

*The*  
**DANGERS** *of*

**EXPORT  
PESSIMISM**

Developing Countries and Industrial Markets

Edited by **HELEN HUGHES**



International Center for Economic Growth

# THE DANGERS OF EXPORT PESSIMISM

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Helen Hughes



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# THE DANGERS OF EXPORT PESSIMISM

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## Preface

As relationships in the international marketplace change, the negotiations on trade arrangements have replaced the Cold War as a focus of worldwide attention. In these times, it is particularly important for new participants in the global market to be able to learn from the experiences of others so that they will be ready to face the challenges—and benefit from the opportunities—of the future.

In this volume, the authors focus on the economic performance of twelve newly industrialized countries of the Pacific and the Pacific rim during the mid- to late 1980s, when many of these countries moved toward outward-oriented trade policies. Among the newly industrialized countries, some began the process of participation in free trade but failed to take it far enough. Their reluctance to encourage exports was a result of export pessimism—the fear that their exportable goods would be unable to compete in the international market. They chose instead to restrict imports and develop domestic industries in the hope of becoming self-sufficient.

Those newly industrialized economies that experienced successful economic growth did so because of increased participation in the export market and abandonment of inward-oriented policies for those that encouraged growth with the competition of free trade. Export pessimism may have appeared justified in the past, but openness promises greater success.

We are pleased to publish *The Dangers of Export Pessimism: Developing Countries and Industrial Markets*, edited by Helen Hughes. The lessons of these case studies speak for the benefits of full participation in the world market. The player who fails to act globally is in danger of being left out of the new world economic order.

Nicolás Ardito-Barletta

General Director

International Center for Economic Growth

Panama City, Panama

March 1992

## *Editor's Preface*

Many developing countries' and all centrally planned economies' approach to the international economy for almost fifty years, since World War II, has been dominated by the fear that they cannot compete in international markets. For these countries export pessimism became a self-fulfilling prophecy: because of the belief that they had to adopt protectionist, inward-oriented policies, their economies became unstable and they did not succeed in international markets. Most of these countries' economic reforms in the 1980s were half-hearted and hence often ineffectual. Export pessimism continued to dominate their economic policy debate.

The experience of the handful of developing countries that adopted outward-looking economic policies, in some cases as early as the 1950s, has been quite different. Outward orientation, by enabling them to exploit their comparative advantage through participation in the international economy, has led to rapid, sustained growth with equity. These are the successful countries which are now catching up to the industrial market economies in productivity and living standards.

The conference on which this book is based took place in 1989 to bring together research taking place on the successful outward-oriented developing countries, mainly in East Asia, with that being carried out on developing countries in the rest of the world. While the Australian International Development Assistance Bureau funded the scholars from East Asia, the Ford Foundation brought those from other developing countries to Canberra to make the debate represented in this book possible. The National Centre for Development Studies is grateful to both for their support.

As the contributions to the book indicate, export pessimism is far from dead in developing countries. The 1980s came to an end with leading outward-oriented developing countries continuing to achieve high growth. Thailand, the late-1980s leader, came to the end of 1991 with its third year of double digit growth. The defeat of export pessimism in the development debate within Thailand was very important in enabling Thailand to take advantage of the long prosperity of the international economy in the 1980s to achieve its remarkable growth. But in many developing countries export pessimism continues to undermine economic policies. Strong vested interests, built up during years of inward orientation in the private and public sectors, continue to

prevent effective trade liberalization. Export pessimism, despite research evidence, continues to be used to uphold protectionist views.

The 1990s are unlikely to be essentially different from the previous decades. Almost certainly there will be ups and downs in the international economy. Ideally the freeing of trade within regional, but outward-oriented, trade arrangements such as those in Europe and North America, will continue to stimulate the international economy so that the long, essentially upward trends of the 1960s and 1980s will be repeated. Outward-oriented countries even performed well during the swings and roundabouts of the 1970s.

The export pessimism debate continues to be at the heart of economic performance. With millions of people still living at unnecessarily low living standards, the importance of bringing the evidence of research and discussion to bear on trade performance remains undiminished.



## *List of Abbreviations*

AEA	American Economic Association
ASEAN	Association of Southeast Asian Nations
AT	Agan Tunggal—A type of license issued under Indonesia's TNI system regulating the import of specific brands of goods
BKPM	Investment Coordination Board (from Indonesian)
CARICOM	Caribbean Community and Common Market
CEDES	Centro de Estudios de Economía y Sociedad
CPE	centrally planned economy
CPI	consumer price index
DC	developing country
DMEC	developed market economy countries
DW	Durbin-Watson statistics
EC	European Community
ECLA	Economic Commission for Latin America (UN)
EDB	Economic Development Board (Singapore)
EFTA	European Free Trade Association
ERP	effective rates of protection
FEDESARROLLO	Fundación para la Educación Superior y el Desarrollo
fob	free on board
FLACSO	Facultad Latinoamericana de Ciencias Sociales
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNG	Group for Negotiations on Goods
GNP	gross national product
GNS	Group for Negotiations on Services
GSP	Generalized System of Preference
IC	industrial country
IEDB	International Economic Data Bank
IIP	index of industrial production
IMF	International Monetary Fund
INCOMEX	Instituto Colombiano de Comercio Exterior
IP	Importir Produsen—A TNI license regulating the import of raw materials and intermediate goods
ISEAS	Institute of Southeast Asian Studies

ISIC	International Standard Industry Classification
IT	Importir Tebatas—A TNI license issued to the six state trading companies permitting import of certain materials by only these companies
IU	Importir Umum—A category of TNI license required for the import of any materials not covered by a specific TNI category
JUNAC	Junta de Acuerdo de Cartagena
LAC	Latin American country
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
LDC	less-developed country
m	million
MFA	Multifibre Arrangement
MFN	most favored nation
MOA	manufactures of industrial origin
MPO	a withholding tax (from Indonesian)
MTN	multilateral trading nation
n.d.	no date
NBER	National Bureau of Economic Relations
NIC	newly industrialized country
NIE	newly industrialized economy
NTB	nontariff barrier
NTM	nontariff measure
OECD	Organization for Economic Cooperation and Development
OLS	ordinary least-squares
OPEC	Organization of Petroleum Exporting Countries
P4BM	Center for the Coordination of Duty Drawbacks (Pusat Pengelolaan Pembebasan dan Pengembangan Bea Masuk)
PAP	People's Action Party
PI	Produsen Importir—A TNI license allowing companies to import materials produced by their own industry
PIDS	Philippine Institute of Development Studies
PSIC	Philippine Standard Industrial Classification
QR	quantitative restriction

RCA	“revealed” comparative advantage
SELA	Sistema Económica Latinoamericana
SITC	Standard International Trade Classification
SSIC	Singapore Standard Industrial Classification
TNI	Tata Niaga Impor—An implicit system of import-regulation in Indonesia by which specific importers are approved and various classes of licenses are issued. A fifth category exists to cover any materials not included in the four main categories.
2SLS	two-stage least-squares
UNCTAD	United Nations Conference on Trade and Development

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