The DANGERS of EXPORT PESSIMISM
Developing Countries and Industrial Markets
Edited by HELEN HUGHES

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Executive Summary

The Dangers of Export Pessimism
Developing Countries and Industrial Markets

Edited by Helen Hughes

An International Center for Economic Growth Publication

ICS PRESS
San Francisco, California
This is an executive summary of the book *The Dangers of Export Pessimism*, edited by Helen Hughes, published by ICEG in 1992, and distributed to the trade by National Book Network, Lanham, Maryland.
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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 *The Dangers of Export Pessimism: Developing Countries and Industrial Markets*, edited by Helen Hughes, 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 this executive summary of *The Dangers of Export Pessimism*. 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.

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Panama City, Panama
March 1992
Summary of Conclusions

Thailand’s prosperity in the 1980s, the success of Korea’s new technologies abroad, and China’s gains after the reforms of the 1970s provide strong evidence of the value of abandoning inward-oriented, protectionist trade policies and venturing into the world market to create wealth. Reevaluating previously held economic theory has cleared the way for growth and has discredited the pessimistic view that a developing country cannot support a policy of export-led growth.

The prudent deregulation of trade, increased political stability, and careful reduction of government intervention in the developing countries will promote long-lasting success. As global interdependence increases, the elimination of debt, unemployment, and inflation in the developed market economies is equally important to the expansion of the free marketplace.

Helen Hughes and her coauthors offer the following lessons in an effort to guide developing economies through the transition to international market economics.

1. In many developing countries, export pessimism in the 1950s and 1960s, and a new wave in the 1970s and 1980s, led to import substitution and protectionism, with resultant damage to export capacity.

2. Empirical evidence does not support export pessimism. Penetration of industrial market economies by developing countries in the 1980s grew more rapidly than penetration by other countries. Developing countries increased their
exports of textiles, clothing, machinery, and production components to industrial countries, which, in turn, adjusted by moving to the production of more sophisticated goods and services.

3. The share of intra-industry trade in total trade is increasing, providing further market penetration. Developing countries’ trade patterns in the 1970s and 1980s show substantial growth of intra-industry trade in manufactures with the major industrial countries. Growing intra-industry trade in manufacturing among developing countries will allow markets in more industrialized developing countries to accommodate the exports of less industrialized developing countries.

4. At the domestic level, export expansion requires a favorable climate generated by government’s pursuit of trade liberalization policies, stable macroeconomic policies, effective encouragement of exports, reduction in price distortions, availability of new technology, the entrepreneurship of private firms, and an abundant labor force.

5. At the international level, the constraints to export expansion include trade imbalances among major industrial economies, their continued inflation, unemployment, and protectionism, and reduced flow of international finance to developing countries.

6. Multinational links are important in overcoming entry barriers that developing countries face as their exports expand. Developing countries that accept multinationals may be the ones best able to capture these export markets.

7. Success in negotiations on tariff and nontariff trade barriers will require developing countries to make concessions and
join coalitions with developed market economies. The trade regulations of developing countries can be made compatible with GATT, leading to simplification of foreign trade transactions and reducing the bias against exports.
An Overview of

The Dangers of Export Pessimism

Export pessimism—the belief that exports from developing countries cannot successfully penetrate the industrial market economies of the developed nations—has undermined the export performance of many developing countries. It has been proved wrong in practice by rapidly growing developing countries. Yet many developing countries continue to take a pessimistic view of their export potential, only half-heartedly liberalizing their trade policies. Export pessimism thus becomes a self-fulfilling prophecy.

In this book seventeen scholars evaluate that evidence, first in the general trade performance of developing economies and then through the experience of twelve countries. Every chapter in some way addresses the theme of export pessimism, but the authors' interpretations are by no means unanimous. It is clear, on balance, that neutral trade policies, emphasizing exports, have led to rapid growth for developing countries. Half-hearted trade reforms and high levels of protection have been costly in terms of growth and equity.

Perspectives on Export Pessimism

The first six chapters consist of this introduction followed by five chapters written from a variety of perspectives.
In Chapter 2, Vasilis Panoutsopoulos examines the growth of exports from developing countries, to test the connection between export pessimism and reality. After outlining the success of export-oriented policies in supporting development in the 1950s and 1960s, Panoutsopoulos reviews the history of export pessimism. He shows that the work of Nurkse and Prebisch in the 1950s encouraged pessimistic views of the future of developing countries’ exports and were influential in leading many developing countries to follow policies of import substitution and protectionism, damaging their export capacity. Another wave of pessimism in the 1970s and 1980s accompanied the so-called new protectionism.

Panoutsopoulos challenges export pessimism on several fronts, showing that, overall, penetration of industrial market economies by developing countries’ exports in the 1980s grew more rapidly than penetration by other suppliers. Developing countries were winning market shares from industrial countries which were adjusting by moving to the production of more sophisticated goods and services.

Examining patterns of trade for Hong Kong, Taiwan, the Republic of Korea, and Singapore, he shows in detail that export pessimism was unwarranted in the 1950s and 1960s, and that industrial country markets were able to adjust to greater market penetration by developing countries in the 1970s. Finally, Panoutsopoulos finds that in the 1980s developing countries increased their exports of textiles and clothing, machinery, and production components to industrial countries. The newly industrializing countries were leaders of market penetration in both traditional products—such as toys—and in new products, such as machinery.

H. Don B. H. Gunasekera, in Chapter 3, examines the East Asian newly industrializing economies’ intra-industry trade in manufactures. He asks what economic theory suggests are likely to be the patterns of trade specialization in the NIEs as their economies continue to grow and how these patterns are changing in the East Asian NIEs. He bases his conceptual framework on the theory of dynamic comparative cost and the theoretical explanations of intra-industry trade. He considers the importance of relative factor endowments, the roles of product differentiation, economies of scale, and monopolistic competition. In the growing NIEs, Gunasekera shows, the importance of intra-industry trade in total trade is increasing. The East Asian NIEs’ changing patterns of trade in the 1970s and 1980s
show substantial growth of intra-industry trade in manufactures with the major industrial countries (the United States, the European Community, and Japan). He points out that the growing intra-industry trade in manufacturing will allow markets in developing countries to accommodate the exports of developing countries that are at earlier stages of industrialization.

Chapter 4 discusses the implications of intra-industry trade theory and export-oriented strategies. The author, Rodney E. Falvey, looks at advantages in trade theory during the 1980s. Improved trade models, incorporating economies of scale and imperfect competition, suggest that as developing countries increase their manufactured exports (and thereby their intra-industry trade) these exports will encounter entry barriers characteristic of oligopolistic competition. Since multinational links are important in overcoming such barriers, the developing countries that have had an accepting attitude toward multinationals may be the ones best able to capture these export markets. Turning to the question of finding a sound basis for strategic trade policy, Falvey finds the shift to empirical investigation of specific product markets preferable to dependence on diverse and unobservable theoretical assumptions.

In Chapter 5, Ashok V. Desai discusses the role of developing countries, particularly India, in GATT trade negotiations at the start of the Uruguay Round. The author shows that success in negotiations on tariff and nontariff trade barriers, trade sectors, reform of GATT, greater access to developed market economies, autonomy in trade policy, south-south trade, and negotiating rules will require developing countries to make concessions and join coalitions with developed market economies. Yet involvement in the Uruguay Round is desirable because even countries with a small share of world trade stand to gain something from participation. India’s experience is taken as a case in point, as Desai examines how trade regulations involving quantitative restrictions, tariffs, export subsidies, and export controls can be made GATT-compatible, leading to simplification of foreign trade transactions and reducing the bias against exports. India’s position on entering the Uruguay Round focused on reducing barriers to textile exports and to food products and agricultural raw materials, as well as supporting a general effort to bring developed market economies’ nontariff barriers under international discipline. Turning to the risk of an increased trade deficit as the result of a policy of reduced
protection, Desai suggests that a reduction in India's trade barriers should create some scope for reciprocal concessions, although these might be minor. He sees more promise in the possibility of coordinated import liberalization by the developing countries. Policy coordination of this kind could particularly benefit India, which is surrounded by other developing countries and is geographically remote from developed economic powers.

Jayati Ghosh in Chapter 6 presents the case for export pessimism to reflect the persistence of this view as she asks whether the world markets can continue to absorb exports from developing countries. Ghosh reasons that conditions of the world economy at the time of writing—the late 1980s—were not conducive to export expansion by developing countries. She examines constraints to growth posed by industrial country imbalances, inflation, and unemployment in the developed market economies, trends in international markets (including protectionism in the industrial economies and international financial flows), and policy options available to developing economies. In examining alternatives, Ghosh rejects autarky but finds these countries’ policy choices constrained by conditions such as the failure of the United States to reduce its deficits. She sees some advantage in countertrade and barter among developing countries, or in expansion of trade with Eastern Bloc countries, but finds the functioning of international markets in the late 1980s to be inimical to the interests of most developing countries.

Case Studies

The remaining chapters comprise a series of export case studies from countries of the Pacific and the Pacific rim.

China. Chapter 7 is a study of China’s export performance, by Shujuan Lin and Yongzheng Yang. The authors show that since the economic reforms starting in the late 1970s, exports of labor-intensive manufactured goods created a substantial increase in China’s share of world trade in such products. In the mid-1980s, buoyant demand favored increases in labor-intensive manufactured exports. The authors indicate that if China improved its macroeconomic policies, reduced its price distortions, and
upgraded and diversified its exports it could continue its remarkable export growth. The case study ends before the repressive political events of 1989 and therefore does not incorporate their effect on China’s export growth.

**Republic of Korea.** In Chapter 8, Eui-Tae Chang discusses the remarkable growth and transformation of the economy of the Republic of Korea through exported industrialization. The expansion of trade from the mid-1960s was made possible by the Korean government’s vigorous encouragement of exports, by new technology, by the entrepreneurship of private firms, by an abundant labor force, and by favorable international free trade conditions. Korea introduced protective measures when it was a small, underdeveloped economy. Protection was offset to some extent by export-promoting measures, but by the mid-1980s it was clear that economic liberalization was essential if Korea was to participate effectively in international trade. The author shows that Korea’s long-term interests would be served by changing its development strategy and pursuing trade liberalization policies.

**Thailand.** Chapter 9 is a case study of Thai textile exports, by Suphat Suphachalasai. The author details Thailand’s mid-1970s change from import substitution to export encouragement. He indicates that the Multifibre Arrangement first benefited and then created costs for Thai clothing exports as the Multifibre Arrangement quotas became binding. By the mid-1980s, the Thai clothing and textile industry was growing rapidly and was expected to continue to grow, for several reasons. Macroeconomic policy in Thailand created long-term stability, making the industry competitive. The low level of government intervention permitted free entry into the industry. The new entrants took advantage of the world clothing market. In the 1970s the share of Thai clothing exports in the world market was low, allowing ample room for expansion. The Thai producers were very competitive and thus able to succeed in nonquota markets, notably in the Middle East, Singapore, Malaysia, and Hong Kong.

**Malaysia.** Gan Wee Beng’s case study in Chapter 10 examines the changing pattern of industrialization in Malaysia and the emergence and growth of export-oriented industries. Malaysia had very modest import
substitution and was thus able to process natural resources for export. In the mid-1970s labor-intensive manufactures also began to be exported. By the mid-1980s offsets to protection in the form of tariff exemptions made it possible for exporters to obtain intermediate inputs at world prices. As in Thailand effective macroeconomic management underwrote the international competitiveness of manufactured exports.

**Singapore.** Lee Tsao Yuan's study of Singapore in Chapter 11 examines the role of the government in export-led growth. In the mid-1960s, when Singapore decided to gear production primarily for export instead of for the Malaysian Federation market, policy makers turned to foreign investment to provide the techniques of manufacturing and marketing. A very open economy attracted foreign investors. Relatively low labor costs, absence of industrial disputes, an efficient infrastructure, and political stability were all important in attracting multinational firms seeking an export base. By 1975, foreign companies employed 52 percent of the manufacturing work force. Between 1975 and the mid-1980s, more than 80 percent of total direct exports in manufacturing were produced by foreign firms. Singapore also has highly export-oriented service sectors, especially transport and communications. The government has guided economic development in broad terms, but allowed market forces to make most of the decisions. For a small country such as Singapore, being pessimistic about export prospects has never been a viable policy posture.

**Indonesia.** In Chapter 12, Mari Pangestu presents a case study of Indonesia's experience with non-oil exports, beginning with the early 1970s. At that time, agricultural products made up 55 percent of the country's total exports; but as oil prices rose, other exports were displaced, until the fuels, minerals, and metals sector accounted for 75 percent of exports. When oil prices declined in the early 1980s, no other sector had enough volume to compensate for the loss. From then until the mid-1980s, though there was a rapid increase in non-oil exports, particularly manufactured products, the country still had a very small share in the world export market and required diversification of markets and of types of goods to sustain growth. By the mid-1980s major liberalization of finance and trade
had occurred. The main distortions were caused by excessive administration, government discretion, and anti-export sector bias.

**Philippines.** In Chapter 13, Gwendolyn R. Tecson examines the performance of Philippine manufactured exports in traditional and nontraditional markets. She looks at market and commodity diversification resulting from changes in economic policies. The Philippines’ neighboring economies had a much more successful export and overall growth. Macroeconomic instability and high protection proved to be formidable obstacles to development in the Philippines. Tecson found Philippine manufactured exports still lagging in the mid-1980s. Economic growth was not sustained. Indeed, it was negative between 1980 and 1985. She did, however, find some sources of optimism in the low ratios of penetration of Philippine exports in developed countries and in the possibility of growth in nontraditional markets.

**Papua New Guinea.** Development patterns and export instability in Papua New Guinea are examined by Samson M. Polume in Chapter 14. Instability of export earnings can be a source of serious concern for producers of primary products, such as Papua New Guinea. Papua New Guinea is a small open economy. The country’s main agricultural export commodities are copra, cocoa, and coffee. Copper and gold have become increasingly important. Polume finds that export instability seems to have adversely affected GNP growth. Instability has, however, been countered by foreign aid grants (from Australia), and by capital inflows associated with exploitation of natural resources.

**India.** A respecification of export demand and supply functions for India is worked out by Ajit Prasad in Chapter 15. Estimated price elasticities based on models previously used to investigate the behavior of aggregate exports seem to justify export pessimism. To overcome the limitations of these models, the author adopts a different approach to the treatment of demand, both domestic and foreign. He uses a structurally simple but robust model designed to reflect determination of Indian export volume during the 1970s and 1980s. His conclusions clearly dispel export pessimism and highlight the importance of ab-
sorption as an inhibitor of export growth over long periods. His results support a coordinated approach to export development.

Argentina. Roberto Bouzas and Saul Keifman provide an overview of Argentina’s export policies between 1976 and 1985, in Chapter 16. The authors show that these policies were unstable, frequently and radically changing direction. Two attempts were made—through trade liberalization between 1976 and 1981 and again in 1985—to replace the import-substitution strategy the country had employed for forty years. They found in the mid-1980s two major obstacles to successful export performance—first, inappropriate behavior and expectations arising from a long history of import substitution and a period of economic stagnation and, second, the effect of external debt on trade policies and the general economic environment.

Colombia. In Chapter 17, Maria del Pilar Esguerra examines the evolution and prospects, as of the mid-1980s, of Colombia’s minor exports. The author finds that existing models of the determinance of minor exports could be further refined to reflect Colombia’s trade characteristics more accurately. Assessing the prospects for export growth, the author shows that toward the end of the period covered in this chapter, Colombia’s minor exports grew rapidly. She sees the possibility of continued growth after 1987, but at slower rates than in the preceding two years. Her prognosis is that in the long run, factors that have favorably influenced the behavior of the minor exports will stabilize, and it will be difficult for Colombia to improve its position in world markets.

Mexico. In the final case study Nora Lustig examines 1980s stabilization and adjustment in Mexico for signs of export-led growth. She reviews the characteristics of the Mexican economy in the late 1970s and early 1980s, including effects of the oil boom, the debt crisis, and non-oil export performance in the 1980s. Lustig examines the adjustment program undertaken in 1983 to curb inflation and restore macroeconomic equilibrium and finds that the results of the program, by the late 1980s, were mixed. Writing before the influence of the Brady Plan on the Mexican economy, the author sees gloomy growth prospects for Mexico, with the burden of external debt
standing as the main hindrance to launching a program of strategically outward-oriented growth.

In the lapse of time between the writing of these essays and their publication, export growth has continued to flourish. Indonesia and Mexico have become very successful exporters. The recession of 1991 does not seem to have created major problems for countries that chose an export-oriented development route. Mexico's desire to join a North American free trade area shows new confidence in its competitiveness. Despite the increase in the number of countries opting for export orientation and despite the diversification of their export products, the countries of destination have proved flexible enough to adjust their economic structures to growing competitiveness. The export pessimists continue to be, as they have always been, the losers.
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