TRADE, FINANCE AND DEVELOPING COUNTRIES

Strategies and Constraints in the 1990s

SHEILA PAGE

TRADE, FINANCE AND DEVELOPING COUNTRIES

Strategies and Constraints in the 1990s

Sheila Page

Overseas Development Institute, London

HARVESTER WHEATSHEAF

New York London Toronto Sydney Tokyo

First published 1990 by
Harvester Wheatsheaf
66 Wood Lane End, Hemel Hempstead
Hertfordshire, HP2 4RG
A division of
Simon & Schuster International Group

Printed and bound in Great Britain by
BPCC Wheatons Ltd, Exeter

British Library Cataloguing in Publication Data

Page, Sheila, *1946–*
Trade, finance and developing countries: strategies and constraints in the 1990s.
1. Developing countries. Economic policies
I. Title
330.9172'4

ISBN 0–7450–0606–X

1 2 3 4 5 94 93 92 91 90

TRADE, FINANCE AND DEVELOPING COUNTRIES

ACKNOWLEDGEMENTS

The five principal authors of the case studies, Mohamed Ariff, Supote Chunanuntathum, Juan José Echavarria, Peter Robinson and Jürgen Schuldt, contributed much more than their working papers and chapters to the study. Their views on the objectives of the research, on the problem of reconciling international comparison with national analysis and on the preliminary results immeasurably strengthened the final work. Although they will disagree with some of my conclusions (as they do with each other), I am deeply grateful for their comments and their support, and their tolerance of my severe abridgement of their papers.

During the research for this I have had advice and comments from too many individuals in academic research, governments and industry for me to be able to name all of them, and in many cases they would be unwilling to be named. I would like to thank particularly those who attended the six meetings in Bangkok, Bogota, Harare, Kuala Lumpur, Lima and London at which we presented the country and general results; the managers and government policy-makers who participated in the study of foreign investors which was one of the background elements of this research; and colleagues at the Overseas Development Institute who listened to early versions of the ideas presented here. Both the country authors and I must give special thanks to Margaret Cornell who edited and greatly clarified our papers.

I am grateful for financial support for the research to the Economic and Social Research Committee of the Overseas Development Administration, the Economic and Social Research Council (under award number B00232126), the International Development Research Centre of Canada and the National Economic Development Office. None of these has any responsibility for any of the views expressed here.

CONTENTS

TABLES

PART ONE

BACKGROUND AND ASSUMPTIONS

1

INTRODUCTION: THE CHOICES FOR THE NEW NICs

The first reaction to the success of the NICs (Newly Industrialising Countries) in achieving rapid growth and the transformation of their economies was admiration, accompanied by encouragement to laggards to emulate them. In the late 1970s and early 1980s, some of the most obvious features of their economies, notably their success in exporting manufactures, were identified as explanations of their performance which could be suggested as policies to be followed by others. They remain the most recent examples of what an earlier generation of seekers for general explanations called 'take-off', and some observers still urge what were then identified as their strategies on other developing countries (cf. World Bank, *WDR*, 1987). But there is a growing perception that the performance of the top four countries was exceptional compared with other similar countries in the 1960s and 1970s, and that the 1960s and early 1970s were themselves an exceptional period in terms of overall growth and the relation of trade to output. This has led to reappraisals of the lessons to be drawn from the NICs, and of how their example can be followed by other countries in other conditions. The present study starts from the premise that it is necessary to reappraise the NICs' experience, and also to look at a broader range of middle-income developing countries which have the potential to be the next generation of NICs.

It therefore looks, issue by issue, at the experience of three levels of countries within what can be broadly classified as the upper middle-income developing countries (excluding the dedicated oil producers), at their individual performance using aggregate data and, in order to examine the validity and the practical implications of general explanations, at fuller analyses prepared by economists in five of the potential NICs. Eight NICs, the five case-study countries and 13 countries in the next stage (listed in Table 9.1) are covered. These countries account for about 85% of exports of manufactures by developing countries, and similar shares of private and official financial flows from the developed countries to the developing. By taking this large sample, it is possible to examine general propositions about the different strategies, in particular *vis-à-vis* different domestic and external possibilities.

The countries that are normally classified as the NICs, those that now have manufacturing sectors of a similar relative size to those of the industrialised countries (more than a quarter of GDP), are in fact an extremely diverse group in terms of recent growth or other conventional measures of performance, as well as in industrial structure and non-economic characterisitics: Hong Kong, India, Singapore, South Korea, Taiwan, Argentina, Brazil and Mexico. If the potential members of the next group of industrialising countries are to be found among those whose manufacturing sector is now in the 20–25% of GDP range, they include Malaysia, Thailand, the Philippines, Colombia, Costa Rica, Chile, Uruguay, Peru, Egypt and Zimbabwe. Of these, Malaysia, Thailand, Colombia, Peru and Zimbabwe were chosen for our country studies. These studies which look at trading performance and financing in more detail, and in relation to other parts of the economy, government policy and particular country conditions, are especially important in analysing the choice of policies actually available and how decision-makers respond to economic opportunities or to policies.

The country studies, Part Two of the book, do not follow a common pattern because they are intended to bring out not only the different problems and how they can be met, but the different objectives and policy approaches. Part Three (Chapters 9–15) draws together their evidence with the trade and financing experiences in the large sample, with Chapter 15 assessing the essential characteristics and current problems of their external exposure. The remaining chapters, which make up Part Four, examine explanations and conclusions about the role of the external sector and how it relates to other aspects of the countries' development.

THE EXAMPLE OF THE NICs

The apparent association between high and rapidly growing exports and rapid growth of manufacturing suggested to many observers that a policy of opening an economy to external influences or even of deliberately biasing growth towards exports could improve rates of investment and growth and raise efficiency, not only through the conventional trade and multiplier effects on efficient allocation of resources and increased demand, but by increasing the flexibility of the economy and minimising the risks of wrong domestic policies (e.g. Bhagwati, 1978; Krueger, 1978; Balassa, 1981, 1982; Dell, 1982). This explanation was generalised to removing all controls and restrictions. The argument was that the general performance of individual firms and of the economy as a whole is improved by requiring them to meet changes in demand, particularly in external demand.

Examining this case requires testing each step of the argument and distinguishing between deliberate choices and chance, and between economic response and the role of government. The trade performance may result from countries' particular economic or other characterisitics. It may be that suitable domestic policies for successful industrialisation also contribute to export growth or that particular export opportunities existed which an already flexible or efficient economy could exploit. It is clearly wrong simply to take 'the growth rate of exports as a proxy for orientation' (Balassa, 1982: 51). In new circumstances, a flexible and efficient economy may find different paths of development, and recent research has suggested that the experience of the most recent successes was more complex than initial studies suggested (Bradford, 1986: 119). The detail of how the NICs have succeeded in practice suggests that the contrast between 'external' and 'internal' policies was never as great as some studies imply.

Chapters 16 and 17 of the present study examine how important various ways of improving external performance, including finding new export products, new markets, new sources of finance, or reducing dependence on imports, particularly of intermediate and capital goods, have been for the NICs' successes, and whether there are systematic differences between these successes and those of other countries. In looking at the NICs' possible examples for the next generation, it is necessary to try to identify the replicable elements of their achievement. Should their successors look for the same markets or products; or for different ones but using similar strategies; or simply for diversification?

In the 1980s, we are more aware of the issue of financial constraints on trade policies. Different types of long-term finance, especially the choices of official or private, loans or direct investment, offer different advantages and disadvantages other than the purely financial. But they may not all be available to a particular country, especially at present. Direct investment, in addition to offering a way of transferring to developing countries the increasing company profits in the industrial countries, may offer access to technical knowledge and other prerequisites specifically for industrialisation or access to export markets. This may make it more desirable, but it may be particularly difficult to integrate into a recipient country's own plans, or indeed may prove difficult to attract. The types of short- or medium-term finance available, and their cost, can affect the choice of trading and long-term financing by altering the costs of fluctuations in financing requirements. Loans on commercial terms have imposed long-term costs on the potential new NICs which are themselves a 'new' external condition. These financial constraints are considered in more detail in Chapters 14 and 15.