The Gang of Four

"The small manufacturing oriented countries resemble other small countries in their high dependence on trade but are closer to the large countries in the overall composition of their exports. In the majority of cases they are also highly dependent on an inflow of external capital in the early stages of transition. The result is a unique development pattern whose properties are less easily predictable from general economic reasoning than are those of the other two patterns (large countries and small primary product oriented countries)."(H. Chenery,1979)

INTRODUCTION.

The increasing difficulties experienced by many under-developed countries in their attempts to pursue a strategy of import-substituting industrialisation (ISI) led to a critical reappraisal of its longer-run viability and encouraged the revival of a more orthodox view of industrialisation based on an outward looking, export-oriented trade strategy. Besides contrasting its virtues to the distortions of the ISI model popular throughout the 1960's, advocates of this model - Export Oriented Industrialisation (EOI) - frequently illustrate its merits by pointing to the remarkable success of its four most prominent practitioners - the East Asian "gang of four": Hong Kong, Singapore, Taiwan and South Korea. However the policies pursued by the newly industrialising countries (NICs) based though they were on export growth as the foundation for sustained industrial development provide unwelcome anomalies to both the dependency and neo-classical paradigms. The model will be examined at length with particular emphasis being placed on the role of the state, the contingency of world prosperity and economic buoyancy and the inapplicability of its generalisation without provoking protectionist measures from the advanced industrial countries and thus ruling out the emulation of the NIC model.

Before discussing ISI and "export promotion" strategies, an important caveat must be stressed. The two "alternative" strategies are not mutually exclusive especially when we consider that they refer to both long-term development strategies and short-term development concerns. When a government is faced with a sudden imbalance between the revenue generated by exports and the cost of imports, it may well limit imports, without this being ISI. In the interests of getting enough foreign exchange, virtually all governments promote exports, without this being a strategy of export promotion.

I have chosen the topic of the NIC model for Third World Development since it shows the flaws in both extremes of the ideological spectrum of development economics - the neo-classical and dependency paradigms. The East Asian model shows that economic growth is not purely a matter of endogenous change and neither can it be duplicated and mechanically applied to the differentiated and stratified countries that compose the "Third World", itself a hierarchical structure. These different stages of development within the underdeveloped countries pose similar problems for the more radical dependency theorists. Though their central insight that it is of little benefit to study "Third World" development in isolation from the growth of the advanced societies is correct, they neglect the possibilities for a small number of countries, espousing social and political fidelity to the doctrines of the advanced nations, to make limited advances in eras of world economic prosperity and expansion. Impressive though the material developments of the NICs have been, the economic inequalities, instabilities and susceptibilities embodied in these achievements should not be overlooked.

IMPORT-SUBSTITUTING INDUSTRIALISATION

One of the main tenets of the structuralist school, and in particular the

Prebisch-Singer thesis, was that the under-development of the Third World was due to its reliance on exports of primary products, which were subject to terms of trade that both fluctuated in the short-term and deteriorated in the long-run. Basically, the thesis stated that the income elasticity of exports from the periphery was less than one while the income elasticity of imports to these "satellite" states was greater than one. This was a major justification for import substitution behind tariff walls which would, it was expected, reduce these countries dependence on foreign manufacturers and thus on the industrially advanced countries. This was not, though, a recipe for autarky, but for what Prebisch called "healthy protectionism".

There were, however, a number of problems with the attempt at ISI. In addition to the increasingly rigid import requirement, there were a series of problems relating to market size. The technology available to the underdeveloped countries was that developed in the advanced nations where labour was expensive and capital relatively cheap. In the Third World, on the contrary, cheap labour was abundant and capital was expensive. The technologies available tended to invoke massive outlays on capital, and employed very few people. Little research was done on types of technology appropriate to the factor endowments of the majority of Third World countries.

For these and other reasons, the policies designed to secure rapid industrialisation via the substitution of imports was not very successful: rather its "achievements" were increased balance of payments problems, increased foreign penetration of the economy, rising unemployment, widening rather than narrowing income differentials, greater vulnerability of the economy to cyclical movements, a continuing dependency on the import of a limited range of raw materials or agricultural products, and limited fluctuating industrial growth. Consequently, there was widespread disenchantment with ISI right across the ideological and analytical spectrum.

EXPORT-ORIENTATED INDUSTRIALISATION.

"The notion that it is necessary to have a well established and integrated industrial structure before developing substantial manufactured exports is not supported by experience. A clear distinction can be made between those economies (South Korea, Singapore, Taiwan) that adopted export-orientated policies once the first easy stage of substituting domestic production for imported non-durable consumer goods was completed, and a second group (Argentina, Brazil, Columbia, Mexico) which continued with ISI beyond the first stage but were faced with increasing difficulties and economic inefficiencies as the substitution process involved more capital intensive, technologically sophisticated products, frequently characterised by large economies of scale and capacity requirements which could not be met by domestic demand".(Fitzpatrick and Nixson, 1983)

The neo-classical interpretation of the ISI experience is based on the standard international trade analysis, where economic welfare is maximised through the optimum allocation of scarce resources, which is achieved by international specialisation and exchange based on the law of comparative advantage. However, I believe that the alleged superiority of EOI is not so much due to the adoption of these "rational" market-orientated policies, but rather to a combination of cyclical and historical factors and to substantial discriminatory state intervention. It must be remembered that the export and growth success of this limited number of NICs from the mid-1960's to the mid 1970's occurred in a time period, which by the experience of global industrialisation, must be viewed as in the short-run. It also took place in a historically unprecedented age of reasonably full employment in the major advanced economies, high rates of industrial growth and a virtual explosion in world trade. Besides it occurred within a series of social formations which were country, temporally, and geographic specific.

There remains a vast difference between the level of manufacturing output per head of population in the most retarded of the advanced industrialised countries and even the most statistically industrialised of the underdeveloped ones. Therefore, while the definitions based on sectoral share show South Korea to be as industrialised as the UK, the difference between the two countries' levels of manufacturing output per head (1978) is between $621 and $2667. Of the NICs only Singapore has a higher level of manufacturing output per head than some industrialised countries; and that is an unfair comparison given that Singapore is a city-state without a hinterland or rural sector.

THE PRIMACY OF THE STATE

"Inherently, the forms of pervasive state intervention which underline the NIC success stories imply a set of policy instruments which lie outside the range of neo-classical policy analysis since they usually require forms of direct intervention which rely on highly specific social structures and social relations for their success". (Evans and Alizadeh in JDS, 1984)

A closer investigation of the NICs - with the possible exception of Hong Kong and Singapore - reveals far less reliance on the invisible hand guided by enlightened market orientated economic policy than is portrayed in the neo-classical interpretation. Indeed, amongst the internal factors, the role of the state is perhaps the most important. In South Korea, government strategy has not been characterised by purely neutral free trade. Throughout the 1960's the government used an array of interventionist measures, often on a hyperselective basis, and the period is more accurately characterised as one of export promotion rther than across-the-board liberalisation of the trade regime. In 1980, when liberalisation was implemented, it was impelled by the US government as a quid pro quo for retaining access to the American market. The export incentives of the 1960's were maintained in the more turbulent following decade by periodic devaluations in the won and changes in the allowances which offset the effect of domestic inflation in excess of the world rate. Although this age of export promotion was accompanied by some gradual relaxation of import controls, the state maintained a complex array of import quotas and restrictions aimed at encouraging import substitution in isolated areas - steel, non-electronic machinery and fertiliser.

In the case of Taiwan and the Latin American NICs (Brazil, Mexico and Argentina) the state has similarly pursued an active, selective and interventionist role though admittedly not as pervasive or strategic as the South Korean case. "The policies followed by the successful outwardly orientated nations has not been to dismantle the edifice of tariffs created by previous policies. Instead they have added to the edifice various measures designed to promote exports" (Rotemberg, 1977)

Hong Kong appears at first a striking contrast to South Korea and Taiwan and the closest approximation to the neoclassical model. It must, however, be borne in mind that the city is both very small and has been for most of its history, the protected colony of a dominant world power, Britain. It is increasingly dominated by the Peoples' Republic of China, operating as a kind of very large export processing zone and offshore banking centre. Both the relationships, to Britain and to China, make Hong Kong a very special political case rather than a neoclassical textbook prototype.

Further, the crucial role of the state in South Korea further violates the "comparative advantage" idea inherent in the neoclassical international trade analysis. Though it is true that the foundations of high growth were in garments and textiles, it is most difficult to envisage South Korea's comparative advantage in two of its most spectacular successes, shipbuilding and steel. These industries are after all capital intensive and ostensibly characteristic of a capital abundant economy. By financing company expansion in the face of declining demand and low capacity use, obliging companies to adopt a specific pattern of specialisation and coercing mergers and a cartel to reduce domestic competition, the government and not the operation of a free world market made all the difference. "While the backbone of export performance of South Korea might be attributable to a genuine comparative advantage the second generation of growth industries seemed more likely to be the products of government gambles" (Harris, 1986, p.41)

THE CONTINGENCY OF THE GROWING CAKE

The warnings issued by the more pessimistic writers that the market prospects for UDCs' manufactured exports depended heavily on the continued buoyancy of, and lack of restrictions on access to markets, in the advanced capitalist economies (which absorbs over three-fifths of total UDC exports of manufactured goods) have been borne out given the slower economic growth in the advanced countries and the understandable offshoot of this - heightened protection - over the past decade or so. The 1970's saw the tightening or new imposition of trade barriers affecting developing countries exports of manufactures such as textiles, clothing, footwear, television sets and shipbuilding. One of the major shortcomings of the 1979 Tokyo Round of trade negotiations was its failure to reach agreement on a "safeguards" code limiting the enactment of quotas on voluntary export restrictions and imports causing domestic dislocation.

The favourable market conditions for the export policies of the NICs during its "golden age" are perhaps best underlined by the rapid expansion of world trade; growth rates of international trade peaked to an exceptional 18% per year between 1967 and 1973. These were exactly the years in which the NIC's scored their greatest successes. The international context for the rise of the NIC's was further facilitated by their easy access to finance. A buoyant transnational banking market developed over the 1960's and 1970's specialising in borrowing and lending currencies outside the country of issue (the so called Eurodollar market).

The effects of world wide recession upon the NICs has been dramatic; Brazils cumulative debt increased alarmingly from $12.6bn in 1973 to $96bn in 1984. For Mexico, the GDP declined in 1982 and 1983 (by -0.5% and -4.7%), manufacturing output went down even further (-7.6% and -14%) and gross investment still further (-16.4% and -25.3%). Real wages officially fell by about a third over two years, and some 1.2million jobs were said to have been lost. Neither did the "gang of four" escape. 1985 saw Singapore's growth fall disastrously (-1.7%) as the US economy slowed, cutting Singapore's exports, exports elsewhere did badly because Singapore's dollar, tied to the US currency, appeciated in value through 1985. In South Korea, the GNP contracted by nearly 6% in 1980 (compared to an average growth rate of 9.2% between 1962 and 1979). The debt - $37bn in 1982 - was projected to reach almost $65bn by 1986. This increased instability and dependence of the NIC's upon the international market is exemplified in the 1984 decision of President Reagan to reduce the share of the domestic market taken by imports from 25.4% to 20.5% and allocating to Japan, Europe and Canada all but 6.5% of the market.

DEPENDENCY THEORY AND THE NICS.

"From a dependency perspective, it seems relevant to ask whether it is not strange that the implicit trade-off between 'freedom' and 'material benefits' seems to undergo some remarkable transformations within the policy debate. It has been common to argue that if the 'socialist' alternative could produce the material benefits, it remained unacceptable because of its costs in 'freedom'. Many who were fond of that argument are now found among those who extol the NICs on the grounds that they have produced the material benefits" (Bienefeld in Seers, 1981, p93)

For dependency theorists, who stress the limits of capitalist development in the periphery, the impressive material developments of many NICs represents a considerable challenge in that they assert generally, the prime importance of internal policy, the adequacy of market signals as guides to efficient resource allocation and the generating of external economies in the course of industrialisation. Bienfeld, however argues strongly against characterising the NICs as the embodiment of the neoclassical parable and puts forward an alternative view. The emergence of the NICs is seen as a response to a set of international circumstances which at one and the same time produced relatively favourable access to the markets of the advanced countries, dramatically increased access to international finance and increasing relocation of production by MNCs to the periphery. These factors are seen as having conditioned the emergence of NICs but not as having determined which countries would seize the opportunities. The view is this was determined partly by location and geo-political significance, partly by the existence of a strong repressive internationally reliable regime, and partly by the existence of a technological infrastructure resulting from earlier import-substituting policies.

The tremendous technical and industrial achievements of South Korea's neighbour, the Democratic People's Republic of Korea has many implications, the most important for the purposes of this essay being the importance of resource endowments, (both countries being exceptionally well blessed) a favourable geo-political position, that the Soviet model can't readily be discounted as an industrialisation option and corollary of this that export growth is not the only path to industrial development.

CAN THE NIC EXPERIENCE BE GENERALISED?

"Whether or not aid per head of the population on the Korean level could be extended to all developing countries, it seemed most unlikely that the world could absorb a comparable volume of exports. If China had exported at the Korean level of exports per head, Chinese exports would have to increase 2512 times (or 42% more than all the exports of all developing countries). China and India together would have produced exports equal to half the value of the world trade" (Harris, 1986, p31)

The failure of Trinidad and Sri Lanka despite their commitment to rapid accumulation and "openness" provides valuable insights into the application of the NIC emulation across such a broad category as "developing countries". The crucial point in assessing the practical viability and theoretical implications of such models is that they are imitated or applies across countries with radically different endowments, regimes, cultures etc. In this respect it is apparent that Trinidad and Sri Lanka have more in common with many other Third World countries (e.g. the more dominant role of the MNCs in the Third World at large vis-a-vis the NICs) than the models they seek to emulate, particularly in the relative absence of indigenous capital and a native capitalist class.

Even if one accepted the neoclassical position, I believe there are serious obstacles to the NICs maintaining their success in export expansion and even more so for other countries emulating them. Cline's fallacy of composition essentially states that while the model may work well if pursued by a limited number of countries it would breakdown if pursued, at the same time, by a large majority of developing countries, since the resultant outpouring of manufacturing exports would provoke a protectionist response from the Advanced Countries. "The generalisation of export-led development across all developing countries would result in intolerable market penetration into industrialised countries" (Cline, 1982, p88)

Generalisation of the group of four export strategies would require LDC exports of manufactures to rise seven-fold implying an increase in their share of industrialised countries manufactured imports from approximately one-sixth to approximately four-fifths. To the extent that the NICs have followed open trade policies and realistic exchange rates other developing countries would be well advised to adopt similar policies but ill-advised to expect free market policies to yield the same results that were achieved by the East Asian model economies, which took advantage of the open economy strategy before the export field became overcrowded by competition, and did so when the world was in a phase of prolonged buoyancy. "It is important for other LDCs to consider both the supply side and demand side effects of export promotion strategies" (Chow, 1987)

CONCLUSION.

As well as the important historical, cyclical, geo-political and size factors which allowed for the success of the NICs and mitigate against their emulation on a large scale it must further be remembered that although the aggregate share of NICs in the total OECD imports of manufactures has steadily risen since the mid 1960s, it remains below 10%. Typically, neither will export promotion benefit the developing country, if its main exports terms of trade are in decline. This is also applicable to the asymmetrical penetration of the MNC. The strong bi-directional causality between export growth and industrial development (and their failed emulators) is unlikely to "prove" or "disprove" any particular theory of development. However, the NIC experience does compel a more painful confrontation with reality than dependency theorists have, up to now, been willing to undertake by making more awkward the recitation of cliches and rhetoric about blocked development, stagnant peripheries and so on. The same applies to the neoclassical school which increasingly finds it difficult to extol the virtues of South Korea, Brazil, Singapore or Taiwan as the triumphs for the free play of market forces, when in fact they are among the more corporate, planned and repressive economies in the world.

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