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SOME REFLECTIONS
ON COMPARATIVE LATIN AMERICAN
ECONOMIC PERFORMANCE AND POLICY

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Abstract

This paper compares the differential performance of several Asian and Latin American countries in the last decade, focusing upon the reaction to the debt crisis in the 1980s. It also examines exchange rate policy and trade performance, concluding that more realistic Latin American policy has not yielded the expected results. Finally, the paper examines the role of the state in inducing accelerated development in Asia and Latin America.



Introduction

There is an increasingly pervasive view that Latin American post-war development has been badly flawed. The prominent success of the export-led expansion of several Asian countries, and especially Korea and Taiwan, weighs heavily in this assessment. That comparative example of the benefits of outward orientation is, moreover, strong support for the corollary proposition that the principal cause for Latin American failure is the continuing import substitution bias of the region.

Angus Maddison relates the two: "The economic growth performance of Latin America since 1973 has been abysmal. ... [T]here has ... been a certain continuity in economic policy attitudes since the 1930's, and the liberal international order which was created by OECD countries and has influenced policy in Asia has left them virtually untouched."¹

Balassa and associates go further. They emphasize that external shocks in the region were not disproportionate and use the troubled Latin American adjustment to the debt crisis to emphasize three more fundamental deficiencies: inward orientation, lack of appropriate incentives to savings and investment, and the excessive role of the state. They prescribe remedies emphasizing² trade liberalization and reliance on market signals.

Jeffrey Sachs, in another influential comparative analysis, likewise rejects differential economic shocks and debt exposure, but also government involvement, to conclude that "the more important differences seem to center on exchange rate management and on the trade regime. Latin American and Asian borrowers have differed not only in the amounts borrowed, but also in the uses

to which the loans were applied. Simply put, the Latin American countries did not use the foreign borrowing to develop a resource base in tradable goods, especially export industries, adequate for future debt servicing"³ His focus then shifts to the political determinants of inadequate Latin American policies, with the largest role explained by greater rural influence in Asia relative to Latin America.

In this paper, I will take up three issues that figure centrally in this analysis of the deteriorating Latin American position. First, I shall argue that the "dismal" Latin American performance has been exaggerated. Two factors contribute to this phenomenon: the selectivity of comparisons of the whole region against the very best Asian performers and the inclusion of the post-1980 period, when Latin American income absolutely declined. The relative severity of the external shock, moreover, is not to be discounted as an important reason for less satisfactory Latin American performance. Second, faulty exchange rate management and trade policy is not as key to lagging performance as has been stressed. In fact, during the key period when Latin America fell most off the pace, exchange rate policies in the region were aggressively favorable to exports. The earlier commitment to overvaluation as an instrument of import substitution industrialization, and consequent loss of export share, was largely gone in the 1970's. Export volume increases after 1979 were greater relative to Asia than they had been previously.

Third, the political constraints underlying Latin American policy response and development strategy extend beyond the urban-

rural distinctions stressed by Sachs. Political imperatives weaken the interventionist Latin American state, limiting its autonomy and diminishing its capacity to react to the debt crisis, even as they strengthen the Asian. Simple deregulation and privatization, however, are not first best solutions; reconstructing a developmental state is.

Latin American Economic Performance

Table 1 sets out some performance characteristics for Latin American and East Asian and South Asian countries. Growth rates, inflation and debt are the objects of interest. What is clear is the much steeper fall off in Latin American growth rates over the period. From a very small disadvantage relative to the East Asian countries in 1965-73, the margin widens in the 1970's with the first oil shock. But the real difference emerges after 1980 and the debt crisis, with an absolute decline in Latin American product. The gap in this later period is, for the weighted average, 6.4 percentage points. Without giving special attention to the depths of this Latin American depression after 1980, growth rate differentials calculated over longer periods miss much of the point. Indeed, Latin America hardly has a "dismal" record over the period 1965-80, and it is one that markedly improves on the 1950-65 results.

Of equal significance, moreover, is the disparity apparent among the Latin American countries in rates of product growth. Argentina, Chile and Peru are consistently poor performers, before and after 1980; on the other side, Brazil, Colombia and Mexico fare rather better. The heterogeneity is such that until

1980, the differences in simple averages between Latin America and East Asia are not statistically significant. Put another way, the better performing Latin American countries might be mistaken for East Asian countries. One must therefore be careful in one's generalizations: indeed, if the smaller Latin American and Asian countries were included, more variability would be apparent.

Higher inflation clearly differentiates Latin America from East Asia and South Asia, but again with an increasing intensity. Latin America's proclivity to inflation is not as pronounced until the countries must cope with the oil price shocks and significant balance of payments adjustment. The very relative price changes required, including devaluation, are readily turned into accelerating inflation through formal or informal indexing arrangements that characterize high inflation economies. Prominently included among such relative prices is the real interest rate as the public sector used internal debt to acquire resources to meet external debt service. But then inflation has a strong inertial component, and its absolute level is a misleading index of internal distortion and misallocation. Conventional monetary and fiscal restraint do not work effectively to reduce this kind of inflation. This incompatibility became an essential sticking point in the implementation of IMF stabilization programs in many of the countries in the region.

The uniformity that emerges from Table 1, and that underlies these other measures of economic performance, is Latin America's much greater reliance on indebtedness in the 1970's. Colombia, largely but not wholly excepted, the other countries embraced

debt to a much greater extent than anywhere else in the world. The weighted debt-GNP ratio tripled between 1973 and 1983, and the already higher debt service to export ratio almost doubled. South Asian conservatism, and ineligibility for borrowing from banks, equally comes through. So does the mixed East Asian response: note in particular the very great difference in the Korean and Taiwanese reliance on external finance.

The Latin American countries, when given the opportunity by increased availability of bank lending in the 1970's, substantially availed themselves of it. Initially, virtually all countries borrowed to adjust to higher oil prices. Mexico and Peru were not yet net oil exporters; Venezuela initially did not borrow, but rather deposited its surplus abroad. Such borrowing decisions conformed to market signals: world real interest rates were low and even negative, particularly with respect to export price indexes. They also conformed to structural limitations to immediate realignment of the domestic economy; time was needed to adjust. Finally, debt was consistent with a politics of continuity rather than abrupt dislocation, a continuity which especially⁴ appealed to governments seeking to legitimize their power.

For the larger countries, Mexico and Brazil especially, this access to external saving became habit forming. Debt dynamics of reduced resource transfer as later borrowing was negated by reverse debt service was an important factor increasing demand for loans. As interest payments rose with accumulated debt, still more debt could guarantee a transfer of real resources underwriting high levels of investment and high growth rates. To

accommodate to the bank preference for public guarantees, state enterprises were increasingly the issuers of debt. The public sector correspondingly assumed an expanded role as an integral part of the reliance on foreign saving.

On the whole, the strategy worked. Later failure obscures the general contemporary evaluation that the massive flow was justified. During this period of the 1970's, investment ratios for the Latin American borrowers increased and growth rates continued high. Analysis of consumption functions shows that the marginal propensity to save out of external borrowing was on the whole the same as, or greater than, domestic income.⁵ At the margin, therefore, there was an expected substitution for domestic saving. But there seems to be no difference in this respect between Indonesia and Korea, on the one hand, and Brazil and Mexico, on the other.

Nor do the Asian countries seem to have been spared mistakes in public investment. In Korea, there was much criticism of the support for domestic import substitution in the heavy and chemical industries. "A massive investment program in these industries financed largely by foreign loans and central bank credit was put in effect in 1973 and pursued vigorously until 1979. To the dismay of policymakers who had conceived this industrial restructuring, the development strategy ran into a host of financing, engineering, quality, and marketing difficulties."⁶

What complicated later Latin American performance were three factors. The first was exaggerated borrowing that began to become evident in 1979-80. It was of two types. Argentina and Chile increasingly relied upon external loans to implement their inter-

national monetarist anti-inflation and trade liberalization policies; overvaluation was now an instrument of non-structuralists and depended upon capital inflow to sustain it. In addition, Mexico and Venezuela, beneficiaries of the second rise in oil prices, abused easy access to credit. Mexico borrowed to take on an ambitious expenditure program to support accelerated growth; Venezuela indulged in expanded public spending even while private investment was contracting. In all four countries, balance of payments adjustment was no longer the motivating consideration. It is not accidental that capital flight soon emerged as a major offset to new debt in all except Chile. Excess borrowing could not be absorbed through an increase in imports; capital outflows equilibrated. If there is a case for loan pushing, it is to be found in these countries.

Second, even in the absence of external shocks, asymmetric Latin American opening to the international economy was already worrisome in 1978. Debt had expanded much more rapidly than exports. Note in Table 1 that the Latin American countries had started in 1973 from much higher debt-service to export ratios than the Asian. By 1978, that indicator had increased some 40 percent. There was danger in such reliance on capital inflow by economies that were so closed; it would have taken an enormous effort to reallocate resources to service the accumulated debt even if the international economic environment had not deteriorated. It was not only the inward style of Latin American development that is to be faulted, but even more its combination with external borrowing.

Third, massive external shocks intervened after 1980 and proved the Latin American vulnerability. They are highlighted in Table 2. Four effects are measured against a standard of continuity of the international economy. First is the terms of trade effect, derived by comparing the evolution of export and import prices in the period 1977-79 with the later 1981-83 years. Second is the rise in real interest rates between the two periods. Third is the impact of reduced OECD growth on export volume of developing countries. Fourth is the shift in willingness of commercial banks to lend, measured as the change in the ratio of normal capital flow relative to gross product. Note that I consider the impairment of capital market access as a shock, as it was, rather than as a means of adjustment.

Two principal conclusions derive from Table 2. The first is the relatively greater impact on the Latin American countries, Colombia excepted, from the interest rate and capital supply effects, than from terms of trade and recession effects. The reason is straightforward: the former depend on the debt-GNP ratio, the latter on the export-GNP ratio. The more open East Asian economies were buffeted by deteriorating conditions of trade, while the Latin American countries, because of their reliance on debt, were more sensitive to changes in financial markets. But, for that very reason, financial markets remained open to East Asian countries to compensate for the trade shock and facilitate adjustment. That was not true for Latin America. Countries had relied on the capital market, not trade, in order to adjust to the first shock. Now on the occasion of the second, there was no longer a choice.

That necessity explains why the conventional measurement of the shocks relative to gross national product, which shows the Asian countries as badly impacted, is misleading. This is the second and critical point. If the deterioration in the balance of payments, and that is what the shocks measure, must be adjusted by the trade account, then the ratio of the shocks to exports much more accurately records their growth consequences. It is easy to see why. Let the sum of the shocks be BP, and allow that change in the balance of payments to be compensated by changes in imports. Then dividing by Y, and allowing the marginal import ratio to be equal to the average (and the export ratio), we can write that the implied growth required to accommodate to the shocks is equal to the conventional ratio to GNP multiplied by the inverse of the export-product ratio: $\Delta Y/Y = \Delta BP/Y \cdot Y/X$.⁸ In other words, for closed economies the impact on growth of a given decline in real income is much larger. This simply reflects the fact that for closed economies it will require much larger changes in income to produce the same decline in imports. It was thus easier for the Asian economies to adjust because of their greater trade, even without taking into account the greater possibility of using export expansion rather than import contraction.

When the total shock is related to exports rather than to gross product, almost all the Latin American countries, and the Philippines, now clearly emerge as equivalent or more serious victims of the deteriorating international economy. The relative size of the export shocks, moreover, turns out to be more inform-

ative than the size of the GNP shocks about the consequences for reduced growth in the 1981-83 period. While the relationship between changes in growth between 1970-80 and 1980-83 and the size of the shock relative to gross product is statistically insignificant, the export shock enters significantly, even after a regional dummy is included.⁹

Above all else, it was the need to attend immediately to the imbalance in the external accounts that was so catastrophic for Latin American performance. Countries borrowed too much relative to their short term capacity to adjust to variability in the external environment. When the crisis came, imports had to be disproportionately reduced, at the expense of output and income growth. Between 1981 and 1983 imports declined by \$40 billion and more than 40 percent in volume terms; in comparison, the output decline of 4 percent reflects a significant dampening of the potential impact.

Trade Policies and Performance

The earlier discussion has elaborated upon the special problems of the Latin American countries in the early 1980's owing to an asymmetric integration into the world economy that made them vulnerable to the international downturn beginning in 1981. This section will examine the other side of the high regional debt-export ratio, lagging trade performance. I will argue that better Latin American trade policies did yield improved results during the 1970's, and that strenuous efforts were made in the 1980's to follow the prescription of real devaluation to ease adjustment. Export volume in fact expanded, but not enough to take much of

the burden from import contraction.

Latin American reliance on import substitution as a route to industrialization reached its peak in the 1950's when import ratios were sharply lowered, and trade policies were consciously biased against exports. Overvaluation taxed the primary export sector and simultaneously distributed the proceeds to producers of manufacturers able to import capital goods and other inputs cheaply. But by the early 1960's, that model had been outlived its effectiveness. Balance of payments problems and accelerating inflation signalled reinforcing external and internal disequilibrium. Both dependency theorists and orthodox economists found the trade policies wanting. Even the larger capital inflow facilitated by the Alliance for Progress could not avert economic crisis in many countries and political upheaval.

From the mid-1960's on, Latin American countries grappled with the need to modify their policies, just as did many of the East Asian. The solution was found in crawling pegs, export subsidies, dual exchange rates, duty free zones, public investment, and a variety of other means to reduce the bias against export activities, particularly those of non-traditional products. While not as spectacular as the emergence of the Asian NIC's, Latin American export performance also improved through the 1960's and permitted more rapid product growth.

But there was a fundamental difference in outlook about the export market that continues to this day. For Latin America, already industrialized and with higher income and wages, the export market was never conceived as the basis for growth of the

manufacturing sector; its function was to supply needed foreign exchange, and the structure of exports continued to depend heavily on resource-based exports. For Asian NIC's, the foreign market oriented domestic investment in industry, first in labor intensive goods compatible with low wages, and later in others. Exports were the instrument of industrialization.

In the 1970's, despite Latin America's greater dependence upon borrowing, the new attention to exports was sustained. While middle income developing countries on average experienced slower export growth between 1970-80 than 1960-70, for every one of the principal Latin American countries except Venezuela and Colombia, export growth accelerated.¹⁰ Under the pressure of the crisis of the early 1980's, an even greater effort was made. Between 1980-83, Mexico increased its export volume at a rate exceeding that of Korea and Taiwan; in addition, Argentina, Brazil and Chile bettered the performance of Indonesia, Malaysia, Thailand and the Philippines.¹¹ Unfortunately, with adverse price movements, that effort translated into too little revenue, too late. Export unit values for the Western Hemisphere have declined 26 percent from 1980 to 1987, compared to 18 percent for Asia, and less for Korea and Taiwan whose exports are more industrialized.

Table 3 provides a decomposition of export changes between 1962-64 and 1980-82 for a number of countries. It divides the observed change in dollar exports, deflated by two digit SITC deflators, into three sources: world trade growth, compositional effects calculated by positing a constant market share within each category, and a residual competitive effect associated with

changing market shares.

There are three major points to be gleaned from the calculations. First, the exceptional performances of Korea, Taiwan and Malaysia in increasing market shares in both periods is evident. But Brazil is not very far behind. Second, the switch in the contribution of competitiveness between the two periods, is shared by all countries except India and Pakistan. Argentina and Mexico move away from large reductions in market share, to achieve gains just like Indonesia, the Philippines and Thailand. Third, compositional effects are uniformly negative for the Latin American countries. Taiwan and Korea are unique in benefiting from their increasing share of industrial exports in total trade; other East Asian countries also suffer the consequences of a large share of slow growing and resource based exports. Few countries could avoid, even with unbiased trade policy, the record slide in the terms of trade in the 1980's.

Latin America's better trade results were on the whole associated with better exchange rate management. Sach's evidence of real exchange rate change between 1976-78 and 1979-81, taking out Argentina, show little difference between Latin America and Asia.¹³ Instead of being a policy instrument to accomplish an internal sectoral transfer of real resources, or a means of holding down internal inflation, the exchange rate's primary function was to measure the relative profitability of exports and import substitutes compared to non-tradables. This was a function not performed in isolation from other government policies, including trade restrictions and subsidies, but also public in-

vestment. Paradoxically, the liberal international monetarist strategy of some of the Southern Cone countries was clearly retrograde in returning to conscious overvaluation at the expense of misallocation of resources. More restrictionist Brazil prevented capital flow from prejudicing the productive structure, and had larger export and industrial growth.

While recognizing the importance of better exchange rate policy, it is important not to exaggerate the influence of such market signals in isolation. In earlier work, I referred to the lack of any association between observed export volume changes and exchange rate imperfections for a cross-section of developing countries in the decade 1970-80.¹⁴ The World Bank's 1986 Development Report now cites new evidence for the period 1960-83. It, too, does not seem to stand up very well to close scrutiny. Working essentially with the same data, I find exchange rate misalignment and variance providing limited explanation of product and export performance; in addition, the results are very sensitive to sample definition. Thus, the variance in export growth explained by exchange rate misalignment is only about 20 percent of the total; the elasticity of export growth with respect to misalignment is less than .2; and simple exclusion of Korea from the country panel renders the results statistically insignificant.¹⁵

Further evidence is available in Table 4. It provides the results of a regression analysis relating deviations from "normal" export shares, i.e., adjusted for country population and income level, to deviations from purchasing parity exchange rates and their variance over time, as well as the share of manufactures

in total exports. The cross-section results for three dates, 1962/64, 1970-72 and 1980/82, are presented in Table 4.A. Exchange rate misalignment is measured relative to 1970-72 purchasing power parity for the early and intermediate periods, and relative to 1984, after devaluations, for the later period. These cross section regressions are supplemented by consideration of changes between successive panels in Table 4.B; changes in real wages are now introduced as an additional variable. Asian and Latin American countries, because of this paper's special interest in that comparison, make up the sample.

The tabulated results in Table 4.A affirm that average exchange rate deviations, while of the correct sign, are not statistically significant in explaining the differences in export orientation. Nor does the variability in the deviations, reflecting lack of continuity of policy, enter. Nor does concentration upon export of industrial products explain a larger than average export share. These findings are replicated for all three periods as well as the pooled results. They are not an aberration. Some of the difference with other studies is due to the use of export shares already corrected for the influence of population and income. If the issue is the effect of exchange rate policy upon trade orientation, this method seems preferable to use of export growth as the dependent variable.

Results are not much better in the analysis of changes reported in Table 4.B. There the principal novelty is the reversal in role of real wages. In the 1962/4-1970/2 interval, there is some indication that more slowly growing real wages contribute

to greater than normal export share: cheap labor contributes to competitiveness. But in the second period, there is a positive association. Above average productivity gains make favorable trade performance and rising real wages compatible. Looking for exchange rates to lower labor costs rather than higher investment and increased efficiency may be the wrong way to go about policy.

The point of Table 4 is that sweeping generalizations about the importance of exchange rate policy do not come through clearly and uniformly in the data. Productive structures matter in the determination of comparative cost, and so do other policies, including non-market interventions. While Korea pegged the won to the dollar in the mid-70's, its exchange rate appreciated by 13 percent because internal prices rose more than in partner countries; export volume nonetheless expanded by 23 percent a year. In the same period, 1975-78, Peru's real exchange rate depreciated by almost 70 percent; export volume did increase, but by a lesser 15 percent a year. The more specialized a producer, and more dependent on primary commodities, the lesser the effect of exchange rates on the supply and demand sides.

After the large United States real devaluation, and the still limited trade response, it is perhaps less difficult to sustain the point that exchange rates are not all-determining. The undeniable competitiveness of the East Asian NIC's does not imply that aggressive exchange rate policy was solely responsible. Indeed, the absence of a tight relationship between exchange rates and performance partially contributes to the Latin American tendency to use the instrument for other purposes: if there were an automatic effect, positive and negative, then there would be a

greater discipline.

There is no doubt that East Asia has been more outward oriented than Latin America, and has relied to a much greater extent on export demand to stimulate its industrialization. It is not the only route to accelerated growth, however. Note from Table 1 that South Asian countries emerge after 1980 with the highest growth rate, without being export-led. They escape the adverse turn in the world economy that even leads to perceptible deterioration in the East Asian performance. Others in this volume argue this variety of options forcefully; I have briefly addressed the desirability of an export-adequate growth strategy in South, January 1987.

In the end, the question of development centers on the right blend of intervention and market forces. To understand why Latin America has not been equally adept in sustaining economic growth in recent years requires focus upon the role of the state, and the political constraints upon its activities.

The Role of the State

Development economics, until recently, has largely been about the limits of the market and the need for policy intervention. Externalities and discontinuities caused private and social rates of return to diverge, and required conscious public redress. Different perspectives on development strategies generalized about where the divergences were greatest and what kinds of policies might be most effective: social overhead investment, industrialization, education, agricultural technology, etc.

In the last decade, there has been a reversal in opinion.

Liberalism and the virtues of the market are now in vogue. Just when political scientists are bringing the state back in, economists are urging strict limits upon public sector activity. They do so on the basis of the East Asian success and Latin American failure. Balassa and associates are clear: "A central factor that gave impetus ... to the severity of the economic and social crisis of the 1980's was the pervasive and rapidly expanding role of the state in most of Latin America."¹⁶ And economists also counsel restraint on the basis of new theory. To the conventional Smithian propositions about the virtues of the invisible hand and the distortions caused by intervention, there have been important additions of three kinds.

One is the additional misallocation attendant upon rent seeking. Intervention creates a surplus; individual agents will spend resources to get their hands on it, as well as to change the rules. As a first approximation, unproductive activity will equal the real cost of the distortion, doubling the economic loss and imposing a high penalty upon active state policy. These costs of intervention are associated with the public choice literature of Buchanan and Tullock, as extended and applied to trade and development by Krueger, Bhagwati, Srinivasan, and others.¹⁷

The second line of attack upon government intervention is its susceptibility to favor distribution rather than growth. Mancur Olson has emphasized how the free rider problem contributes to institutional distortion. The costs of organizing small self-interested groups are lower and their potential gains larger than for public spirited, global ends. "To achieve their objec-

tives, distributional coalitions must use their lobbying power to influence government policy or their collusive power to influence the market.... Someone has to administer the increasingly complex regulations that result... This increases the scale of bureaucracy and government."¹⁸

The third strand of criticism is rooted in Douglass North's historical application of the property rights literature. The right role of the state is to establish and defend rules for control over assets that will promote efficient transactions; unfortunately, rulers will follow their own narrower agendas of revenue maximization at the potential expense of such efficiency. They may be forced to concede a property rights structure favorable to powerful supporting groups; or the costs of collecting taxes may cause them to adopt an inefficient set of property rights. "These two constraints together account for the wide spread of inefficient property rights. In effect, the property rights structure that will maximize rents to the ruler (or ruling class) is in conflict with that that would produce economic growth."¹⁹

All three strains of neo-classical political economy share in common an emphasis upon misallocation through distributional priorities deriving from competition in the political sphere. Entrenched interests, and those contesting for the spoils, defeat even the good intentions of the state. What is efficient in the economic market place, in reducing profits and assuring minimum cost, becomes wasteful in the political as the prospect for private gains leads to socially unproductive activity and the wrong set of property rights.

All three strains of neo-classical political economy equally opt for reduced government intervention. For those writing in the rent-seeking tradition, the solution is liberalization, and the elimination of rents. In the words of Buchanan and Tullock: "If, however, governmental action moves significantly beyond the limits defined by the minimal or protective state, if government commences, as it has done on a sweeping scale, to interfere in the market adjustment process, the tendency toward the erosion or dissipation of rents is countered and may be shortly blocked."²⁰ In the name of such efficiency, hard measures may be necessary: "A courageous, ruthless and perhaps undemocratic government is required to ride roughshod over these newly-created special interest groups."²¹ That done, pluralism can presumably be restored later in the minimalist state.

Olson is more optimistic about the prospects for a democratic consensus doing the right same thing: "it might simply repeal all special-interest legislation or regulation and at the same time apply rigorous anti-trust laws to every type of cartel or collusion that used its power to obtain prices or wages above competitive levels."²² North, with his historical and positive emphasis, and his sympathy for constructive state action, is less overt. Yet the property rights literature from which he starts is clear. There are always possibilities to rearrange private property rights such that individual decisions are the right ones; that defines the correct and minimalist state role.

Neo-classical political economy, not unlike orthodox Marxism, is in fact a theory of the non-state, focusing almost exclu-

sively upon the reactions of private individuals and groups who contest for advantages. The state is a caricature, condemned to failure in its efforts to implement its developmental agenda when such is even conceded. All state-promoted transfer of resources is relegated to unproductive distributionism, even when such reallocation of resources is at the heart of the developmental process. Quantitative restrictions may contribute directly to industrial sector profits and investment rather than to gains by third parties. Second best instruments are sometimes necessary. The neo-classical school's counterfactual world is harmonious market competition, as though the same special interests that present themselves in the political realm will meekly conform and market solutions will not concentrate power or impede efficiency.

This literature contributes by indicating how state intentions may be checked and constrained. In this respect it is a healthy offset to mere assumption about the capacities of the state to intervene positively. As the Economic Commission for Latin America confessed, "During much of the 1960's and 1970's, it was assumed that in Latin American countries the State was indeed in a position to play the role assigned to it by the development and economic transformation strategy....The main schools of economic thought in Latin America, including ECLAC, have never devoted much of their efforts to analysing the State."²³

The neo-classical approach is also a useful counterpoise to the extreme position taken by Chalmers Johnson in his discussion of Japanese development emphasizing state effectiveness; economic inefficiency is relegated to a secondary plane.²⁴ But inef-

iciency can also, as the rent seeking literature emphasizes, lead to ineffectiveness as yet additional resources are wasted in pursuit of the distortion provoked spoils. More generally, inefficiency weakens the state by reducing its resource base. Even favored groups will not provide continuing support out of stagnant incomes. Initial objectives will have to be modified or given up, as state effectiveness is limited to a narrower domain. Johnson converts the political economy problem of stimulating economic development into exclusively a political one.

The principal deficiency of the neo-classical approach, however, is its failure to inform about the conditions under which the state can play a positive role. Beyond creating (minimalist) rules to enhance the market, there is no policy advice. Nor, except for resort to authoritarian tutelage, is there guidance about creating and sustaining political support even for liberalization. There is too much evidence of different types of state action in the course of economic development, successful and unsuccessful, for such a theoretical political economy to suffice. It is a central theme of late-comer development that is not casually dismissed. And, even accepting the conclusion of excess intervention in many countries at the present, there remains the need to establish priorities about what the state should do and not do, and the need to implement them.

There is an opportunity to learn from the divergent East Asian and Latin American experiences. ²⁵ The East Asian cases have been seen as the prototypes of developmental states, with high degrees of autonomy, and hence the capacity to choose and

implement an economic growth strategy without dilution from a myriad of contending private interests. Such autonomy was partially the product of an overriding concern with national security and even societal survival. Significant agrarian reform and income equalization removed concerns about inequality from the agenda, permitting concentration upon accumulation. National identity was assured by external threat; foreign penetration of capital was limited by the labor intensity of the manufacturing sector, and state support for national firms.

State bureaucracy was focused and insulated. The public sector was not an employer of last resort, nor was it weakened by lack of access to resources. External aid inflows were of central importance early in Korea and Taiwan. Later when it ceased, the state benefited from increased revenues as product growth accelerated. Consistent and credible public policy reduced private sector uncertainty and encouraged investment.

All of these characteristics helped to promote the switch in strategy from import substitution to export orientation in the early 1960's. Rapid expansion of international trade provided a growing market for the NIC's in replacement for Japanese exports as those became more sophisticated. Export promotion was an industrialization strategy that could work for poor, resource poor economies.

The Latin American developmental state took another form. It emphasized import substituting industrialization in the post-World War II period rather than export promoting industrialization for two reasons. First, the Great Depression had aroused an understandable scepticism concerning the opportunities for inter-

national trade and a liberal order. The 1930's had also been a period of industrial growth in many countries. Second, export promotion in the resource rich countries of the region necessarily translated into an emphasis upon the primary sector, and reinforcement of the traditional rural elite whose influence industrialization was supposed to diminish. What Latin America was deemed to need was a new, modernizing urban middle class.

State incentives, and a new bureaucratic technocracy, would play a prominent part in the conscious transformation of society. The continuing power of the Latin American rural elite, not its weakness as in Sachs' version, determined the choice of the exchange rate and commercial policy instruments to tax the rural sector and simultaneously redistribute the proceeds to the new industries. Trade policy was not about trade, it was about internal production incentives and finance. The state was interventionist and could set national goals, but it lacked the political power fully to implement them. Indirect techniques were therefore the order of the day. That meant a bias against exports, and also a need to use the inflationary tax to finance an expanding infrastructure investment. The net result by the end of the 1950's was, in the large countries in the region, an impressive growth in industrial production, accelerating inflation and balance of payments problems. In the smaller ones, market size limitations reduced the scope for successful transformation; the efforts to create a regional common market failed.

Greater attention to exports necessarily ensued in Latin America in the 1960's, as was earlier discussed in Part I. But

the resource rich and middle income status of much of the region continued to make the external market a doubtful focus for a development strategy oriented to industrialization. Exports were needed to relieve the balance of payments constraint, not to provide a source of demand for domestic industry. That function was as much true for Brazil, and its more favorable export performance, as for other countries. And it carried over as much to the Latin American military governments as the civilian ones they replaced in the 1960's and 1970's.

The Latin American developmental state remained inward looking not only as an expression of its autonomous commitment to industrialization, but also as a result of the rise of an urban society organized around the industrial and public sectors. Nationalism was a strong unifying ideology that was always appealed to. In Latin America, nationalism was equated with protectionism, even though the consumer durable style of Latin American industrialization required large foreign investment. And protectionism meant support of industrial entrepreneurs and workers and a white collar service sector. These domestic interests, and the continuation of a political and constitutional tradition, diluted technocratic capacities of the state to define an independent development strategy.

As industrialization proceeded in the 1960's and 1970's, there were too many priorities. Pressures were brought to bear from a variety of diverse groups. There was a cancelling of real allocation effects as first one, then another, group received subsidies. The only consequence was a larger fiscal drain. The bureaucracy not only mirrored these divisions but superimposed

its own lack of unity. State enterprises multiplied, with their own claims on resources -internal and external. The net consequence was a diminished efficiency of investment, not only of the public sector, but also of the private.

At the same time, the distributional issue achieved a new prominence in the region, in part because of World Bank interest, in part because it was a legitimate outlet for the previously repressed populist agenda. Latin American inequality was at the upper reaches of the international scale. Bland assurances of a Kuznets Curve that would improve the income distribution as income increased were inadequate. There was a problem of extensive poverty in the midst of plenty: the distribution issue was more fundamental than rent-seeking or special interest coalitions. And it did not have an immediate or simple solution.

The task of the Latin American developmental state has therefore been more complicated than its East Asian counterpart. Frustrated expectations have frequently exaggerated state efforts to stimulate growth, while at the same time evoking more divisive societal responses. At the same time, state capacities have been consistently more limited. Fiscal deficits and the resort to the inflation tax are a measure of that weakness. It is no wonder that external resources seemed the ideal solution, routed as they predominantly were to the public sector. In a larger sense they also averted a tradeoff between consumption growth and the domestic saving required to maintain high growth rates. A risky strategy was preferable to one of immediate adjustment that could not have been implemented.

Indeed, a hallmark of Latin American economic policy is its heterodox quality. The state has been charged with achieving multiple goals but granted only limited instruments. Economic agents are not only skeptical about policy effectiveness, but have constructed defenses of their relative incomes. Novelty, and frequency of action, are the attempted means of reconciliation. Note that even when the Southern Cone countries went to liberalization, they did so in a special and extreme way that relied upon international responses to enforce internal discipline. And they did so incompletely, even in the midst of military repression.

The correct conclusion is not the uniform application of orthodox remedies to deal with the continuing problem of economic recovery in Latin America. That is to draw the wrong lesson from East Asia by focusing narrowly on specific exchange rate, interest rate, and other policy instruments. And it is to ignore the evidence of inadequate adjustment under IMF auspices. The right question is how to reconstruct a Latin American developmental state that can consistently implement the right policies, not just register the right prices. State direction is not enough because it was sometimes too much. But moving to a minimal state is to treat symptoms rather than the problem. Reforms must have a domestic basis in a sustainable societal consensus. That is the challenge facing the new democracies in the region, doubled by virtue of the immediate pressing requirements of the debt crisis.

A Final Word

The increasingly divergent East Asian and Latin American economic performances in the 1970's and 1980's are a rich experience from which not only academics, but also policymakers, will draw conclusions. The challenge is to get the inferences right.

That means posing the comparison of the long term growth records and the effects of external shocks correctly. It also means a careful look at the way market forces have worked to stimulate export growth, as well as the appropriateness of export-led development for all. But above all, it necessarily involves a more systematic understanding of the political economy basis for development strategy. It is not sufficient any longer to conduct the discussion around the theme of whether the East Asian states intervene, or even about how they do so. We must also better understand what economic policies are effective and feasible in different settings, and how they contribute to altering the political space.

Footnotes

*

I gratefully acknowledge the very helpful research assistance of William Maloney and Menzie Chinn in the preparation of this paper.

1. Angus Maddison, Two Crises: Latin America and Asia, 1929-38 and 1973-83, OECD Development Centre, 1985, p. 53.
2. Bela Balassa, Gerardo Bueno, Pedro-Pablo Kuczynski and Mario Henrique Simonsen, Toward Renewed Economic Growth in Latin America, Institute for International Economics, Washington, D.C., 1986.
3. Jeffrey Sachs, "External Debt and Macroeconomic Performance in Latin America and East Asia," Brookings Papers on Economic Activity, No. 2, 1985, p. 525.
4. I have discussed the Latin American debt crisis more fully elsewhere. See "Revisiting the Great Debt Crisis of 1982," in K. Kim and D. Ruccio, eds., Debt and Development in Latin America, Notre Dame University Press, 1985; and "Latin American Adjustment to the Oil Shocks of 1973 and 1979," in J. Hartlyn and S. Morley, eds., Latin American Political Economy, Westview, 1986.
5. For estimates of consumption out of national product and foreign capital see my "Coping with the Creeping Crisis of Debt," in M. Wionczek, ed., Politics and Economics of External Debt Crisis, Westview, 1985, pp. 105-6.
6. Y. C. Park, "Foreign Debt, Balance of Payments, and Growth Prospects: The Case of the Republic of Korea, 1965-88," World Development, vol 14, no. 8 (August 1986), p. 1028.
7. These effects derive from a straightforward analysis of the

sources of changes in the balance of payments: $\Delta BP = P \frac{\Delta X}{X} + \Delta P \frac{X}{X} - \Delta P \frac{M}{M} - \Delta i D + \text{Cap.}$ Excluded are changes in imports as a consequence of internal adjustment; changes in debt, because they are multiplied by interest rates, make only a small contribution.

Sachs considers only interest and terms of trade effects, excluding the recession effect. Balassa, in his decompositions ("Adjustment Policies in Developing Countries, 1979-83," World Bank Staff Working Paper, No. 675, 1984), allows for the impact of recession on export volume, but by hypothesizing a constant market share, rather than an income elasticity. Neither allow for the exogenous shift in the supply of capital. Balassa rather considers the capital account exclusively as a means of adjustment. But if the effect comes from the supply side and is exogenous, the logical treatment is to classify it as a shock.

8. The derivation is straightforward. $\Delta BP = \Delta M$. Dividing by ΔY , $\Delta BP / \Delta Y = \Delta M / \Delta Y$. Let the marginal propensity equal the average and exports equal imports. Then $\Delta BP / \Delta Y = X / Y$.

9. The relevant regressions are:

$$G = -2.44 - 3.27 D + 4.26 GS \quad R^2 = .54$$

(3.41) (3.82) (0.81)

$$G = -2.36 - 2.60 D + 1.89 XS \quad R^2 = .64$$

(4.95) (3.09) (1.91)

where G is the difference in the rates of growth between 1970-80 and 1980-83; D is a dummy variable for the Latin American region; GS is the ratio of the total shock relative to income; and XS is the ratio relative to exports. Data are from Tables 1 and 2.

An alternative functional form, allowing for a differential slope for each region, again does better for the impact relative

to exports, although the slope for the East Asian countries is then statistically insignificant. There is virtually no difference in the percentage of variance explained between the constant and slope regional effects.

10. Export growth rates are taken from the World Bank, World Development Report, 1982, Appendix Table 8, pp. 124-5.

11. These export growth rates are calculated from International Financial Statistics Yearbook, 1985.

12. The decomposition of the change in trade, in constant dollars, is $\Delta q = s^c \Delta Q + (\sum_i s_i^c \Delta Q_i - s^c \Delta Q) + (\sum_i Q_i^3 \Delta s_i)$ where s refers to export shares, the subscript i to SITC class, and Q to world exports. The first term measures the contribution of world trade growth, the second the effect of commodity composition, and the third, the result of increasing competitiveness.

13. Sachs, "External Debt," Table 6, p. 541. Sachs' conclusion is different, but seems to lean more on the black market premia than the real exchange rates, particularly when the Southern Cone is excluded. But these measure the severity of the crisis, not the misalignment of rates. Brazil, about to experience an export boom, has the largest margin; Venezuela, frankly overvalued, the smallest.

14. See my "The State of Latin American Economics" in Inter-American Development Bank, Economic and Social Progress in Latin America, 1985, pp. 139-141, which also critically examines the hypothesis of export-led growth.

15. In trying to replicate the 1986 World Development Report's conclusion about the importance of exchange rate misalignment (pp. 31-32), I have used export growth from 1965-84 rather than

1960-83 and have used the chart to determine visually the extent of misalignment. My results seem to match. The assertion that a 10 percentage point increase in misalignment costs .8 percentage points of GDP per capita growth must be qualified to point out that only 20 percent of the variance is explained by exchange rate misalignment; and that eliminating Korea from the sample is sufficient to reduce the results to statistical insignificance.

16. Balassa, et. al., Toward Renewed Economic Growth, p. 124.

17. T.N. Srinivasan's "Neoclassical Political Economy, The State and Economic Development," mimeo, 1986, provides a useful treatment of the neoclassical approach. I have also benefited from reading Helen Shapiro's treatment of the role of the state in her thesis.

18. Mancur Olson, The Rise and Decline of Nations, Yale University Press, 1982, pp. 69, 71.

19. Douglass C. North, Structure and Change in Economic History, Norton, 1981, p. 28. North's position is ambivalent. His state, when unleashed is able perfectly to remedy external economies. Its intervention is perfect. On the other hand, private individuals also organize collectively and are able to reduce transactions costs once property rights are correctly assigned by the state.

20. J.M. Buchanan, "Rent Seeking and Profit Seeking," in J.M. Buchanan, R.D. Tollison and G. Tullock, eds., Toward a Theory of Rent Seeking Society, Texas A & M Press, 1980, p. 9, as cited in T.N. Srinivasan.

21. Deepak Lal, The Poverty of 'Development Economics', Harvard

University Press, 1983, p. 33.

22. Olson, The Rise and Decline of Nations, p. 236.

23. Angus Maddison, ed., Latin America, The Caribbean and the OECD, Development Centre, OECD, 1986, pp. 54, 53.

24. Chalmers Johnson, MITI and the Japanese Miracle, Stanford University Press, 1982, pp. 19 ff.

25. For a comprehensive review of recent literature on the role of the state in East Asia and Latin America, see Stephan Haggard, "The Newly Industrializing Countries in the International System," World Politics, vol 38, no. 2 (January 1986), pp. 343-370.

Table 1

Comparative Economic Performance

	<u>Growth Rates of Gross Product</u>			<u>Inflation (GDP deflator)</u>			<u>Debt-GNP</u>		<u>Debt Service/Exports</u>	
	1965-73	1970-80	1980-83	1965-73	1970-80	1980-83	1973	1983	1973	1983
<u>Latin America</u>										
Argentina	4.3	2.2	-2.8	24.1	130.8	202.0	0.17	0.68	0.28	0.44
Brazil	9.8	8.4	-1.3	23.2	36.7	112.2	0.15	0.48	0.23	0.54
Chile	3.4	2.4	-3.4	50.3	185.6	17.2	0.31	1.03	0.12	0.55
Colombia	6.4	5.9	1.4	10.8	22.0	22.6	0.23	0.28	0.20	0.38
Mexico	7.9	5.2	0.6	4.8	19.3	57.9	0.16	0.61	0.34	0.43
Peru	3.5	3.0	-2.9	10.1	30.7	79.8	0.14	0.73	0.29	0.34
Venezuela	5.1	5.0	-1.8	3.3	12.1	6.4	0.28	0.46	0.18	0.29
Median	5.1	5.0	-1.8	10.8	30.7	57.9	0.17	0.61	0.23	0.43
Weighted Average	7.4	5.8	-1.1	16.6	47.9	90.1	0.18	0.56	0.26	0.46
<u>East Asia</u>										
Indonesia	8.1	7.6	4.8	63.0	20.5	10.9	0.36	0.29	0.07	0.13
Korea	10.0	9.5	7.3	15.5	19.8	8.4	0.35	0.55	0.19	0.21
Malaysia	6.7	7.8	6.2	1.2	7.5	3.0	0.10	0.39	0.03	0.06
Philippines	5.4	6.3	2.2	8.8	13.2	10.3	0.18	0.40	0.19	0.22
Taiwan	10.4	9.2	5.4	5.7	9.5	5.6	0.11	0.14	0.04	0.05

Table 1 (cont'd)

	Growth Rates of Gross Product			Inflation (GDP deflator)			Debt-GNP		Debt Service/ Exports	
	1965-73	1970-80	1980-83	1965-73	1970-80	1980-83	1973	1983	1973	1983
Thailand	7.8	7.2	5.4	2.5	9.9	4.8	0.09	0.25	0.13	0.21
Median	7.9	7.7	5.8	7.2	11.5	7.0	0.18	0.34	0.10	0.17
Weighted Average	8.3	8.0	5.3	21.3	14.8	7.8	0.23	0.34	0.12	0.15
<u>South Asia</u>										
Bangladesh	-	3.9	3.6	7.3	16.9	9.3	0.06	0.38	0.02	0.15
India	3.9	3.6	5.4	6.3	8.5	9.4	0.14	0.11	0.20	0.10
Pakistan	5.4	4.7	6.2	4.8	13.5	8.6	0.66	0.31	0.15	0.28 ^a
Sri Lanka	4.2	4.1	5.3	5.1	12.6	16.1	0.22	0.44	0.13	0.12
Median	4.2	4.0	5.3	5.7	13.0	9.0	0.18	0.34	0.14	0.13
Weighted Average	4.1	3.7	5.4	6.1	9.6	9.4	0.19	0.15	0.18	0.12

^a .09 in 1982; exports reduced and debt service much higher in 1983.

Source: World Development Reports, 1982 and 1985 for growth rates and inflation, 1965-80; for 1980-83, calculated from IMF, International Financial Statistics Yearbook, 1985.

Debt and Debt Service, World Bank Debt Tables, augmented by estimates of short-term, non-guaranteed debt. Weights are average of 1973 and 1983 GNP.

Table 2

The Impact of External Stocks, 1981-83

	Import and Export Prices ^a	Interest Rates ^b	OECD Recession ^c	Capital Supply ^d	Total ^e	Total ^f
	(Ratio to GNP)					(Ratio to Exports)
<u>Latin America</u>						
Argentina	.006	-.025	-.009	-.047	-.075	-0.64
Brazil	-.044	-.022	-.005	-.022	-.093	-1.37
Chile	-.097	-.034	-.016	-.026	-.173	-0.80
Colombia	-.057	-.004	-.012	.023	-.050	-0.31
Mexico	.018	-.035	-.008	-.020	-.045	-0.42
Peru	-.001	-.039	-.017	.027	-.030	-0.13
Venezuela	.131	-.034	-.020	-.162	-.085	-0.31
<u>East Asia</u>						
Indonesia	.141	-.012	-.018	.021	.132	0.53
Korea	-.068	-.027	-.022	-.011	-.128	-0.43
Malaysia	-.047	0	-.038	.112	.027	0.052
Philippines	-.076	-.012	-.014	-.027	-.129	-0.70
Taiwan	-.154	-.004	-.038	.014	-.182	-0.35
Thailand	-.087	-.007	-.016	-.004	-.114	-0.52

Sources: Import and Export Prices: Economic Commission for Latin America; Annual Survey International Financial Statistics.

Interest Rates: World Debt Tables; OECD, External Debt Survey, Asian Development Bank Indicators.

OECD Growth Rates and Capital Flows: International Financial Statistics, Asian Development Bank Indicators.

^a Price effect: Percentage change in export price index times export/income ratio, 1977-79 minus percentage change in import price index times import/income ratio, 1979-79.

Table 2
(Footnotes cont'd)

- ^b Interest rate effect: Change in nominal implicit interest rate on medium and long term debt, adjusted for change in U.S. wholesale price index, between 1977-79 and 1981-83 times net debt/GNP ratio in 1980. (Net debt in dollars divided by World Bank estimates of GNP in World Development Report, 1982.)
- ^c OECD recession effect: Change in OECD growth rate between 1977-79 and 1981-83 times imported volume elasticity of 1.5, averaged over three years period, times export/income ratio, 1977-79.
- ^d Capital supply effect: Ratio of capital inflow, exclusive of exceptional financing and adjusted for net errors and omissions, to income in 1981-83 minus ratio in 1977-79.
- ^e Sum of all effects.
- ^f Sum of effects relative to GNP times export/GNP ratio, 1977-79.

Table 3

Decomposition of Trade Changes

(millions of 1970 dollars^a and percentage)

Country	Source of Change	1962-64 to 1970-72		1970-72 to 1980-82	
<u>Latin America</u>					
Argentina	World Trade Growth	1439.2	567.3%	1190.5	113.4%
	Composition ^b	-717.7	-282.9%	- 225.8	- 21.5%
	Competitiveness	-467.8	-184.4%	85.3	8.1%
	Total	253.7	100.0%	1050.1	100.0%
Brazil	World Trade Growth	1463.7	98.2%	2064.4	68.7%
	Composition ^b	-758.0	-50.9%	-483.1	-16.1%
	Competitiveness	784.6	52.7%	1424.0	47.4%
	Total	1490.2	100.0%	3005.3	100.0%
Chile ^c	World Trade Growth	n.a.	n.a.	192.7	43.7%
	Composition ^b	n.a.	n.a.	-54.6	-12.4%
	Competitiveness	n.a.	n.a.	302.5	68.7%
	Total	n.a.	n.a.	440.5	100.0%
Mexico	World Trade Growth	1439.2	502.0%	1190.5	97.9%
	Composition ^b	-717.7	-250.3%	-225.8	-18.6%
	Competitiveness	-467.8	-163.2%	85.3	7.0%
	Total	286.7	100.0%	1216.0	100.0%

Table 3 (cont'd)

Country	Source of Change	1962-64 to 1970-72		1970-72 to 1980-82	
<u>East Asia</u>					
Indonesia ^d	World Trade Growth	734.7	169.1%	819.1	46.7%
	Composition ^b	-296.5	-68.2%	-503.9	-28.8%
	Competitiveness	-3.7	-0.9%	1437.1	82.0%
	Total	434.6	100.0%	1752.3	100.0%
Korea	World Trade Growth	95.1	9.4%	767.9	12.7%
	Composition ^b	-19.1	-1.9%	36.2	0.6%
	Competitiveness	935.8	92.5%	5262.7	86.7%
	Total	1011.7	100.0%	6066.8	100.0%
Malaysia ^e	World Trade Growth	580.3	101.6%	886.1	48.9%
	Composition ^b	-305.0	-53.4%	-396.9	-21.9%
	Competitiveness	296.1	51.8%	1323.6	73.0%
	Total	571.4	100.0%	1812.9	100.0%
Philippines	World Trade Growth	737.1	269.1%	709.5	144.6%
	Composition ^b	-387.7	-141.5%	-273.6	-55.8%
	Competitiveness	-75.5	-27.6%	54.8	11.2%
	Total	273.9	100.0%	490.6	100.0%
Taiwan	World Trade Growth	354.0	20.1%	1470.6	26.0%
	Composition ^b	-66.1	-3.8%	110.3	2.0%
	Competitiveness	1474.7	83.7%	4072.1	72.0%
	Total	1762.6	100.0%	5652.9	100.0%

Table 3 (cont'd)

Country	Source of Change	1962-64 to 1970-72		1970-72 to 1980-82	
Thailand	World Trade Growth	531.0	330.4%	485.7	32.7%
	Composition ^b	-290.9	-181.0%	-136.7	-9.2%
	Competitiveness	-79.4	-49.4%	1137.0	76.5%
	Total	160.7	100.0%	1486.0	100.0%
<u>South Asia</u>					
India	World Trade Growth	1749.1	656.3%	1380.3	306.2%
	Composition ^b	-318.6	-119.5%	-48.0	-10.6%
	Competitiveness	-1164.0	-436.8%	-881.5	-195.5%
	Total	266.5	100.0%	450.8	100.0%
Pakistan ^f	World Trade Growth	412.2	217.1%	438.0	179.7%
	Composition ^b	-150.7	-79.4%	-137.5	-56.4%
	Competitiveness	-71.6	-37.7%	-56.8	-23.3%
	Total	189.9	100.0%	243.7	100.0%

Source: UN, International Trade Statistics Yearbooks; Statistical Yearbook of the Republic of China; and Trade of China.

^a Deflated by unit values using SITC one digit categories.

^b Six categories were used: SITC 0+1; 2+4; 3; 5; 6+8-68; 7.

^c No data for 1963-4, 1982.

^d SITC 68 for 1964 using 1963 ratios.

^e Data for 1962-64 are for 1964 only.

^f First period is 1963/4 to 1970/1; second period is for 1972 to 1980/2 using data for West Pakistan only.

Table 4
Regression Results^a

A. Cross Section

Period ^b	Number of Observations ^c	Independent Variables			\bar{R}^2
		Percentage Exchange Rate Deviation	Standard Deviation/Exchange Rate Deviations	Share of Manufactured Exports	
Pooled	47	-.079 (1.23)	-.406 (1.23)	.042 (.35)	.01
Early	15	-.140 (1.70)	-.094 (.26)	.012 (.04)	.00
Intermediate	16	-.080 (.88)	-.180 (.25)	.030 (.15)	-.16
Late	16	-.115 (.26)	-1.43 (1.06)	.096 (.40)	-.02

B. Changes Between Cross Sections

Period ^b	Number of Observations ^d	Independent Variables				\bar{R}^2
		Change in Exchange Rate Deviations	Change in Standard Deviations	Change in Share of Manufactured Exports	Change in Real Wage	
Pooled	23	-.072 (.24)	-.263 (1.14)	-1.17 (.56)	3.56 (1.14)	.02
Early-Intermediate	10	.354 (1.57)	.107 (.10)	-3.18 (2.81)	-9.11 (1.65)	.35
Intermediate-Late	13	-1.34 (1.37)	-.465 (.85)	-.121 (.09)	8.78 (2.19)	.16

Table 4 (cont'd)

Source: See text.

^a t-values in parenthesis.

^b Early period is average of 1962 to 1964; intermediate, 1970-72; late, 1980-82.

^c Country panel includes Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay, Venezuela, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Thailand (No data for Indonesia in early period).

^d Panel as above less Uruguay (early), Venezuela (early), Indonesia, Malaysia, Thailand.