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Challenges and Opportunities Posed by Asia's Superexporters: Implications for Manufactured Exports from Latin America

Gustav Ranis

The process of enhanced differentiation within the developing world in the course of the past two decades has been especially marked by the emergence of the so-called SICs or semiindustrialized countries. The new prominence of this fast growing middle tier of countries, along with the dramatic rise of OPEC, has been instrumental in transforming the landscape within the South, as well as relations between North and South. To the naked eye, moreover, it would appear that the members of this middle class of developing countries have experienced a similar pattern of development over the past two decades — characterized by high overall growth rates and an especially rapid growth of manufacturing, including a rise in manufacturing exports. On closer examination, however, we may become convinced that there really are two very distinct types of SICs to consider, one which may in shorthand — and imperfectly — be called the Latin-American type, the second the East Asian type.

This distinction focuses on two important and related dimensions of performance — one having to do with marked differences in the underlying success of their industrial export performance, the other with the internal balance between growth and distributional outcomes. Moreover, I shall examine the causes of the divergence which lie partly in differences in the endowment conditions and partly in the nature of the policy choices made over time in the two subsets of countries.

The East Asian SICs both pose a challenge and present an opportunity to their Latin-American counterparts. The challenge is best summarized by their substantially superior industrial export performance over the past two decades which has worried not only the developed countries. The opportunity is represented by the extent their example happens to be relevant to current Latin-American trade and development objectives.

I.

Any effort to "explain" the contrasting export performance of the East Asian and Latin-American SICs leads toward the acceptance of the notion that some sort of underlying typological approach to development makes sense. This means that we believe in the existence of a family affinity among some of the Latin-American SICs, for example, Argentina, Brazil, Colombia, and Mexico, just as there exists a family affinity among some of the East Asian SICs, for example, Korea, Taiwan, Hong Kong, and Singapore. It clearly does *not* mean that we believe important, and conceptually instructive, differences do not exist within any one subfamily of LDCs; Latin Americans, in particular, will rightly bridle at the notion of "the" Latin-American case. Rather, it means that intratypology variances in either endowment or behavior may be less marked than across typologies, and that this methodological approach, while admittedly somewhat casual, may nevertheless be analytically useful.

Developing countries' attempted transitions to modern growth are necessarily circumscribed by their initial conditions, including their colonial heritage, and other economic-geographic factors such as resource endowment, location, and so on. The historical experience we have been able to analyze to date, moreover, permits us to formulate an "evolutionary" view of development, that is, one based on the identification of subphases of transition characterized by somewhat differing structures and changing modes of operation among the three main sectors, agriculture, nonagriculture, and foreign. Such phases, of course, represent a combination of economic progressions and changing policy packages, with a good deal of filling and backing and many "gray areas." In discussing movements between one phase and the next we are, moreover, talking about gradual changes in the way the system is driven rather than anything either abrupt or complete. Nor, I wish to emphasize, is there anything inevitable about any particular sequence of phases. I shall, however, find it useful to contrast the actual Latin-American and East Asian SIC experience from this longitudinal vantage point. The interplay between the forces of a dynamically changing endowment picture and the intervention of policies either to accommodate or mute these forces is, of course, an essential element in analyzing these contrasts in phasing and performance.

The family affinity among the Latin-American SICs can be summarized in terms of their joint Iberian colonial heritage, a relatively early start for their postcolonial transition growth effort, their fairly large size (on the average), and their endowment which is relatively natural-resources-rich but characterized generally by remaining pockets of a not very literate unskilled labor surplus on the land. At the beginning of serious postcolonial transition growth efforts — whether these are dated more appropriately in the 1880s or the 1930s — we are left with the heritage of a colonial period which focused heavily on extractive primary export activities within a preassigned scheme of the international division of labor.

In contrast, the East Asian SICs are relatively smaller-sized and located in a population-dense and natural-resources-poor region, with favorable levels of literacy for a large labor surplus population and a colonial experience which varied between British entrepôt interests in the (for us) less interesting city states of Hong Kong and Singapore, and heavy Japanese attention to the rural sector and the extraction of food crops in the more relevant cases of Korea and Taiwan.

The two contrasting colonial or pretransition phases may be pictured in Panel 1 of the accompanying chart. Under colonialism both the Latin-American and the East Asian NICs' agricultural sector *A* produces the domestic food supply (D_f) for the households *H* plus exportable goods (X_a) which help "finance" the import of nondurable consumer goods (M_{cn}) flowing from the foreign sector *F*. Given the relative larger size of the typical Latin-American case more domestic industries supplying a portion of the domestic market for, say, textiles undoubtedly existed, but large portions of the domestic market for these goods were satisfied via imports in both cases. Another difference, not captured by the chart, resides in the commodity content of the primary export, consisting generally of minerals and raw materials requiring very specific kinds of large-scale infrastructural investments (ports, railways) in the case of Latin America, and of rice and sugar, requiring generally small-scale infrastructural investments (irrigation, roads), as well as organizational innovations (for example, land reform and the creation of farmers' associations) in the case of East Asia.

Both the East Asian and Latin American SICs — as virtually all other LDCs — initiated their transition effort by moving into primary import substitution (PIS) during their respective postindependence periods. According to this pattern, captured in the chart, panel 2, an increasing portion of the primary product earnings (X_a) is diverted from the importation of nondurable consumer goods (M_{cn}) and toward the importation of producer goods (M_p) which permit the emergence and growth of so-called primary import substitution industries in the nonagricultural sector *NA* which is now able to produce these textiles (D_{cn}) to substitute gradually for the previously imported variety (M_{cn}) in the domestic market. It is this subphase of growth, fueled by primary product exports (and, of course, supplemented by foreign capital imports) that entails several statistically observable substitution phenomena, including the gradual reduction of consumer goods imports relative to producer goods imports. Panels (2a) and (2b) are again virtually equivalent, with one significant exception, that is, there may be need for some net imports of food (M_f), even at this stage, in some of the Latin-American SICs.¹

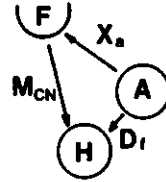
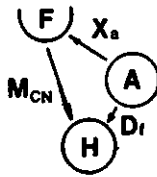
The overall performance of the two systems during the PIS subphase is not so very different on the surface (see the Appendix Country Statistical Indicator Tables). Per capita income growth rates (Row 1) were modest, if respectable, with the relative reallocation of the labor force to nonagriculture θ (Row 2)

CONTRASTING SUBPHASES IN DEVELOPMENT

East Asian SICs

Latin-American SICs

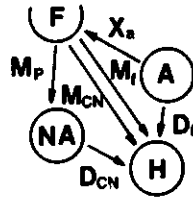
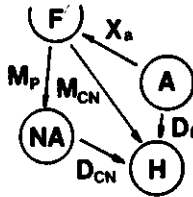
1. Pretransition



(1a) Colonial structure

(1b) Colonial structure

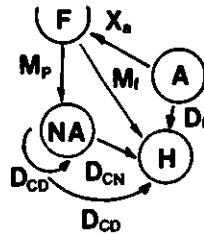
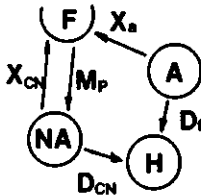
2. Initial transition subphase



(2a) PIS growth (1953-63)

(2b) PIS growth (1880-1950)

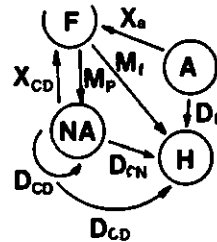
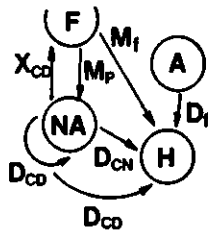
3. Second transition subphase



(3a) PES growth (1963-72)

(3b) SIS growth (1950-70)

4. Third transition subphase



(4a) SIS/SES growth (1973-present)

(4b) SIS/EP growth (1970-present)

proceeding rapidly in both cases. The economies, even the smaller ones of East Asia, remain basically inward-oriented, as the often-recited interventionist package of protectionist industrial and foreign exchange policies trend the system toward autarky. Saving rates (Row 3) are modest, investment rates (Row 4) substantial, and distributional indicators, where available (Rows 5 and 6), heavily influenced by relatively low rates of employment generation, everywhere generally unsatisfactory.

On fuller examination, however, we may note the existence of underlying differences even during this subphase which yield their repercussions on performance later on. One has to do with the relatively better performance of agricultural productivity in the East Asian case, as a consequence of the combination of their better colonial "preparation," and a lesser relative neglect during the primary import substitution phase itself. Second, the level of effective protection was generally lower in the East Asian than in the Latin-American case, making its contribution to a somewhat lower temperature in the industrial hothouse. This is important in assessing the more recent experience of these two types of SICs. As traditional land-based entrepreneurs are converted into industrial entrepreneurs, the level of protection and of profit transfer needs to be high enough for infant industry reasons but not so high or persistent as to discourage entrepreneurial maturation.

As is well known, this process of primary import substitution (PIS) growth must inevitably terminate once all nondurable consumer goods imports (M_{cn}) have been substituted for by domestic output (D_{cn}); further industrialization

Table 1

PRIMARY IMPORT SUBSTITUTION (M_{cn}/M) ^a				
	1950	1962	1970	1977
Brazil	4.1(53)	2.52	3.43	2.17
Colombia	12.8(51)	5.37	5.08	6.08(75)
Argentina	14.4	5.21	6.28	3.71(76)
Mexico	5.8	4.30	5.67	4.56(74)
Chile	4.4(52)	4.37	4.53(71)	2.32(74)
Korea		8.0	7.4	5.0
Taiwan	17.2(53) ^b	8.1(60) ^b	5.8	2.9

Sources: UN Commodity Trade Statistics Statistical Papers, Series D. Taiwan 1977 -- Monthly Trade Figures, Taiwan Statistical Office. UN Yearbook of International Trade Statistics, 1950.

^aConsumer nondurable (C_n) industries = 61 leather, etc., 65 textiles, 84 clothing, 851 footwear, 892 printed matter, 64 paper, paperboard, etc.

^bComputation not completely comparable to others due to lack of SITC data.

of this type, directed to the domestic market, then has to slow to the pace of population plus per capita income growth. Another indicator of the exhaustion of PIS is the decline of the M_{cn}/M ratio which, as Table 1 indicates, reaches a low-level plateau in most cases by the early 1960s. Larger countries as represented by the Latin-American SICs may take a longer time to reach domestic market saturation in this sense — witness the fact that Latin America took at least 20 years (1930–50) to arrive at this point (possibly much longer, 1880–1950) while the East Asian SICs took approximately a decade, 1953–63.

The societal decisions reached to avoid a cul de sac at this point in the transition growth effort may be the most important in explaining the more recent divergence in the performance of our two types of SICs. Once PIS came to its inevitable end, the East Asian SICs moved into primary export substitution as their second transition phase, while their Latin-American counterparts continued with import substitution but now of the secondary (or capital and consumer durable goods) type (see Panel 3 of the chart).

In the East Asian case (Panel 3a) we now encounter the new phenomenon of primary export substitution (PES), that is, the export of the same nondurable consumer goods into world markets. Such penetration is facilitated by the increased ability of the now more experienced industrial entrepreneurs to combine with the abundance of unskilled labor while taking advantage of accommodating changes in the overall economic policy package in the direction of lower protection and increased liberalization in various markets. The emergence of a new type of unskilled-labor-based export (X_{cn}), gradually replacing the traditional primary product export (X_a), is due to both negative and positive factors. Negatively, the basic limitation of natural resources — quite aside from the running out of domestic markets for nondurable consumer goods — will force a change in the structure and operation of the system. Positively, the gradual building up of the system's human resources provides the ingredients for the establishment of efficiency-oriented industries which send labor-embodied manufactured goods to world, especially developed country, markets.

The sustained march of primary export substitution in the East Asian SICs of Korea and Taiwan during the 1960s and early 1970s can be captured by the rapidly rising proportion of total exports which are manufactured (see Appendix Country Statistical Indicators, Row 9). Moreover, the rapidly rising overall growth of exports and participation of these systems in the world economy is documented by the growth of total exports (row 10) and of the external orientation ratio X/GNP (row 11), which has reached perhaps the highest levels in the world (50 percent) in Korea and Taiwan.

It is this rapid increase in industrial exports which has earned the East Asian SICs the title of superexporter and which has drawn the attention of both the DCs and the Latin-American SICs. It is based, of course, on what constitutes a remarkable domestic development performance which has drawn

less attention — namely, the ability of the export-oriented industrial sector to absorb quickly its unemployed and underemployed labor at fairly stable real wages. The pursuit of such an employment-sensitive growth path, aided by a strategy of small-scale, rural-oriented industrialization and even faster (than earlier) agricultural productivity change yielded not only extremely rapid rates of per capita income increase but also the achievement of good and improving income distribution performance — even before all the labor surplus was mopped up by the early 1970s.³ Once the Asian SICs' labor surpluses had run out, first in Taiwan, then in Korea, real wages began to rise and the comparative advantage in labor-intensive manufactured goods gradually disappeared.

As a consequence, the East Asian countries' industrial output mix shifted towards more skilled labor, technology, and capital-intensive goods, both for the domestic and then the export markets. This so-called secondary import cum secondary export substitution phase (see Panel 4a of the chart) reinforces elements already present in the earlier subphases, that is, moving along the product cycle in continuing response to gradual changes in the endowment. Capital goods and consumer durables, and so on, are now produced for the home market (D_{ca}) and exported (X_{ca}). A related phenomenon is the more or less complete atrophy over time of the domestic agricultural sector, an activity in which the East Asian SICs do not have a long-run comparative advantage. As a consequence we may note that food imports (M_f) became necessary from the beginning in Hong Kong and Singapore, quite early in Korea (which did less well with its own rural sector), and currently in Taiwan. The international market responsiveness of the East Asian SICs during this period is best demonstrated by their ability to overcome formal and informal quota arrangements in the advanced countries, international recession, inflation, and even the post-1973 OPEC crisis. This is not to say that the current crisis in the world economy is leaving the East Asian SICs entirely unscathed — witness the large foreign debt of Korea, for example — but that an amazing record of growth and export performance has been compiled over the past two decades in spite of all this.

In the case of the Latin-American SICs, in contrast, once primary import substitution industrialization ended, around 1950, the system moved directly into a secondary import substitution (SIS) phase (see the chart, Panel 3b). This meant the establishment of more skilled labor-, capital-, and technology-intensive industries capable of producing previously imported capital goods and consumer durables and processing raw materials previously processed abroad (D_{ca}). It also meant a continuation of development "hacia adentro," including the maintenance, if not intensification and broadening — now to include capital goods, and so on — of the protectionist- and controls-oriented policy structure of the previous phase. Table 2 indicates the comparative level of effective protection in the mid-1960s for a representative of each of the SIC families as well

Table 2

EFFECTIVE PROTECTION, CIRCA 1967

Industry	South Korea		Brazil		Philippines	
	1968		1967		1965	
	Balassa measure	Corden measure	Balassa measure	Corden measure	Balassa measure	Corden measure
Agriculture, forestry, and fishing	18.5	17.9	10	10	0	0
Processed food	-18.2	-14.2	5.5	40	47	46
Beverages and tobacco	-19.3	-15.5	334	155	15	15
Mining and energy	4.0	3.5	14	13	-25	-25
Construction materials	-11.5	-8.8	47	29	50	50
Intermediate products I	-25.5	-18.8	-	-	16	16
Intermediate products II	26.1	17.4	-	-	88	85
Nondurable consumer goods	-10.5	-8.0	49	67	55	53
Consumer durables	64.4	39.8	70	101	1,355	1,062
Machinery	44.2	29.5	57	75	112	10.3
Transport equipment	163.5	83.5	47	60	77	75

Sources: S. Korea, Charles R. Frank, Kwang Suk Kim, and Larry E. Westphal, *Foreign Trade Regimes and Economic Development: South Korea* (New York: Columbia University Press, 1975); Brazil and Philippines, Bela Balassa and others, *The Structure of Protection in Developing Countries* (Baltimore: Johns Hopkins Press, 1971).

as for the Philippines (about which more later). The extent of protection on nondurable consumer goods is negative in Korea at this point but substantial elsewhere. With respect to consumer and capital goods, on the other hand, we note much higher effective protection rates in the case of both Brazil and the Philippines. Moving directly into SIS regimes thus meant none of the major shifts in the direction of exchange rate and other market liberalizations which the East Asian SICs had undertaken in the early 1960s.

Another, and closely related, distinguishing feature of the Latin-American case is, of course, their continued relative abundance of natural resources, which permits the continued exportation of traditional raw materials and/or the supplementation of traditional by new ones (X_a). Unlike the East Asian case where import substitution, of whatever kind, is necessarily somewhat short-lived, in Latin America it can continue to be fueled even as it becomes more and

more "expensive" in terms of possibly increasing deviations from socially optimal industrial output mixes and technologies.

By the late 1960s and early 1970s secondary import substitution in Latin America had generally been modified to include export promotion (see Panel 4b of the chart). This, in contrast to export substitution, we define as the selective encouragement of particular industries or even firms by administrative action in order to "push out" exports in the absence of a general change in the structure of protection, or market liberalization. Export promotion requires subsidization either via public sector fiscal transfers, interest rate differentials, tariff rebates, and so on, or alternatively, via private sector subsidization or price discrimination induced or cajoled by assuring the same companies a continuation of high windfall profits in protected domestic markets. The increase in industrial export orientation here is caused not by a product cycle type of evolution resulting from increased entrepreneurial maturation responding to changing resource endowment and accompanied by accommodating changes in general economic policy. Instead, it is the consequence of additional controls and incentives planted "on top of" the existing import substitution superstructure. Domestic content and export targets are imposed, as the overall protective veils on intermediate inputs and on relative prices governing primary inputs are left intact. As industrial exports have become increasingly recognized as a "good thing" — even by Prebisch and his ECLA followers — commodities up the technology and capital intensity ladder have moved into domestic production (D_{ca}) and exports (X_{ca}), most often sequentially, sometimes simultaneously. Automobile assembly is a case in point as increasing domestic component requirements are linked with increased export quotas.

The Latin-American SIC development path is clearly much less overall export-oriented (see X/GNP in Appendix Country Statistical Indicators, row 11), and with a lower proportion of manufactured exports than the East Asian cases. Note that the proportion of the population in nonagriculture θ (see Row 2) is not that different across the two types of SICs by the mid-1970s, the end of the period; but notice also that the rate of increase in θ over the past 20 years has been much more pronounced in the East Asian cases — in spite of the relatively higher population growth rates during that period in Latin America.

The relative neglect of food-producing agriculture seems to have continued, perhaps even been exacerbated, during the SIS/EP phase. As Table 3 indicates, the representative East Asian SICs start with somewhat higher cereal yields than the Latin American SICs in 1950 (with other, natural-resource-rich, Asian LDCs somewhat intermediate); but what is most impressive is the divergence in yield growth rates thereafter. Net food imports (M_f) have become an increasingly important factor in these relatively natural-resource-rich Latin-American SICs (for example, Mexico), over time. Export cash crops

which are generally likely to be less labor-intensive than domestic food crops are favored by a research and relative price intervention system geared to the need to continue channeling these export proceeds into import-substituting industries. Unskilled industrial real wages are, moreover, likely to increase more in these cases (see Table 4), partly as a consequence of the relative rise in the prices of agricultural wage goods and partly as a result of enhanced unionization and minimum wage legislation accompanying prolonged import substitution. As mentioned earlier, Latin-American growth and savings rates are generally respectable, if lower than in the East Asian cases (see Rows 1 and 3). There is,

Table 3

INDEXES OF MAJOR CEREAL CROP YIELDS^a (annual growth in parentheses)

	1948-52	1952-56	1961	1965	1970	1975	1977
			(Mexico 1950 = 100)				
Taiwan	309 (5.0)	375 (2.2)	427 (5.6)	531 (0.0)	532 (-0.1)	529 (3.9)	571
South Korea	483 (-2.0)	445 (3.7)	553 (-1.8)	513 (4.7)	617 (2.8)	710 (12.8)	904
Brazil	168 (-5.3)	159 (1.6)	175 (1.3)	184 (-0.3)	182 (2.7)	208 (2.4)	218
Mexico	100 (1.9)	108 (3.4)	132 (3.1)	149 (2.1)	162 (0.8)	169 (-2.1)	162
Malaysia	220 (1.7)	235 (3.8)	294 (0.0)	294 (2.3)	323 (1.9)	355 (0.8)	361
Philippines	157 (0.4)	160 (0.4)	164 (1.6)	175 (6.0)	221 (0.7)	229 (6.8)	261
			(1950 yield = 100)				
Taiwan	100	121	138	172	172	171	185
South Korea	100	92	115	106	128	147	187
Brazil	100	94	104	110	108	124	130
Mexico	100	108	132	149	162	169	162
Malaysia	100	107	134	134	147	161	164
Philippines	100	102	104	111	140	146	166

Sources: All figures are from FAO Production Yearbooks, 1966, 1970, and 1977, except Taiwan 1975-77 which are estimates based on multiplying 1970 yield by an index of rice yields from Republic of China, Statistical Yearbook, 1978.

^aFigures are the cereal crop to which the most acreage is devoted. For Brazil and Mexico corn yields are used. All other countries' yield statistics are for paddy rice.

Table 4

REAL MONTHLY WAGES IN CONSTRUCTION (in constant 1970 US \$)

	1955	1960	1965	1970	1973	1974	1975	1976	1977
South Korea	81.0	77.2	46.6	73.2	89.7	85.5	95.5	155.0	189.1
Index (1955 = 100)	100.0	95.3	57.5	90.9	100.7	105.6	118.4	191.4	233.5
Mexico	51.5	62.6	64.7	84.9	98.4	109.3	104.4
Index (1955 = 100)	100.0	121.6	125.6	164.9	191.1	212.2	202.7

Source: "Wage Tables for Latin America and the Caribbean Countries," Swadesh Bose, unpublished World Bank Development Economics Department, mimeo, 1979.

Table 5

THE GROWTH AND COMPOSITION OF INDUSTRIAL EXPORTS

	<u>5a</u>				<u>5b</u>		
	Annual growth rates (%)				Exports of consumer nondurables		
	Total manufacturing exports		Consumer nondurable exports		Total industrial exports (%)		
	1962-70	1970-77	1962-70	1970-77	1962	1970	1977
Brazil	28.6%	40.5%	41.4%	44.7%	11.3%	24.2%	29.8%
Chile	13.0 (62-71)	33.4 (71-74)	18.0 (62-71)	29.7 (71-74)	23.3	34.3	31.5
Colombia	20.5	38.0 (75)	17.8	39.6 (75)	48.3	39.2	42.6
Argentina	24.9	25.6 (76)	45.5	22.8 (76)	8.8	29.8	26.0
Mexico	11.8	31.2 (74)	5.8	33.9 (74)	30.7	20.3	21.4
Korea	67.0	44.7	75.7	39.5	33.1	49.5	38.3
Taiwan	34.7	32.8	32.6	30.7	46.7	41.2	36.9

Source: Computed from UN Commodity Trade Statistics, Statistical Papers, Series D; For Taiwan 1977 = Monthly Trade Figures, Taiwan Statistical Office.

however, a striking discrepancy in the equity indicators (Rows 5 and 6), resulting from the combination of less attention to food-producing agriculture and labor-intensive industries serving international markets.

In summary, what looks superficially like a paler, Latin-American version of the same East Asian success story (see Table 5a) is actually quite different. As seen in Table 5b, the composition of industrial exports was consistently biased against nondurable consumer goods in the Latin-American cases, with the exception of Colombia. Only in the 1970s did Korea and Taiwan begin to shift markedly towards more capital-intensive industrial exports. Even when similar SITC categories of goods are being produced in and exported from both sets of SICs the competitiveness at international prices undoubtedly varies markedly, with Latin-American intermediate inputs, for example, having to be procured domestically, and with primary factor markets considerably more distorted. It is striking, for example (see Table 6), that both with respect to the export of all manufactured goods and the export of nondurable consumer goods, there is a tendency for the Latin-American SICs to sell a larger and — even more meaningfully — increasing proportion of the total to other LDCs. Sales within the Andean Pact countries, for example, are more like sales in a protected domestic market. Quite the opposite trend is in evidence for the East Asian SICs who are generally increasing their already high sales to the developed countries, especially in the case of the nondurables where their comparative advantage has been presumably highest, at least until 1970. As international trade theory would lead us to expect, a larger proportion of the more labor-intensive exports in the East Asian cases have been destined for the more advanced country markets.

In Latin America, food production and rural industry continue to languish, relative to potential; substantial pockets of unemployment and underemployment persist, as do poverty and worsening levels of income distribution inequality. The question which inevitably arises, from the point of view of Latin-American policymakers, is the proximate cause, in nature and in man, of the particular path these economies have taken, and to what extent it is or should be reversible. I intend, finally, to turn attention to these issues.

II.

The prior analysis and the necessarily circumstantial evidence presented indicate that the Latin-American SICs "skipped" the labor-intensive primary export substitution phase and were, as a consequence, unable to mobilize their cheap unskilled labor effectively en route to economic maturity. It was their relatively abundant land-based exports which permitted them to move directly into the production and export of more sophisticated industrial products. It also permitted them the relative luxury of not fully mobilizing domestic food-producing agriculture and, if necessary, importing food instead.

The underlying relative abundance of natural resources — supplemented, it should be noted, by foreign capital inflows (both of the equity and portfolio variety) — makes its impact felt in two related ways. One, by rendering the system's underlying exchange rate "strong," it effectively discourages labor-intensive exports, *ceteris paribus*, from being competitive; in its extreme form this is the so-called Kuwait Effect, in the case of the oil-exporting countries. Second, there is the related opiate or cushion effect of ample export proceeds which makes it possible for the system politically to "afford" continued heavy protectionism and moving into more and more "expensive" or capital-intensive areas in which it does not necessarily have a comparative advantage — at least not yet.

The availability of ample natural resources and/or foreign capital can thus be viewed as permitting the system to continue on its old tracks, thus avoiding

Table 6

EXPORTS OF MANUFACTURING, TOTAL AND CONSUMER NONDURABLES (CNS). BY DESTINATION (PERCENTAGE)*

	1962		1970		1977		1962		1970		1977	
	Total		Total		Total		CNS		CNS		CNS	
	DCs	LDCs	DCs	LDCs	DCs	LDCs	DCs	LDCs	DCs	LDCs	DCs	LDCs
Brazil	63.2	36.6	54.7	43.4	55.7	43.1	75.7	20.6	78.3	16.4	74.7	19.2
Colombia	50.5	49.4	42.4	57.0	42.9	56.6	47.9	51.8	60.2	38.1	70.7	28.4
Argentina	65.7	31.4	44.6	51.9	33.4	62.5	75.0	21.0	67.9	23.1	68.0	19.2
Mexico	78.3	21.6	76.0	23.5	73.8	25.6	68.8	31.0	72.0	28.0	87.4	10.1
Chile	41.7	57.4	33.4	66.8	24.5	71.3	-	99.9	1.1	97.9	-	99.6
Hong Kong	83.3	15.6	84.0	15.9	82.2	17.0	75.8	24.0	84.3	15.4	84.4	14.1
Singapore	3.4	96.5	27.4	72.1	50.3	48.6	2.2	97.6	27.4	71.3	49.6	47.7
Korea	83.3	15.6	87.3	12.7	73.3	26.6	98.4	-	85.5	14.4	78.9	20.8
Taiwan	42.0	58.0	68.7	31.3	n.a.	n.a.	42.8	56.7	68.1	31.9	n.a.	n.a.

Source: Same as for Table 5. *Nonmarket economies not included.

the political and, at least short-term, economic pain of having to move to a different policy package. Growth rates can in this way be maintained — just by adding more fuel to the engine — and difficult decisions postponed. The contrast with the East Asian cases which, at the end of their PIS phase, could not afford to pay for a prolongation of import substitution, but were forced by necessity to turn to the utilization of their human resources, is clear. While additional resources, in theory, should be able to ease the actual and psychological adjustment pains, they can use, and in the real world are often used, to put off — or entirely avoid — difficult decisions.

In the Latin-American SIC cases, in other words, many decades of import substitution growth have led to encrusted habits and strong vested interest groups able to resist reforms or even marginal policy change. The relatively strong natural resources base permitted the society to channel its “windfall” returns both to the workers and the entrepreneurs in the protected industrial enclave. Under such conditions of bilateral oligopoly real industrial wages could be raised, even in the presence of substantial unemployment and the absence of sustained agricultural productivity increases, by means of government-supported union pressure and/or minimum wage legislation (see Table 4 for the contrast in wage behavior). Long before substantial pockets of unemployment and underemployment have been eliminated by labor absorption and growth, higher wages thus encourage the substantial “skipping” of the labor-intensive export phase. Higher-than-normal entrepreneurial returns and higher-than-normal wages for elite workers result. To the extent sectoral clashes on distribution occur, these may result in inflation, but the availability of ample land-based exports and/or foreign capital are bound to cushion such clashes and permit the system to continue on its path.

With some zigs and zags, this has been the general Latin-American SIC experience. The only events likely to bring it to an end are either the ultimate running out of a sufficiently large natural resources base, for example, Brazil in the face of rising oil import requirements, or Mexico (a couple of years ago) having difficulty in attracting the customary volume of commercial capital flows; or, on the other hand, the population’s unwillingness to permit the continued nonparticipation of substantial portions of economic actors and the resulting inequities in the distribution of income. The most recent economic policy changes in Brazil may represent a mixture of both these pressures coming to the fore and forcing a reassessment of policies.

Whether a strong desire really exists, beyond the rhetorical level, to respond to employment and distributional problems in the typical Latin-American SIC is a subject of some controversy which I am ill-equipped to deal with. However, the extent to which the Latin-American SICs have, in fact, lost opportunities, and the extent to which such losses are reversible inevitably represent relevant issues of importance to policymakers and need to be addressed.

One way of establishing an upper-bound estimate of "what might have been" had the Latin-American SICs not decided to skip the PES phase, is to estimate the value of manufactured exports for each had it maintained its base-year, say 1960, market share. In that base year, the beginning of the rapid PES subphase in Asia, the two Asian SICs had 0.19 percent of the world market in industrial exports, compared with 1.2 percent of Latin-American counterparts. By 1975, however (see Table 7) the global market share of the East Asians had increased eight times while that of the Latin Americans had remained about constant. Looking at individual countries, note that both Taiwan and Korea vastly expanded their market share, while those of Chile, Mexico, and Colombia declined, with only Brazil as an outstanding exception. It is, moreover, important to note that even in the LDC market in which they are relatively favored, the Latin-American SICs have been losing market shares.

Even in the most difficult, post-1973, years I should point out, the East Asian SICs have been able to maintain — or better, restore — healthy industrial export growth rates from an already high base, in spite of the combination of energy price rises, global inflation, recession, and increased DC protectionism, which has been devastating for non-oil LDCs generally. The growth rate of DC-manufactured imports from LDCs, for example, fell from 23.3 percent in 1973–74 to .3 percent in 1974–75 but recovered to 39.8 percent by 1975–76. Similarly, Korean manufactured exports rate of growth dropped to 9.5 percent in 1974–75 from 39 percent in 1973–74 but recovered to 63 percent by 1975–76.

In spite of the increased DC-protectionist response which has accompanied the superexporters' success in recent years, it should be noted, of course, that LDC-manufactured exports still constitute only a tiny, if growing, fraction of

Table 7

MANUFACTURED EXPORTS -- MARKET SHARES

	Share of world exports			Share of LDC total exports		
	1960	1970	1975	1960	1970	1975
2 East Asian SICs	0.19	0.57	1.59	3.44	10.37	22.87
5 Latin-American SICs	1.23	1.07	1.26	22.24	16.31	18.11
South Korea	.01	.32	.80	.18	4.88	11.51
Taiwan	.18	.36	.79	3.26	5.49	11.36
Brazil	.05	.18	.43	.90	2.74	6.18
Argentina	.08	.12	.19	1.45	1.83	2.73
Mexico	.33	.24	.21	5.97	3.66	3.02
Chile	.65	.50	.37	11.75	7.62	5.32
Colombia	.12	.03	.06	2.17	0.49	0.86

Source: UN, *Yearbook of International Trade for country statistics*; UNCTAD, *Handbook of International Trade and Development Statistics* for world and total developing country statistics, except Taiwan, 1975, *Monthly Trade Figures*, Taiwan Statistical Office.

global industrial exports; in 1955, for example, the developed market economies bought only 4 percent of their imported manufactures from LDCs; by 1976 this proportion, however, had almost doubled, to 7.8 percent. The annual growth rates, even in the comparatively "difficult" 1970-76 period, were 29 percent for DC purchases from LDCs versus 18 percent from the DCs. Similarly, there has been substantial growth, if from a low base, in intra-LDC manufactured trade, with LDC imports from other LDCs growing by a 27 percent annual average during 1970-76 versus 26 percent for such imports from DCs. The continued contrast in the growth rate of manufactured exports between the specific two sets of countries, in spite of the large difference in the initial base already established by the time of the first OPEC crisis, is vividly demonstrated in the empirical record.

The really important question is, of course, to what extent Latin Americans should consider the divergent East Asian experience as a "natural" consequence of different endowment conditions, and to what extent of different policy choices which might be reversible. As with most important questions, this one is rather difficult to answer definitively. What we can and will do, instead, is once again appeal to comparative historical analysis to shed some light on the question.

Societies in some sense act like individuals and are likely to take the road of lesser resistance if they can "get away with it." Thus, the relative natural resources abundance of Colombia, Mexico, and Brazil clearly biased their transition growth phasing toward the Latin-American type as I have outlined it. More natural resources and/or more foreign capital inflows can clearly be used to help ease the transition from one policy regime to another but, just as easily, they can be used to avoid what for some interest groups represent unpleasant changes, for example, the need to seek earned profits in manufactured exports as a replacement of windfall profits in manufacturing for domestic markets. In an odd Toynbeeian sense the problem of the East Asian SICs was indeed easier. There were no real alternatives; the agricultural sector could be viewed as a temporary, if important, source of fuel, but the system's long-run comparative advantage had to be sought for elsewhere, that is, in the system's human resources, first unskilled, then skilled.

To some extent clearly, the "skipping" of the primary export substitution phase in Latin America was thus a politically convenient decision rather than the simple consequence of resources and exchange rates. Protectionist devices were generally maintained and reinforced; agricultural productivity neglected; real wage rates raised; and selective industrial export subsidies administered. But many of these policies can also be reversed, and currently existing substantial pockets of unskilled surplus labor productively absorbed. The dubious benefit arising from temporary natural resource bonanzas can be controlled by running a surplus and trying to sterilize the inflows, as Chile (and the UK)

is now attempting to do. Minimum wages — and the power of unions — can be permitted to lag in real terms. And rural sectors can be given some real attention for the first time, both in terms of a shift to smaller-scale infrastructural investments and better internal terms of trade. Given the relatively larger size of the Latin American SICs, larger attention to domestic balanced growth as part of the strategy is probably indicated. Most of all, a reversal of development strategies requires a redress of the neglect of food-producing agriculture as is currently under way in both South Korea and some of the Latin American SICs, particularly Brazil (see Table 3).

Real world economies, of course, move in ambiguous nonmonotonic paths, lurching forward in one direction one year, partly retracing their steps the next. Moreover, as pointed out earlier, they are too complicated to be packaged into neat typologies or transition phases. In fact, it is that very grayness and ambiguity which also supports the positive argument for substantial residual flexibility within any given system at any given point in time.

This point is perhaps best demonstrated by pointing out that Korea and Brazil have been deviating sufficiently from their own "families" in recent years to have several elements in common. There can be little doubt that there have been substantial elements of export promotion along with export substitution in the Korean situation, especially since 1968 — witness the setting of firm export targets combined with substantial arm-twisting or implied threats concerning the withdrawal of other favors. Korea's relative early neglect of agriculture (with respect to its own reference group, see Table 3) combined with a rapid primary export substitution drive in the 1960s meant foreign capital had to be relied on much more heavily than, say, in Taiwan, both to help finance food imports and rapid industrial expansion.³ Similarly, Brazil's performance, particularly between 1963 and 1973 — and perhaps again currently — contains substantial elements of export substitution, yielding a burst in shoe and textile production and exports. While it is too early to tell, indications are, moreover, that Brazil may be seriously concerned with mobilizing the domestic balanced growth blade of such a strategy with the required help of a spurt in the hitherto neglected food-producing agricultural sector.

Other support for the potential reversibility of the Latin-American transition pattern may be offered by looking very briefly at a third group of countries, the potential future SICs of Asia, that is, Malaysia, Indonesia, and the Philippines. These countries have natural resource endowments and other characteristics which place them somewhere between the East Asian and Latin-American SICs. Their performance with respect to growth and equity (see the Appendix Country Indicator Tables) has quite similarly been somewhat "intermediate," best for Malaysia, followed by Indonesia, and perhaps worst for the Philippines. With respect to phasing, they have essentially been following a Latin-American SIC transition growth sequence, moving from a colonial pattern

after World War II, to primary import substitution in the 1950s and to secondary substitution in at least the Philippines since then. As the East Asian SICs successfully mopped up their surplus labor and as their wages rose, they moved, one by one, into secondary import substitution/export substitution during the late 1960s and early 1970s; there are clear signs, moreover, that the other Asian countries, Malaysia in particular, are currently making an effort to step into the labor-intensive export niche being vacated. Indonesia still seems to be doing somewhat less well in avoiding a Kuwait Effect coupled with adverse policy changes; and the Philippines, while it has the potential, is not as yet seriously in the running.

As Latin-American policymakers ponder both the challenge and the opportunity arising from the East Asian historical example they may well — and in fact frequently have cited — cite the “specialness” of these cases, either in terms of favored access to capital and markets or a more favorable international environment generally in the 1960s as compared with the 1980s. Yet one must also add to the record of, say, Taiwan that it had to overcome substantial disadvantages, including not only the poverty of natural resources, but also two major economic/political upheavals followed by the continuous drain of high defense expenditures, and increasingly severe protectionist restrictions by the US and Europe, accompanying its success in export substitution growth.

The niche in world trade labeled “labor-intensive manufactured goods” is, of course, not limited in size but expandable in terms of both variations in quality characteristics and markets, including among the developing countries themselves. In the final analysis, the question of whether Latin-American SICs will be persuaded that a change in the direction of policy is both feasible and desirable depends as much on the capacity for political reform mongering as on the technical issues raised. But it is certainly necessary, if not sufficient, for such policymakers to be convinced that “moving back” toward a more agriculture- and labor-intensive industry-oriented growth path is likely to enhance growth along with equity objectives more dependably than grafting export promotion policies onto a heavily encrusted import substitution base.

APPENDIX

Country Statistical Indicators

General Sources

(1) Calculated from indexes in UN, *Statistical Yearbook*, 1978 (United Nations Publication Sales No. E/F.79.XV11.1), pp. 698–702. Refers to compound annual growth of real GNP.

(2) Calculated from population estimates in FAO, *Production Yearbooks*, 1966, 1970, and 1977 (Rome, Italy: Statistics Division, FAO) Table 3.

(3) Savings from UN *National Accounts Yearbook*, 1978 (United Nations Publication Sales No. E.79.XVII.8, Vol. I); GNP from IMF *Yearbook of International Financial Statistics*.

(4) UN *Yearbook of National Accounts Statistics*, 1978.

(5) Shail Jain, *Size Distribution of Income* (Washington: World Bank, 1975). All data are for total population.

(6) *Ibid.*

(7)–(9) 1970–77 statistics are from UNCTAD, *Yearbook of Trade and Development Statistics*, 1979 (United Nations Publication Sales No. E/F.79.II.D.2). Agricultural exports are defined as SITC 0 + 1 + 2 – 27 – 28 + 4; mineral exports are defined as SITC 27 + 28 + 3 + 67 + 68; and manufactured exports are defined as SITC 5 + 6 – 67 – 68 + 7 + 8. 1950–65 data are calculated from UN *Yearbook of International Trade Statistics* for the appropriate year.

(10) Calculated from IMF, *Yearbook*, converted to real values using wholesale price indexes.

(11) Calculated from IMF, *Yearbook*. Export values are from the national accounts and include goods as well as nonfactor services.

Additional Country Sources

Taiwan

(1) Calculated from IMF *Yearbook*.

(2) Calculated from *Statistical Yearbook of the Republic of China* (Taipei: Directorate General of Budget, Accounting and Statistics, 1978).

(3) *National Income of the Republic of China* (Taipei: Directorate General of Budget, Accounting and Statistics, 1977).

(7) *Statistical Yearbook of the Republic of China*, 1978, SITC 0 + 1 + 2 + 4, pp. 252–53.

(8) *Ibid.*, SITC 3.

(9) *Ibid.*, SITC 5 + 6 + 7 + 8 + 9.

Philippines

(2) Figures for 1973 and 1974 are calculated from ILO, *Yearbook of Labour Statistics* (Geneva: International Labor Organization, 1978), p. 223.

Indonesia

(3) World Bank, *World Tables 1976* (Baltimore: Johns Hopkins University Press, 1976) p. 485.

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Appendix Table 1

COUNTRY STATISTICAL INDICATORS, EAST ASIAN S1Cs -- SOUTH KOREA

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)	2.4 (52-60)		3.2	7.8	8.3	5.6	6.4	11.0	9.0
(2) θ -- % nonagricultural labor	20.3 (55)	41.9 (63)	41.7	45.3	--	--	49.7	50.6	51.5
(3) Savings/GNP	--	4.0	8.5	12.0	14.4	10.8	10.3	14.4	17.9
(4) Investment/GNP	9.5	11.3	15.7	26.8	26.0	28.5	28.0	24.7	28.9
(5) Gini coefficient	--	--	.27 (66)	.37	--	--	--	--	--
(6) Income % of bottom 20%	--	--	9.4 (66)	7.1	--	--	--	--	--
(7) Agricultural X_a/X exports (%) as % of total exports	82.3 (52)	51.4	25.3	16.7	13.2	10.9	15.1	9.3	12.8
(8) Mineral exports (%) as % of total exports	11.2 (52)	8.3	22.7	8.3	8.5	14.2	7.9	7.8	6.2
(9) Manufactured exports (%) as % of total exports	6.4 (52)	40.3	52.0	74.9	78.1	74.5	76.8	82.6	80.9
(10) Annual total export (X) growth rate (%)	10.7	58.6	30.6	55.3	-0.8	7.3	13.6	19.3	
(11) Total exports/GNP	2.1 (53)	3.3	8.5	14.3	30.3	28.5	28.5	33.4	35.8

Appendix Table 2

COUNTRY STATISTICAL INDICATORS, EAST ASIAN S1Cs -- TAIWAN

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)		3.6 (51-60)	5.1	6.2	9.6	-1.1	0.9	9.8	6.8
(2) θ -- % nonagricultural labor	37.3	43.9	46.3	55.6	62.8	63.1	63.4	65.4	66.2
(3) Savings/GNP	10.3	12.0	14.9	20.7	27.4	24.8	19.8	24.3	24.1
(4) Investment/GNP	12.2	17.6	18.0	23.5	28.3	31.1	32.7	30.7	29.1
(5) Gini coefficient		.56 (59)	.44		.29 (72)				
(6) Income % of bottom 20%	2.9 (53)	5.6	7.8 (64)		8.8 (72)				
(7) Agricultural X_a/X exports (%) as % of total exports	--	51.7 (62)	57.9	22.5	15.8	15.5	17.5	13.6	13.4
(8) Mineral exports (%) as % of total exports	--	2.1 (62)	0.4	0.7	0.3	0.3	1.1	1.3	1.6
(9) Manufactured exports (%) as % of total exports	--	46.2 (62)	41.7	76.8	83.9	84.2	81.4	85.0	84.9
(10) Annual total export (X) growth rate (%)		9.5	22.2	23.7	31.6	-10.9	1.2	49.6	11.6
(11) Total exports/GNP	10.1 (51)	11.1	18.4	29.6	49.0	45.4	41.2	52.3	53.8

Appendix Table 3

COUNTRY STATISTICAL INDICATORS, LATIN AMERICAN SICs - ARGENTINA

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (X)	-0.4	2.8	2.9	3.3	5.1	-2.9	-4.0	3.1	
(2) θ -- % Nonagricultural labor	74.8 (47)	80.8	81.8	83.6	--	--	85.4	85.8	86.1
(3) Savings/GNP	--	20.3	15.5	15.3	17.9	19.7	20.5	--	--
(4) Investment/GNP	26.7	21.1	17.7	21.4	20.1	21.3	22.2	--	--
(5) Gini coefficient	--	.49 (61)	--	--	--	--	--	--	--
(6) Income % of bottom 20%	--	5.1 (61)	--	--	--	--	--	--	--
(7) Agricultural X_a/X exports (X) as % of total exports	91.9	95.3	93.6	85.2	77.0	74.8	74.8	74.3	75.5
(8) Mineral exports (X) as % of total exports	0.3	0.7	1.3	2.5	3.9	4.2	1.5	3.1	1.9
(9) Manufactured exports: (X) as % of total exports	7.6	4.0	5.1	12.3	19.0	21.0	23.6	22.6	22.5
(10) Annual total export (X) growth rate (X)	0.6	3.5	5.9	7.0	1.0	-26.6	61.0	22.6	
(11) Total exports/GNP	14.3	10.6	7.7	8.5	9.7	8.8	7.6	9.4	11.0

Appendix Table 4

COUNTRY STATISTICAL INDICATORS, LATIN-AMERICAN SICs - BRAZIL

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (X)	3.2	--	5.0	9.7	6.7	3.1	6.0	1.9	
(2) θ -- % nonagricultural labor	39.4	--	51.2	54.4	--	--	58.0	58.8	59.5
(3) Savings/GNP	--	17.0	18.4	17.4	20.5	20.1	15.2	15.0	14.9
(4) Investment/GNP	16.5	18.0	15.6	23.7	24.5	25.7	27.1	25.4	23.5
(5) Gini coefficient	--	.59	--	.65	--	--	--	--	--
(6) Income % of bottom 20%	--	3.5	--	2.8	--	--	--	--	--
(7) Agricultural X_a/X exports (X) as % of total exports	96.8 (54)	88.8	80.8	75.2	70.3	63.9	57.9	61.9	63.9
(8) Mineral exports (X) as % of total exports	2.1 (54)	7.9	11.7	14.3	10.0	12.0	16.7	15.7	12.3
(9) Manufactured exports (X) as % of total exports	0.8	3.3	7.5	9.7	17.9	22.3	23.3	20.8	23.0
(10) Annual total export (X) growth rate (X)	-0.4	6.7	9.9	28.0	10.1	0.5	8.9	9.3	
(11) Total exports/GNP	8.3	7.4	7.3	6.6	8.1	8.0	7.5	7.4	7.8

Appendix Table 5

COUNTRY STATISTICAL INDICATORS, LATIN-AMERICAN SICs - CHILE

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)	1.3	2.5	2.1	-0.6	3.6	-13.0	2.0	6.9	
(2) 0 - % nonagricultural labor	70.4 (52)	72.5	73.1	76.2	--	--	79.0	79.5	80.1
(3) Savings/GNP	3.0	-2.5	6.6	6.0	0.8	30.2	-5.9	-1.8	--
(4) Investment/GNP	11.2	14.6	15.2	15.0	15.1	13.8	11.6	9.9	--
(5) Gini coefficient	--	--	--	.51 (68)	--	--	--	--	--
(6) Income % of bottom 20%	--	--	--	4.8 (68)	--	--	--	--	--
(7) Agricultural X_a/X exports (%) as % of total exports	--	--	7.6 (66)	7.5	6.8	8.7	17.3	--	--
(8) Mineral exports (%) as % of total exports	--	--	88.1 (66)	88.3	89.7	87.0	77.1	--	--
(9) Manufactured exports (%) as % of total exports	--	--	4.2 (66)	4.0	3.5	4.3	5.3	--	--
(10) Annual total export (X) growth rate (%)	4.1	5.1	11.4	-6.9	69.6	-38.7	19.9	-0.9	
(11) Total exports/GNP	--	--	11.1	15.8	12.9	17.1	20.4	21.5	19.6

Appendix Table 6

COUNTRY STATISTICAL INDICATORS, LATIN-AMERICAN SICs - COLOMBIA

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)	4.6	1.4	3.1	3.8	3.2	2.0	--	--	
(2) 0 - % nonagricultural labor	46.1	--	55.5	62.1	--	--	67.8	68.8	69.8
(3) Savings/GNP	7.2	9.5	9.1	10.5	9.6	11.8	7.4	--	--
(4) Investment/GNP	9.5	20.4	17.3	22.7	19.2	21.5	20.3	20.3	19.6
(5) Gini coefficient	--	.53 (62)	.60 (64)	.56	--	--	--	--	--
(6) Income % of bottom 20%	--	4.1 (62)	4.3 (64)	3.5	--	--	--	--	--
(7) Agricultural X_a/X exports (%) as % of total exports	83.1 (51)	78.9	75.3	81.2	68.0	63.1	71.7	73.7	76.9
(8) Mineral exports (%) as % of total exports	16.3 (51)	18.9	18.0	10.8	6.4	9.1	7.7	4.6	4.1
(9) Manufactured exports (%) as % of total exports	0.5 (51)	1.4	6.7	8.0	25.4	27.6	20.6	21.7	18.6
(10) Annual total export (X) growth rate (%)	-0.5	4.1	3.6	7.4	0.0	-5.3	13.9	31.4	
(11) Total exports/GNP	10.9	15.7	11.5	14.6	15.3	14.4	15.4	16.8	16.6

Appendix Table 7

COUNTRY STATISTICAL INDICATORS, LATIN-AMERICAN SICs - MEXICO

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (X)	6.2	3.5	3.4	2.5	2.1	1.0	-1.0	--	--
(2) θ -- % nonagricultural labor	42.2	45.6	49.7	54.8	--	--	59.5	60.4	61.3
(3) Savings/GDP	--	10.0	6.4	7.0	7.2	12.5	11.6	13.1	19.4
(4) Investment/GDP	15.7	18.3	18.9	21.3	22.4	23.4	24.7	24.6	23.0
(5) Gini coefficient	--	.54 (63)	--	.58 (69)	--	--	--	--	--
(6) Income % of bottom 20%	--	3.7 (63)	--	4.2 (69)	--	--	--	--	--
(7) Agricultural X_a/X exports (X) as % of total exports	53.5	64.1	64.7	48.8	42.6	40.8	38.1	42.1	--
(8) Mineral exports (X) as % of total exports	38.6	24.0	22.3	21.2	16.5	23.1	32.4	30.3	--
(9) Manufactured exports (X) as % of total exports	7.9	11.9	13.0	30.0	40.8	36.0	29.5	27.5	--
(10) Annual total export (X) growth rate (X)	0.9	5.9	1.7	9.3	7.9	-12.0	20.5	24.6	--
(11) Total exports/GDP	17.0	10.6	9.7	8.2	9.4	9.3	7.6	8.5	10.2

Appendix Table 8

COUNTRY STATISTICAL INDICATORS, OTHER ASIAN LDCs - INDONESIA

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (X)	3.3 (53-59)	-0.5	1.3	6.0	5.4	2.0	4.0	4.8	--
(2) θ -- % nonagricultural labor	--	28.1 (61)	29.5	33.7	--	--	37.4	38.1	38.8
(3) Savings/GNP	--	7.9	5.5	9.2	13.8	--	--	--	--
(4) Investment/GNP	5.6	--	7.2	14.8	19.9	18.9	22.8	22.8	20.9
(5) Gini coefficient	--	--	--	.46 (71)	--	--	--	--	--
(6) Income % of bottom 20%	--	--	--	6.8 (71)	--	--	--	--	--
(7) Agricultural X_a/X exports (X) as % of total exports	65.2	66.4	54.0	54.3	43.4	24.6	20.4	24.9	26.8
(8) Mineral exports (X) as % of total exports	33.7	33.1	44.1	44.3	54.4	74.5	78.4	73.7	71.5
(9) Manufactured exports (X) as % of total exports	0.7	0.2	1.9	1.2	1.9	0.8	1.2	1.4	1.6
(10) Annual total export (X) growth rate (X)	-1.0	-3.7	6.5	33.4	94.5	-12.5	15.1	19.7	--
(11) Total exports/GNP	--	--	14.3	13.0	20.8	30.4	23.6	22.8	22.4

Appendix Table 9

COUNTRY STATISTICAL INDICATORS, OTHER ASIAN LDCs - MALAYSIA

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)	4.1 (55-60)	--	--	7.5 (71-73)	6.3	-2.0	7.0	6.5	
(2) θ - % nonagricultural labor	35.5	34.9	40.6	44.5	--	--	48.3	49.1	49.9
(3) Savings/GNP	--	15.4	14.0	16.8	22.8	--	--	--	--
(4) Investment/GNP	6.9	11.6	15.2	16.6	22.9	26.5	25.9	23.0	23.6
(5) Gini coefficient	--	.57	.55 (67)	.51	--	--	--	--	--
(6) Income % of bottom 20%	--	3.2	3.2 (67)	3.8	--	--	--	--	--
(7) Agricultural X_a/X exports (%) as % of total exports	--	74.0	76.4	63.2	69.6	62.4	57.3	57.6	58.0
(8) Mineral exports (%) as % of total exports	--	24.4	19.3	30.4	18.5	24.2	24.9	26.9	26.6
(9) Manufactured exports (%) as % of total exports	--	1.6	4.3	7.5	11.3	12.7	17.1	15.0	15.2
(10) Annual total export (X) growth rate (%)	-0.3	-3.7	-4.5	7.2	17.4	-23.7	12.8	7.8	
(11) Total exports/GNP	52.3 (55)	56.8	49.0	47.5	43.2	50.5	47.1	53.8	52.2

Appendix Table 10

COUNTRY STATISTICAL INDICATORS, OTHER ASIAN LDCs - PHILIPPINES

	1950	1960	1965	1970	1973	1974	1975	1976	1977
(1) Annual real per capita GNP growth rate (%)	3.4 (50-59)	2.2	2.0	3.0	3.2	3.1	5.0	2.9	
(2) θ - % nonagricultural labor	30.5	40.9	42.9	46.8	45.7	44.4	50.4	51.1	51.8
(3) Savings/GNP	4.2	11.7	15.6	13.3	19.4	18.6	17.8	17.1	18.6
(4) Investment/GNP	7.3	14.5	19.1	17.6	17.0	20.4	27.0	27.6	27.0
(5) Gini coefficient	.49 (56)	.50 (61)	.50	.49 (71)	--	--	--	--	--
(6) Income % of bottom 20%	4.9 (56)	4.8 (61)	3.7	3.9 (71)	--	--	--	--	--
(7) Agricultural X_a/X exports (%) as % of total exports	88.9 (54)	85.6	80.9	69.8	63.4	67.9	65.1	57.7	58.4
(8) Mineral exports (%) as % of total exports	9.1 (54)	11.0	10.5	23.7	20.9	19.5	17.9	18.7	17.0
(9) Manufactured exports (%) as % of total exports	1.9 (54)	3.4	8.3	6.4	12.0	8.7	11.2	15.3	15.7
(10) Annual total export (X) growth rate (%)		5.6	10.0	10.5	6.7	2.7	-15.5	4.2	11.7
(11) Total exports/GNP	13.5	10.1	17.3	19.4	22.2	22.2	18.6	17.6	19.2

Comments on "Challenges and Opportunities Posed by Asia's Superexporters: Implications for Manufactured Exports from Latin America"

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Professor Ranis identifies some of the essential differences between the development policies of the East Asian semiindustrial countries (SICs) and those of Latin America. To do so he uses a typology to group countries having similar characteristics and then traces the sequence of development policies for each group. This approach is particularly useful in explaining differences in past performance, since it facilitates the identification of critical differences between the two groups.

These results must be used with caution in drawing policy conclusions for the future. If we wish to adopt a particular feature of the experience of a given country, such as Korean export performance or the rural health service of China, it is hard to know how much of its set of policies and institutions must be transferred to achieve this objective. This is particularly true of countries with such large political and cultural differences as those of Latin America and East Asia.

DIAGNOSIS OF THE PAST

Ranis demonstrates that the type of development strategy followed by the four East Asian SICs — Hong Kong, Singapore, Taiwan, and South Korea — has led to both more rapid and better distributed growth than the strategies followed by the principal Latin-American countries — Argentina, Brazil, Colombia, and Mexico. To explain these results, Ranis focuses on two main differences:

(1) The policy of import-substituting industrialization was maintained much longer in Latin America and extended to intermediate and capital goods, in which the Latin-American countries did not have a comparative advantage. In contrast, the East Asian countries shifted to more labor-intensive export diversification at this stage.

(2) The availability of primary exports has had a perverse effect in permitting Latin-American countries to continue to grow despite high levels of protection and has made subsequent efforts to reverse these policies and encourage manufactured exports more difficult.

In summary, Ranis focuses on the fact that Latin-American countries have "skipped" a useful stage in the development of light, labor-intensive industries that not only serve to expand exports but also increase employment and hence improve the distribution of income. He suggests that it is not too late for many Latin-American countries to shift their policies from secondary import substitution (SIS) to primary export substitution (PES) to achieve these benefits.

To evaluate this diagnosis, it is useful to elaborate these conclusions in more general terms. East Asian trade and development policy has had two separate effects: (1) Avoidance of overvalued exchange rates, thus securing adequate supplies of foreign exchange; and (2) Promoting export-oriented manufacturing based on relatively low labor costs.

In applying this experience to Latin America, I would put much more weight on the first aspect than on the second. Growth in many Latin-American countries continues to be hampered by periodic shortages of foreign exchange, and an export-oriented policy is necessary to remedy this problem. As indicated later, however, it may not be desirable for every country to specialize in light manufactured exports, particularly if its income level and wage structure do not lead to comparative advantage in such products.

POLICY OPTIONS

To illustrate better the choices of policy available to Latin America, I shall adopt a somewhat broader typology that can encompass all semiindustrial countries rather than just the two extreme cases discussed by Ranis. Three criteria that combine resource endowments and policy choices will be used for this purpose: (1) *Population size*, which is an important determinant of the level and significance of international trade; (2) *Natural resource endowments*, which determine comparative advantage in primary exports; and (3) *The existing structure of production and trade*, as determined by past policies.

These criteria help to identify three groups of middle-income countries following different development strategies, as shown in the table. This grouping will be useful to compare the semiindustrial countries (SICs) of Latin America with those of other parts of the world. This typology and the corresponding strategies are discussed in Hollis Chenery and M. Syrquin, *Patterns of Development* (London: Oxford University Press for the World Bank, 1975). The table includes all of the principal SICs and indicates their per capita export levels and composition as well as past growth rates of GNP per capita.

Comparing the eight Latin American countries with the full range of SICs gives a somewhat different perspective from that of Ranis. He omits a group of seven Mediterranean countries having incomes comparable with Argentina or Mexico, whose experience in trade and growth has been generally intermediate between Latin America and East Asia. Several of them have grown very

CHARACTERISTICS OF PRINCIPAL SEMIINDUSTRIAL COUNTRIES: 1976^a (in dollars of 1970)

	Population (1)	Location (2)	GNP per capita 1976 (3)	Growth 1960-78 (4)	Manufacturing		Share of mdse. expta. (7)
					Share of GNP (5)	Exports per capita (6)	
I. Large Diversified Economies							
Spain	36	Med.	1,990	5.0	28	115	69
Yugoslavia	22	Med.	1,150	5.4	32	108	70
Argentina	26	L.A.	1,060	2.6	37	26	25
South Africa	26	Africa	910	2.5	24	54	42
Brazil	110	L.A.	780	4.9	30	16	25
Mexico	62	L.A.	740	2.7	27	11	31
Turkey	41	Med.	680	4.0	17	8	24
Philippines	43	E. Asia	280	2.6	24	9	24
Thailand	43	E. Asia	260	4.6	19	9	19
Egypt	38	Med.	190	3.3	23	7	27
II. Primary-Oriented Economies							
Venezuela	12	L.A.	1,750	2.7	17	10	2
Chile	11	L.A.	720	1.0	22	5	5
Malaysia	13	E. Asia	590	3.9	16	49	16
Ecuador	7	L.A.	440	4.3	15	2	2
Colombia	24	L.A.	430	3.0	21	10	22
Ivory Coast	7	Africa	420	2.5	12	13	8
III. Industry-Oriented Countries							
Israel	3	Med.	2,670	4.2	27	361	78
Singapore	2	E. Asia	1,840	7.4	25	899	46
Greece	9	Med.	1,970	6.0	20	93	49
Hong Kong	5	E. Asia	1,440	6.5	25	1,254	97
Portugal	10	Med.	1,150	5.9	34	87	68
Uruguay	3	L.A.	950	0.7	28	44	34
Taiwan	16	E. Asia	730	6.6	37	290	85
Tunisia	6	Med.	570	4.8	11	25	26
Korea	36	E. Asia	460	6.9	25	129	88

Source: World Bank, *World Development Reports, 1978, 1979, 1980.*

^aDistinguishing characteristics of semiindustrial countries include a share of manufacturing in GNP of 20 percent or more (Col. 5) or a similar share of merchandise exports (Col. 7).

rapidly, but exports have made less of a contribution than in the four super-exporters of East Asia. Although export growth was generally rapid enough to avoid balance of payments difficulties — at least until the oil crisis of 1973 — the phase of primary export substitution stressed by Ranis is much less in evidence (Portugal and, to a lesser extent, Israel are the main examples of PES). This group also includes several countries — notably Israel and Yugoslavia — whose performance in income distribution is comparable with East Asia.

This broader comparison leads me to three general conclusions:

(1) The East Asia development pattern described by Ranis is an extreme form that is likely to be approached by only a few other countries.

(2) There is a much broader group of SICs that have had rapid enough growth of manufactures to avoid payments bottlenecks. Several larger countries, such as Spain and Yugoslavia, have developed a diversified pattern of exports without stressing the PES phase of labor-intensive products. These examples are more feasible for the larger middle-income Latin American countries than the sequence followed by the East Asian prototype.

(3) The exchange rate difficulties caused to primary exporters — the Kuwait (or Venezuela) problem — can be avoided without forgoing the benefits of this source of foreign exchange. Malaysia and Thailand, for example, illustrate the possibilities of less protected forms of import substitution that do not lead to subsequent distortions in the industrial structure. The latter feature of the Latin-American pattern does not seem to be a necessary consequence of basing early development on primary exports, even though it is quite common.

Despite these qualifications, the main features of Ranis's analysis and policy message survive. A further elaboration of his SIC typology should yield additional rewards. However, it is not necessary to become a superexporter of manufactures to reap the main benefits for growth and poverty alleviation that come from greater export orientation and less distorted internal prices.