Book Reviews

Bela Balassa, 1981, *The Newly Industrialising Countries in the World Economy,* Pergamon Press

Two reviews: part I by Geoff Lamb; part II by A. I. MacBean

I. Re-thinking de-linking

*Geoff Lamb**

Bela Balassa is widely known as a redoubtable champion of 'outward-oriented' economic development strategies. This book is a comprehensive statement of the theoretical and comparative backing for these views. together with a number of detailed case studies of policy and experience in a wide range of countries—most of them relatively advanced developing countries. as the book's title implies. The discussion below is limited to some of the political questions which the book throws up. and is thus not intended as a review in the normal sense, since the book itself does not address them.

The persuasiveness of the general arguments and the robustness of the particular results and recommendations reported in this volume are in large part attributable to the consistency and economy of Balassa's underlying theoretical and policy propositions. What are they. in essence?

Firstly. an outward—rather than inward—looking policy accelerates growth and employment. increases efficiency of resource allocation. and improves capacity for adjusting to external shocks *(Essay 1:* 'The process of industrial development and alternative development strategies': and *Essay 2:* 'The newly-industrialising developing countries after the oil crisis').

Secondly. a successful outward strategy is based on a country's comparative advantage in a particular branch or line of exportable manufactures—and that advantage is defined basically in terms of intercommodity differences in capital-labour ratios and intercountry differences in capital endowments *(Essay 6:* 'A "stages" approach to comparative advantage').

Thirdly. comparative advantage is not to be seen in static terms. but as an industrial and technological staircase up which particular countries move. The problems of adjustment and protectionism are therefore mitigated to the extent that individual countries (including developed ones) ascend to a higher-technology line of exports and thereby make room for less developed economies to take their place *(Essay 6:* also *Essay 8:* 'Trade in manufactured goods: patterns of change').

The prescriptions which follow thus tend. not surprisingly, to promote industrialisation. dismantling of trade barriers (and especially tariff. tax and exchange rate discrimination against exports). and a close dynamic integration of national economies into the constantly changing global division of labour.

This is. of course. provocative stuff. particularly when so uncompromisingly stated. At the most general level of development strategy. it appears to rebut the necessity of nationalist or 'self-reliance' oriented policies (since a smooth staircase or escalator of modernisation is available. given correct policies). and indeed to emphasize their costs in efficiency and income losses and in reduced capacity to weather exogenous shocks.

The question cannot be resolved at this level. of course—the case studies of particular countries are often therefore more telling than the generalisations—but some troubling questions can be raised. Let us concentrate on some of the political questions, which are largely absent from the picture presented in this book (it is rather cavalierly noted. at pp 2 and 4. that 'objective factors'. including among others political and social conditions. play a role. which however 'should not be exaggerated'. since 'there are successful, as well as unsuccessful. economic performers among both dictatorships and democracies').

Firstly. political and social conditions presumably have an important determinant effect on the *feasibility* of a country moving towards a more outward-oriented policy. To the extent that the pattern of production. profits and wages would be altered by 'opening' because of heretofore protected divergences from international prices. the *status quo* may be seen as producing rents for employers. workers and independent producers in

*Geoff Lamb is an IDS Fellow. currently working at the World Bank. Washington. The views expressed here are those of the author and do not necessarily reflect those of the World Bank.

some sectors (not to speak of bureaucratic regulators), the impending loss of which will be fiercely resisted. A significant policy shift *towards* international integration is therefore also an important act of political mobilisation *against* groups who will lose out—and will be clearly seen as such.

Secondly, it follows that political and social conditions will be important determinants of the *welfare outcomes* of 'successful economic performance' in Balassa's terms. It is widely acknowledged that the relatively broad distribution of benefits of rapid growth in Korea and Taiwan, for example, has had much to do with the egalitarian redistribution of land and the dismantling of existing concentrations of capital in the wake of the 1939-45 war. A comparable point about relatively egalitarian 'initial conditions' may be made about Hungary and the New Economic Mechanism after 1968. Income in Mexico and Brazil has remained highly concentrated by comparison, however one judges current controversies about the precise degree of change in the size distribution of income in these two countries over the last 15-20 years. The existence of large urban-rural disparities and of major concentrations of agrarian and commercial-industrial capital (and of powerful political forces reflecting these dispositions) goes a long way towards explaining the difference between these Asian and Latin American examples—and raises questions about complementary policy issues which the book does not really address.[1]

Thirdly, there are very demanding dynamic political conditions to be met for outward-oriented policies to be *sustained* over time. The evidence indicates that massive state intervention has generally occurred. This has been the case directly in the political sphere, with tight control over labour organisations and over political life more generally; it has also been true in the spheres of industrial concentration, financial intermediation and direct state investment. It may not be the case that rapid, export-oriented growth requires political repression and *dirigisme.* However, the heavy apparent discounting of present living standards of key groups against the future would seem to be very difficult to sustain within a democratic or plural framework, even when the general level of income has risen substantially (as current developments in Greece may indicate, for example). The alternatives are likely to involve much policy vacillation in response to external economic conditions and internal political pressures (in which presumably some of the potential gains are lost), or else an attempt to 'demobilise' political life and force through consistent policies. Although dictatorships and democracies (to use those over-simple categories) may embark on the journey outward, it must be questioned whether many democracies among less-developed countries would be likely to remain both *en voyage* and democratic. The more 'outward' countries among Professor Balassa's cases (Brazil, Chile, Portugal, Greece, Hungary, Korea and Taiwan) are either 'dictatorships' in some sense, or have shown strong tendencies to return to protectionist port when their political systems became more open.

This would all be somewhat less troubling if a convincing alternative existed for most countries. It probably does not—although that does not necessarily involve accepting that the changing international division of labour (a process which is not smooth but inchoate, conflict-ridden and destructive, as well as 'progressive' in a long-term sense) is immune to manipulation. It does focus attention on the limits and sequences of that manipulation, however, over a rather broader policy terrain than that traversed by this book, particularly concerning the social and institutional framework upon which fuller integration into the world economy is based (which has, as we have suggested, important distributional consequences), and concerning the political accountability of the managers of the 'outward' process—leaders, technocrats, entrepreneurial beneficiaries—towards the populations who have to live with the consequences.

[1] In the case of Brazil, for example, Professor Balassa notes that while some lowering of import protection occurred in the 'economic miracle period of 1967-73, considerable protection remained in place, with a consequent necessity for substantial direct additional subsidies to exporters (*Essay 10:* 'Incentive policies in Brazil'). A contrast is drawn with Korea, where it is noted elsewhere, however, that policies for the maintenance of relative equality (of income) between urban and rural sectors had produced agricultural prices two to five times world prices for some major food crops by the late 1970s (*Essay 16:* 'Inflation and trade liberalisation in Korea').