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Some reflections on South-East Asian export industrialization

*Fernando Fajnzylber**

The successful export strategies of some South-East Asian countries have been raised in certain Latin American circles to the level of veritable paradigms and it is held that our region should imitate these processes in order to achieve high rates of growth of production, employment, productivity and even real remuneration. For this reason, it is of particular interest to analyse the policies, institutional machinery, and domestic and international social and political conditions within the framework of which these cases have taken place.

The present article analyses some aspects of these processes which show the complexity, richness and heterogeneity that characterize them and which make it clear that the lessons that can be drawn from them while richer and more valuable than those deriving from the 'popular' version generally disseminated in Latin America, do not permit their imitative application in this region.

After the Introduction, section II of the article gives a brief description of the main economic parameters of the four countries in question—South Korea, Taiwan, Hong Kong and Singapore. Section III examines the relationship between the export and industrialization policies, section IV raises some aspects of protectionist and import substitution policy, section V analyses the role which the State has played in these strategies, and the last section of the article sets these examples against the international context in which they have occurred.

*UNIDO Industrial Adviser in Mexico.

I

Introduction

In the rapid industrialization which has taken place since the war, special attention is warranted by the export-led industrialization experience not only of Japan, to which numerous references were made in a previous study,* but also of South Korea, Taiwan, Hong Kong and Singapore, firstly because of the impressive rates of growth and transformation of the structure of production which these countries have achieved in a brief space of time, and secondly, because the success achieved by them has been generating the belief that the experience of these countries forms an example which could and should inspire the future industrial growth of Latin America.

The view is frequently expressed in certain circles in Latin America that the success of these processes is due firstly to their total openness to international trade, and secondly to the very low level of public intervention. In coming to this conclusion, a complex set of different experiences is thus reduced to a conclusion of a normative nature whereby the countries of Latin America need only eliminate their protectionist schemes and reduce public intervention to its smallest possible expression in order to permit the generation of successful export models comparable to those of South-East Asia.

As we propose to show in this study, the mystification implicit in this version of what has happened in the "Newly Industrialized Countries" (NICs) of Asia is particularly serious for two reasons. Firstly, because it prevents us from advancing in our understanding of the factors which really explain these rates of growth and change, thus losing the opportunity of taking advantage of experiences which are undoubtedly valuable both in the fields of policy and of institutional machinery. Secondly, because not only are recommendations made which correspond only to a limited extent to the

*Fernando Fajnzylber, *The Industrial Dynamic in Advanced Economies and in Semi-industrialized Countries*, Pacific Trade and Development Conference, 1980, Seoul, Korea, 1-4 September 1980.

experiences from which they are supposed to derive, but also it is extremely open to question—even leaving aside the political conditioning factors— whether their application to Latin America in the manner suggested could generate results comparable to those observed in the presumed source of inspiration of these recommendations.

For this reason an endeavour will be made in the following paragraphs, although admittedly in a rather sketchy and incomplete manner, to analyse some specific aspects of these forms of experience which show the enormous complexity, richness and heterogeneity characterizing them and make it clear that the lessons

which can be drawn from them are undoubtedly richer and more valuable than those stemming from the 'popular' version so widely disseminated in the region.

First of all, a very brief description of the main economic parameters of the four countries in question will be given, followed by an examination of the relationship between export policy and industrialization policy. Next, aspects of protectionist policy will be discussed, followed by an examination of the role of the State in these models, and finally the international context in which these forms of experience took place will be examined.

II

General background description

Among the four countries considered, it is worth making a distinction between the cases of Hong Kong and Singapore and those of Korea and Taiwan. The first two are city-States with an area of 1 000 km², a per capita income of over US\$ 2 000, —practically no agriculture (2% of the gross product), and a particularly well developed services, commerce and finance sector. The population of Hong Kong is 4.5 million persons, while that of Singapore is 2.3 million. The character of international trading centres which has historically been associated with these city-States is clear when one considers the ratio of international trade to the product, which comes to 183% and 252% in Hong Kong and Singapore, respectively. These city-states, with a population density of over 2 000 inhabitants per km² and almost completely without agriculture must not be analysed using the same patterns as for the other two South-East Asian countries, Korea and Taiwan, which have characteristics comparable to those of the rest of the developing world. Although Korea and Taiwan are geographically small, with areas of 99 000 km² and 36 000 km² and populations of 36 million and 16 million respectively, and with a domestic product which in 1976 was around US\$ 1 000 per person (US\$ 670 in Korea and US\$ 1 070 in Taiwan), the proportion of the

product generated in the agricultural sector in these countries was higher, for example, than in the cases of Mexico and Brazil, for in Korea it was 27% and in Taiwan 12%, while in Brazil it was only 8% and in Mexico 10%. These comparisons with Mexico and Brazil are due to the fact that recent OECD studies include these two countries as the only Latin American representatives of the special group of NICs.

What these four Asian countries do have in common is undoubtedly the very rapid growth of the industrial product, output and exports.

In terms of per capita income, the four countries display a significant growth rate which has enabled them to shorten the distance between themselves and the United States, if the latter country is taken as a reference.

In the case of the city-States, their per capita income in 1963 was 23% of that of the United States in the case of Singapore and 20% in the case of Hong Kong, whereas in 1976 Singapore had risen to a level equivalent to 42% of the United States per capita income and Hong Kong had reached the level of 35%, the figure for Singapore being comparable to that of Argentina and Spain, and that for Hong Kong being significantly higher than that of Brazil, although in 1963 the level had been very similar to that of the latter country. Significant

relative growth is also to be observed in the case of the 'normal' countries of Korea and Taiwan, although starting from lower levels: in 1963 Korea had a per capita income equal to 9% that of the United States, rising to 20% by 1976, while in Taiwan the increase was from 14% in 1963 to 24% in 1976. In both cases, these levels of per capita income were lower than those of Brazil and Mexico.

As regards industrial output, and considering exclusively the market economies, it may be noted that in 1963 the industrial output of these four countries was equivalent to 0.35% of

the industrial output of the market economies as a whole, while by 1976 it had risen to 1.35%. Over the same period, the share of Brazil and Mexico rose from 2.6% in 1963 to 3.9% in 1976.¹ The interesting feature of this industrial growth is the fact that it was accompanied by an impressive expansion of industrial exports, reflected in the increase in the share of the exports of manufactures of these four countries within the world total² from 1.35% in 1963 to 4.0% in 1976. Over the same period, the share of the industrial exports of Brazil and Mexico increased from 0.22% in 1963 to 0.92% in 1976.

III

Industrialization and export strategies

A basic but frequently overlooked element in the strategies followed by these countries is their fundamental choice of industrialization: industrialization aimed at penetrating international markets, perhaps, but industrialization nevertheless. The sustained and persistent dynamic effects which these strategies had in terms of the generation of employment, raising of the level of the skill of the labour force, increased productivity, higher real wages, and generation of consensus regarding the importance of technical progress are intrinsically linked with the basic fact that these countries' exports were industrial products. If the volume of foreign exchange generated by these strategies had originated in the export of natural resources, which in any case these countries lacked, it is very doubtful whether the sustained effects mentioned above would have been comparable. Consequently, it is not the orientation towards exports *per se* which generates these dynamic effects, but rather the basic fact that the products exported, even though involving a high content of imported inputs, are the subject of local processing which leads to the incorporation and dissemination of the 'industrial outlook' into the local patrimony.

The following illustrate the magnitude of the process of change experienced by these economies as a result of the leading role played

by the impressive industrial growth which characterizes their experience.

In the case of Korea, the product of the industrial sector represented only 5% of the national product in 1954 (see table 1). In 1978, however, 24 years later, the share of the industrial sector had risen to 32%, while that of the primary sector had gone from 50% to 19%.

In Taiwan, the industrial sector accounted for 10% of the product in 1952, whereas this proportion had risen by 1979 to the impressive level of 42%, while primary production went down from 37% to 11% over the same period (see table 2).

In the city-State of Singapore, which has practically no agriculture, the industrial sector represented 13% of the products in 1960 but 24% by 1979. This change was due partly to a relative decrease in the role of the primary sector from 5% in 1960 to 2% in 1979, but to a larger extent it was due to the relative decrease in the role of the services sector, which was responsible for 79% of the product in 1960 but only 70% in 1979. The relative weight of the services sector reflects the special characteristics of this international trading and distribution centre, as in the case of Hong Kong, thus

¹OECD, *The Impact of Newly Industrialized Countries*, 1979.

²*Ibid.*

Table 1
SOUTH KOREA: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1954	1955	1960	1965	1970	1975	1979
Primary production	50.2	44.3	45.9	34.2	27.8	24.0	19.1
Manufacturing	5.3	8.4	9.7	15.0	20.9	28.2	31.6
Services	44.5	47.3	44.4	50.8	51.3	47.8	49.3

Source: Chong Hyun Nam, *Trade and Industrial Policies and the Structure of Protection in Korea*, Korea Development Institute, 1980, p. 6.

Table 2
TAIWAN: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1952	1955	1960	1965	1970	1975	1979
Primary production	37.13	33.72	33.87	28.30	19.81	15.76	10.56
Manufacturing	9.82	14.40	17.44	20.01	27.31	30.54	42.12
Social security	9.61	10.47	11.08	12.26	13.74	15.56	14.96
Services	42.83	42.86	39.39	40.15	42.03	40.66	34.58

Source: Kwo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and National Chengchi University of Taiwan, 1980, p. 40.

calling for a different form of analytical treatment from that applied to the rest of the developing countries (see table 3).

We can see, then, that the notable dynamism displayed by the economies of these countries in the period after the war cannot be separated from the explosive industrialization reflected in the foregoing figures, so that it is of particular importance to go more deeply into the special features of this industrialization process. A central feature of this is the concentration of these countries on the export of consumer goods with a high import content and the relatively intensive use of labour. In the case of Korea, where perhaps the most advanced stage of industrialization has been reached, it may be noted, when comparing exports and imports of industrial goods, that the consumer goods category generates a significant trade surplus (almost US\$ 6 billion in 1978), but this is not enough even to offset the imports of intermediate goods, including fuels, while a further deficit of US\$

2 400 million is generated in the capital goods sector (see table 4).

It is important to stress, however, that this export strategy involving a high import content, together with the growth of the domestic market and its consequent import requirements, explain why the trade balance of Korea shows a systematic deficit from 1960 to 1979. It is worth noting that between 1960 and 1973 the expansion of domestic demand accounted for 73% of the overall growth of the industrial sector.³ This structural deficit in the trade balance points to the importance of external financing, particularly in the 1960s: a subject which will be referred to later.

If we compare the relative size of the deficit with the volume of exports, we see that there has been a significant improvement, because

³Larry E. Westphal, "The Republic of Korea's Experience with Export-Led Industrial Development", *World Development*, Vol. 6, No. 3, 1978, table 12, p. 366.

Table 3
SINGAPORE: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1960	1973	1979
Agriculture, fishing and hunting	4.5	2.3	1.7
Manufacturing	13.2	22.6	23.6
Construction	3.7	5.8	4.8
Commerce	33.6	28.6	25.0
Others	45.0	40.7	44.9
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Wong Kum-Poh, *The Financing of Trade and Development in the ADCs: The Experience of Singapore*, University of Singapore, 1980, p. 6.

Table 4
SOUTH KOREA: NET EXPORTS, BY CATEGORIES
(Thousands of dollars)

Category	1972	1973	1974	1975	1976	1977	1978
Capital goods	-545 610	-727 097	-1 152 465	-1 165 385	-701 690	-1 262 903	-2 412 348
Intermediate goods	-1 059 929	-1 651 585	-3 005 114	-3 425 210	-3 931 559	-4 491 754	-5 770 009
Consumer goods	699 342	1 339 795	1 761 930	2 376 891	3 506 336	4 657 036	5 691 961
<i>Total</i>	<i>-897 914</i>	<i>-1 015 252</i>	<i>-2 391 478</i>	<i>-2 193 418</i>	<i>1 058 523</i>	<i>-764 081</i>	<i>-2 249 814</i>

Source: Toshio Watanabe, *An Analysis of Structural Dependence Between the Republic of Korea and Japan: Toward a More Optimal Division of Labour*, University of Tsukuba, Japan, 1980, p. 11.

whereas in the 1960s the deficit was of a comparable order of magnitude to the exports of goods and services, from 1972 the proportion went down to 40%, and in the period 1976-1978 it amounted to only 6%.⁴

Concentration on the export of consumer goods and high import content are well-known features of this group of Asian countries, but something which is not so often mentioned is their particular kind of link with Japan, with which they have a relationship clearly different from that which they have established with the United States and Europe. Thus, concentrating once again on the case of Korea, we note that whereas these countries' exports penetrate successfully into markets of the United States and Europe and generate a trade surplus favourable

for the exporting countries, there is a significant (and in the case of Korea, growing) trade deficit with Japan. In 1970 Korea's deficit with Japan was US\$ 589 million, but in 1978 it amounted to US\$ 3 412 million, equivalent to practically twice Korea's total trade deficit in that year and equal to 6% of its gross national product.⁵

If we analyse the structure of the trade relations between the two countries in question, we see that Japan has a favourable trade balance in the categories of machinery (22), electrical and electronic equipment (23), transport equipment (24), basic metals (19) and chemical products (14), while the trade balance is favourable to Korea in the branches of texti-

⁴See Park Yung-Chul, *Export Growth and the Balance of Payments in Korea 1960-1978*, Korea University, 1980, p. 6.

⁵Toshio Watanabe, *An Analysis of Structural Dependence Between the Republic of Korea and Japan*, University of Tsukuba, Japan 1980, p. 7. Pacific Trade and Development Conference, 1-4 September 1980, Seoul, Korea.

les (9), foodstuffs (5) and yarns and threads (8). Textile products, together with yarns and threads, represent 57% of Korea's exports to Japan.

Clear specialization is to be observed even in the trade relations within this branch, since Korea mainly exports clothing, silk products and cotton yarns, while importing capital- and technology-intensive products such as synthetic fibres and garments made therefrom.⁶

The second most important branch of Korea's exports to Japan is that of electrical and electronic equipment, where a clear tendency to specialization connected with the 'technological density' of these products is likewise to be observed. This branch includes household appliances, electronic components and electrical machinery and equipment, Korea's speciality being the export of such household appliances and goods as radios, television sets, watches and pocket calculators—all labour-intensive items. In the other two groups, the advantage is on the side of Japan. Even within the branch of electronic components there is specialization, since Japan is a net importer of batteries and integrated circuits—for which the production technology is well known—while it exports semi-conductors.

In the case of this sector, the specialization reflects the fact that the Korean enterprises engaged in these lines were developed on the initiative of Japanese or United States enterprises seeking to take advantage of the lower cost of labour through subcontracting. This is reflected in the high coefficients of exports and imports characterizing this branch in Korea: the export coefficient rose from 50% to 63% between 1970 and 1977, while the import coefficient remained practically constant at around 61% over the same period.⁷ The magnitude of

the presence of foreign firms in this sector is not typical of the industrial structure of Korea, for whereas in manufacturing as a whole foreign enterprises are estimated to be responsible for 15% of the total exports, in the case of the electronic sector it is estimated that if subsidiaries, joint ventures and wholly foreign-owned subsidiaries are included these account for 54% of the production and 72% of the exports.⁸

There are indications that similar vertical links exist between Japan and the remaining Asian NICs, although in the case of these other countries the coefficients of horizontal specialization are estimated to be lower.⁹ This special linkage between the Asian NICs and Japan is of particular importance because it shows that, from Japan's point of view, the relative loss of markets in the United States and Europe caused by the new exports of labour-intensive products from these countries is offset by the indirect exports of capital goods and intermediate products of Japanese origin incorporated in those countries' exports. The multiplier effect of Korea's exports for the Japanese economy has been worked out in quantitative terms, and this has confirmed the view that the net result is highly favourable for Japan.¹⁰ This situation would tend to change, however, in so far as these countries manage to progress in their production structure towards the metal manufactures and machinery and chemical branches, where they have indeed made significant steps forward. In the present circumstances of the world economy and those foreseeable in the short and medium term, however, it would appear that at least the speed of this diversification is becoming less marked.

⁶*Ibid.*, pp. 4-8.

⁷*Ibid.*

⁸*The Republic of Korea's Experience...*, *op. cit.*, p. 362.

⁹*An Analysis of Structural Dependence...*, *op. cit.*

¹⁰*Ibid.*

IV

Selective import substitution policy

Contrary to what is suggested by the 'popular' versions, the trade policy followed by these countries has included a by no means insignificant import substitution component, and this, unlike what happened in Latin America, has had an extremely selective nature at the sectoral level which has been gradually changing with time and adapting itself to the modifications undergone by the sectoral priorities of industrial policy. This careful and selective protectionist policy used both tariff and non-tariff mechanisms, reinforcing both with measures regarding access to the foreign exchange market. The selectivity referred not only to the identification of sectors, but even to that of enterprises, the authorization of foreign exchange for imports being conditional upon the generation of exports incorporating those imports, and thus involving the existence of institutional mechanisms permitting permanent communication between the government authorities and the respective enterprises.

As we shall see later, this 'institutional' dimension, with differences of form and intensity, is present in all four national cases and makes it clear that they involve an 'interventionist' State in the most orthodox Japanese tradition.

In the case of the protectionist policy of Korea, the first element which must be borne in mind is the fact that the information provided by the level of tariff protection is extremely sketchy, since "quantitative restrictions on imports have been much more important than tariffs as ways of protecting import substitution in Korea".¹¹

In the course of the so-called 'import liberalization' which took place in 1967, a 'black list' was introduced, whose effect was that all types of imports not listed there were automatically authorized. The Government

announced the number of items corresponding to restricted imports, i.e., the black list, twice a year. The criteria for defining the items included in this black list were fundamentally the balance-of-payments situation and the requirements for protection of domestic industries. Quantitative restrictions were applied mainly to competitive and 'non-essential' or 'luxury' imports, while imports of non-competitive raw materials and intermediate goods were approved automatically.

When the system of the 'black list' was adopted in 1967, approximately 60% of the 1312 basic import items (SITC four digits) were not included in the list and consequently received automatic approval; 118 items were totally prohibited, while 402 were subject to various types of restrictions such as quotas or requirements for recommendations from the Ministry of Industry and Trade or other ministries. Between 1967 and 1978, i.e., in the course of one decade, the items whose importation was prohibited were gradually transferred to the restricted import list, the proportion of the total number of items automatically authorized being maintained approximately constant. By 1977, the proportion of automatically authorized items amounted to 52.7%, compared with 50.4% in 1967, and subsequently, towards the end of 1978, the proportion of automatically approved items rose to 64.9% (see table 5). In general terms, this shows that—at least from the point of view of the number of items of free or restricted importation—there were no substantial changes in the decade following what was called 'import liberalization process'. Consequently, in order to make a stricter appraisal of the nature of the protection system, it would be necessary to have information not only on the levels of tariff protection but also on the various import controls, and comparison of prices between the domestic and external markets.

Table 6 shows the levels of effective protection for 1978 in comparison with those

¹¹*Trade and Industrial Policies and the Structure of Protection in Korea*, Chong Hyun Nam, Korea Development Institute, 1980, p. 16. Pacific Trade and Development Conference, Seoul, 1980.

Table 5
SOUTH KOREA: NON-TARIFF IMPORT RESTRICTIONS

	Prohibited	Restricted	Automatically approved (1)	Total ^a (2)	Degree of liberalization of imports (%) (3) = (1)/(2)
1967 II	118	402	792	1 312	60.4
1968 I	116	386	810	1 312	61.7
II	71	479	756	1 312	57.6
1969 I	71	508	728	1 312	55.5
II	75	514	723	1 312	55.1
1970 I	74	530	708	1 312	54.0
II	73	526	713	1 312	54.3
1971 I	73	524	715	1 312	54.5
II	73	518	721	1 312	55.0
1972 I	73	570	669	1 312	51.0
II	73	571	668	1 312	50.9
1973 I	73	569	670	1 312	51.1
II	73	556	683	1 312	52.1
1974 I	73	570	669	1 312	51.0
II	73	574	665	1 312	50.7
1975 I	71	592	649	1 312	49.5
II	66	602	644	1 312	49.1
1976 I	66	584	662	1 312	50.5
II	64	579	669	1 312	51.0
1977 I	63	580	669	1 312	51.0
II	61	560	691	1 312	52.7

Source: Chong Hyun Nam, *Trade and Industrial Policies and the Structure of Protection in Korea*, Korea Development Institute, 1980, p. 6.

^aThe classification of imports of goods was based on the SITC 4-digit codes up to 1970, but after that the BTN (CCCN) 4-digit codes were used.

estimated for 1968 (the estimates of effective protection were obtained by using the methods of Balassa and Corden). This table brings out various interesting features of the Korean scheme of protectionist policy: to begin with, the weighted average rate of nominal protection for industrial activity as a whole rose from 14% to 18% and the rate of effective protection from 11% to 31% according to Balassa's method and from 9% to 24% according to Corden's method during the period 1968-1978. At the same time, the weighted average tariff protection went down from 54% to 38% over the same period. This points to the minor significance which tariff protection seems to have had in the case of Korea.

Secondly, in the case of both nominal and effective protection, a larger inter-sectoral vari-

ation is observed in 1978 than in 1968, which suggests that the discriminatory nature of sectoral promotion policy has been heightened. Both nominal and effective protection tend to be smaller for intermediate goods and higher for capital goods and consumer durables.

Thirdly, it is interesting to note that in the case of Korea—unlike what happened in Latin America—protection has a marked bias in favour of the agricultural sector, which has been intensified in the last decade. In 1968, the level of nominal protection for the agricultural sector was 17%, while it was 12% for the manufacturing sector; in 1978, in contrast, it had risen to 55% for the agricultural sector while it was only 10% for the manufacturing sector. This reflects, as in the case of Japan, the prevalence of the criterion of food self-suffi-

Table 6
SOUTH KOREA: NOMINAL AND EFFECTIVE PROTECTION
(Percentages)

Industry group	Legal tariff		Nominal protection		Effective protection for domestic sales			
	1968	1978	1968	1978	Balassa		Corden	
					1968	1978	1968	1978
I. Agriculture, forestry and fishing	36.5	26.7	17.0	55.2	18.5	77.1	17.9	73.4
IV. Mining and energy	12.2	6.3	8.9	-19.8	4.0	-25.7	3.5	-23.8
Total primary production	35.1	24.2	16.5	45.8	17.8	61.9	17.1	58.7
II. Processed foodstuffs	61.5	41.1	2.9	39.8	-18.2	-29.4	-14.2	-16.0
III. Beverages and tobacco	140.7	133.2	2.2	20.2	-19.3	28.0	-15.5	22.8
V. Construction materials	32.2	29.5	3.9	-7.2	-11.5	-15.0	-8.8	-11.9
VI-A. Intermediate products I	36.6	23.2	2.8	-2.4	-25.5	-37.9	-18.8	-27.4
VI-B. Intermediate products II	58.7	34.7	21.0	1.3	26.1	7.9	17.4	5.3
VII. Non-durable consumer goods	92.3	49.3	11.7	14.9	-10.5	31.5	-8.0	21.9
VIII. Durable consumer goods	98.3	44.3	38.5	40.2	64.4	131.2	39.8	81.0
IX. Machinery	52.6	27.5	29.9	17.8	44.2	47.4	29.5	33.2
X. Transport equipment	62.4	57.0	54.9	30.9	163.5	135.4	83.2	73.8
Total manufacturing production	67.6	41.4	12.2	10.0	-1.4	5.3	-1.1	3.7
Industry in general	54.3	37.7	14.0	17.8	10.5	30.6	9.0	24.1
Primary production plus processed foodstuffs	40.7	28.5	13.6	44.2	13.8	55.5	13.0	50.0
Manufacturing, excluding beverages and tobacco	60.6	34.1	13.2	9.1	0.5	2.7	0.3	1.9
Manufacturing, excluding beverages, tobacco and processed foodstuffs	60.4	33.3	15.9	5.5	5.9	5.1	4.1	3.1
Industry in general, excluding beverages and tobacco	49.6	31.8	14.6	17.7	11.7	30.8	10.0	24.2

Source: Chong Hyun Nam, *Trade and industrial Policies and the Structure of protection in Korea*, Korea Development Institute, 1980, p. 6.

ciency in basic domestic consumer categories.¹²

To sum up, then, in the words of Chong Hyun Nam:

"In the period 1968-1978, import liberalization seems to have been slow. Although for industry as a whole the average legal tariff levels and the number of restricted import categories went down, the nominal level of protection rose slightly during this period".¹³

It is evident that this state of affairs is very far from the drastic and immediate liberalization schemes currently recommended

in Latin America and actually put into practice by some countries, while it is also very far from the 'popular' version disseminated in Latin America regarding the trade policy of Korea.

In the case of Taiwan the information available is less complete, but it is likewise clear that the process of liberalization of imports, although significantly more marked than in the case of Korea, is characterized by its gradual nature. Table 7 shows that between 1963 and 1970 the percentage of items whose importation was controlled remained practically constant: in 1953 over 36% of all items belonged to this category, while in 1976 this figure had risen to 41%. In other words, during the period in which the industrialization policy was being put into effect the ingredient of protection for local manufactures was clearly present:

¹²See Kiyoshi Kojima, *Japan and a New World Economic Order*, Croom Helm, London, 1977, pp. 136-140, and S. Okita, "Japan, China and the United States: Economic Relations and Prospects", *Foreign Affairs*, Vol. 57, No. 5, 1979.

¹³See *Trade and Industrial...*, op. cit., p. 35.

Table 7
 TAIWAN: CHANGES IN THE CLASSIFICATION OF VARIOUS
 CATEGORIES OF IMPORTED MANUFACTURES, 1953-1978

	Number of items									
	Permissible	%	Controlled	%	Prohibited	%	Others	%	Total	%
1953	280	55.23	185	36.49	28	5.52	14	2.76	507	100.0
1956	252	48.10	241	45.99	25	4.77	6	1.14	524	100.0
1960	506	53.72	381	40.45	33	3.50	22	2.33	942	100.0
1966	4.93	52.34	395	41.93	36	3.81	18	1.91	942	100.0
1968	5 541	57.92	3 770	40.05	191	2.03	-	-	9 412	100.0
1970	5 612	57.08	4 030	40.99	190	1.93	-	-	9 832	100.0
1972	10 860	82.09	2 365	17.87	5	0.04	-	-	13 230	100.0
1974	12 645	97.71	293	2.26	4	0.03	-	-	12 942	100.0
1975	12 688	97.52	318	2.24	4	0.03	-	-	13 010	100.0
1976	12 846	97.16	362	2.74	13	0.10	-	-	13 221	100.0
1978	15 773	97.57	375	2.32	17	0.11	-	-	16 165	100.0

Source: Kuo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and National Chengchi University of Taiwan, 1980, p. 40.

"The principle whereby the domestic availability of a product justifies control of imports of similar goods is an important part of the Taiwan protection system, as in many other developing countries."¹⁴

The basic criterion used was that local manufactures who desired protection must show that the quantity and quality of their products were sufficient to satisfy domestic

demand and that the cost of the imported raw materials to manufacture such products locally did not exceed 70% of the total cost of production. The ex-works price of the products whose importation was restricted could not exceed the prices of competing imports by more than 25% in 1960. In 1964 this margin was reduced to 15%, in 1968 to 10%, and in 1973 to 5%.

V

The role of the state

State action is present in all four of the countries analysed, although with differences of intensity and involving different forms of intervention. Even in the city States of Singapore and Hong Kong, historically conditioned to play a role as centres of international trade distribution, there are clear indications that the postwar

industrialization strategy was the result not only of the action of the international market forces, but of the adoption of a strategic decision by articulated internal nuclei of the respective States:

"In Singapore, the Government plays a key role in economic development. It not only identifies the sectors which display problems, formulates suitable policies and grants the necessary investment incentives, but also plays a real part in a wide range of economic activities... The public sector makes a considerable

¹⁴ Kuo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and National Chengchi University, Taiwan, 1980, p. 14. Pacific Trade and Development Conference, Seoul, 1980.

contribution to capital formation. Of the total gross domestic capital formation it is responsible for between a quarter and a third."¹⁵

In Hong Kong the presence and action of the State reflect the existence of domestic entrepreneurial nuclei which have an historical component associated with the long period during which this city-State has played a significant role in international trade intermediation relations in Asia. This component, distilled over the space of more than a century, is accompanied by the contribution in terms of entrepreneurial capacity and skilled labour which Hong Kong receives as a consequence of the social transformations taking place in China. In the words of Tzong-Biau Lin and Yin-Ping Ho:

"The infrastructure is a legacy of history. Hong Kong's hundred years of port activity provided the city with an extensive physical and commercial infrastructure: harbour and warehousing installations, valuable trade links, and wide experience in trading. All this, together with its efficient banking, insurance and sea transport systems, have created an economic structure which is extremely suitable for the development of export trade in the light manufactures which are the fundamental element in its present growth. It is perfectly true to say that Hong Kong's export industry was stimulated in the first place by the great flow of labour, capital and entrepreneurs from China in the late 1940s and early 1950s. During this period, a group of industrialists arrived from Shanghai whose capital and entrepreneurial capacity immediately brought about an expansion of the textile industry, which spearheaded the first stage in the industrialization of Hong Kong after the war. Moreover, the big flow of immigrants from China—most of them young, industrious and skilled—provided a practically unlimited number of workers in relation to the level of economic activity then existing. Unlike most of the economies which have an excess of labour, Hong Kong has a labour force which

does not, as is usually the case, come from the agricultural sector, but from immigration."¹⁶

The foregoing indicates that the successful industrialization of these two city-States, Hong Kong and Singapore, goes far beyond any question of being a miraculous result of the application of *laissez-faire*, and confirms the idea that in order to understand these processes it is necessary to give due weight to the responsibility assumed in them by endogenous groups in a form of social organization generated in particular historical conditions, whose characteristics must not be overlooked.

The foregoing details regarding the evolution of protectionist policy in the case of Taiwan reflect in turn the existence of a protectionist policy and an industrial strategy well defined by the Government ambit, among the main results being the relative diversification observed in industrial production and exports in the course of the period, in which growing proportions of products of the chemical, iron and steel, and shipbuilding industries are to be observed. It would be difficult, if not impossible, to try to explain this diversification towards capital-intensive sectors (petrochemicals) and sectors making intensive use of skilled labour and technology (such as shipbuilding) as a mere automatic reflection of the system of static comparative advantages and pressures by the advanced countries, which in actual fact will themselves be affected by this industrial diversification of Taiwan. What it is wished to stress is that the industrial strategy of Taiwan, as in the other cases, is due to a significant extent to the political decision of domestic economic and social agents which came together in the definition of the strategy formulated by the State.

The case of Korea calls for special attention, since it is the case which has been held up perhaps most frequently in Latin America as an example of this new paradigm based on opening up to the international market and minimization of the role of the State.

In a previous paragraph it was made clear

¹⁵*The Financing of Trade and Development in the ADCs: The Experience of Singapore*. Wong Kum-Poh, University of Singapore, Singapore, 1980, p. 9. Pacific Trade and Development Conference, Seoul, 1980.

¹⁶Tzong-Biau Lin and Yin-Ping Ho, *Export Oriented Growth and Industrial Diversification in Hong Kong*, The Chinese University of Hong Kong, 1980, p. 11. Pacific Trade and Development Conference, Seoul, 1980.

how far the protectionist policy applied by Korea was from the image of it which has been projected recently in Latin America.

A first expression of the active participation of the public sector in the design of the industrial strategy is to be seen if we analyse the planning scheme put into practice in Korea in 1962. The first plan (1962-1966) had as its central objectives the promotion of the expansion of strategic industries, strengthening of the economic infrastructure of the country, and furthering in particular of the growth of productivity in the agricultural sector.

The second plan (1967-1971) concentrated on the promotion of the internal articulation of the industrial structure and the stimulation of industrial exports.

The third plan (1972-1976) had as its central objectives the development of the engineering industry and heavy industry, as well as improvement of the balance-of-payments position.¹⁷

In order to illustrate the eminently selective nature of the industrial strategy and the weight exerted by internal decisions in defining the role which external agents have played in the industrialization of Korea, it is worth examining the criteria applied in establishing rules on the presence of foreign investment. The sectoral definitions fixed by the Foreign Capital Inducement Act to regulate the presence of foreign investment are detailed below (see table 8).

Apart from its character of sectoral selectivity, direct investment has played quite a marginal role compared with external indebtedness, and within the latter long-term indebtedness has predominated, thus confirming the appraisal that this is a case of an industrial development strategy propelled by internal agents. Except in the two years 1972-1973, when direct investment represented 12.3% of total long-term credit, its share in the rest of the

period 1968-1978 was below 10%, and in 1976-1978 it went down to 3.3% (see table 9).

Although no systematic information is available on the relative weight of foreign enterprises in the industrial sector of these countries, the indications regarding their share in industrial exports suggest that, except in the case of Singapore, their relative presence is less marked than in Latin America. If we bear in mind the fact that in the South-East Asian countries there has been a definite and well-defined policy, as illustrated earlier in the case of Korea, of primarily taking advantage of the export potential of the foreign enterprises and to some extent keeping the domestic market for national groups, it may be concluded that the share of foreign enterprises in total industrial production will tend to be less than the share in exports. In Latin America, in contrast, the share of foreign enterprises in exports could be a suitable approximate measure of their weight in total industrial production.

Bearing in mind these considerations and the information given in table 10, it may be concluded that the relative importance of domestic enterprises in the industrial production of Korea, Taiwan and Hong Kong is very markedly greater than in the semi-industrialized countries of Latin America. This appraisal, which differs from the 'popular' image disseminated in Latin America, indicates perhaps one of the special features of the Asian model, which, moreover, reaffirm the 'Japanese' inspiration behind their industrial strategy: the dominant central influence and leadership of the national industrial sector and its duty and ability to define strategic options for penetrating international markets and thus creating, by domestic efforts, the 'comparative advantages' of the future. This would take us a very long way from the kind of model in which countries are converted into passive objects of the international market forces and renounce the internal creativity and potential for change provided by the industrial sector.

The best known expression of the public action of the Korean State is the vast and generous range of export incentives, especially including the following: (i) access to subsidized financing for inputs, fixed investment and export activities; (ii) exemption from indirect

¹⁷*The Republic of Korea's Experience...*, *op. cit.*; *Trade and Industrial Policies...*, *op. cit.*; Hwa-il Lee, *Industrial Redeployment in Korea*, September 1979; *Pattern of Growth and Changes in Industrial Structure of Korea, 1953-1973*, Hak Chung Choo, Working Paper 7506, Korea Development Institute, 1975.

Table 8

SOUTH KOREA: SECTORAL REGULATION OF FOREIGN PRESENCE

1. PERMITTED FIELDS

A. *Export industries*

Industries which are required to export their entire production, unless the Government permits the contrary:

- (a) Food processing (preparation and preservation of meat, etc.)
- (b) Printing and publishing
- (c) Mining and extraction (mills and associated industries)
- (d) Synthetic resins (plastic materials, plastic films, etc.)
- (e) Glass products (liquor bottles, imitation pearls, etc.)
- (f) Chemical products (colorants and intermediates, zinc oxide pigments, etc.)
- (g) Leather products
- (h) Rubber products (bicycle tyres, vee-belts, etc.)
- (i) Chemical fertilizers (urea, compound fertilizers)
- (j) Metal products (door locks, electroplating and gilding)
- (k) Machinery (heaters, bolts, rivets, etc.)
- (l) Photographic and optical articles (optical lenses, spectacles and binoculars)
- (m) Transport equipment (bicycle parts, axles and transmissions, etc.)
- (n) Electrical and electronic articles (radio, television, video, audio, etc.)
- (o) Furniture
- (p) Others (pianos, organs, etc.)
- (q) Tourism.

B. *Import substitution industries*

Industries aimed at replacing imports and, eventually, exporting:

- (a) Hand made fibres (viscose and rayon fibres)
- (b) Paper and paper products (chemical pulp)
- (c) Chemical products (ethylene glycol, paper for films and sensitive paper)
- (d) Basic metals (iron and steel castings, etc.)
- (e) Metal products (drums, special electroplating, etc.)
- (f) Machinery (water turbines, gasoline motors, etc.)
- (g) Electricity and electronics (electric motors, generators, etc.)
- (h) Transport (marine engines, building of metal ships, etc.)

2. RESTRICTED FIELDS

A. *Prohibited by law in the public interest*

- (a) Cigars
- (b) Processing
- (c) Water supply

- (d) Companies established with the Japanese repatriation fund

Restricted by law

- (a) Mining
- (b) Aviation
- (c) Fishing and processing
- (d) Maritime transport

Prohibited under the industrial policy

- (a) Generating plants and distribution
- (b) Railways
- (c) Gas supply
- (d) Coastal fishing

Prohibited in order to protect domestic enterprises

- (a) Wigs and false eyelashes
- (b) Plywood

B. *Others*

Textiles

- (a) Silk fabrics and *tsumugi* finishes
- (b) Non-woven fabrics
- (c) Kimonos and finishes
- (d) Special fabrics and finishes
- (e) Colorants and finishes

Metal products

- (a) Farm implements

Iron and steel

Primary iron and steel

Chemicals

Basic petrochemicals

Refining

Basic oil

- (a) Automobile motors
- (b) Motor parts
- (c) Brake system
- (d) Clutch system
- (e) Electrical articles

Transport and storage

Warehouses

Table 9
SOUTH KOREA: LONG-TERM FINANCIAL MOVEMENTS
(Millions of dollars)

	1960-1963				1972-1973				1974-1975				1976-1978			
	Credit	%	Debit	%	Credit	%	Debit	%	Credit	%	Debit	%	Credit	%	Debit	%
Net long-term capital	101.6		66.3		1171.4				2124.7				4853.3			
Public and commercial loans	68.6	64.8	2.7	62.8	1363.8	75.2	463.8	72.3	2234.6	70.6	622.5	59.9	6630.4	74.7	1935.8	48.0
Direct investments	5.4	5.1			221.1	12.3	10.9	1.7	185.7	5.9	28.1	2.7	290.4	3.3	82.5	2.0
Commercial credit	31.0	29.3	0.4	9.3	214.6	11.8	115.0	17.9	645.0	20.4	349.4	33.6	1541.7	17.4	1657.7	41.1
Portfolio investments									19.0	0.6			186.2	2.1		
Others ^a	0.9	0.8	1.2	27.9	12.1	0.7	51.5	8.0	80.0	2.5	39.6	3.8	230.8	2.6	353.2	8.8
Total	105.9	100.0	4.3	100.0	1812.6	100.0	641.2	100.0	3164.3	100.0	1039.6	100.0	8879.5	100.0	4029.2	100.0

Source: Park Yung-Chul, *Export Growth and the Balance of Payments in Korea, 1960-1978*, Korea University, 1980, p. 6.

^aIncludes frozen loans, commitments to international organizations, fund covering transactions between head offices and foreign branches, bank deposits, and advance payments for imports.

Table 10
 SELECTED DEVELOPING COUNTRIES: SHARE OF TRANSNATIONAL
 CORPORATIONS IN EXPORTS OF MANUFACTURES

Country	Approximate percentages	Year	Total exports of manufactures in 1972 (millions of dollars)
Hong Kong	10%	1972	2 635
Taiwan	At least 20%	1971	2 489
South Korea	At least 15%	1971	1 351
Singapore	Newly 70%	1970	893
Brazil	43%	1969	749
Mexico	25-30%	1970	647
Argentina	At least 30%	1969	394
Colombia	At least 30%	1970	172

Source: Deepak Nayyers, "Transnational Corporations and Manufactured Exports from Poor Countries", in *Economic Journal*, Vol. 88, March 1978, p. 62.

taxes for intermediate products and foreign sales; (iii) exemption from duties on direct, indirect and capital goods inputs intended for export activities; (iv) reduction of direct taxes on income generated by export activities in favour of a reserve created from taxable income for the development of external markets and for compensating export losses and accelerated depreciation schemes used in connexion with determined export activities; (v) authorization to import goods not normally permitted, in so far as these are connected with export activities; and (vi) preferential tariffs for energy and transport. Outstanding among this set of incentives are the financing at subsidized rates and the preferential tax system which are those of greatest significance in the growth of exports. These two instruments, apart from their importance for promoting exports, are a clear expression of the non-neutral character of the Korean State and its close articulation with the industrial entrepreneurial sectors.

The following estimates show the quantitative importance of this financial subsidy: the proportion of subsidies associated with internal and external credits for the manufacturing sector and the stock of fixed capital in the manufacturing sector was 4% in the period 1950-1961 and 6% between 1962 and 1966, but between 1967 and 1971 this proportion rose to

14%, and from 1972 onwards it attained the level of 25%.

If we examine the proportion between the subsidies and gross fixed capital formation, we note an increase of 40% between 1962 and 1966, 75% between 1967 and 1971, and over 100% after 1972.

At the same time, we observe that the real rate of return in the manufacturing sector, which was estimated at 9% in the period 1950-1961, rose to 17% between 1962 and 1966, 26% between 1967 and 1971 and around 27% between 1972 and 1976.¹⁸

The increase in the rate of return in the industrial sector, together with the rise in real wages at an annual rate of 8.7% between 1963 and 1971 and 11.1% between 1972 and 1978,¹⁹ was possible because of the rapid growth of productivity which accompanied this extraordinary rate of expansion 'spearheaded' by the industrial sector.

In spite of this significant increase in real wages, the share of labour income, including income of small enterprises, in the gross nation-

¹⁸Wontack Hong, *Trade, Industrial Growth and Income Distribution in Korea*, Seoul University, 1980, pp. 25-26. Pacific Trade and Development Conference, Seoul, 1980.

¹⁹*Ibid.*, p. 41.

nal product shows a decline from 85% in 1963 to 78% in 1975. At the same time, the share of entrepreneurial income in the product rose from 6.4% in 1963 to 10.9% in 1975.²⁰ With regard to the connexion between the export policy and this regressive distribution of income, Wontack Hong concludes that the main explanations are as follows:

"Firstly, the fact that export activities enjoyed big subsidies means that a considerable rent must have been created for those persons with special entrepreneurial talent and capacity for expanding exports. Secondly, the fact that the Government restricted the assignment of subsidies to a limited number of entrepreneurs in order to take advantage of economies of scale also means concentration of wealth, while the preferential tax system aimed at giving incentives to entrepreneurs to retain and reinvest profits, together with the insignificant level of the inheritance taxes levied, means the perpetuation of this concentration of wealth. Since in the 1970s approximately 25% of total government expenditure was devoted to general administration, 30% to defence, 25% to investment activities aimed at economic growth, and the rest to social development expenses (principally primary education), it may be said it has never been the Korean Government's aim to improve income distribution or increase public welfare activities on the basis of a system of taxes and fiscal expenditures. In other words, if economic factors such as the growing proportion of income in respect of profits have accentuated the deterioration of income distribution in the 1970s, the system of taxes and government spending has never embarked on any new efforts to reverse this trend."²¹

In the cases of Taiwan and Hong Kong too, for which information is available, we note an increase in real wages in spite of the weak trade union activity. In the case of Hong Kong, the Government does not apply any regulations re-

garding minimum wages, and trade union activity appears to be extremely sketchy.²²

With regard to Korea, the well-known study by Westphal notes:

"Where the government has intervened in labour markets it has generally been to counter organized labour force which as a result is not a powerful interest group."²³

In Taiwan the unit cost of labour appears to have remained constant or even gone down in the 1960s, beginning to grow in the following decade.²⁴

Although no precise information is available, it may be assumed that in view of the indexes of growth of productivity in Taiwan a similar phenomenon took place there to that observed in Korea, where the growth of real wages and regressive income distribution took place side by side. From the point of view of social tensions, even leaving aside the question of the machinery of repression, concentration of income parallel with growth of real wages against a background of generalized expectations of economic growth is absorbed relatively easily. The situation changes, however, when (as appears to have taken place in Korea in the second half of the 1960s) a situation of full employment is reached while at the same time the prospects for growth deteriorate. The simultaneous existence of a slowly growing external market, pressures due to growing trade union activity and the coming to the surface of the social problems accumulated and kept covered up during the period of growth probably go a long way towards explaining the political conflicts observed in Korea in recent years. The topic of the effects caused by the entry of this long cycle of expansion into the recessive phase will be resumed when we analyse the international context in which the industrializing entrepreneurial action of the State took place in these countries.

²⁰Export Oriented growth, *op. cit.*, p. 9.

²³The Republic of Korea's Experience, *op. cit.*, p. 375.

²⁴Trade Strategy and the Exchange Rate..., *op. cit.*, p. 41.

²⁰Table 10.

²¹Trade, Industrial Growth..., *op. cit.*, p. 3.

VI

The international context

In previous paragraphs stress has been laid on a set of internal factors which appear to have played a determining role in the rapid economic growth experienced by these countries after the war: the industrialization effort of the State, expressed through the subordination of the financial sphere to the objective of industrial growth; the definition of sectoral priorities and integral economic policies in support of the selected branches; the clear articulation with an entrepreneurial sector having the will and desire to secure industrialization; the passive attitude of the labour force and the fragility of trade union organizations, which is explained both by political and repressive factors and by the high density of population with low productivity in the initial stages; and the design and clear utilization of a massive policy of training labour. In the cases of the city-States of Hong Kong and Singapore, this industrialization was complemented with the traditional entrepreneurial competence and experience in the fields of trade and finance.

These internal factors were strengthened and stimulated by a certain international context, while both economic and geopolitical considerations acted in the direction of decidedly strengthening industrial growth oriented towards international markets.

In the economic field, we have seen in a study²⁵ referred to earlier how the rapid growth which was a feature of the period after the war favoured the accelerated growth of productivity, intensification of international trade, and consequently also of competition between the developed countries, which in its turn had projections on the internationalization of industrial production, with a progressive increase in the relative expensiveness of labour which stimulated the search for elements to neutralize that tendency, among them the construction of export platforms in countries with cheap and

'disciplined' labour. This factor of "demand" then encountered a functional response in the internal factors of the Asian NICs, whose endogenous dynamism found a propitious field in the markets of the developed countries and especially the United States and Europe. This was a period during which trade was liberalized, principally in the tariff field, and where GATT did not really worry too much about the export subsidy policies applied in the developing countries, or the measures of protection in specific sectors. The intensification of competition between developed countries, the increase in the cost of labour in those countries, and the generation of forms of marketing through big chains of supermarkets found a strictly functional response in the efforts of the Asian countries to industrialize and export, and their concentration on consumer goods. At the same time, the profound industrial changes going on in Japan, which permitted it to bring about drastic changes in its industrial and export structure, moving from labour-intensive products to products making intensive use of technology and capital, found in the expansion of the Asian countries an expedient to permit it to offset its loss of competitiveness in labour-intensive products, by channelling to those countries the capital goods required for their domestic and export-oriented industrial growth.

The considerations of an economic nature which apply to the developing countries in general were accompanied, in the case of the Asian countries, by considerations of a geopolitical nature. Thus, for well-known geographical and historical reasons this group of countries played an important role in the ideological and military confrontation between East and West in the period following the war. In addition to the strictly logistic aspects connected with the existence of military bases, the economic and military strengthening of these countries also became an essential objective. In the confrontation with China, a decisive role was played by Taiwan and Hong Kong, and to a

²⁵Fajnzylber, *The Industrial Dynamic...*, *op. cit.*

less extent Singapore, while in the case of the confrontation with North Korea and the Vietnam conflict an important role was played by South Korea.

In the cases of both Taiwan and Korea the economic aid provided during the 1960s played an important function in that it provided a sound basis in the critical phase of the gestation of these industrialization models. As already noted, the trade deficit in the 1950s and the early 1960s reached a considerable level, and it was precisely at this time that United States aid carried out a decisive function:

"Taiwan was the beneficiary of a strong aid programme. It was assigned a total of US\$ 1 444 million in the period between 1951 and 1965, which is equivalent to ten dollars per inhabitant per year. This assistance played an important role in the task of controlling inflation at the beginning of the 1950s. Moreover, if it had not been for United States aid, the trade deficit of Taiwan would have been a factor capable of seriously limiting the country's economic development up to the early 1960s. United States aid overcame this bottleneck by increasing the foreign exchange resources and providing support for the importation of indispensable inputs which served as a complement to the domestic labour force and other components of investment. Up to 1951, the share of United States aid imports in total imports remained over 30%, although subsequently it went down rapidly."²⁶

With regard to Korea, a similar situation was observed:

"Korea's relationship with the United States obviously increased its foreign exchange earnings through expenditures stemming from the stationing of UN forces in Korea and, during the war in Vietnam, from offshore procurement by the United States. As indicated in table 6 under 'receipts from government transactions', militarily related expenditures (the sum of the two components shown) in the past accounted for a sizable fraction of Korea's foreign exchange earnings."²⁷

The same author, in setting out the conclusions of his well-known study, highlights

the endogenous elements among the complementary factors:

"The most obvious element was the level of foreign assistance during the 1950s and early 1960s, which contributed to building the infrastructure for subsequent growth."²⁸

Another analysis of the balance-of-payments situation of Korea states:

"From the early 1950s, after the Korean War, until the mid-1960s, the trade deficit, including invisible items, was generally covered through foreign aid and donations. In this period the inflow of capital, whether short or long term, was very slight."²⁹

As regards the geopolitical importance of these countries and its connexion with the field of trade, it may be of interest to quote a statement regarding Hong Kong which says:

"One of the reasons why the United States did not try to apply more pressure to Hong Kong during the 1960s with regard to limitations in the question of textiles was that the United States needed the intelligence station which was used to keep the People's Republic of China under surveillance."³⁰

The economic and geopolitical considerations which tended to favour the policy of export industrialization of these countries are illustrated by the many cases of leniency with which the United States applied trade regulations to these countries. Thus, in the specific field of the application of customs classifications, the most noteworthy example are those connected with cases of classification of shoes as rubber shoes or non-rubber shoes, yarn as cotton yarn or synthetic yarn, and television sets as assembled or semi-assembled: all options with decisive tariff implications.

By way of illustration, let us take the case of footwear:

²⁶*Ibid.*, p. 375.

²⁷Park Yung-Chul, *Export Growth and the Balance of Payments in Korea, 1960-1978*, Korea University, 1980, p. 3. Pacific Trade and Development Conference, Seoul, 1980.

²⁸D. Yoffie and R. Keohane, *Responding to the 'New Protectionism': Strategies for the Advanced Developing Countries of the Pacific Basin*, Stanford University, United States, 1980, p. 12. Pacific Trade and Development Conference, Seoul, 1980.

²⁶*Ibid.*, p. 3.

²⁷*The Republic of Korea's Experience, op. cit.*, p. 361.

"In 1976 the Koreans exported to the United States 44 million pairs of non-rubber shoes and stated in January 1977 that their total export capacity for the year was 60 million pairs. The United States tried to lower the total achieved by Korea in 1976 and in fact reduced the level of the Korean quota to 33 million pairs for the year ending in June 1978. Using the various clauses that permitted greater flexibility, however, the Koreans actually managed to export 58 million pairs of shoes in 1977."³¹

There are also many examples of leniency on the part of the United States towards the Asian countries with regard to the evasion of valid regulations. An important case is that of transshipment, which seems to be particularly significant in the textile and footwear sectors:

"With regard to textiles, clothing and footwear, the classic way of getting round the quota has been transshipment. Buying false documents in Hong Kong, for example, costs only one-third of the amount that it would cost to acquire legitimate quotas. The goods can then be transported in bulk to Indonesia or Sri Lanka, which have no quotas, and can be newly labelled before being sent on to the United States. Transshipment immediately became much in evidence after the application of the measures regarding footwear. Taiwan companies sent footwear components to Hong Kong to be assembled there, with the result that Hong Kong's exports of footwear increased by 22.5% in 1978."³²

Another way of evading established trade regulations is the use of third countries to neutralize the restrictions specifically placed on certain suppliers:

"As they no longer have the opportunity to export synthetic textiles instead of cotton because of the negotiation of the multifibres agreements, Taiwan, Korea and Hong Kong habitually export batches of such textile to countries like the Philippines or even Japan, where the work of manufacture is completed and the products are then sent to the United States."³³

The considerations of an economic and geopolitical nature already mentioned appear

to have played a significant role in the relative indifference shown by the United States in accepting these situations:

"In many cases, the evasion of customs regulations was encouraged or tacitly approved by the United States. At one stage of the Vietnam war, larger shipments than those permitted were easily accepted, because domestic production was less than demand. The fact of allowing certain provisions to be evaded may have satisfied some of the legitimate complaints of countries subject to restrictions, while at the same time maintaining the integrity of the protectionist régime. Moreover, the United States has never put into practice an effective system of sanctions. The highest amount paid by an importer for illegally infringing a quota is US\$ 10 000, which is not a very important sum compared with the potential profits."³⁴

The importance of this international context in explaining the 'Asian miracle' became evident precisely when, in the 1970s, this international context underwent changes. The recession in the developed world was projected directly into the sphere of international trade, not only through the emergence of protectionist tendencies in certain countries, but also through the content of the international trade negotiations in GATT. From the early 1970s onwards, there began to be concern over export subsidies, protection policies, 'public sector purchasing mechanisms' as an element of domestic protection, and in more general terms, the need for the NICs —among whom the leading role was played by the Asian countries— to grant reciprocity to the developed countries in trade relations, which mainly affected export subsidies and protection of the domestic market. During these years, the main instruments of this 'protectionism' formulated by the developed countries were the 'voluntary export restraints' (VER) and the 'orderly marketing agreements' (OMA), intended mainly to get round the most-favoured-nation clause. The VER became so widespread that they now have an importance comparable with that of tariffs and quantitative restrictions.³⁵

³¹*Ibid.*, p. 15.

³²*Ibid.*, p. 17.

³³*Ibid.*, p. 18.

³⁴*Ibid.*, p. 19.

³⁵*Ibid.*, p. 2.

According to the International Monetary Fund, the developed countries have established more than 30 restrictive measures against Taiwan since 1976, while Korea has been affected by over 70 such actions since the beginning of the 1970s.³⁶ This new external picture could hardly fail to have serious effects on the economic situation in countries where exports represented a high proportion of their activities. This external factor was strengthened by the increase in power of the trade unions and their corresponding political expressions within the Asian countries, where, precisely because of the rapid growth of industry and the increase in the level of skill of the labour force and the relative scarcity of the latter, social changes were taking place which modified one of the main internal elements explaining the previous model.

In the field of geopolitical relations, the United States' new relationship with China also significantly modified the importance of Taiwan, Hong Kong and Singapore. The new international position of China probably also had some influence on the policy of North Korea towards South Korea, and perhaps the references to unification are not totally unconnected with the new framework of relations between the United States and China and Japan and China.

Consequently, the convergence of the changes taking place in the international economic and political framework and the internal social changes brought about precisely by prior economic growth explain the political and economic difficulties facing these countries, particularly Korea, which is the country which had progressed furthest in the diversification of its industrial structure. The present government has undertaken, precisely in the metal manufactures and machinery sector, a process of industrial restructuring designed to promote mergers of firms and avoid over-investment in the sector. The four enterprises which operated in the heavy electrical equipment sector are being regrouped under only one of them, while another of the leading groups has been forced

to choose between the capital goods and the automobile sector and has finally decided on the latter. The drop in domestic demand has also had very severe repercussions on the automobile sector, and it is estimated that exports of vehicles fell by 70% in 1980.

The same situation is to be observed in the electronic products sector, where the four biggest enterprises all declared losses in the first half of 1980. In this sector, whose main exports are black and white television sets, semiconductors and telephone exchanges, and more recently colour television sets, the restrictions on international markets have coincided with a drop in the domestic market. It is interesting to note that for reasons connected with the stimulation of domestic savings, up to this year the Korean Government had prohibited the sale of colour television sets on the domestic market, but because of the restrictions on the international market it has now thrown open the domestic market to local manufacturers.³⁷

This restriction on the domestic consumption of colour television sets produced by domestic firms, together with the considerations which inspired it, confirms the industrializing propensity of the State and provides an interesting contrast with those countries of Latin America where, because of the predominance of a mercantile and financial intermediation mentality, domestic production has been replaced by imports coming partly from South-East Asia. As this is a sector which, like that of electronics, constitutes one of the decisive factors in the creation of the 'future comparative advantages', it may be foreseen that this 'modernization by imports' could have by no means insignificant consequences for the place of these countries in the international market in the next decade.

Concern over the economic situation of Korea—a country whose creditworthiness in the international financial system was previously unsurpassed—has even reached the spheres of the World Bank, a body whose reports up to now had helped to convert the Korean model into a veritable paradigm and

³⁶B. Nowzod, *The Rise of Protectionism*, IMF, 1978, p. 108. Cited in *Ibid.*, p. 24.

³⁷E. Lochica and J. Landauer, "South Korea has serious economic ills, confidential study for World Bank says", in *The Wall Street Journal*, 23 December 1980.

whose financial contribution to Korea, although not of large size, was important for its catalytic function with respect to the private banks, as also happened in the case of the other developing countries:

"South Korea is in serious economic difficulties: the rate of exports achieved in previous years has gone down, and no solution has yet been found for inflation and unemployment, according to confidential World Bank documents. These studies, prepared by loan officials of the Bank, draw a picture of this previously so vigorous Asian country which is more sombre than those accepted up to now by its officials and United States banks. The United States has vital interests in South Korea not only because of its strategic location in North-East Asia, but also because it occupies

twelfth place among the countries with the highest trade links with the United States... The harsh and arbitrary policies of the government, combined with the contained resentment of the lower sectors, do not seem specially favourable to economic growth, but there is a small possibility that a broad and ambitious policy of industrial restructuring combined with an improvement in international trade, would make it possible for Korea to get over its economic difficulties and thus avoid the danger of a political crisis..."³⁸

The subsequent evolution of the Korean model will be largely linked to the evolution of the world economy and the political capacity of the régime to absorb the social tensions which had been neutralized and postponed by what seemed to be unlimited growth.

VII

Final reflections

The foregoing considerations show how precarious 'paradigms' can be which are based fundamentally on economic indicators and do not take into account cultural, institutional and social factors or the link between endogenous factors and the international context. This in no way rules out or minimizes the importance of the lessons that can be learned in the specific field of economic policy and industrial strategy from the cases considered, but it does emphasize the 'scientific' fragility of recommendations which advocate the mechanical transfer between countries of experiences which have not even been carefully interpreted. Even more serious is the case of those recommendations which, apart from failing to take account of the economic and social conditions of the recipient country of the experience, distort the lessons that can be drawn from the experiences on which they are based. In the case of the countries of South-East Asia, it is a serious omission not to give sufficient emphasis to the following:

(i) The existence of a set of endogenous factors which help to explain the specific fea-

tures of this industrialization which took place at an even later date than that observed in Latin America.

(ii) The existence of a national entrepreneurial nucleus endowed with a marked industrialization mission.

(iii) The traditional competence of national groups in the fields of international trade and finance, particularly in Hong Kong and Singapore.

(iv) The presence of a public sector capable of conceiving and implementing a long-term industrialization strategy.

(v) The careful, selective and lucid policy of protecting the formative period of national industry.

(vi) The subordination of the financial dimension to the strategic objective of industrialization.

(vii) The special attention and protection given to the agricultural sector.

(viii) The moderate presence, smaller than

³⁸*Ibid.*

that observed in Latin America, of foreign enterprises (except in Singapore) and, what is perhaps more important, the subordination of their behaviour to domestically defined strategic industrial objectives.

(ix) The politically authoritarian nature of their régimes, particularly in Korea and Taiwan.

(x) The special nature of the international context in which these experiences took place.