Industrialization: Where Do We Stand? Where Are We Going?

by H. W. Singer*

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I. Where do we stand?

The Lima Target is gradually vanishing out of sight. Between 1966 and 1980 the share of developing countries in world manufacturing value added did increase steadily, but not fast enough to put it on course for achieving the 25% target for 2000.[1] The increase from 8.1% in 1966 to 11.0% in 1980 would have suggested a "naive" straight-line projection to 15~16% in 2000, and a Lima date for 2020 rather than 2000. Moreover, since 1980, the share has been stagnating at 11%, pushing Lima further into the future. The share of the developed market economies has in fact declined sufficiently to put the Lima target within reach, but the lion's share of that decline went to the centrally-planned economies rather than the developing countries: between 1966 and 1980, 8.8% went to the former and only 2.9% to the LDCs.[2] Since 1980, of course, the whole of the continued declining share of the developed market economies has gone to the centrally-planned economies and none to the LDCs. Thus, we can summarise recent trends in the following three statements.

(1) There has been some limited progress in redressing the distribution of world industry in favour of the LDCs, although not at the pace targeted at Lima and in fact not much more than in line with the increased share of world population in the LDCs.

(2) There has been more of a redistribution of industry within the industrial world than between the industrial and developing countries.

(3) The recent intensified world depression of 1980~1982 has brought the process of redistribution to a complete halt. The same happened during the earlier (milder) recession of 1975~1677, suggesting that redistribution towards the LDCs is functionally connected with the growth of global econo-

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(1) Adopted in the Second General Conference of UNIDO, Lima, Peru, 12-26 March 1975 and later adopted by the United Nations General Assembly.

(2) The shares exclude China because of statistical problems.

my. Global stagnation hits the LDCs relatively more and brings the process of redistribution to a halt.

This last statement is clearly of special significance in the present context of severe recession and its widespread evidence of multiplier effects of the recession in the industrial countries on conditions on condisions in the LDCs.[3] The multiplier between a slow-down in the industrial countries and the exports of manufactures from developing countries has been estimated as no less than 8.4 : 1.[4] It seems easier for LDCs, at least within the framework of the present international system and the light of experience during the past decade, to maintain the differential growth rate[5] of 4-5 percentage points in their growth rate of manufacturing value added above that of industrial countries when the world economy as a whole is growing at the healthy rates of the 1960s and early seventies. In other words, a scenario of LDCs' industries growing at 8~9% per annum when industrial countries are growing at 3~4% is more plausible than LDC growth at 4~5% when industrial country growth is zero. When we remember that the Lima target was proclaimed precisely at the end of a run of years of healthy growth in the world economy, it emerges as having quite a good degree of plausibility at the time.

This interconnection between global growth and industrial restructuring on the lines of the Lima target has, of course, a precise national counterpart. The domestic development strategy of "redistribution with growth" recommended first by the ILO Employment Mission to Kenya[6] and then in a joint World Bank/IDS Sussex publication[7] is based on the same principle, i.e. that redistribution (whether to poorer population groups or to poorer countries) is easier within the context of overall growth when you can talk about the distribution of increments or improvements and do not have to make one side absolutely worse off in order to benefit the other.

So harmonious restructuring in the context of interdependepence in a vigorously growing world economy is clearly the first, or "best best" scenario. But the question is: is it within reach? There is agreement that it is not within reach in the present disorderly state of international economic relations, since the break-down of the Bretton Woods system beginning in 1971. Where disagreement begins, is whether it is possible with reforms and returns to "sensible" policies all-round to return to the best-best scenario under something like a restored Bretton Woods system, or whether we need a new *conception such as the New International Economic Order* (which in fact bears a striking family resemblance to the original Keynesian ideas preceding the Bretton Woods Conference). The question also clearly poses itself as to the best course of action-the next best or second best course-if neither of these two paths to global interdependence in a vigorous world economy proves to be feasible-as it has by now eluded us for 13 years.

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(3) H.W. Singer, 'North-South Multipliers' *World Development*, Vol. 11, No. 5, 1983.
(4) Ibid, pp. 452~453. This estimate is based on data in the World Bank's *World Development Report, 1982*, pp. 32 and 33, in turn based on the World Bank's own global model.
(5) '*Employment, Incomes and Equality-a strategy for increasing productive employment in Kenya*, ILO, Geneva, 1972.
(6) H. Chenery et al. *Redistribution with Growth*, Oxford University Press, 1974.
(7) On 15 August 1971 President Nixon suspended the convertibillty of the dollar into gold at the fixed exchange rate forming the basis of the Bretton Woods system.

Ⅱ The Brandt Reports

The belief-or or dream-of such a "best-best" solution is still the conventional wisdom, although increasingly proposals in this direction also include complementary second-best solutions, prominent among those the development of closer South-South links or other methods of closer South-South links or other methods of partial rather than global integration as well as more inward-looking development and industrialisation strategies. The Brandt Reports with their philosophy of "mutual benefits" symbolise the attempt to travel the "best-best" route of global integration while being eclectic (or ambiguous) about the choice between return to Bretton Woods versus the New International Economic Order, or about the importance of partial integration along South-South lines or more inward-looking and basic needsoriented national policies. There is a bit of everything and for everybody-as perhaps to be expected from a collective body of the type of the Brandt Commission. But in this very eclecticism and the inclusion of elements other than full integration into the world economy "as is", the Brandt Reports represent a turn-away from the all-out advocacy of "export orientation" or "outward-looking industrialisation" and the all-out condemnation of "importsubstitution" and "inward-looking industrialisation" which had characterised the last decade of the Bretton Woods system before its clear disruption (say the 1964~1974 period).

Two non integrationist factors emphasised in the Brandt Reports, and which have now become broadly accepted even in the industrial countries, relate to the need for greater autonomous technological capacity in the LDCs (leading to better bargains from the transfer of technology) and the related need for a stronger and better informed bargaining and control position vis-à-vis the transnational corporations which play such a key role in recent industrialisation in LDCs. In both these respects, the current emphasis represents a return to some of the sources of the original recommendations of ISI, an industrialisation process deriving from the potentialities of existing domestic markets as a startingpoint for industrialisation.

Of the two Brandt Reports, the first(*North-South*), written in 1979 before the onslaught of the New Great Depression of 1980~1982, is understandbably more integrationist and more optimistic about the reformist route to integration. The second report(*Common Crisis*), written in 1983, equally understandably is less concerned with industrialisation policies which are by nature longerterm, and more concerned with rescue, protection and emergency action.

1. Import substitution: old-style and new-style

When after the war, the disadvantageous position of LDCs under a system of integration into the the global system "as is" was emphasised, initialy by economists attached to the United Nations, and such methods of partial de-linking as ISI were advocated, it must be realised that LDC export-orientation was virtually identified with primary commodity orientation. "Export substitution" into manufactured goods by LDCs seemed very distant then; their share of world manufactured exports around 1950 was perhaps of the order of 2~3%. Hence the argument in favour of inward-looking policies was inextricably mixed up with arguments in favour of industrialisation as against remaining restricted to a role as primary producers. On this, the subsequent advocates of export-oriented industrialisation were, of course, in agreement with the early advocates of ISI.

On the key issue, of unfavourable tendencies both in terms of prices and export volumes for countries specialising on primary commodity exports, surely subsequent developments have justified "terms-of-trade pessimism". The issue could remain in some doubt during the period of great buoyancy of the world economy (say 1955~1973) although even for that period the balance of the evidence is in line with the earlier predictions, certainly if real export earnings (capacity to import) as well as only relative prices are taken into account. But writing today, as 1984 opens, there can be no doubt that the predicted terms-of-trade catastrophe has, happened. At the end of 1982, non-fuel primary prices had fallen 45% below the 1951 level in real terms and most faced growing or stagnant demand in industrial country markets. Oil is the exception which proves the rule: the break in prices was achieved by a producer cartel, not by market forces. The view that market processes had to be set aside before countries could be expected to play a role as contented and reliable supplies of primary commodities was pressed by Keynes and accepted at Bretton Woods. It underlay the negotiations of the International Trade Organisation (ITO) in 1947 but was then forgotten when the ITO Charter was not ratified. It was only after the failure of the ITO that the doctrine of terms-of-trade pessimism was preached.

The advocay of industrialisation in preference to primary commodity production which from the viewpoint of 1949~1950 inevitably had to be based on import substitution-was never entirely or even mainly based on price pessimism alone. Industrialisation was associated with greater linkages, more dynamic effects, economies of scale, learning-by-doing, skill development. It is true that in the absence of input-output data this view was more based on intuition and the experiences of other late-comers in industrialisation such as first the US and Germany-Reliance on the dependability of export markets and corresponding willingness to incur indebtedness has misled developing countries at least as doctrines of ISI. The lesson seems to be that no doctrines-whether ISI or EOI-should be a substitute for efficient investment strategies based on the circumstances and knowledge of its resources of each country and above all for higher X-efficiences[8] based on greater technological capacity and the development of "human capital."

With the benefit of hindsight, the possibilities of "export substitution" were underrated, partly because of the failure to anticipate the vigorous global growth of 1950~1973. ISI should have been proposed as a temporary and transitional strategy only; more attention should have been paid to the time sequences and linkages binding the growth of the domestic market with the development of exports; product cycles in manufactured goods should have been more closely studied; and the economic history of the late-comers, like the USA and Germany, should have been more carefully studied from this angle. But none of this invalidates the appropriateness of ISI to the role of the LDCs in the immediate post-war would of 1948~1950, as it appeared to the contemporaries at that time, overshadowed by the experiences of the Great Depression of the 1930s and with the Golden Years of Bretton Woods still to come.

Import substitution has now come back to the forefront of development economics in three ways;

(1) Since the LDCs have now become collective large-scale net food importers with widening deficits-substitution of food imports by larger local food production has become a

(8) X-efficiency refers to efficiency in combining and managing inputs in such a way as to increase output and reduce costs.

universal and fashionable sermon to the LDCs. In this field, "self-sufficiency," "self-reliance," import substitution have become "good" words, not only acceptable but universally preached. Do we conclude then that the objection is not so much to the idea of import substitution but to that of industrialisation? Greater food self-sufficiency, of course, sets free foreign exchange resources whicih are available for increased imports of manufactured goods from the point of view of LDCs hopefully capital goods and other essential development inputs); is this why food ISI is so much more respectable in the eyes of conservative analysts in the North than industrial ISI which has the opposite effect of reducing manufactured imports(at least when it is effective)? Once again, the specific circumstances of the 1948~1950 world must be remembered: the LDCs were still collective food exporters, so food and agriculture could not rank as high priority for import substitution.

(2) A Second way in which import substitution has come back into fashion is through the growing awareness of the "big hole" in the world economy-the absence of South-South trade. By all conventional arguments, South-South trade should be *more* intense than North-North trade: the LDCs are clearly now more differentiated and the latent complementarities between them are greater than is the case for the industrial countries. Yet in spite of this, South-South trade has remained a minute fraction of world trade and of North-North trade. In 1980, South-South trade in manufactures was \$38.6 billion while that of the developed market economies alone was \$622.6 billion. That is a disparity of 16 : 1, but considering that the population of the South is about seven times that of the developed market economic, the real disparity per capita is of the order of 112 : 1. There is nothing in economic logic nor in underlying economic reality to explain, let alone excuse, such a huge disparity. Its reduction could go a long distance towards the Lima target-and perhaps more important, the tremendous potential for trade expansion which the "big hole" implies could go a long way towards providing the global economy, and not least the inddutrial countries, with the missing engine of growth. Naturally, the institutional, financial, technological, logistic and not least political obstacles are formidable; but the glittering prize should surely justify steps to stait filling this gaping hole. This can be conceived either as import substitution at a higher level("collective self-reliance") or as export-orientation within the Southern world. This ambiguity shows that in some ways the old dichotomy of ISI *or* EOI may have outlived its usefulness, and that the future lives in a synthesis of the two.

(3) A major revival of ISI in a new(and improved form) is involved in the shift in development thinking towards basic needs strategies, the establishment of a reduction in poverty rather than GNP growth as the real development objective. This implies an increase in domestic mass demand of a less import-intensive nature than the demand of upper income groups with high purchasing power for imported consumption goods. At the same time, this alliance of basic needs and ISI also creates preconditions for greater technological autonomy, use of appropriate technologies and the development of domestic capital goods-production. The latter point is of special importance since it counteracts one of the

weaknesses of ISI which has been a major source of criticism, i.e. that it protects and encourages the domestic production of luxury consumption goods in limited domestic markets while giving negative protection and discouraging the production of capital goods and other inputs needed by the protected finishing stages. Logically, the adoption of basic needs strategies and adoption of appropriate technologies should procede the adoption of ISI, both because the new structure of demand and technology will automatically ("naturally") reduce import demand for manufactures without the need for specific intervention("distortions") and because ISI will then relate more to vertically integrated processes rather than finished products only.

2. Export-orientation: old-style and new style

The favourable international setting during the "Golden Years" of the Bretton Woods era, not surprisingly, was accompanied by a shaft in thinking away from ISI—and scholars, equally unsurprisingly, turned to accumulating empirical evidance about the horrors of ISI and the blessings of EOI. This leaves three question marks in one's mind today. One, to what extent the success stories of EOI such as Korea were dependent on the specific(and from the present viewpoint temporary) background of the Golden Years? Two, to what extent were the EOI successes achieved by a limited group of "NICs" generalisable, i.e. to what extent were the EOI praises based on a fallacy of composition? Three, to what extent were the experiences and strategies of the successful exportoriented NICs correctly interpreted?

Regarding the first doubt about the dependence of EOI success upon the expanding global economy of the Golden Years, at first sight the data seem to contradict these doubts. If we identify the Golden Years with the decade of the sixties and pursue the story to the end of the seventies (i.e. excluding the New Great Depression beginning in 1980), we find that the share of developing countries in world manufactured exports continued to grow, perhaps even at an accelerated rate. Over the seven years 1963~1970, this share increased only from 4.3% to 5.0% but in the seven years 1971~1978 is increased from 5.2% to 8.1%, at three or four times the previous rate. Thus, while the less favourable international background clearly slowed down the industrialisation of the developing countries-their growth rate of MVA fell from 8.0% in 1963~1973 to 5.8% in 1973~1980 —there export-orientation actually increased during the slow-down. Another way of measuring the degree of integration of LPC manufacturing into the world economy is by the ratio of the shares or their participation in world export of manufactures to that of their share in world manufacturing production. This ratio increased from 0.52 in 1963 to 0.63 in 1970 and continued to increase at an accelerated pace to 0.84 in 1980. Thus, although the average export-orientation of LDCs in manufacture was still less than that of the industrial countries, they had come a long way within 17 years to reduce the gap in trade-orientation. The manufactured exports of LDCs to developed market economies increased from only 11% of their manufactured imports from them in 1963, to 17% in 1970 and continued to grow, again at a hardly diminished rate, to 25% in 1980.

So far, so good. But there were two big catches in this superficially reassuring picture. The first revolves around the debt situtaion. In a deteriorating international cilmate, the continuing strengthening of the role of NIC manufacturing in the global trade picture was maintained at the cost of accumulating debts, an increasing proportion of them short-term debts at floating interest r ites. Export-led growth had really become d(bt-led growth. This meant that the whole con :inued process of global integration now rested on shaky foundations. More, a vicious circle deve oped in which the NICs had to keep running at an accelerated pace in order to stand still export earnings had to be increased, not to finance co tinued development but in order to service incr :asing debts with shortened maturities and rising eal rates of interest. The second catch was t hat the slow-down of the seventies, even the Li tle Depression of 1975~1977, were but the pre ude to the Great. Depression of 1980 ~1982 whe the net inflows of capital ceased, real rates of interest rose to unprecedented levels, indu strial country markets shrank and tightened a d protectionism fell with special severity on the manufactured exports of the mature indu tries in which the LDCs had begun to establish more significant market penetration. Moreover, p otectionism assumed its worst, and most intrac able form, that of quantitative restrictions and controlled/managed trade. EOI turned out to be really IOD-import-oriented de-industrial sation-at least out of the basic and mature indus ries on the part of the industrial countries; it :ame hard up against the facts of life when un er the impact of heavy domestic unemploymen : the industrial countries became unwilling to lay the IOD game, also known as Restructuring As we have already seen, even the increase in the share of LDCs in world industrial pro uction disappeared; the differential which was to open the gates to Lima vanished. And this was not equally shared progress, but equally shard actual declines in MVA. Even seasoned and veteran enthusiasts of BOI are shaken. "The inancial and economic integration of the world economy had numerous benefits, but has also contributed to the present predicament of the debtor countries....The expansion of international markets grew to some extent beyond the control of national authorities....The rapid development in the world economy made it difficult for national governments to adjust and adapt their economies. Economic measures in some of the larger countries had profound implications for the functioning of the international economy even though they were taken primarily with domestic objectives in view." And the Managing Director of the IMF now discusses "The Benefits *and Constraints* of Interdependence." The old certainties clearly are there no more.

We will omit discussion of the second doubt about EOI, whether in the attempt to spread it more widely among developing countries it would not prove to be subject to a fallacy of composition since in the light of recent trends such a discussion would be largely hypothetical. But it has been calculated(on the basis of 1976 data) that if all LDCs had the same export industry as the South-East Asian "Gang of Four"(South Korea, Taiwan, Singapore and Hong Kong), adjusting for differences in size as related to level of industrialisation, this would involve a share of the LDCs in manufactured imports by the industrial countries of over 60%(as distinct from an actual share of 17%) Several sectors would show imports in excess of the entire domestic market. This is clearly in the realm of science fiction, under present circumstances.

The third doubt concerning the proper inteprretation of EOI policies may be useful to discuss on the basis of Korean experience, since the Republic of Korea is universally accepted as the leading model of successful EOI. Export-orientation is often unthinkingly identified with liberal trade policies, absence of exchange control, price systems determined by free markets, a "soft" non-distorling state etc. Because of such intuitive association, it is widely assumed that the Republic of Korea would also display these presumed characteristics of an export-oriented economy. But actual research shows such views to be a complete myth. Korea is a country where a strong state overrides market forces without hesitation, with an effectively and tightly planned economy, with strict import and foreign exchange controls, an cssentially nationalised banking system, and a private sector organised in Covernment-sponsored trade associations for easier control. It is as far removed from "frce market policies" as it is possible to be.

What Korea can teach us is the effective interweaving of policies of import substitution and export promotion, the use of controls to guide market forces and increase X-efficiency. The import controls and other related preferential treatment including access to the profitable home market, is closely linked with export performance and limited to industries with export potential. Import substitution serves as a protective ring for export industries, and the home market becomes a base for exports, with domestic profits helping to finance exports and the domestic market providing the export industries with the necessary infrastructural base.

The best description of the purposeful interweaving of ISI and EOI which lies at the root of the Korean strategy has been given in the sequential scheme proposed by SungSang Park. Although put forward in the form of a general framework, it is clearly derived from Korean experience and distils the Korean strategy. The basic principle is to find and promote industries which are both export industries and essential domestic producers so that the measures associated with ISI and EOI can both be used in proper combination and proper sequence. Park's scheme is in four stages:

Stage 1 : Promotion of production of essential inputs, such as fertiliser and cement.

Sta,e 2 : Import substitution for lilht and technologically easy industries, such as textiles and radios.

Stage 3 : Development of industries created in Stages 1 and 2 into export industries, and vertical deepening by producing inputs and intermediary products for the industries so far created.

Stage 4 : Completion of import substitution by establishing domestic production of capital goods; conversion of industries producing inputs and intermediary products in Stage 3 into export industries.

It will be noted that Stage 1 prevents the import substitution of Stage 2 to come to a premature halt for lack of vertical "depth", and how subsequently import substitution and export promotion go hand in band (preventing import substitution from coming to a premature and inefficient stop because of the limitations of a domestic market), until by the end of Stage 4 a mature and balanced economy has emerged-in short, the Korea of today, While this particular scheme suits Korean conditions, similar schemes could apply to most other LDCs, except perhaps the very smallest and the very largest. At any rate, such combinations and policy sequences seem a more promising approach to the industrialisation problems of developing countrics today than to continue with doctrinal discussions of ISI and EOI and with the swings of fashion with changing circumstances from one to the other.