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EXECUTIVE SUMMARY

LESSONS IN DEVELOPMENT

A COMPARATIVE STUDY OF ASIA AND LATIN AMERICA

edited by

Seiji Naya, Miguel Urrutia, Shelley Mark, and Alfredo Fuentes

International Center for Economic Growth

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This is the executive summary of the book *Lessons in Development: A Comparative Study of Asia and Latin America*, edited by Seiji Naya, Miguel Urrutia, Shelley Mark, and Alfredo Fuentes, published in 1989.

Preface

The past twenty years have been difficult for many developing countries. Wide fluctuations in commodity prices, the rapid accumulation of external debt, and changes in world trade and macroeconomic conditions have been among the many problems they have had to face. The Asian developing countries have adjusted relatively well to the rapidly changing economic conditions of the past twenty years and have been among the fastest growing countries in the world; and prospects for future growth remain bright. Developing countries in other regions, including many Latin American countries, have been less successful; many are beset with problems, including huge debt burdens, high inflation rates, and overall economic stagnation. To be sure, there are exceptions in both Asia and Latin America, but the phenomenal performance of many Asian developing countries stands out as an anomaly of the 1970s and 1980s.

Recognizing the above, Miguel Urrutia of the Inter-American Development Bank and Seiji Naya of the East-West Center invited researchers from Asia and Latin America to discuss this phenomenon. The conference, Comparative Development Experiences of Asia and Latin America, was a success, and the volume *Lessons in Development* is the product of the conference. I believe that the volume, through its comparisons of the development strategies and performances of the countries in Asia and Latin America, provides some insight as to why economic performance differs between the countries.

The International Center for Economic Growth (ICEG) is pleased to be a part of the endeavor, as the theme links several important parts of the Center's activities. The major focus of the Center for the past two years has been in Latin American affairs; more recently the Center has begun to look at development problems in other parts of the world. This comparative analysis of two very important regions examines the strengths and weaknesses of various development strategies in a way that scholars, technocrats, government officials and business executives from both regions can utilize. The Center is extremely grateful for the contributions and cooperation of the East-West Center's Resource Systems Institute, the Inter-American Development Bank, the Institute for Latin American Integration, and the Asian Development Bank. Without their support, ideas, and dedication, this important book may not have been possible. Finally, I would like to thank The Pew Charitable Trusts for its generous contributions to this project. This publication is the executive summary of *Lessons in Development: A Comparative Study of Asia and Latin America*, published in 1989.

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Panama City, Panama
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Summary of Conclusions

Among the fundamental and difficult questions of modern economic development is how to explain differential rates of economic growth between countries and regions. The question becomes especially intriguing when looking at the development experiences of Asia and Latin America. The economic performance of the newly industrialized countries (NICs) of Asia over the past twenty years has been spectacular, surpassing that of any other group of countries in modern times, and almost the same can be said of some countries in Southeast Asia, such as Thailand. The Asian developing countries were able to meet the challenges of and adjust to these changing conditions more successfully than other countries. They grew more than 5 percent per year in the 1980s, a period of virtually no growth for developing countries as a whole. Latin American countries, in contrast, were beset with problems, including huge debt burdens, high inflation rates, and overall economic stagnation, despite the fact that as early as the 1950s, some of the larger Latin American countries, in particular Brazil, Mexico, Argentina, and Venezuela, seemed to be poised for rapid long-term growth. Clearly, there are exceptions in both Asia and Latin America. In fact, several Asian countries have experienced very small or negative growth while some Latin American countries, including Colombia, have experienced respectable growth rates. But the phenomenal performance of many Asian developing countries stands out as an anomaly of the 1970s and 1980s.

The most significant lesson for Latin American countries to draw from the Asian experience may be the importance of continuity and stability in economic policy for rapid economic growth and development.

- There is a clear need for the adoption and implementation of a stable, outward-oriented macroeconomic policy accompanied by a political commitment to taking a firmer attitude toward repayment of the external debt and rechanneling of internal development resources.

- Essential to improving economic stability is public sector reform—the privatization of public enterprises, an administrative overhaul, tax simplification and universalization, and a modernization of the state's regulatory framework.

- Appropriate industrial restructuring can provide the means to diversify manufactured goods for export, which could compensate for the diminished importance of raw materials in world trade.

- Regional efforts (within this context) should be reorganized and national policies should be directed toward the Pacific Basin and intermediate developing countries. A redirection of trade toward the Pacific Basin would improve the terms of trade of the region and diversify the direction and structure of Latin American exports. Such improvement and diversification would reduce the impact of fluctuating commodity prices and allow Latin American exports to expand more readily.

- Latin American countries can enhance their role in the Asia-Pacific region by participating actively in the Pacific Economic Cooperation Conference (PECC). Until now, Latin America's participation has been marginal or nonexistent. Several actions presently proposed by the PECC task force—liberalization of quotas and reduction of tariffs for agricultural products in the region, wider access to Japan's generalized system of preferences (GSP), and codification and liberalization of nontariff barriers—are of considerable interest to Latin American countries.

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Lessons in Development

Economic Trends in Asia

Asia's economic performance in the 1970s and 1980s has been remarkable. As compared with overall growth in gross domestic product (GDP) of about 5.0 percent in the 1960s, overall GDP growth increased to 6.5 percent in the 1970s and to 6.6 percent in the 1980s (Asian Development Bank 1987). Large countries such as China, India, and Indonesia have become self-sufficient in food grains, and the region has emerged as a major exporter of edible oils and several agricultural raw materials. The principal impetus to growth was provided by rapid growth in manufacturing, which in turn was greatly facilitated by a relatively favorable environment for exports, especially during the 1970s.

The structure of production has undergone major changes since 1970. Outside South Asia, the share of industrial production now exceeds that of agriculture in total GDP of the Asian developing countries. Industrial production is becoming increasingly diversified, although in many countries light industry based on the processing of domestic raw materials still predominates. With some exceptions, the share of the service sector has continued to expand, and in several countries this sector now accounts for the largest share of GDP. Agriculture, however, continues to be the major source of employment except in the NICs.

The efforts of many countries to maintain high growth rates in the face of an adverse international environment contributed to an acceleration in external borrowing during the 1980s. Consequently, external public debt grew rapidly, particularly after the second oil shock. In recent years, the debt service payments of several countries have been large, although all countries except the Philippines have been able to meet their debt-service obligations. Thus debt service is not a major concern in most of Asia. In fact, Asia is the only developing region where commercial banks continue to provide fresh loans without any major support from the International Monetary Fund (IMF) or the World Bank.

Export-led industrial development has been the engine of growth in the NICs. The compounded annual growth in exports during the decade 1970–1980 ranged from 23 percent in Hong Kong to 36 percent in Korea. Imports also increased rapidly at a compounded annual rate, ranging from about 23 percent for Hong Kong to 29 percent for Taiwan during the same period. But the growth in both exports and imports fell dramatically between 1980 and 1985. Growth in exports slowed because of reduced demand and increased barriers to imports in industrialized countries. Imports were also drastically reduced so as not to strain foreign exchange resources. Since 1986, the picture has changed dramatically. The impact of the devaluation of the U.S. dollar relative to the yen and the major European currencies has stimulated the NICs' exports greatly.

The future development of Asia will depend greatly on the performance of the developed world. Most medium-term forecasts for the world economy indicate that production and trade in the industrialized world will grow at a slow pace—slower than during the past two decades. In the industrialized countries, consumer tastes are shifting from low-technology to high-technology products, and from resource-intensive to knowledge-intensive goods and services. These changes, together with demographic factors, have caused demand for and prices of primary commodities to slacken. The trend is likely to continue and may even accelerate in the developed world. Asia will thus have to change its production structure to cope with these developments.

Economic Trends in Latin America

Latin America's economic development since the Second World War has not been very satisfactory. First, although national saving rates have traditionally been relatively high in Latin America, marginal saving increased much faster in the Asia-Pacific region. Second, incremental capital-output ratios, although somewhat lower than in Southern Europe, have been much higher in Latin America than in Asia. This means that in spite of the relative abundance of natural resources in Latin America, the GDP growth rate is much lower there than in the Asia-Pacific region at the same level of investment. Third, exports continue to be excessively concentrated in a small number of primary products despite the high level of industrialization on the continent. In fact, although by the early 1980s manufacturing was already responsible for 43.9 percent of GDP excluding services, its share in total merchandise exports was only 22.2 percent. Import substitution failed to develop into export-oriented industrialization as markedly as in other middle-income developing economies.

It is the inward orientation of Latin American industry, rather than the degree of industrialization or the overall degree of openness, that strongly contrasts with the experience of Southern Europe and the industrial market economies. The consequence of this inward orientation of industry has been to make the share of total exports in Latin America's GDP the lowest of the four groups of countries.

After the onset of the debt crisis in 1982, adequate GDP growth rates, which had been the redeeming factor in Latin America's economic development record, evaporated into thin air. Latin American countries not only stopped growing in absolute terms but also started losing ground both to other middle-income developing economies and to industrial market economies. Meanwhile, inflation climbed to three-digit levels. An entire decade of growth had been lost. Today, the prospect of secular stagnation looms large on the economic horizon of most countries in the region.

The Latin American pattern of adjustment to the external shocks was not conducive to sustaining economic growth in the face of external adversity. In contrast to the experience of other medium-income developing countries, the Latin American middle-income developing countries did not succeed in expanding their capacity to invest through increases in either productivity or national saving. Moreover, although financial strangulation was by and large a consequence of foreign economic actions, capital flight contributed to the problem in some Latin

American countries. This was especially true for Argentina, Mexico, and Venezuela, which until 1983 had allowed disequilibrium in exchange rates and domestic interest rates while maintaining free convertibility in the capital account. In contrast, Brazil and Colombia, which combined the adoption of more nearly balanced exchange rates and domestic interest rates with strict outward capital controls, were by and large successful in avoiding significant capital flight.

Economic Growth Factors

A basic question that arises from the above is why the growth of Latin American countries slowed. While the Asian countries that were identified in the 1960s as potential NICs succeeded in attaining rapid growth and higher per capita incomes, those so identified in Latin America did not. Among the numerous explanations of this differential growth is that the Asian NICs have been united by a quasi-Confucian ethic. Edward Chen argues that emphasis on a few Confucian values, such as loyalty, respect for elders, and a strong work ethic, was a key factor in the growth of the Asian NICs. This may be an important factor that has a bearing, for instance, on differences in industrial organization in Asia and the West; however, the kind of explanation that the economist finds more appealing tends to be the following:

GENERALIZATION 1: *Asia has had more market-oriented and less regulated economic policies than Latin America. There have been more incentives encouraging entrepreneurship and private initiative in Asia; there also has been greater confidence in and between the government and the private sector.*

The Asian NICs are well known for their policies emphasizing market- and private-sector development. At the same time, the policies of the Asian NICs (except Hong Kong's) are not laissez-faire policies, and in fact their governments do a great deal to determine the shape and direction of their economies' development.

On the other hand, the governments of the South Asian countries have traditionally intervened in every facet of the production process. Here the government, through its public enterprises, is a large producer of a wide range of goods. Several of these South Asian countries, like many Latin American ones, are in the process of easing regulations, but most are finding it a difficult task.

GENERALIZATION 2: *Asia has had more outward-looking trade and exchange-rate policies than Latin America.*

Despite extensive government intervention, trade regimes in the NICs have generally been left to market forces. In fact, Hong Kong and Singapore are virtually free-trade economies, while the level of protection in Taiwan is very low. Although tariff levels are somewhat higher in Korea, they are still generally lower than those of other developing countries.

In contrast, most developing countries, including the Southeast Asian, South Asian, and Latin American countries, followed the economic wisdom of the 1950s and 1960s and allowed their industries to hide behind high tariff walls.

GENERALIZATION 3: *Asia has been more concerned with macroeconomic stability than Latin America, especially with respect to inflation and debt management.*

A few Asian countries have experienced repressed inflation and shortages and have not followed prudent borrowing or debt-management policies. Most of them, however, have adopted pragmatic policies and approaches with respect to debt management and inflationary expectations, in contrast to the less-restrained expenditure policies of Latin America. To this may be added the relatively higher rates of real saving in East and Southeast Asia than in Latin America. Furthermore, in contrast to many Latin American countries, saving rates have increased since 1970 in all East and Southeast Asian countries except the Philippines. Because of moderate levels of inflation, realistic interest rates, and the strong economic performance of the region, capital flight has not been a problem in Asia.

GENERALIZATION 4: *Efforts at regional cooperation succeed when they are not too ambitious; they should work to create trust and information capital.*

Latin America has the longest experience of regional cooperation beginning with the Central American Common Market (CACM) and the Latin American Free Trade Association (LAFTA) in the late 1950s and early 1960s. As the names suggest, these were ambitious attempts to form large markets with no tariff barriers. Asia has had a shorter history of regional cooperation. The Association of Southeast Asian Nations (ASEAN) was formed in 1967 without such ambitious goals. More recently, in 1985, the South Asian Association for Regional Cooperation (SAARC) was formed. These attempts at cooperation have taken different forms and have met with various degrees of success. In evaluating the success of regional cooperation efforts, the most important benefit that is often neglected as being too obvious is that regional cooperation contributes to the prevention of unnecessary war.

GENERALIZATION 5: *Asia has had more political stability than Latin America.*

In the Asian countries, there have been few changes in government leadership in the past ten years, and in some cases twenty years. The greater degree of political stability in Asia, as compared with other developing regions, contributes to greater business confidence in the economies.

In addition to the generally long tenure of political regimes in Asia, the economic policies followed have generally reflected a pragmatism on the part of the government that, typically, has extended into the next regime despite differences in political ideology.

GENERALIZATION 6: *Latin America has had more of a trend toward democratization than Asia.*

Of course there are major exceptions to this. The large and vibrant Indian democracy thrives as it has done for half a century, democratic institutions continue in Sri Lanka even in the midst of civil war, and the Philippines experienced an important democratic revolution only a few years ago. At the same time, dictatorships continue in some Latin American countries. Yet for a variety of reasons, the last decade has witnessed a broad trend toward political democratization in Latin America. While Latin American economists (of all persuasions) seem frank enough to be highly critical of many aspects of the management of economic policies in their part of the world, they take some pride in these recent political trends. Asian economists on the other hand are sometimes a little complacent and self-congratulatory with respect to the economic successes in their region, and they may need to move increasingly toward improvements in the nature of their political institutions.

Trade Policy and Growth

The experiences of the NICs indicate that export-oriented industrialization can lead to sustained, rapid economic growth. Under import substitution, success is generally short-lived. An important question, then, is why export orientation is a better policy. If one goes by the traditional static trade theory, the gains from international trade will only lead to a once-and-for-all increase in income as a result of improvement in resource reallocation. In contrast, the infant industry argument hinges on the dynamic effects of a learning process that will lead to higher economic growth. Similarly, the superiority of export orientation has to be explained on the basis of dynamic effects. Anne Krueger (1981) gives the following explanations. First, export promotion is a better policy because it involves incentives rather than controls, and because measures can be applied more generally across the board. Whereas import-substitution policies discriminate against exports and create market distortion, many export-promotion policies give similar incentives to production for domestic and export markets. Also, whereas import controls are usually highly selective, export incentives usually do not differentiate much between individual export commodities. Second, it is easier to detect the effectiveness of export-promotion policies because export performance is easily observed and thus any policy mistakes of export promotion can be corrected more quickly. Third, export promotion gives industries the opportunity to enlarge their markets and achieve greater economies of scale. Fourth, export-oriented development forces industries to compete in the international market and achieve greater X-efficiency (Balassa 1981).

These explanations are not the complete story. To explain the generation of sustained growth under export orientation, we need a virtuous-circle hypothesis. It has been shown that the export sector usually has a high rate of profits and a higher propensity tc save (Chen 1977, 1979;

Maizels 1968). In the Asian NICs, the rapid growth of exports was accompanied by a high rate of capital formation. Foreign capital (aid, loan, or investment) was crucial to the development of the NICs at certain stages. But in all cases, the level of domestic saving rapidly increased as exports grew. It seems that a two-way relationship exists between saving and investment on the one hand and export growth on the other, giving rise to a virtuous circle of development.

Even if export orientation is a better policy, one might still ask whether the stage of import substitution is necessary as a precondition for export orientation. It seems economists increasingly believe that import substitution is not really necessary (Scott 1977; Myint 1982). This is an argument that is difficult to generalize; it depends on the initial conditions of the country and the types of industries developed. Long-run benefits can be reaped from infant industry protection, but the degree and duration of the protection provided are clearly important factors. Moderate levels of protection providing minimum market distortions that are phased out over a set time period are more likely to succeed in nurturing an infant industry into an industry able to compete in the world market.

Macroeconomic Stability

The lack of continuity in Latin American economic policy might also be due to the frequent absence of a minimum level of social cohesion and to a wide range of social and political conflicts. As noted by Miguel Urrutia (1987), social cohesion and the absence of violence are prerequisites for accelerated economic growth in economic systems where investment is mainly in the hands of the private sector. The social problems derived from an unequal distribution of income and the absence of solid and legitimate political institutions hinder the establishment of stability, which is necessary to achieve sustained rates of saving and investment.

Latin America's dilemma is clear. Its political systems have become increasingly more open, but in the process, conditions have been created for instability in macroeconomic management. The result is an unfavorable climate for saving and long-term investment. As Balassa and his colleagues have shown (1986, Chap. 3), given the high external indebtedness and the foreseeable evolution of international capital markets, without high internal rates of saving and investment it would be impossible to sustain economic growth and to advance in the diversification of exports. In this respect, it would seem of the utmost importance for Latin American governments to behave maturely. It is always possible to blame external factors for the results of internal mismanagement, but this is ultimately self-defeating. The solutions to the problems must always come from within, particularly from the macroeconomic policies that are adopted by governments.

Three basic elements may be expected of a maturely designed macroeconomic policy in Latin America. First, at the minimum there needs to be a consensus on the direction of the development process, so that continuity and stability in policy are achieved regardless of changes in government. Second, policy makers need to accept that sustained economic growth requires a major effort toward increasing internal saving and introducing fiscal discipline. Inflationary financing has created more problems than solutions, especially because productive investment is discouraged and undesirable consequences in income distribution are created. Third, as most Latin American countries are at an intermediate stage of economic development, internal demand cannot be the main or only source of growth; exports must also be used as a driving force for growth and industrialization.

In Latin America, the massive use of external credit within inward-looking economic models has led to a recession that has not been seen since the 1930s. Perhaps because of the cycles generated by an over-dependence on natural resources or the lack of political consensus on the direction of the development process, these countries have not been able to meet the challenge posed by the recent fall in their terms of trade or by the closing of international capital markets since 1982. Repeated crises in their balance of payments have only worsened the problems arising from their economic instability and the lack of confidence in their future. Recent experience suggests that most Latin American countries have been unable to implement a clear macroeconomic policy. The decline in their terms of trade have increased the uncertainties surrounding future government policies. Overwhelmed by such negative external factors, Latin American countries do not have any other alternative but to face the hard reality of an increasing need for the adoption and implementation of a stable, outward-oriented macroeconomic policy. Indeed, the most important lesson for Latin America to draw from the Asian experience may be the need for continuity and stability in economic policy.

The ASEAN Model of Regional Cooperation

A proper evaluation of ASEAN's progress toward regional cooperation must be made by placing it in the context of the historical circumstances under which ASEAN has evolved—that is, the geopolitical forces that have shaped it and the chronic problems that are inherent in the economic structures of the member countries. It is also not appropriate to pass judgment on ASEAN's present pace of progress without taking into account its own stated time frame. The ASEAN leaders have always stressed that economic cooperation is to be realized as a long-term goal, and fluctuation of events in the short run is considered irrelevant to these long-term objectives. As long as the ASEAN institutional apparatus is kept in existence, the option of cooperation is open and the process continues.

Ultimately, the effectiveness of ASEAN as a regional economic grouping will depend on breakthroughs in its formal areas of cooperation covering the trade and industry sectors. It is here that ASEAN's past experiences in economic cooperation will be instructive both for ASEAN itself and for other regional groupings among developing countries.

Regional economic cooperation in ASEAN, as in many other regional groupings of developing countries, is destined to be a long, laborious process. In a microeconomic sense, ASEAN's existing economic cooperation programs could considerably enhance their operational effectiveness and improve their performance standards if some of the administrative and technical constraints were removed and the key problems were properly addressed. However, the chances of substantial progress still depend critically on those of a more favorable macroeconomic environment, which in turn depend on the continuing economic growth and development of ASEAN. In the final analysis, economic development remains the most effective technique of achieving regional economic cooperation.

Beginnings of Cooperation in South Asia

The South Asian Association for Regional Cooperation (SAARC) was not expected to make any swift or dramatic progress. The member governments chose to adopt a cautious, step-by-step approach, and at the initial stage they restricted the scope of cooperation to some mutually accepted noncontroversial areas. In their anxiety to ensure progress, they emphasized confidence-building measures and activities. The complex and contentious issues of trade, industry, and other areas of economic cooperation were excluded from consideration at the beginning, possibly to be taken up at a more propitious time.

For regional cooperation to be meaningful and effective, and for the professed SAARC objective of attaining collective self-reliance to be realized, cooperation should be extended to include such areas as trade, industry, monetary cooperation, and energy. Efforts must be accompanied by appropriate safeguards to protect the weaker partners. With the affirmation of commitment at the highest political level, SAARC can be expected to grow stronger and bring prosperity to the peoples of the South Asian region.

Economic Integration in Latin America

For over two-and-a-half decades, there have been formal efforts by Latin American countries to achieve economic integration. The first such attempts (LAFTA and CACM) were successful for a number of years. However, progress eventually stagnated. In both cases, the schemes adopted at the start seemed to have exhausted their capacity to continue the process of economic integration. Neither organization included a comprehensive system directed toward a balanced distribution of the benefits and costs of integration.

In LAFTA, the achievements were especially limited. It was a less comprehensive scheme than that of CACM, and the distributive problem was greater because of the greater heterogeneity of its members. However, trade did expand and the scheme allowed some specialization in production and a higher rate of utilization of installed capacity in countries that had advanced in their industrialization with an inward approach during the 1940s and 1950s.

The design of the more recent Cartagena Agreement benefited from the experience gained by the Andean countries with their participation in LAFTA. The terms of the agreement took shape through the successive proposals of the Junta, the decisions of the commission, and the general implementation of the agreement and its protocols. Achievements included liberalization of reciprocal trade; the establishment of a minimum common external tariff in its two steps covering the period 1972–1976 and 1977 onward, respectively; the establishment of norms for common treatment of foreign investment; the basis for an Andean technological policy and several Andean Programs of Technological Development; a development program for the metallurgical-mechanical sector; and the Andean Reserve Fund and Court of Justice. With all its shortcomings and downswings and the difficulties in incorporating broader sectors, the process moved ahead throughout the first decade of the existence of the Andean Common Market.

Notwithstanding the progress achieved by the Andean Pact, economic integration of the Latin American countries suffered serious setbacks in the 1980s. Already approved decisions were being loosely implemented, and many other important decisions awaited approval and implementation. Most important of all were the many common decisions that were already adopted but not fully implemented.

It is not uncommon for integration schemes in the economic history of Latin American countries to have unfulfilled goals. An analysis of national policies during the period under review shows numerous failures and shortcomings. Additionally, the many political changes taking place within each member country were a source of strain for the integration schemes.

Japan and the United States: Roles in Asian Development

The United States and Japan both play important roles in Asia as suppliers of necessary inputs for industrial development, as absorbers of output, and as distributors of external capital to the Asian developing countries. Japan has supplied a variety of manufactured goods, mainly machinery and equipment, to Asia, and the United States has provided the largest market for Asia's goods. Since the United States faces the task of curtailing its government expenditures and private consumption in order to rectify its serious twin deficits, Japan must assume the responsibility of being an absorber of Asian products. Japan is struggling to accomplish this through reduction of tariff and nontariff barriers and through expansion of internal demand. For the United States, it remains desirable to make every effort to increase exports to the Asian countries, including Japan.

Latin American Economic Relations with the United States and Japan

The structure of trade relations between the developed countries and between the developed and developing countries has changed, resulting in the emergence of a new economic nucleus in the Pacific Basin. Foremost among the members of this new nucleus are Japan and the United States. A new quadrilateral relationship has been structured by the United States, Japan, Latin America, and the Asian NICs with the following characteristics: (1) Latin America is basically left to export energy products and raw materials to the world market and to continue to import manufactured goods, primarily from the United States and the EC; (2) trade and financial relations will increase, albeit asymmetrically, between the United States and Japan, with investment flows and trade becoming increasingly important between these two powers and the Southeast Asian countries; (3) Asian NIC and ASEAN-4 exports are increasing rapidly with a higher manufactured goods content to the Japanese and U.S. markets; (4) Latin America and Asia have exchanged places in their trading status with the United States; and (5) numerous competitive-cooperative agreements are being entered into by the United States and Japan, Japan and the Asian NICs, and the Asian NICs and the United States. China can be expected to participate in this in the future.

It has also been observed that Latin America has lost the degree of trade diversification it attained during the 1960s and is now once again relying to a great extent on the U.S. market. The United States continues to play a key role in Latin America's external debt problems, financial relations, and direct foreign investment. As the principal economic power the United States can influence the configuration and possibly the evolution of the global economic system. However, account should be taken of the Japanese presence in Latin America's external debt problem, and of the possibility that Japan will become a highly significant source of financial flows and, to a lesser degree, of direct investment.

Latin American Trade with the Asia-Pacific Region

Latin America must now develop a strategy of interacting in the Asia-Pacific region, a strategy that so far has only partially existed in some countries. Through this instrument, common interests and possible action for their harmonization can be recognized. Identification of common interests has not been systematically pursued, but past experience shows that it goes beyond trade relations and includes policy regarding natural resources and related investments, cooperation in fishing and other aspects of the Law of the Sea, and relations between similar institutions such as the Inter-American Development Bank (IADB) and the Asian Development Bank (ADB), the Economic Commission for Latin America (ECLA), and ESCAP. This strategy has two main components. The first one concerns cooperation possibilities between Latin American countries, with special reference to those in the Southern Cone. The increase of intra-Latin American trade, interconnections in transport and infrastructure, the role of services, and forms of joint action are all aspects to be considered when developing a policy regarding the Asia-Pacific region.

The strategy's second main component concerns the term *Pacific*. Although the term is used in a generic sense, it denotes widely differing situations that should be distinguished and tackled separately. For instance, export policies regarding the United States or Canada vary considerably from those regarding Japan. Equally different are those dealing with China, Australia, New Zealand, the Asian NICs, or the Pacific islands. But by having an overall Pacific strategy and directing their attention toward the rapidly growing countries in the Pacific, the

Latin American countries may best be able to improve the terms of trade, and expand their exports. This may help to offset the effects of the decline in the rate of growth of developed economies by taking advantage of the trade expansion in the region, and to promote the structural adjustment that these economies need to achieve the aforementioned goal (Oborne and Fourt 1983).

To ultimately attain those goals, Latin America's participation in PECC—which up to now has been marginal or nonexistent (with sectoral exceptions)—should be strengthened. Several actions proposed by the PECC task forces are of clear interest to Latin American trade. They include:

- The negotiation of tariff reductions for agricultural products, foodstuffs, and fishery and forestry products. This should be considered a priority for GATT and should also be accomplished through regional consultations. Latin America should be part of this negotiation process at various levels.

- Wider access to the generalized system of preferences of Japan and other countries in the region. In this area, some degree of competition with the ASEAN-4 countries, which benefit from traditional links with Japan, may be encountered. Consultations between the ASEAN-4 and Latin America may prove useful in this regard.

- The liberalization of the quota system for agricultural imports, regardless of what may be achieved through GATT. It would also be useful to analyze the actual or potential effects of voluntary export restrictions and agreements on the orderly marketing of Latin American exports.

- The codification, harmonization, and liberalization of nontariff barriers, particularly Japan's health and sanitation regulations, inspections, and customs procedures. To this end, the establishment of a special task force in which Latin America ought to take part was proposed. These actions are also applicable *mutatis mutandis* to the export of manufactured goods with special emphasis on the need to remove nontariff barriers, subsidies and dumping, import controls, and discriminatory tariffs on processed raw materials.

Marketing difficulties have also created obstacles to the growth of Latin American exports in the Asia-Pacific market. This is partly due to Latin America's limited experience and partly to differences in style, language, culture, and other factors. The following are, inter alia, some actions proposed within the framework of the PECC to overcome these obstacles:

- The promotion of public trading companies to serve private companies, including forms of joint ownership. Likewise, private trading companies, which in some cases have attained considerable success in Latin America, could also participate. The establishment of binational private export consortia has also been quite successful in Latin America. In general, the approach of joint exports has possibilities, as indicated by the positive Chilean-Argentine experience.

- The establishment of clear-cut public regulations applicable to private companies.

- The establishment of regional training centers in international trade.

There is great potential for economic cooperation between the Latin American countries and those of the Asia-Pacific region in trade, investment, and services. Such cooperation is based on the complementary nature of exports. There is also a certain degree of actual or potential competition with some countries or groups of countries, especially in primary products and manufactured goods. Accordingly, there is a need for consultations and other forms of coordination.

It is necessary, therefore, for the Latin American countries to draft a clear agenda regarding the Asia-Pacific region by identifying interests, problems, and possible solutions. The position of Latin America, which is the newest actor in the Asia-Pacific region, must be clearly stated. So far this has been undertaken only in a rather fragmentary manner. Initial skepticism regarding this approach has been largely overcome, but it is now necessary to define Latin America's position and concerns with greater precision. Latin American participation in the PECC and the Pacific and other organizations in the Asia-Pacific region encourage cooperation in the region, but more should be done to facilitate such cooperation.

Multilateral Trade Negotiations

Participation by Latin American countries in the Uruguay Round of GATT has been marked by a combination of interest and skepticism. Such negotiations provide Latin American countries with an opportunity to reverse increasingly protectionist action, discrimination, and various forms of graduation that limit trade possibilities in the region.[1] At the same time, their present financial situation raises an obstacle to their effective participation in negotiations. Latin American countries must keep a certain degree of autonomy in order to adjust their trade policies to the demands of their financial, monetary, and fiscal policies. At the same time, however, the autonomy makes engaging in multilateral trade commitments more difficult for these countries.

Although negotiations on traditional issues are very interesting for the Latin American countries, the challenge facing Latin America in the Uruguay Round of negotiations is to have its interests regarding new issues adequately expressed and recognized by other members. It is not possible to fully understand the consequences of negotiations on new issues if they are considered separately, and without taking into account their interrelationships. The goals of the industrialized countries in the negotiations are based on a global conception closely linked to the restructuring of international economic relations that has been induced by the momentous technological changes taking place.

Conclusion

An analysis of the comparative experience of Asian and Latin American developing countries since the Second World War must conclude that there are differences to be explained. Whatever growth and development criteria are used, several Asian countries have grown faster and more steadily than any Latin American countries throughout the period. The economic performance of the four most rapidly developing Asian economies (Hong Kong, Korea, Singapore, and Taiwan) and of Thailand has been particularly impressive in both growth and equity terms. Indonesia and Malaysia have also developed strongly, utilizing their rich resource endowment better than most countries with booming sectors. India, Pakistan, and Sri Lanka, though growing weakly by the standards of East and Southeast Asian countries, experienced stronger growth in the 1980s than in the 1970s.

Economic performance appears to be determined primarily by a country's domestic economic policy framework. Macroeconomic policies have now come into prominence in terms of economic development. If domestic prices and the price of foreign exchange remain stable, there is little concern with macroeconomic issues. But if inflation reigns, so that real interest rates fluctuate and the national currency becomes overvalued, sustained economic growth becomes impossible.

Although the major differences in economic performance appear to lie in manufacturing, the importance of agriculture also stands out. The East and Southeast Asian countries steadfastly enjoyed a higher rate of agricultural as well as manufacturing growth than either the South Asian or Latin American countries.

Economic policy objectives and administrative rules of the game are molded by political systems. To an important degree, however, the economic climate is affected by the content and the vigor of the debates that take place in university classrooms and how these debates are reflected in the media. The political decisions taken about economic issues reflect a community's intellectual perceptions about the economics of development.

It would be interesting to conjecture about the relative progress of these developing countries—East, Southeast, and South Asia and Latin America—under other conditions. What if East and Southeast Asia had maintained their inward-oriented, highly protected, and inflation-prone policies of the 1950s under the influence of *dependencia* and statist models? And what if, at the same time, South Asia and Latin America had reformed their economic policies under the influence of the outward-oriented growth model?

The East and Southeast Asian countries would be struggling with poverty. Korea and Thailand would still be among the poorest countries in the world, and these countries would have a heavy burden of debt. On the other hand, the countries of South Asia would have trebled their per capita income and would no longer be low-income countries. People would be healthier and they would live longer than they tend to live now. The industrial countries and the NICs (such as India and Brazil) would be able to give greater assistance to the poor countries of East and Southeast Asia and Africa.

Note

1. The growing number of Latin American countries that have joined GATT or are negotiating their incorporation (Bolivia, Costa Rica, El Salvador, Guatemala, Honduras, and Mexico) reflects the rising interest of the Latin American nations in these multilateral negotiations.

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