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Trade Strategies and the Poor: Adjusting to New Realities

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Trade Strategies and the Poor: Adjusting to New Realities

Abstract

[Excerpt] The major policy issue examined in this paper is that of a country's choice of a trade strategy in the context of helping the poor. As the end of the 1980s approaches, developing countries face a much more difficult economic situation than that which they confronted at the end of the 1970s. The paper begins by reviewing these new realities and the need for adjusting to them. After mentioning some non-policies, I proceed to consider both successful and unsuccessful country experiences and draw lessons from them. One policy singled out for special attention is wage policy and its interaction with trade strategy. I then analyze the package of policies for outward-oriented, labor-intensive, broad-based growth in one country (Costa Rica) and the possibilities for policy redirection in others. The major findings appear in the conclusion.

Keywords

poverty, trade, development, wage policy

Disciplines

Growth and Development | Income Distribution | International and Comparative Labor Relations | Labor Economics | Labor Relations

Comments

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Trade Strategies and the Poor: Adjusting to New Realities

Introduction

The theme of this seminar is policy reform and equity. Because neither term has an unambiguous meaning, it is worth saying a few words about how policy reform and equity shall be used.

I start with “equity” and offer two examples to help illustrate two different notions.

Example 1: In the great majority of successfully growing countries, the real incomes of all income groups increase. In quite a number of these countries, real income has grown by a larger percentage in the top deciles than in the bottom deciles. Yet, in real terms, the poor are less poor than before. Has growth been equitable?

Example 2: In some countries, real national income has fallen substantially. In some of these “development disasters,” the rich have exported their financial capital and the skilled professionals and merchants have left, either by choice or by compulsion. Those who remain are poorer than before, and more uniformly so. How does equity in the new situation compare with that in the old?

If there is uncertainty about how to answer these questions, it is because the concept of equity is imprecisely defined. Users of the term “equity” typically have either (or both) of two concepts in mind.

One notion of equity is a relative one. Viewed this way, equity is a matter of the relative income positions of different groups. The further apart are their incomes, the more unequal the situation (or in some parlance, the “more inequitable” it is). From this point of view, “equity” arises when incomes are brought closer together. By this relative conception, conditions have gotten less equitable in Example One and more equitable in Example Two.

The other notion of equity is an absolute one. By that conception, growth is equitable if the poor are helped absolutely and inequitable if they are not. By the absolute conception, Example One describes an equitable change and Example Two an inequitable change.

I personally favor an absolute approach to assessing who benefits from economic activity. This is because alleviation of poverty is what I think most development policies, and hence most policy reforms, are all about. To this way of thinking, what is of primary importance is whether the poor get richer in real terms; a secondary consideration is whether the rich get richer faster than the poor do. But I must stress that this is a value judgment with which some agree and others disagree. This paper will focus on improvements in absolute incomes, and make only passing reference to changes in income inequality.¹

The other term requiring clarification is “policy reform.” Ordinarily, when one speaks about a reform, one speaks about something which starts out faulty and is then fixed. But to speak in such terms

requires that both the speaker and the listener have a clear understanding of when something is flawed and when it is improved. When it comes to replacing a damaged system with a properly functioning one, or a corrupt system by an honest one, few disagreements would be expected. But when we take up the matter of economic policy, it is difficult, if not impossible, to be unambiguous about such judgments. "Reforming the tariff structure" means one thing to a protectionist seeking relief from import competition and quite another to a free trader; however, "lowering tariffs" means the same thing to both, even if they disagree about the desirability of lower tariffs. To avoid confusion, I shall speak in terms of "strategies" and "policy changes," rather than "reforms," in what follows.

The major policy issue examined in this paper is that of a country's choice of a trade strategy in the context of helping the poor. As the end of the 1980s approaches, developing countries face a much more difficult economic situation than that which they confronted at the end of the 1970s. The paper begins by reviewing these new realities and the need for adjusting to them. After mentioning some non-policies, I proceed to consider both successful and unsuccessful country experiences and draw lessons from them. One policy singled out for special attention is wage policy and its interaction with trade strategy. I then analyze the package of policies for outward-oriented, labor-intensive, broad-based growth in one country (Costa Rica) and the possibilities for policy redirection in others. The major findings appear in the conclusion.

What New Realities?

As developing economies plan their policies in the late 1980s, they must face four new realities on the international scene: a secular worsening of the terms of trade, the inability of some and the diminished ability of others to accumulate additional debt to finance growth, the reduced likelihood of sustaining previous standards of living without further adjustments, and prospects of continued sluggishness in the international economy.

Worsening Terms of Trade. Figures 1 and 2 depict the time paths of prices for nonoil commodities and for oil, respectively. In real terms, nonoil commodity prices have fallen by nearly one-third between the mid-1950s and the mid-1980s. The secular downturn was interrupted only in the mid-1970s. Meanwhile, the real price of oil more than doubled since 1973. Because most developing countries export manufactured and primary products and import oil, these figures imply that the terms of trade have shifted against the developing countries. Other things being equal, the developing countries are poorer than before. This impoverishment would be expected to be felt among all socioeconomic groups. In particular, workers will be poorer to the extent that their marginal products are lower and/or their labor less in demand.

Difficulties in Sustaining Debt-Financed Growth. In the 1960s and early 1970s, the developing countries of the world borrowed at modest rates to sustain their economic development. But 1973 proved to be a watershed. In that year, the first oil price shock was felt. The oil-importing developing countries of Latin America, Africa, and Asia sought to reinvigorate their economies by borrowing from abroad. At the same time, the oil-exporting countries suddenly found themselves with unprecedented levels of earnings and the consequent need to invest them where they could accumulate rapidly. Petrodollars were loaned to developing countries via banks in the major industrialized countries, often at low or even negative real rates of interest. Governments in less developed countries (LDCs) found the temptation to borrow irresistible. Debt accumulated. By 1979, LDC debts to commercial banks had reached \$160 billion.

With the second oil price shock (1979), the oil-importing developing countries faced a yet higher import bill, coupled with a worldwide recession which limited their ability to export. Rather than adjusting their policies at that time, most continued to borrow as long as they could. Real interest rates jumped, as did debt-service ratios. By 1982, for all LDCs taken together, the ratio of debt to exports had reached 131 percent and debt-service ratios had reached 19 percent of exports. By 1984, the overall debt for Latin America

Figure 1
Nonoil Commodity Prices in Nominal Terms and in Real Terms

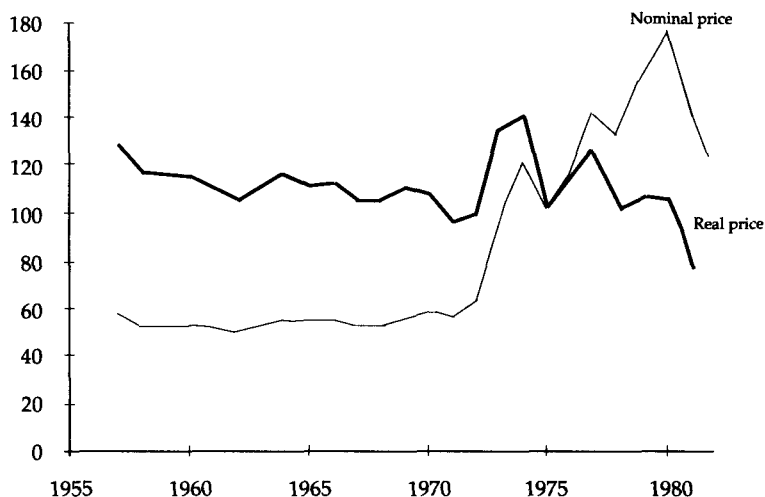
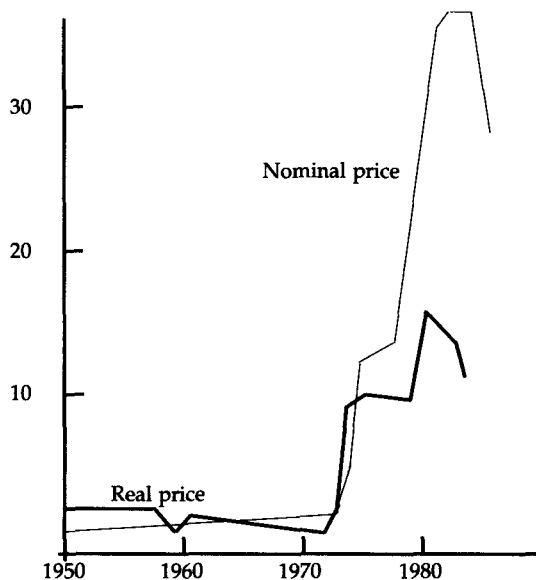


Figure 2
Crude Oil Prices in Nominal Terms (1970 = 100)
and Deflated by the U.S. GDP Deflator



Source: Chichilnisky and Heal (1986), Calculated from data in *World Development Report 1984*.

had increased to U.S. \$360 billion, up from U.S. \$41 billion dollars just eleven years earlier (Tokman and Wurgaft, 1987, p. 40). One country after another drew down its foreign exchange reserves in an attempt to avoid economic contraction, though not in Mexico or in many of the newly industrializing countries (NICs) of Asia.

As net reserves eroded to the point of elimination, and as it became clear that many developing countries could not repay loan principal or, in some cases, interest, loans suddenly dried up. Most developing countries could no longer postpone adjustment by borrowing unconditionally from abroad. More than forty developing countries have postponed debt payments. Peru has announced that it will limit its debt service to 10 percent of exports. Brazil has halted payments altogether. Net capital inflow into the developing countries has virtually dried up. For most developing countries, debt-financed growth is over.

Reduced Likelihood of Sustaining Previous Standards of Living Without Adjustment. Because of the rise of import prices, the fall of export prices, the rise in real interest rates, and global recession, the developing countries of the world were genuinely poorer. Had they been willing to accept this, they might have scaled down some of their plans and kept their economies growing at a slower but nonetheless positive rate. But for the most part, they did not. Instead, they attempted to postpone the day of reckoning. (See, for instance, Inter-American Development Bank, 1985; World Bank, 1986; and Geller and Tokman, 1987.) However, when their foreign reserves disappeared and foreign loans dried up, one developing country after another had no choice but to undergo a wrenching process of contraction and adjustment.

The macroeconomic declines were severe. In Latin America and the Caribbean as a whole, per capita Gross Domestic Product (GDP) fell by 11 percent between 1981 and 1983. When output is adjusted for changes in the terms of trade and for net factor payments abroad, income per capita fell even more sharply (World Bank, 1986, p. 4). In sub-Saharan Africa, per capita GDP, which had grown at just 1.3 percent per annum in the 1960s and 0.7 percent per annum in the 1970s, declined by 11 percent between 1981 and 1983 (Aboagye

and Gozo, 1987, p. 78). In Asia, however, the situation was more favorable: real GDP continued to grow, albeit at slower rates than before (Lee, 1987, p. 100).

According to experts on the various regions, the equity effects were equally severe, though hard data are difficult to come by in many countries. Overall, living conditions in many places have gotten markedly worse (Addison and Demery, 1985; UNICEF, 1987).

In Latin America, open urban unemployment rates increased by more than 50 percent (Tokman and Wurgaft, 1987, p. 62) and real wages fell by as much as 40 percent (World Bank, 1986, pp. 15-18; Tokman and Wurgaft, 1987, p. 70). The share of the the informal sector in total employment increased from 29 percent to 32 percent. (Tokman, 1986, p. 535). Government budgets have been sharply cut and so too have social services (World Bank, 1986; ECLAC, 1986).

In sub-Saharan Africa, Aboagye and Gozo (1987) and Addison and Demery (1985) give examples of groups whose employment and/or real wages have fallen; but in the absence of comprehensive household surveys, they do not know (nor do we) how representative these experiences are.

In Asia, "Our main concern in analysing the effect of the recession has been to gauge the extent to which it has aggravated poverty in developing countries. While absence of data has prevented any quantitative estimates from being made, it is nonetheless clear that the recession has had adverse effects on the poor in developing countries" (Lee, 1987, p. 130). A similar conclusion is reached by the International Labor Organization's Asian Regional Team for Employment Promotion (Edgren and Muqtada, 1986).

The effect of adjustment per se on these declining macroeconomic and microeconomic conditions is very difficult to assess. Logically, one has to compare what did happen under the existing set of policies with what would have happened under alternative policies. Such analyses do not yet exist. Also, we must be careful when we look at who loses, that we also take fair account of who gains.²

Empirical evidence is of some help. Krueger (1984) has recognized the equity aspects head-on, writing (p. 422):

The major problem with liberalization, as with so many other economic policy problems, is that politicians, government officials, and the informed public can readily foresee those interests that are likely to be damaged in the short run by any liberalization effort; they cannot as readily see the economic activities that were harmed, and hence did not prosper, because of regulations. Moreover, even some who would in the long run benefit by liberalization (as for example the Korean businessmen who became exporters in the 1960s but were entrepreneurs in import-substitution industries in the 1950s) perceive the short-run harm that it would cause their interests and fail to recognize the new opportunities that would arise in the longer run.

A World Bank study of trade liberalization by Papageorgiou, Michaely, and Choksi (1986) presents "preliminary evidence" revealing no obvious relationship between unemployment and liberalization in either direction. In general, trade liberalization is not found to cause unemployment nor does unemployment influence the efficacy of liberalization. They also report themselves unable, because of data limitations, to assess the poverty and inequality consequences of liberalization.³ The *World Development Report 1987* gives no further information on this. However, Sachs (1987, p. 40) takes the international agencies to task, urging that the standards of living of the poor be maintained through tax increases:

The World Bank and IMF should realize that increases in taxes, especially on upper incomes and property, rather than cuts in public expenditures, can often bring about more equitable adjustments to the current crisis and perhaps increase the chances of success for stabilization programs...There is simply no evidence for the proposition that spending cuts, rather than tax increases, are to be vastly preferred on efficiency grounds as the method of adjustment.

A debate on such issues is raging among the international agencies, with the World Bank and the IMF taking one side and the ILO and UNICEF taking the other. A synthesis of positions has not yet emerged; possibly, one never will.

Sluggish International Economy in the 1980s. The world economy has grown slowly in the 1980s. Real GDP in industrial market economies grew at an average annual rate of 4.7 percent between 1965 and 1973, slowed to 2.8 percent between 1973 and 1980, and slowed again to 2.2 percent per year between 1981 and 1985. For developing countries, the corresponding percentages are 6.6 percent, 5.4 percent, and 3.5 percent (*World Development Report 1986*, p. 24). Summing up the situation from the perspective of workers in developing countries, van der Hoeven and Richards (1987, p. 135) conclude:

It was not only the external shocks that caused the crisis but also the nature of the adjustment policies which all countries in the North and the South applied . . . [T]wo facts may be worth identifying. One is the almost unanimous switch in the early 1980s to restrictive policies which resulted in slow economic growth and a massive increase in unemployment. The second is the absence of efforts within the OECD countries to arrive at concerted economic stimulation.

The economic outlook is for continued slow growth.⁴ Developing countries must plan accordingly.

Adjusting Trade Strategies to the New Realities

Economics is concerned with constrained choices. When the constraints change, so too must the choices.

The new realities of the international economy imply that many developing countries face a new, more tightly binding set of constraints. The appropriate response is *not* to attempt to keep on the same course at all costs. Nor is it to give up in the mistaken belief that nothing can be done in today's environment. Rather, the appropriate response is to assess the constraints, take stock of the options, make the best choices, and design policies accordingly.

Nonpolicies. Nonpolicies are embodied in wishes or conditions which developing countries earnestly desire but cannot obtain, strident voices notwithstanding. It is a nonpolicy to wish that the terms of trade could be shifted in favor of the primary products

produced by the developing countries. It is a nonpolicy to hope that energy prices will stay low or fall further. It is a nonpolicy to wish that multinational corporations were more socially oriented. And it is a nonpolicy to wish that the industrialized countries would offer larger fractions of their national products in aid to the poorer countries of the world.

What these nonpolicies have in common is that the wishes are not matched by any corresponding policy instruments. There is nothing developing countries can *do* to make these things happen. So although the first-best outcome from the point of view of those countries would be for some of these things to take place, exhortations are no substitute for action. It is with actions, not ideals, that the policy alternatives analyzed below are concerned.

External Resources. Two simple facts prevail: (a) most developing countries cannot accumulate additional debt, and (b) either they must service the existing debt or not service it at their peril.

The most straightforward response would be to accept these facts and to adjust to them. If such a decision were to be made, the country would have to rely on the resources it could generate to service the debt, meet pressing current needs, and use whatever is left for economic expansion.

The straightforward response is also the most difficult. The reason is that for many countries, if they were to proceed in this fashion, they would never get through the stage of meeting pressing current needs. Indeed, many of these would be unmet. The social effects especially on the poor, would in many cases be devastating. Knowing this, the countries involved have responded in two ways: they seek external support in other ways such as structural adjustment loans and economic support funds, and they try new methods of dealing with their debt.

At the moment it appears that the external assistance and new approaches to debt are bringing some relief to a number of developing countries. At the very least, they are able to forestall some of the ravages of sharp cuts which would otherwise be required in the absence of these measures. Without the infusion of external resources, the equity situation would probably be even worse.

Trade. Trade offers the only practicable way out of the dilemma developing countries are facing. The more they can earn from what they export or from what domestic suppliers produce efficiently to substitute for imports, the less they will have to cut expenditures to remain within their budget constraints. Standards of living can be higher as a result.

What can developing countries do? The answer, very simply, is that they should do what is efficient in today's circumstances. But "efficient" does not necessarily mean GNP maximization. Rather, efficiency should be defined in terms of overall development goals. One such goal is poverty alleviation. As we know from various studies, labor incomes (including the income from small-scale farming and self-employment) are primarily responsible for variations in standards of living (Fields, 1980). The question, then, is how to shift the demand for labor to add to national production, create jobs and raise real wages, and thereby lessen poverty. Increased production for the world economy offers such a possibility.

The call for increased trade as a vehicle for adjusting to the new realities may seem strange to some. It is said that with a sluggish world economy and with world demand barely increasing, the developing countries can hardly expect to find new markets or expand sales. The counterargument is that those countries which are doing very well in today's environment — Japan and Korea, for example — are doing so precisely through export expansion. If world markets are not closed to exports from those countries, why should they be any more closed to the products of Jamaica, Peru, or the Philippines? The answer, I contend, is that they are not. The arguments for alleviating poverty by choice of an outward-looking trade strategy occupy much of the balance of this paper.

Benefits of Export-led Growth: The Asian Experience

As is well known, many Asian countries—among them, Japan, Hong Kong, Singapore, Korea, and Taiwan—have pursued economic growth by expanding exports. They pursued export-led growth, because that is what comparative advantage dictated. Of course,

these economies grew very rapidly: average real economic growth was at least 7 percent per capita in each of the five economies for more than two decades. In the 1970s, when these economies had fully embarked on outward-looking economic growth strategies, exports grew at annual rates ranging from 5 percent in Hong Kong to 29 percent in Korea.

The East Asian economies adjusted to external events such as oil price shocks much better than did the economies of Latin America; see Balassa (1984), Hasan (1984), and Sachs (1985) for a comparison of the adjustment experiences of the different regions. One reason for this successful response was that the East Asian NICs did not stick with the same strategies. Rather, they changed what they did in response to *changing* comparative advantage, both by using different production methods (in particular, capital-deepening) and by switching to different products (e.g., allowing their textile industries to decline, thereby freeing up labor for use in other sectors).⁵

Export Substitution and Export Promotion. Many outsiders believe, mistakenly, that the newly industrializing countries of East Asia followed essentially the same policies. In reality, they sought to expand exports in quite different ways (see Galenson, 1985, particularly the paper by Krause; and Lau, 1986, particularly the paper by Scitovsky, for overviews of some of these differences). In Ranis' terminology (1981), Korea adopted a policy of "export promotion" while Taiwan chose a policy of "export substitution." Because this distinction in terminology is not widely familiar, and because the term "export promotion" is not used consistently in the literature, I shall elaborate upon the differences between "export promotion" and "export substitution."

"Export substitution" means that the country in question is trying to substitute production for the world market in place of production for the domestic market, the former being more profitable for firms and/or more remunerative for workers than the latter. Its essential elements are (1) relying heavily on the private sector so that individual firms and entrepreneurs provide the driving creative force for economic growth; (2) eliminating price distortions ("getting the prices right"), so that (a) market prices of products reflect social

profitability and (b) inputs in the productive process are valued in accordance with true economic scarcity; (3) producing according to comparative advantage, which typically means the manufacture of labor-intensive products; and (4) exporting to the world market, which will happen in a free and open market if and only if companies are able to compete on the basis of quality and cost.

“Export promotion,” as I shall use the term here, means that the country seeks to increase exports by actively stimulating particular sectors through direct action (e.g., building an export processing zone) and/or targeted fiscal policy (e.g., tax credits, protection against foreign competition). Some elements of export promotion are similar to those of export substitution: reliance on the private sector, price incentives, comparative advantage, and production for export. However, export promotion does not leave resource allocation decisions to the private sector alone. Rather, the defining characteristic of export promotion is the active targeting of export activities. One way of doing this is by direct government intervention, for instance, by an industrial policy of “picking winners.” Another mechanism of export promotion is to tamper with market prices, for instance, through protective tariffs, input subsidies, credit rationing, or tax breaks for certain export activities.

Among the developing economies of Asia, Hong Kong is the one whose policies are closest to the export substitution regime. Taiwan is also largely of that type. By contrast, Japan, Singapore, and Korea engaged more in export promotion.

Trade Strategy. Despite their differences, what the economies of East Asia have in common is a trade strategy oriented toward the world market. One shared attribute of their successes with export-led growth is the unremitting drive of firms in those economies to penetrate foreign markets and earn profits thereby. Throughout those economies, the world market is viewed as an *opportunity* for profitable sales and not as a hostile force keeping those countries in perpetual dependency. Public policy is committed to export-oriented growth. Those countries welcome foreign companies and foreign capital as partners in the development process, seeking especially to benefit from foreigners’ technologies, expertise, and managerial

skills. The business environment is conducive to entrepreneurial activity; profit is not a dirty word. And political stability, though maintained at considerable social cost, nonetheless has the favorable economic consequence that both domestic and foreign firms know the rules of the game.

Some other aspects of the East Asian successes bear mention. They believed that if they produced good products at low prices, that foreign markets would be open to them, as indeed they turned out to be. The products they exported were those which had a pre-existing demand. One has to think very hard to come up with a single good created by the East Asian NICs which had not existed before. Also, market prices reflected comparative advantage. Wages have not been artificially high nor capital artificially cheap. Finally, openness stimulated competition and hence efficiency. In the words of Anne Krueger (1985, p. 23):

The fact of openness itself, rather than of export growth, is a critical ingredient for rapid increases in output and productivity. This consideration is significant in evaluating the prospects for future growth of developing countries in the context of a potentially slower expansion of world trade: if it is openness itself that conveys benefits due to competition and the nature of policy instruments employed, the gains from export orientation will be almost as great (provided the world economy remains open) with slower growth of world trade as with more rapid growth.

The East Asian NICs were not always outward-looking. Both Taiwan and Korea were much more inward-looking in the 1950s. But they liberalized their policies in the 1960s. In Taiwan, the two key elements of the policy reform were (1) recognizing the potential for exploiting opportunities afforded by international trade and investment rather than continuing to operate behind protectionist barriers, and (2) setting realistic, positive real interest rates (Tsiang, 1984). These changes were occasioned by the relatively small size of the domestic market, the continued pressure of surplus labor, and the drying-up of the "easy" phases of import substitution (Ranis, 1979). The result in Taiwan was rapid export-led economic growth, virtually uninterrupted for a quarter century (Kuo, 1982). In Korea, the story

was largely the same in essential respects (Frank, Kim, and Westphal, 1975; Hong, 1981; Balassa, 1985; Scitovsky, 1986).

Benefits of Trade. Judging by the record in the newly industrializing countries of East Asia, seizing the opportunity presented by the world market has had a very high payoff indeed in terms of equitable growth. As shown in research studies by myself (Fields, 1980, 1984) and others (e.g., Turnham, 1970; Squire, 1981; Krueger, 1981), both export substitution and export promotion can extend the benefits of growth to the masses by improving job opportunities and consequently raising living standards. Hong (1987, pp. 292–3) puts it this way:

In Korea, the efficiency gains associated with the long process of the opening up of a semiautarkic economy to semifree trade have materialized not only in the form of rapidly rising real wage rates but also in the form of high rates of return on investment. These enhanced rates of return in turn seem to have kindled the ‘animal spirit’ of Korean entrepreneurs and generated a vigorous pace of investment activities in Korea during the past twenty-year period.

Contrariwise, the employment and income distribution experiences under import-substitution industrialization have generally been less favorable and the benefits of growth less widespread (Prebisch, 1964; Baer and Herve, 1966; Morawetz, 1974; Bruton, 1974; Krueger, 1981 and 1986; and others).

Data on the experiences of Hong Kong, Korea, Singapore, and Taiwan are presented in Table 1. Their improvements under export-led growth have been sensational. Let us take Taiwan as a case in point. Full employment has been attained, the unemployment rate reaching just 1.3 percent. Much of the employment growth that took place was in the manufacturing sector, the key source of export-led growth. Among manufacturing workers in Taiwan, real wages increased *fourfold* in twenty years. The mix of jobs improved in other ways as well: fewer workers were unpaid family workers and more were paid employees.

The attainment of full employment, the rapid growth of real wages, and the improved mix of jobs led to a sharp decline in the rate of absolute poverty, the number of poor falling by more than half in

Table 1
Changes in Labour Market Conditions and Income Distribution in Seven Small Open Economies

	Barbados		Hong Kong		Jamaica		Korea		Singapore		Taiwan		Trinidad & Tobago	
I. U nemployment rate	1960:	12%	1961:	1.7%	1960:	13.5%	1963:	8.2%	1957:	5.2%	1955:	6.3%	1970:	13%
	1965-66:	13%	1971:	4.4%	1968:	19.4%	1967:	6.2%	1965:	9.1%	1963:	4.3%	1975:	15%
	1970:	9%	1976:	4.3%	1972:	23.0%	1971:	4.5%	1969:	10.4%	1972:	1.5%	1979:	12%
	1976:	16%	1980:	3.7%	1980:	30.0%	1976:	3.9%	1971:	7.0%	1981:	1.3%		
	1980:	13%					1981:	4.1%	1977:	4.8%				
									1980:	3.5%				
II. Employment composition														
A. Agriculture as a % of total employment	1970:	21.3%	1961:	7.4%	1972:	33.4%	1963:	63.2%	1957:	6.9%	1964:	50.0%	1970:	22.7%
	1975:	9.9%	1971:	4.0%	1979:	33.6%	1970:	50.4%	1970:	3.5%	1970:	36.8%	1977:	13.4%
			1976:	2.5%			1980:	34.0%	1979:	1.5%	1979:	21.5%		
			1980:	1.4%										
B. Employees as % of economically active population	n.a.		1961:	83.8%	n.a.		1963:	31.5%	1957:	73.7%	1956:	36.8%	n.a.	
			1971:	87.3%			1971:	39.3%	1970:	76.5%	1964:	39.2%		
			1980:	89.4%			1980:	47.3%	1979:	83.5%	1970:	50.7%		
											1979:	63.7%		
C. Professional & tech., administrative & managerial, clerical, and sales occupations as % of economically active population	1960:	5.1%	1961:	27.5%	1968:	14.6%	1963:	16.9%	1957:	36.8%	1964:	22.4%	1970:	22%
	1970:	9.2%	1971:	26.8%	1978:	21.9%	1970:	22.9%	1970:	39.4%	1970:	26.9%	1975:	18%
			1976:	28.3%			1980:	29.5%	1979:	42.5%	1979:	30.0%	1978:	20%
			1980:	32.5%										
D. % of employed workers with no schooling [% illiterate in brackets]	n.a.		1961:	20.2%	1970:	3.5%	1960:	44.7%	1966:	54.1%	1965:	[26.0%]	1970:	19.6%
			1971:	16.2%	1979:	1.7%	1970:	23.8%	1972:	20.6%	1970:	[20.7%]	1975:	21.9%
			1976:	13.9%			1980:	16.0%	1977:	35.2%	1975:	[15.9%]	1979:	9.2
			1980:	10.4%					1980:	22.5%	1980:	[9.0%]		

III. Real wages or earnings	Index of avg. real wage, 1976 = 100: 1976: 100.0% 1980: 125.7%	Index of avg. real manufac- turing wage, 1948 = 100: 1960: 105 1965: 157 1970: 167 1975: 194 1980: 253	Index of avg. wages, 1975 = 100: 1980: Men: 69 Women: 76	Index of real earnings, 1975 = 100: 1966: 52 1972: 88 1978: 154 1980: 159	Index of real income per worker, 1966 = 100: 1966: 100 1975: 100 Index of real weekly earnings, all industries, 1975 = 100: 1975: 100 1980: 120	Index of real manufacturing earnings, 1954 = 100: 1954: 100 1960: 102 1970: 183 1979: 400	Index of real weekly earnings of production workers, 1971 = 100: 1971: 100 1978: 124
IV. Poverty	n.a.	% of households with annual in- comes less than HK \$3000, in constant 1966 HK \$: 1966: 18% 1971: 11% 1976: 7%	% of labour force with weekly in- comes less than J \$20, in con- stant 1973 J \$: 1968: 70% 1973: 72% 1979: 80%	% of house- holds with in- comes below a constant real poverty line: 1965: 41% 1970: 23% 1976: 15%	% of persons with incomes below S \$200 per month in 1975 Prices: 1966: 37% 1975: 29% 1980: 18%	% of households with incomes below specified figure in specified year: NT \$20,000 1964: 35% 1972: 10% NT \$40,000 1964: 80% 1972: 35%	Average income of specified group in constant 1971/72 TT \$: poorest quartile 1971/72: 89% 1975/76: 94% Median: 1971/72: 198 1975/76: 196
V. Inequality, as measured by Gini coefficient among households [Gini coefficient among indivi- duals in brackets]	n.a.	1966: 0.487 1971: 0.411 1976: 0.435 1981: 0.447	1968: [0.628] 1973: [0.651] 1980: [0.655]	1964: 0.34 1970: 0.33 1976: 0.38	1966: [0.499] 1975: [0.452] 1980: [0.455]	Early 1950's: 0.5 1968-72: 0.3 1976-78: 0.27	1971/72: 0.539 1975/76: 0.474

n.a. Time series information not available.

Sources: Fields (1981; 1982).

just eight years. The income inequality picture that emerges is excellent. Taiwan has the lowest income inequality (as measured by the Gini coefficient) of any country in the world! Similar patterns of improvements in labor market conditions and reductions in poverty are recorded for Hong Kong, Korea, and Singapore also. However, unlike Taiwan, inequality in the other NICs has been at moderate but not low levels.

Many observers have concluded that the policies leading the East Asian economies on the path toward rapid, equitable, export-led growth should be copied by other developing countries. This view, which is expounded by such leading luminaries in the trade and development fields as Bhagwati and Srinivasan (1978), Krueger (1981), Little (1981), Balassa (1982), and others, asserts that other countries could succeed similarly if they too were to try to produce for the world market.

These export successes demonstrate a path that developing countries might pursue to their advantage: growth led by export of manufactures. Of course, international trade is not enough; it is a means to an end, not an end in itself. The essence of economic development is the improvement in standards of living of the people. While it may be that standards of living are affected significantly by such publicly provided goods and services as public works, government housing, educational systems, public health facilities, and the like, it is nonetheless true that the basic determinant of a person's economic well-being is the amount of earnings obtained from his or her labor. Very simply, most families derive the majority, if not all, of their incomes from the work they do. If they benefit from economic growth, it is because more job opportunities are created and/or wages increase in existing jobs.

Do such export expansion activities as manufacturing Hyundais in Korea or sports equipment in Taiwan bring about more jobs and higher wages? The simple fact is that nobody is forced to take jobs in those sectors if employment opportunities are better elsewhere. It is precisely because jobs in export firms are better than jobs elsewhere that export-led growth improves living conditions.

Lessons from Less Successful Experiences

There are some obvious circumstances in which development will not succeed. Among them are pervasive corruption, excessive regulation, and nonoperational bureaucracies. An illuminating if depressing catalogue of these dysfunctional conditions is presented in Harberger (1984). I shall not try to recapitulate all his points here. Instead, I wish to emphasize a few "less obvious" barriers to economic development and growth.

Failure of Exclusionary Policies. Among the deleterious trade and industrial policies which a country can institute are actions which diminish its access to badly needed complementary factors of production. One of these is to eliminate essential economic groups in the name of other perceived goals. This took place, for instance, in many African countries when Asians and Europeans were expelled in pursuit of Africanization. Uganda under Idi Amin was both a human tragedy and an economic tragedy. That country is still suffering from the excesses of those years.

Another policy with adverse economic effects is to push multinational corporations so far that they find it more profitable to abandon existing operations rather than accede to the conditions host countries attempt to impose on them. This occurred in the mid-1970s in Jamaica when a leftist government attempted to impose a large bauxite levy. Rather than paying it, Reynolds Aluminum and the others closed their Jamaican operations and relocated elsewhere. This should have come as little surprise. While orthodox and radical economic theorists disagree in a great many respects, they fully agree that corporations are motivated by the pursuit of their own interests (orthodoxy calls this "profit maximization," radical analysis the "drive for capital accumulation"). Analysts of both persuasions would predict that if push comes to shove, multinationals will have no compunction about seeking greener pastures elsewhere. To think otherwise is to ignore the multinationals' very reason for being.

The lessons here are basic. More often than not, what makes poor countries poor is the lack of productive inputs with which their people can work. To create an inhospitable environment may well force the country to do without the inputs it needs. Unfortunately,

the poor are those who would be expected to be hurt the most by such policies, because it is the demand for their labor which is reduced first.

Need for Labor-Intensive Production. Another mistake is to presume that export-led growth will invariably have favorable equity effects (or, alternatively, to presume that it will not). Not all exports are the same. When export-led growth has succeeded in extending the benefits of growth widely, it has done so when the products exported make intensive use of that resource which the poor have the most of: their labor. Broadly speaking, two classes of exports fall into this category: manufactures and agricultural products. The successes of East Asia have entailed the employment of large numbers of workers in the production of manufactured goods. But it is also true that poverty is substantially lessened when large numbers of persons have been put to work in the tea industry of Sri Lanka, the banana industry of Costa Rica, or the fishing industry of Peru (and, one suspects, the drug industry of Colombia). When export-led growth has failed, it has often been in circumstances where the products exported make very little use of labor. This is most common when the export good is a mineral product. Oil, copper, and aluminum are examples.

The lesson appears to be that export-led growth does *not automatically* have a sizeable effect on the poor. It does when exports are labor-intensive manufactures or agricultural products; it often does not when exports are mineral-based. When it comes to choosing trade and industrial policies for widespread development, planners and aid agencies should be careful not to draw the wrong conclusion. The conclusion is not that trade per se helps the poor. It is that the poor are helped by trade when it shifts the demand curve for their labor, and seldom otherwise.

A last lesson from some of the less successful cases is the critical role of wage policy in influencing or even reversing a country's "natural" comparative advantage. Because of the importance of this topic, it is treated separately in the section which follows.

Labor Market Policy and Export-led Growth

The wage policies in the newly industrializing countries of East Asia differ from those in most other developing countries. Of greatest importance is their reliance on market wage determination, which means that wages in those economies are determined primarily by supply and demand.

Policies in Most Developing Economies. Often, in the developing world, wages are not determined by supply and demand, but rather by any or all of a number of nonmarket forces. These nonmarket forces often have potent influences in key sectors of those countries' labor markets. *Minimum wage laws* are common in many developing countries, at least in certain major sectors (e.g., large factories). When these laws are enforced, wages may be very much higher in the affected sectors than they might otherwise have been in the absence of minimum wage laws. *Labor unions* often are very strong, and are able to use their strength at the bargaining table to secure above-market wages for their members. *Pay policy with respect to public sector employees* frequently results in higher wages being paid to government workers than to comparable workers in the private sector. *Multinational corporations* sometimes are encouraged to pay high wages to local workers, lest those corporations be expelled from the country if they do not. Finally, *labor codes and protective labor legislation* may add substantially to the costs employers must pay when they hire workers. These institutional forces are found in varying degrees throughout Latin America, the Caribbean, Africa, and South Asia.

Policies in East Asia. By contrast, wages and other labor costs have *not* for the most part been inflated artificially in East Asia. Economic development in those economies has depended on low labor costs. Policymakers in Hong Kong, Korea, Singapore, and Taiwan realized that if they were to gain and then maintain trade positions in world markets, the basis for doing so would be low price, and they then pursued policies that had the effect of restraining wage growth to market levels.⁶

Generally, wages have not been permitted to rise above market-clearing levels in East Asia. Minimum wages exist in some of the countries, but their levels are so low as to be meaningless. Trade unions bargain over wages, but only in Hong Kong does the bargaining take place free of government restraint. Public employees receive wages comparable to those in the private sector, but not higher. Multinational corporations also follow market forces. But although market wage determination has dominated in East Asia in the past, there are signs that conditions may be changing. In 1985, Taiwan introduced a new labor law which sought to push wages up above market levels. The Korean government is committed to introducing a minimum wage in 1988.

Some exceptions to market wage-setting bear mention. In the case of Singapore, wages were repressed between 1972 and 1979 through direct government involvement in the tripartite National Wages Council. However, labor shortages became so severe that this policy was later abandoned. In its place was put a "wage-correction policy" designed to raise real wages, encourage capital-labor substitution and technological upgrading, reduce dependence on foreign labor, and ultimately achieve a "Second Industrial Revolution." But this so-called "high-wage policy" went too far. It "... contributed to declining international competitiveness, and thus to the decline in manufactured exports and employment and in economic growth generally by 1985, when the external economic environment weakened, resulting in large-scale layoffs" (Lim, 1986, p. 11). A wage freeze was then imposed. As Prime Minister Lee Kuan Yew put it: "Only after we have made up the ground lost in the years of negative growth in 1985 and, I fear, also in 1986 . . . can we afford to loosen our policy of wage restraint, and then we must peg future increases in wages to increases in productivity" (*Asian Wall Street Journal*, June 24, 1986). Thus, government involvement in the wage-setting process has been an important feature of Singapore's labor market from time to time.

The Korean government has also had a hand in repressing wages, though in more subtle fashion than in Singapore:

Acting through the Bankers' Association of Korea, the government also tried to keep wage increases low by having banks restrict credit for firms which increased wages beyond government guidelines. This move in late 1980, however, faced strong resistance from the Federation of Korean Trade Unions. Whenever there was a more explicit confrontation over this issue, the government would say 'There is no official guideline. It is just a suggestion on the part of the government' (Nam, 1984, pp. 73-74).

But considering the heavy involvement of government in the Korean economy and in the society, "suggestions" carry a great deal of force (Bai, 1985). Scitovsky (1986, p. 154) attributes to Edward Mason the statement: "It does not take a Korean firm long to learn that it will 'get along' best by going along." Korean workers have recently taken to the streets by the tens of thousands to protest for strong labor rights. Wage repression is unlikely to be sustained in Korea for much longer.

At the risk of overgeneralizing, I would say that the East Asian economies neither pushed wages well above market-clearing levels nor forced them well below market-clearing levels. In general, these economies' wage policies may be characterized as ones of market wage determination.

Benefits of Market Wage Determination. Market wage determination, prevalent in much of East Asia thus far, has had several fundamentally important implications for the success of export-led growth in those economies. For one thing, it helped those countries avoid economic inefficiencies and misallocations of labor which might have arisen from distortions in wages; this in turn enabled them to avoid distortions in productivity between sectors. Market wage determination also naturally led employers to utilize the available labor force to the fullest extent possible, enabling those economies to pursue their inherent comparative advantages and produce goods intensive in labor.

Market wage determination discourages substitution of capital for labor in the production process which, when it takes place, lessens employment. Market processes also diminish the expected-income incentive in rural-urban migration. As I have shown in Fields (1984),

the wage differential between manufacturing and agriculture is quite narrow in East Asia, much in contrast to most Latin American countries. Finally, market wage determination avoids unnecessarily high production costs that might hamper a country's ability to sell its products profitably in world markets.

The wage policies adopted by East Asian nations quickly resulted in full employment, after which real wages rose rapidly (as shown by the figures in Table 1). The tight labor market, in turn, led to policies aimed at economizing on the use of increasingly scarce labor and enhancing labor productivity through investments in complementary physical and human capital. Thus, wage policy interacted with trade and industrialization strategies in these countries to contribute to successful, equitable development through export-led growth.

There is an important lesson here. Whether an export-oriented trade strategy is better or worse than an inward-oriented strategy may well depend on a country's choice of wage policy. Suppose an export-promoting country adopts a lenient wage policy which permits premature wage increases to be granted, and suppose further that because labor costs often constitute the largest share of total cost of a product, the country's exports become unprofitable in world markets. In such a case, if the revenues earned by private companies fail to equal the social costs of exporting, an export-oriented development strategy subsidized by the government may cause the country to lose money.

The interaction between trade policy and labor market policy has attracted considerable attention in the last year or two, both from policymakers and from researchers. The development agencies have called for increased labor market flexibility to accompany trade reforms (e.g., Rajapatirana, 1987). Policies of wage restraint and/or wage guidelines or wage-reform policies are part of many adjustment programs negotiated with the International Monetary Fund (IMF, 1986, Table 12). However, it is not generally the policy of the World Bank to impose labor market reforms as conditions for structural adjustment loans or other external support. For further information, see Lim (1986), Koo, Haggard, and Deyo (1986), Krueger (1986),

Addison and Demery (1986), and Fields and Wan (1986) and the earlier references cited therein.

Employment Adjustments. A final labor market issue, vital at the macroeconomic level though less important to trade policy per se, is that of wage and employment adjustment mechanisms. When wages are adjusted to prices and to other macroeconomic variables in an ad hoc way, wage levels are free to fulfill their standard equilibrating role. Likewise, when employers are free to take on and dismiss workers at will and workers are free to shift jobs, employment fulfills its standard equilibrating role. Labor markets adjust well in such circumstances. This is the case in the economies of East Asia, for example, in Korea, where wage tables and employment levels are adjusted annually based on prevailing supply and demand conditions in labor markets. In many other parts of the world, for example, in Argentina, Chile, and Uruguay, wages are formally indexed to prices, and hiring and firing decisions are restricted, despite other stabilization and liberalization policies. "Labor markets were changed little in the three countries. They continued to be controlled through penalties or prohibitions on labor dismissals, together with legislated wages and wage indexation. However, the weakening of trade union power in the early stages of the reforms amounted to some deregulation" (Corbo and de Melo, 1987, p. 127).

A position commanding a great deal of support in recent years is that wage indexation and employment rigidities have seriously impeded adjustment processes; but when "heterodox policies" combining fiscal correction and incomes policies were put into place in such countries as Argentina, Bolivia, Brazil, Chile, and Israel, inflation was brought under control and these economies were stabilized. Real wages fell sharply but, at least in some cases, temporarily.⁷

Interrelationships between wage policy and macroeconomic stabilization policy is another subject to which a great deal of attention is being directed.⁸ But, as this is more a matter of macroeconomics than trade, I shall give it no more attention here.

Prospects and Policies for Export-led Growth: The Case of Costa Rica

The key to successful export-led growth in Costa Rica is the private sector.⁹ This is partly because the private sector remains the primary employer, accounting for more than 80 percent of total employment, and partly because of the dynamism of local entrepreneurs and foreign investors. The most important task before the Costa Rican economic authorities is the upgrading of employment opportunities in the private sector as a means of achieving further economic development. Specific policies that might help achieve this objective are macroeconomic stabilization policy, sectoral policy with respect to export expansion, and labor market policy.

Macroeconomic Stabilization. A stable macroeconomic environment is essential to employment generation. In a mixed capitalistic system such as that of Costa Rica, the private sector must have confidence in the stability of the economic environment. Local entrepreneurs and foreign capitalists will invest in Costa Rica only if they are reasonably certain that they will receive at least a fair return on their money. They will believe just the opposite if external debts are not serviced, if real interest rates are negative, or if an overvalued currency is in imminent danger of devaluation—all of which were the case in Costa Rica in the economic crisis of the early 1980s. Under circumstances such as those, local investors will tend to place their money abroad and foreign investors will not enter Costa Rica at all. It is necessary that a stable macroeconomic environment be assured.

At the urging of the International Monetary Fund, the World Bank, and the U.S. Agency for International Development, and with their financial backing, the Costa Rican government brought about the necessary stability. Among the policy measures taken in late 1982 and early 1983 were

- tightening of monetary policy to control inflation
- reestablishment of positive real interest rates to stimulate investment
- cuts in government spending and subsidies, to try to narrow the budget deficit

- increases in taxes, among them the social security tax, also to try to narrow the budget deficit
- rescheduling of debt with ten creditor countries to permit payment to be made in a more manageable way
- attainment of an understanding with commercial bank creditors, also to prevent payments from getting out of hand

Macroeconomic stabilization policy has led to an economic recovery since 1983. Debt payments resumed, exports increased, inflation slowed, investment rose, and GNP grew. In fact, the World Bank's Vice President for Latin America and the Caribbean has held forth the Costa Rican experience as a model for successful adjustment (Knox, 1985). The policy reforms, and the consequent resumption of economic growth, have had favorable labor market effects. Since 1983, employment increased, unemployment and underemployment fell, real wages rose, and the composition of employment improved. The climate for future economic expansion is favorable. Macroeconomic policy can be the decisive factor in assuring economic stability, and in the case of Costa Rica indeed it has been. Other countries in the region would do well to learn this lesson.

Trade Policy. Costa Rica's economic growth has been exported. The two main categories of Costa Rica's exports are agricultural commodities and manufactured goods. The agricultural products include coffee, bananas, sugar, beef, and cocoa. These are sold in highly competitive world markets. The other category is manufactured goods. Approximately 80 percent of exported manufactured goods and other "nontraditional exports" are sold within the protected Central American Common Market.

Costa Rica has adopted a protectionist trade policy with respect to "nontraditional exports," a policy which is partly responsible for the change in the classification of that country's trade orientation from "moderately outward-oriented" in 1963-73 to "moderately inward-oriented" in the period 1973-85 (*World Development Report 1987*, p. 53). One of the country's leading economists, Claudio Gonzalez-Vega (1984), has criticized these inward-oriented policies, calling instead for a more outward-looking trade strategy:

Costa Rica requires a series of sharp, rapid adjustments induced by bold economic policy revisions, including a much lower and uniform rate of protection of import substitution manufacturing, a reduction in the level of implicit or explicit subsidies, a much smaller public sector, particularly in productive areas, and a drastic overhauling of the financial sector, in order to increase the share of domestic savings in financing investment.

Indeed, the Costa Rican economy now appears to be liberalizing. The licensing regulations and other controls established during the economic crisis of the early 1980s have since been dismantled. Costa Rica is now negotiating to join GATT. The economy is moving decidedly in the direction of more outward-looking trade policies.

Conditions in Costa Rica are conducive to export expansion. The labor force is well educated and productive. Political stability makes Costa Rica attractive for foreign and local investors alike. Incentives for export are offered under the Caribbean Basin Initiative. The government has undertaken major reforms as part of its structural adjustment program.

These efforts have borne fruit. In recent years, assembly industries have been developed particularly successfully. These exports have been made overwhelmingly by foreign firms or by firms with substantial foreign investment.

The equity effects of export expansion have been positive. More than 15,000 new jobs have been created, adding more than 10 percent to Costa Rica's manufacturing employment (Inter-American Development Bank, 1985). And there is no evidence that the size distribution of income has become any more dispersed with the expansion of international trade (Bourguignon, 1986, p. 51).

Looking ahead, two key policy decisions must be made in Costa Rica: (1) whether to expand traditional exports (coffee, bananas, etc.) or nontraditional exports (chiefly light manufactured products), and (2) how actively to promote exports through selective public expenditures, tax incentives to certain sectors, and the like ("export promotion") versus a more *laissez-faire* approach ("export substitution").

On the first of these, most of the attention in Costa Rican policy circles is directed toward expanding nontraditional exports. If Costa

Rica's comparative advantage in labor-intensive production is followed, exports of nontraditional exports could create a great many jobs. In the highly competitive dynamic world economy of today, Costa Rica should be able to penetrate new markets. However, the expansion of nontraditional exports does not preclude the expansion of traditional exports. Yes, it is true that the world prices of coffee and bananas are volatile and that the terms of trade have been moving against these products. But it is also true that for geographical and climatic reasons, Costa Rica has a comparative advantage in land-based products, the exports of which generate badly needed foreign exchange and rural employment. More attention should be given to the advantages of traditional exports as well as their disadvantages. Domestic circumstances and world market conditions do not obviously favor nontraditional exports in Costa Rica.

The other strategic decision is how actively to promote exports, to which I suggest the following working rule may apply. The only export activities that should be promoted by the expenditure of public resources are infant industries with excellent prospects of paying their own way in the very near term but which, for some good reason (e.g., lack of transport facilities), are not now under way. The best products are those that can be sold in the world market, but consideration should also be given to those that can be exported to what is left of the Central American Common Market. Otherwise, a hands-off policy is in order, and incentives should be structured so that they are neutral with respect to production for export vs. production for the national/regional market. Costa Rica should not spend scarce public resources just to generate foreign exchange, just to diversify into new areas, or just to generate jobs in the export sector. Before such resources are expended, it must be shown that the benefits to society of that particular type of export promotion outweigh the costs.

Labor Market Policy. Labor market policies in Costa Rica are on the whole quite reasonable. In general, a great deal of competition prevails within the private sector labor market in Costa Rica. Wages are set largely in accordance with supply and demand. Unions are present, but they cover only a small fraction of the private sector labor

force. Where unions are present, they do not raise wages much above the levels prevailing in the nonunionized sectors of their economies.¹⁰ Minimum wages also exist in Costa Rica. The authorities seek to keep the minimum wage growing in line with productivity but not faster (Gregory, 1981; Pollack, 1985). In a comprehensive study of minimum wages throughout the world, Starr (1981, p. 50) says of minimum wages in Costa Rica, "... the impact on wages actually paid, while significant, is far less extensive and apparent ..." than in Colombia and Mexico. We may conclude that neither union wage-setting nor minimum wages has an important influence on market wage levels in Costa Rica.

The most important nonmarket force influencing wages in Costa Rica is public sector labor market policy.¹¹ Wages in the public sector are about twice as high as those in the private sector. Large differentials remain even after standardizing for differences in the levels of education and experience of workers in the two sectors (Uthoff and Pollack, 1985; Gindling, 1987).

Because of the higher pay in the public sector, private sector workers throughout Costa Rica aspire to public sector jobs. In response to the pressure for government jobs both from private sector workers and from the unemployed, the government has expanded public sector employment. This has led to shortages in the private sector in certain occupations, especially those requiring the highest amounts of education.

The growth of public sector employment at above-market wage rates has diverted funds from other uses and is not obviously the best use of those resources. Serious thought should be given to two aspects of policy concerning public sector labor markets in Costa Rica: whether to freeze the amount of total employment in that sector, as was agreed upon but apparently not effectuated; and whether to gradually bring public sector wage levels more into line with those in the private sector.

All in all, market forces have a large role to play in determining wages in Costa Rica; other than in the public sector, employment and wage levels are determined largely in accordance with supply and demand and hence with labor productivity. The general adherence

to market wage determination in Costa Rica has favorable implications for that country's prospects for achieving economic development through export-led growth.

Looking Ahead

In much of Latin America, Africa, and South Asia, the prevailing attitude toward outward-looking trade policies is one of distrust. Critics of outward-looking trade policies say trade makes them vulnerable to the rest of the world. I insist those countries are vulnerable anyhow, and their vulnerability is reduced if the goods produced are in high demand in the world market. (Witness, for instance, the resilience of the East Asian economies in the face of external shocks.)

The critics say exports have only minimal effects on employment, citing such examples of capital-intensive export activities as copper mining in Chile and oil extraction and refining in Venezuela. I reply that nonmineral exports are very labor intensive, and point to industrial exports in the Far East and agricultural exports throughout Central America.

The critics say that a drive to export means that wages must be kept low. Yet the mix of job opportunities in the newly industrializing economies of East Asia has improved substantially and wages in those countries have increased many-fold.

The critics say that even if I were right about all these other points, things are different now, and that in today's stagnating world economy it is futile to try to export when world markets are not growing. But the "futility" argument assumes (almost always implicitly) that importers will maintain their traditional supply sources no matter what. This is an assumption I do not share. World markets are fickle, not loyal.

In general, consumers and firms will buy elsewhere if it pays them to do so. It is the ability of the developing countries to supply goods of high quality at low prices, rather than an increase in global demand for these products, which results in rapid, equitable export-led

growth. This is why Japanese products have gained markets throughout the world and why Korean products are competing so successfully today.

Take the example of Hyundai automobiles, one of the latest Korean success stories. Hyundai is the number one import in Canada and is growing rapidly in the United States. Why? Hyundai saw these markets as potentially profitable. They believed, rightly, that despite difficult world economic conditions, the North American markets were open to them. They were confident that consumers would choose Hyundais over Toyotas or Chevrolets if Hyundai's autos were better in quality and/or price.

Hyundai employs tens of thousands of workers who produce manufactured goods for export around the world. Similarly, entrepreneurs in the Asian countries are continually seeking new markets to penetrate and new ways to cut costs while maintaining quality. As they succeed, more jobs are created, competition for labor is heightened, real wages are pulled up, and workers' standards of living are raised. This occurs not only in the export industries but also in other industries which either must pay the higher wages or lose their workers to better paying sectors. Thus, the benefits of growth are widespread.

Another example of successful export diversification is the changing situation in the world market for baseballs and baseball equipment. A large proportion of the baseballs used in the United States are manufactured in Haiti, the reason being that American sporting goods companies have found it profitable to set up operations there. This example is important, because it shows that Haiti has started to follow a development strategy similar to that of Korea, and that Haiti has successfully penetrated a significant market, as Korea has done on a much larger scale. The fact that balls for America's national game are manufactured abroad (as are most of the fielders' mitts, batters' helmets, and other baseball equipment) says a great deal about the possibilities of world trade.

Let other countries consider similar possibilities for enhancing employment and achieving equitable growth by producing and selling in world markets. Every item you see might conceivably be produced in the developing world. If hundreds of Haitian workers

can be employed making baseballs, receiving higher wages than they could have earned elsewhere in that impoverished economy, why not expect a Latin American economy to produce and sell footballs to the U.S.? Or an African country to produce lightbulbs for Europe? Or an Asian country to produce luggage for Brazil? The possibilities are limitless: just look around and think whether it is possible to produce the item in question at a lower cost than it is now being made. In many cases, the answer will be no because the comparative advantage is to be found elsewhere: televisions will probably go on being made in Japan, aircraft in the United States, and wines in France. But sometimes the answer will be yes. I am sure there are ample opportunities for export diversification to lead to economic growth and improved standards of living throughout the developing world.

If the drive to achieve economic development through export-led growth is to succeed, public policy must be appropriate. Export diversification will not happen unless a cost advantage exists and is maintained. Labor cost is a major cost of production, often the most important one. An important component of public policy is therefore wage policy. Third World countries must be patient and allow wages to be pulled up by supply and demand. Premature increases in labor costs must be avoided. Not to be able to export profitably is bad; to export unprofitably, failing to cover the costs of export promotion, is worse.

Conclusions

1. Policy reform and equity mean many things to many people. This paper considers the effects of trade and industrialization strategies on poverty.

2. These strategies must be chosen in light of four new realities of today's international scene: a secular worsening of the terms of trade, the inability of some and the diminished ability of others to accumulate additional debt to finance growth, the reduced likelihood of sustaining previous standards of living without further adjustments, and prospects of continued sluggishness in the international economy.

3. After discarding those nonpolicies which are little more than wishful thinking, and in recognition of the limited availability of external resources, the most practicable way of resuming economic growth for the benefit of the poor is through renewed attention to the prospective gains from exports.

4. At the risk of overgeneralizing, it may be said that the economies of East Asia had certain features of export-led growth in common: they sought to earn profits by penetrating foreign markets; they had a warranted export optimism; they relied on products for which there was a preexisting demand; they allowed market prices to reflect comparative advantage; and they had flexible labor market policies. However, they differed in the degree to which they expended resources to actively promote exports.

5. Export-led growth has had favorable equity effects in East Asia. Not only have GNP's grown, but also full employment has been attained, the composition of employment has steadily improved, real wages have increased several-fold, absolute poverty has fallen rapidly, and income inequality is at low-to-moderate levels. By shifting the demand for labor and improving job opportunities, export-led growth has benefited the poor in that part of the world.

6. Some of the obvious impediments to widespread improvements in living standards are pervasive corruption, excessive regulation, and nonoperational bureaucracies. Other less obvious but important impediments are adherence to policies which deprive local workers of complementary inputs and reliance on mineral exports which use little labor.

7. Labor market policies may make the difference between successful export-led growth and inability to compete in world markets. Premature wage increases are to be avoided. Also to be avoided is wage repression.

8. Costa Rica is among those countries which offer the prospect of successful, broad-based export-led growth. Critical to their efforts are macroeconomic stabilization policy, trade policy, and labor market policy.

9. Looking ahead, other developing countries would do well to set aside their fears of involvement in the world economy by examining the records of those countries which have succeeded and studying what they did right. Producing for the world market remains a viable option for developing countries, not in all products, but in many. They have few options left.