolution to continue to its completion.

V. Interruption of the Industrial Revolution in Latin America and Africa

In view of these pressing basic requirements of the people in the poor countries, in December

\(^4\) See further Singh (1984).
1980, the U.N. General Assembly adopted its resolution on the International Development Strategy for the Third United Nations Development Decade, which stated that the `average annual rate of growth of gross domestic product for the developing countries as a whole during the Decade [the 1980s] should be 7%’.\(^5\) This was not an unreasonable ambition for the world community in the light of the fact that in each successive decade after the second world war, the South’s average growth rate had been greater than before.

However, for a large number of developing countries, the actual experience of the 1980s was greatly at variance with this ambition. Instead of a rise, the last decade witnessed a steep fall in the trend rate of growth of production in the South, to about half the rate envisaged by the U.N.\(^6\)

More significantly, for the Latin American and African nations, the 1980s were a disastrous decade: these countries suffered on average sizeable falls in their per capita GDP. When the per capita GDP figures are adjusted appropriately for changes in the terms of trade and net factor payments, the results indicate that average per capita income in the Latin American countries was 15% and in the African countries as much as 30% lower in 1989 than in 1980 (UN, 1990).

In the collapse of overall economic growth in Latin America and Africa in this lost decade of the 1980s, industry fared particularly badly. In many of these countries, instead of rising

\(^5\) The UN General Assembly Resolution, 35-36 of 5 December 1980, para 20.

\(^6\) The rate of growth of GDP for all 'low and middle income economies' in the World Bank data-set fell from 5.9% p.a. during 1965-80, to 3.2% p.a. in the period 1980-90, (see Table 1 in the appendix). However, as Table 1 also shows this reduced rate of growth in the later period is entirely an aggregation effect. It is wholly due to the collapse of economic growth in Latin America and Sub-Saharan African countries during the lost decade of the 1980s. As the table indicates the East Asian and South Asian countries recorded trend increases in their respective growth rates during the 1980s.
industrial output and employment, there was large scale deindustrialization. Industrial production shrank by as much as 25 per cent in some countries. Industrial capacity utilisation during the 1980s fell to 20 per cent or so in countries like Tanzania with severe adverse consequences for employment and real wages. In Mexico real wages fell by more than 50 per cent between 1981 and 1988.\footnote{7}

In the 1990s, as a consequence of large scale private capital flows to Latin America, there has been a revival of economic and industrial growth in a number of economies on that continent. However only one or two of them (Chile and perhaps Argentina) have so far shown signs of reverting back to their previous (ie. pre-debt crisis) long-term trend rates of growth. For most countries in the region the prospect for the resumption of the industrial revolution and faster long-term economic growth have again been put into jeopardy by the recent financial crisis in Mexico. The economic situation in the African countries in the 1990s is, if anything, even less promising.

One outstanding success story for the South during the recent period has been the extremely good economic performance of the Asian countries, particularly those in East Asia, including China. In contrast with the Latin American and African countries which suffered economic collapse in the 1980s, the East, but importantly also the South Asian countries either maintained their high previous momentum of economic growth or achieved a trend increase in it. The industrial revolution, which got interrupted in Africa and Latin America, has proceeded apace in these Asian countries, leading to substantial creation of new jobs and higher real wages as well as a significant reduction in poverty.\footnote{8}

\footnote{7 According to the ILO statistics between 1985-92 legal minimum wage rates fell by nearly 60% in Argentina, 33% in Brazil, 33% in Uruguay, 50% in El Salvador and nearly 60% again in Peru. (ILO, 1994, page 108).}

\footnote{8 In China, the incidence of poverty fell from 28% of the population in 1980 to 10% in 1990; in Indonesia, the corresponding reduction was from 29% to 15%; in the Republic of Korea from 10% to 5%, and in Malaysia from 9% to 2%. In India, in 1978 there were...}
The above record of Third-World industrialisation and economic development during the last half century raises the following analytical and policy issues:

(a) Why have the Asian countries been able to continue with their industrial revolution, whilst economic growth and industrial development in Latin America and sub-Saharan Africa came to a virtual standstill in the 1980s and into the 1990s?

(b) How can the industrial revolution be revived in the Latin American and the African countries?

(c) Will the successful Asian countries be able to continue with their industrial revolution and bring it to a successful completion in the new post-cold war economic order?

These are all big questions and their treatment in this short essay can only be brief and schematic. I shall take them up in turn below.

VI. The Great Continental Divide: Asian Economic Success and Latin American Failure

The question of why Asian countries succeeded and the Latin American and the African countries failed in the 1980s and into the 1990s is of obvious intellectual interest. However, as explained in Singh (1993), because of the specific analyses of this issue by the orthodox economists and the international financial institutions and the lessons which they draw from nearly 300 million people living below the official poverty line. By 1990, this number had been reduced by nearly a third (The Economist, 15 May 1993).
them, it is also today of critical policy significance. The contrast between the Asian and Latin American economic performance in the recent period is particularly striking as in the previous 15 years (1965-80), the two groups of economies had been growing at much the same rate, ie at an average rate of about 6 per cent per annum.[See table 1]. The reasons for the divergent economic performance of countries on these two developing continents have been examined in detail in two previous papers (Singh 1993 and 1994b) and I summarise below their main conclusions.

Firstly these papers point out that what is significant about this phenomenon is not just the intercontinental differences in performance which have emerged in the last 15 years, but also the intracontinental uniformity of experience. In a detailed analysis of 9 Latin American and 9 Asian economies, Singh (1993) showed that in the 1960s and 1970s, the median growth rates of the two groups were much the same. However, in the 1980s none of the Asian countries except Philippines recorded a growth rate of less than 4 per cent. In sharp contrast, no Latin American country managed to grow at 4 per cent during that decade - only two of them (Columbia and Chile) achieved a growth rate of more than 3 per cent (See table 2 in the appendix).

Secondly this intracontinental uniformity of economic experience is particularly surprising for the Asian countries since these countries not only have followed rather different economic policy regimes, have different political systems but also display enormous heterogeneity in their overall governance capacities. China has a socialist system whilst other countries in the group are capitalist. Among the capitalist countries, some have had authoritarian regimes (e.g Indonesia) while others are more democratic (e.g India ). Moreover, countries like Korea have followed export-oriented policies while India has been a classic example of vigorous import substitution. Yet all these countries managed to either maintain or to improve upon their economic performance in the 1980s, whilst the Latin American countries were afflicted with collective economic failure.
Thirdly, these papers show that contrary to the international financial institutions, the main reason for the intercontinental differences in economic performance were not the internal economic factors but external shocks arising from fundamental changes in world economic conditions which occurred at the end of 1970s. These changes, heralded by the so called ‘Volcker’ shock (named after the then Chairman of the US Federal Reserve), emanated from the adoption of highly contractionary monetarist economic policies in the US and other leading OECD economies. The new monetary and fiscal policies led to a prolonged world economic recession and unprecedented high interest rates. In the non-neoclassical real world of imperfect wage-price flexibility, unemployment and balance of payments disequilibria, these events affected LDCs through four main channels: a demand shock to LDC exports; a consequent fall in commodity prices and a terms of trade shock; the interest rate shock; and a capital supply shock.⁹

If all these external shocks are considered together - as indeed they should be - their combined size and adverse impact on the balance of payments of the Latin American economies was much greater than that for the Asian countries. The Latin American countries were particularly hard hit by the capital supply shock which is either ignored or not properly examined in the orthodox analyses of these issues.

There are some further points which are salient with respect to the nature and consequences of these external shocks. First the sheer size of the shocks: the external shocks which many Latin American countries suffered in the early 1980s were gigantic. It requires an enormous

⁹See further, Singh (1986); Dornbusch (1985). Dornbusch correctly notes that in the neoclassical world of perfect wage-price flexibility, full employment and balance of payments equilibrium, only two of the external shocks mentioned in the text are relevant, namely the terms of trade and interest rate shocks.
economic and social effort as well as a considerable period of time to recover from the disruptions caused by such shocks. Instead, however, the effects of these shocks were compounded for the Latin American and African countries by the fact that a number of the same adverse external factors continued to operate throughout the 1980s. The terms of trade fell by nearly 20 per cent for the Latin American countries during this decade, and by nearly 30 per cent for sub-Saharan African countries. However, for South Asian countries and East Asian NICs there was a small improvement in the terms of trade over this period. More importantly, unlike the Asian countries, Latin American economies continued to be severely credit rationed for much of the decade.

Singh's analysis suggests that the magnitude of the external shocks which the Latin American countries were subject to in the 1980s was so large, that this not only had a big impact on the real economy and its future growth prospects, but equally importantly, the ensuing redistributive struggle over reduced economic growth also greatly disturbed the normal balance of political forces in these societies. This in turn led to extreme financial and monetary instability and episodes of hyper inflation. Singh concludes that if the rich countries such as the UK and the US had been afflicted with anywhere near the same kind of shocks, they would most likely have fared worse and probably suffered a much longer period of depression.  

Nevertheless, Singh (1993) stresses that although the Latin American economic collapse in the 1980s was due very largely to international economic forces beyond their control rather than

---

10. For a full analysis of these issues, including other alleged Latin American sins (e.g. too large a role of the state, macroeconomic policy errors and microeconomic inefficiencies) see further Singh (1993; 1994), Fishlow (1991); Ross (1991); Banuri (1991). For the orthodox perspective on these questions, see among others World Bank (1991); Sachs (1985); Maddison (1985) and Summers and Thomas (1993).
domestic mismanagement, these countries must improve their internal organisation and resource utilisation if they are to recover their longterm growth rates of 1950-1980 and to resume fully their industrial revolution.

VII. South's Industrial Revolution and the Cold War International Economic Order

I turn now to the other two issues mentioned at the end of section IV, namely the revival of the interrupted industrial revolutions in sub-Saharan Africa and Latin America, and the question of the sustainability of the industrial revolution in the Asian countries in the new post-cold war international economy. As the two issues are related, I shall consider them together.

The essential point to note here is that the outstanding economic success of the third world countries in the three decades 1950-80 as outlined earlier took place in extraordinarily favourable international conditions. The most important of these are listed below.

(i) Between 1950 and 1973, the period which has been rightly called the Golden Age11, there was an historically unprecedented expansion of production and consumption (at a rate of nearly 5% per annum) in advanced industrial nations. Moreover, this was a long sustained period of virtual full employment in most of these economies. A number of countries not only enjoyed full employment but in fact had over-full employment - nearly 10% of the employed labour force in countries like France and West Germany came from abroad. During this period, there was an enormous expansion of world trade, and that in manufactures grew in volume terms at a very fast rate of nearly 10% per annum. Most developing countries also participated in and benefitted from this world-wide prosperity.

(ii) Developing countries gained from the faster growth of the OECD economy through much
the same channels by which they have been disadvantaged by the slower growth of the North
economies in the post-1980 period. The rapid economic growth and full employment in the
North helped the South by leading to increased demand for Southern products; by absorbing, in
addition to Southern goods, large numbers of immigrants from the South; by lower real interest
rates; and by the governments of the North, particularly the US, being able to afford large aid
programmes.

(iii) The post-war II international trading system worked greatly in favour of developing
countries. Here was a multilateral system - the GATT - which permitted LDCs to have more or
less free access to advanced country markets without "reciprocity". Poor countries were
allowed to use import controls against advanced nations to protect their infant industries.
Similarly the articles of agreement of the IMF allowed LDCs to use exchange controls to protect
their financial systems. These controls were of course widely used by the poor countries.

The Western international trading and financial system in the Golden Age worked smoothly and
predictably under the guidance of a single hegemonic power, the US. The cold war and the
contention between the two systems worked to the advantage of the LDCs, as it did to that of
West European countries and Japan in the early post-war period. Thus, during the Golden Age,
whether through altruism or through national security interest, the US acted on a farsighted
design, based on non-reciprocity. As Spero (1977) notes specifically with respect to Western
Europe and Japan:

"In the short term it (the US) dealt with its own huge balance-of-trade-surplus and the European
and Japanese deficits by foreign aid and military expenditures. In addition the United
States abandoned the Bretton-Woods goal of convertibility and encouraged European
and Japanese trade protectionism and discrimination against the dollar. For example,
the United States absorbed large volumes of Japanese exports while accepting Japanese
restrictions against American exports... To encourage long term adjustment, the United
States promoted European and Japanese trade competitiveness." (emphasis added).
(iv) It is no exaggeration to say that probably the most successful story of economic development and industrialisation for a sustained period in the entire history of mankind is that of Japan and other East Asian Nics during the last three or four decades. This outstanding economic achievement was however made possible, among other factors, not only by the free access of these countries to the US market, but also by their ability to pursue an active and vigorous export-oriented industrial policy\textsuperscript{12}. To achieve their goals, these nations controlled the competitive process and used a whole panoply of export and industrial policy instruments without much hindrance from GATT or other international agencies.

(v) During this period of contention between the US and the Soviet systems, many LDCs benefitted from technical and economic aid from both sides. Thus when in the early 1950s, the US refused to help India establish an integrated steel plant in the state sector, the Soviets immediately stepped in with the offer of an even bigger plant (at Bhilai) which was accepted. Later, Indian steel technicians in their thousands were trained in both the US and the Soviet Union.

Compared with the Golden Age, developing countries, are today faced with a radically different situation in most respects enumerated above. The Golden Age of simultaneous prosperity for the North and the South evidently came to an end with the first oil shock in 1973.\textsuperscript{13} Since then, the rate of growth of the OECD and the world GDP has nearly halved. Significantly, the recorded rate during the last twenty years is much more in line with the long term trend rate of

\textsuperscript{12} See further Amsden (1989); Wade (1990); Chang (1993); Singh (1994a; 1995c). For a contrary view see World Bank (1993).

\textsuperscript{13} For the South as a whole, the Golden Age lasted a few years longer, until 1980 - this was mainly because of large scale borrowing by both Asian and Latin American NICs during 1974-1980.
growth of industrial countries in the hundred years before the Golden Age (World Bank, 1987). Consequently, many industrial countries, particularly in Western Europe are witnessing mass unemployment, a situation which was unthinkable in the Golden Age.

Double digit unemployment rates are currently being recorded by Belgium, Denmark, France, Italy, with near double-digit rates in several others including Britain and Germany. On the most recent available official data, nearly a quarter of the labour force in Spain is unemployed.\textsuperscript{14} Overall, in the OECD economies there were 8 million unemployed in 1970; now there are 35 million, 10 per cent of the labour force. Involuntary part- or short-time workers and discouraged job seekers could increase these figures by 50 per cent. Although the US, unlike the European economies, has not suffered a trend rise in unemployment since 1970, real wages in that country have not increased for the last 20 years.

Workers, trade unionists and the general public in industrial countries increasingly blame cheap labour products from developing economies for these job losses or for stagnating real wages. So, unlike the 1950s and 1960s, when free trade with advanced countries was feared by developing countries, today it is the former who are more concerned about the ill effects of a liberal trading regime. These concerns were epitomised by Ross Perot and Pat Choate in their condemnation of the North American Free Trade Agreement with Mexico as "a drastic and unfair scheme...(which) will pit American and Mexican workers in a race to the bottom". Hence in many advanced countries there are populist demands for protection from Third World imports. These often take the form of asking for the imposition of labour or environmental standards on Third World products.\textsuperscript{15}

\textsuperscript{14} The source of these data is IMF, 1995.

\textsuperscript{15} See further Singh (1995a).
Moreover in view of its chronic trade and current account deficits, the US is now demanding reciprocity from its trading partners, even from poor countries. In the context of this emphasis on reciprocity, notwithstanding the concessions on the MFA, the Uruguay Round, from a Southern perspective, therefore represents a significant retrogression even in relation to trade in manufacturing. Moreover, it is conceivable that many of the export promotion and industrial policy measures used by Japan and the East Asian Nics in the past may no longer be permissable under the new WTO rules. Similarly, in the post-cold-war era, the Western industrial countries do not have to worry about providing competitive aid to LDCs to keep them in the Western Camp.

VIII. The International Economy and the Resumption of the South's Industrial Revolution

Notwithstanding reciprocity and other restrictions on the freedom of manoeuvre of the LDCs which the post-cold-war order imposes, it is evident from the foregoing analysis that the prospects for the resumption of the industrial revolution in Latin America and sub-Saharan Africa and its continuation in Asia, will be greatly enhanced if there was full employment in industrial countries and their economies were growing fast. In addition to the advantages mentioned earlier which faster OECD growth will bring to LDCs, there are two other important considerations which point in the same direction.

First, the post-world war II history of the world economy suggests that the competitive game, not only between the North and the South, but among nation states in general is played in a cooperative, non-zero-sum manner only when the world economy is growing fast and there is more or less full employment in the leading countries. However, when there is widespread
unemployment in these economies and the world economy is expanding slowly (the situation to-day), instead of international cooperation, the outcome is likely to be conflict and a retreat into non-zero-sum ad hoc protectionism.

Secondly, with respect to the question of 'aid fatigue' in industrial countries, two points are relevant. First, faster economic growth and hence healthier public finances may make the rich countries more generous. Secondly, and more importantly, faster OECD growth may lead to a sufficient improvement in the LDC terms of trade to compensate for the reduced aid flows. As Maizels (1995) has noted, by 1990 real commodity prices had fallen to 45% below the 1980 level, equivalent to 10% below the level of 1932, the bottom of the inter-war depression. He estimates that between 1980 and 1991 the cumulative loss to LDCs attributable to the fall in real commodity prices to be $290 billion, or some $25 billion per year on average. He notes that the annual rate of loss rose sharply from $5 billion in the first half of the 1980s to almost $55 billion in 1989-1991; the latter exceeded the total of all official development assistance to developing countries. Although commodity prices have risen over the last year, they are still substantially below their 1980 level in real terms.

What then are the prospects for restoring full employment in industrial countries and enhancing their economic growth under the new post-cold war international economic order? It is important to appreciate that in broad terms, this order is a continuation of the Reagan/Thatcher model of market supremacy which industrial countries have progressively instituted since 1980 both internally within their own economies (as exemplified by the emphasis on privatisation, 'deregulation' and labour market flexibility), and externally in the international economy (encompassing free movement of goods, services and capital flows, but significantly not labour).

Economic analysis and available evidence indicates that this market supremacy model is
unlikely to be able to restore anywhere near full employment in the OECD economy, or to lead to a significant trend increase in its rate of growth (see further, Singh 1995b; UNCTAD 1993 and 1994; ILO 1995). It is useful to observe that the world economy has been far more closely integrated in the post-1980 period than it was in the Golden Age, yet its trend growth rate since 1980 has been half of what it was in the Golden Age. Greater economic integration, the Bretton Woods institutions contend, leads to more efficient resource utilization and fast economic growth. Clearly, this has not happened. Moreover the OECD economy under the market supremacy model has not only been characterised by much lower trend growth rate, but also compared with the Golden Age it has been far more unstable. Last, but not least, as outlined earlier, there is mass unemployment today, whilst there was full employment just twenty years or so ago. Let us just recall again that between 1965 and 1973 the rate of unemployment in West Germany averaged only 0.79% of the labour force compared with a corresponding figure of over 6% during 1983-92 (Eatwell, 1995).

The central issue for the world community is whether such a dynamic period associated with fuller employment can be re-created. This hinges on understanding how this Golden Age of plenty of jobs and fast economic growth for an extended period of nearly a quarter of a century occurred and why it ended. The answers to these large and important questions may be summarised as follows:16

1. In essence, the Golden Age was the outcome of a unique economic regime -- a new development model -- which was very different from that prevailing in the inter-war period, and also from the one which has been instituted in the last decade and a half.

2. In purely descriptive macro-economic terms, the Golden Age was characterised by two

---

16 The following paragraphs draw on the discussion of these issues, see Glyn et al (1990); Singh (1995b).
important relations: (a) rapid growth of productivity and capital stock per worker; and (b) fast growth of both real wages and productivity. The significance of these two relations is that they guarantee both a roughly constant profit rate and roughly equal growth of consumption and production, thus ratifying and maintaining the initial rate of accumulation. However, such a macro-economic growth path could only be perpetuated if it were compatible with the behaviour of individual economic agents - firms, workers, consumers. This compatibility in the Golden Age was insured by a social consensus around generally cooperative institutional arrangements in respect of setting of wages and prices, the distribution between wages and profits, and the state fiscal, credit and welfare policies which guaranteed minimum living standards and maintained aggregate demand. Similarly, at the international level, under the leadership of a single hegemonic power for much of this period, the US, the global economic system functioned under stable monetary and trading arrangements.

3. The process of the erosion of the Golden Age began well before the oil price shock of 1973. Serious difficulties arose at the levels of both the national and the international regulatory regimes; these began to interact with each other in a cumulatively adverse way to the detriment of the system as a whole. The Bretton Woods monetary system broke down in the late 1960s, partly as a consequence of the success of the Golden Age itself - the rise of the Japanese, the West German and other European countries in the international market place led to serious balance of payments problems for the US, hitherto the lynch pin of the international system. There is also evidence of a productivity slow-down by the late 1960s in several leading industrial countries, which was not matched by a deceleration in the rate of growth of real wages, thus leading to a profit squeeze.

4. Thus, the demise of the Golden Age was in fact due to events overtaking the existing institutional framework. For the Golden Age to have continued, the system required some of the existing institutions to adapt to the new situation. But it also needed the building of fresh
institutions.

Turning to the current situation, the reduction of mass unemployment in the North requires a trend increase in the rate of growth of demand and output in the OECD countries. However, this cannot be achieved simply by changes in the fiscal and monetary policies of the leading industrial countries. Past evidence would suggest that, in the absence of an appropriate restraining institutional framework at the national and international levels, reliance on such policies would simply result in an excessively sharp rise in commodity prices (as occurred in the early 1970s), an increase in trade union militancy and higher inflation, which in turn would thwart the expansionary process. Instead of the post 1980 market supremacy model, the restoration of full employment with only moderate inflation requires more co-operative institutional arrangements involving workers, employers and governments in individual countries. It will also require more co-operative relationships between nation states, within the North (to achieve inter alia macro-economic policy coordination) and between North and South (in order to obtain particularly, more orderly but more remunerative movements in commodity prices.)

IX. Conclusion

This essay has argued that despite the difficulties created for developing countries by the new international economic order, it is a social imperative for these developing countries to continue with and to complete their industrial revolutions. The social necessity arises from two fundamental requirements: (a) the need to create jobs for the South's rapidly growing labour force, and (b) to meet the minimal basic needs of the people over a reasonable time span. The paper suggests that there is a common purpose between the continuation of the South's

\[17\] For a fuller analysis of the institutional requirements for full employment in advanced countries, see Singh (1995b).
industrial revolution and the elimination of current mass unemployment in the North, which is also a social imperative. The prospect of achieving both these objectives will be greatly enhanced by faster economic growth in the North. This will require a fresh strategy based on co-operation at both the national and the international levels. It was this kind of strategy which gave the world - the North as well as the South - unprecedented prosperity during the third quarter of this century.

The necessary work of institution building and institutional innovation and renewal, nationally and internationally, for achieving permanent full employment in market economies and for continuing and completing the South's industrial revolution, is certainly challenging, but not impossible. The UN and its agencies, for example the ILO and the UNCTAD, are ideally equipped to assist in this endeavour.
Table 1: Trends in GDP growth in the South, 1965-80 and 1980-90,  
(average annual % growth)

<table>
<thead>
<tr>
<th>Country group</th>
<th>1965-80</th>
<th>1980-90</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income economies (excluding China &amp; India)</td>
<td>4.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Middle-income economies</td>
<td>6.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Latin America</td>
<td>6.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.2</td>
<td>2.1</td>
</tr>
<tr>
<td>South Asia (including, India)</td>
<td>3.6</td>
<td>5.2</td>
</tr>
<tr>
<td>East Asia (including China)</td>
<td>7.3</td>
<td>7.8</td>
</tr>
<tr>
<td>All Low and Middle income economies</td>
<td>5.9</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: World Bank, 1992
### GDP Growth rate in selected Asian and Latin American countries (% per year)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>5.2</td>
<td>5.8</td>
<td>9.5</td>
</tr>
<tr>
<td>India</td>
<td>3.4</td>
<td>3.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.9</td>
<td>7.6</td>
<td>5.5</td>
</tr>
<tr>
<td>Korea</td>
<td>8.6</td>
<td>9.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.5</td>
<td>7.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>6.7</td>
<td>4.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.1</td>
<td>6.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>4.6</td>
<td>4.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Taiwan</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Thailand</td>
<td>8.4</td>
<td>7.2</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>5.2</td>
<td>6.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

|                |         |         |         |
| **Latin America** |       |         |         |
| Argentina      | 4.2     | 2.2     | -0.4    |
| Bolivia        | 5.2     | 4.8     | -0.1    |
| Brazil         | 5.4     | 8.4     | 2.7     |
| Chile          | 4.5     | 2.8     | 3.2     |
| Colombia       | 5.1     | 5.9     | 3.7     |
| Ecuador        | ...     | 8.8     | 2.0     |
| Mexico         | 7.2     | 5.2     | 1.0     |
| Peru           | 4.9     | 3.0     | -0.3    |
| Venezuela      | 6.0     | 5.0     | 1.0     |
| **Median**     | 5.1     | 5.0     | 1.0     |

REFERENCES


