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Book Review

[Book Review of] Page, Sheila : Trade, finance, and developing countries : strategies and constraints in the 1990s, New York, Harvester Wheatsheaf, 1990

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Page, Sheila, Trade, Finance, and Developing Countries. Strategies and Constraints in the 1990s. New York, London, Toronto, Sydney, Tokyo 1990. Harvester Wheatsheaf. XI, 443 pp.

In the 1970s and 1980s, so-called first generation newly industrialising countries (FGNICs) were remarkably successful in achieving and sustaining high growth rates, expanding and diversifying their exports and finding access to external finance. Their achievements have been scrutinized time and again and reasons for success were found – as Sheila Page argues in her book – in a one-dimensional view on export orientation and supply-oriented macroeconomic policies. Her intention is two-fold: firstly, to test with a sample of second generation newly industrialising countries (SGNICs) whether additional or different prerequisites for success or failure could be added and secondly, to review critically the assumptions underlying the NBER/World Bank/Krueger/Balassa type of research on the FGNICs under new presumed challenges of the 1990s, e.g., the financial constraints.

The result of this endeavour is a book extraordinarily rich in data and information (sometimes approaching a handbook on trade and external finance) which are condensed to the conclusion that a multidimensional view is at stake. In the major parts of the book this view is carefully taken, yet at the end it becomes a passe-partout, unfortunately: "there is no general formula of choice of macroeconomic policy or of a range of products which will guarantee success" (p. 414), or "there is no simple answer to how far market solutions can or should be used" (p. 415), and, finally, "complexity rules the interactions between the state of the world economy and the rate and pattern of growth within developing countries as well as between external demand and financing" (p. 417). In her view, today's research on the NICs would be much more hesitant and reluctant towards firm policy recommendations than the old literature and instead be more prepared to confess ignorance and limits of economic analysis (p. 421).

To some extent, these conclusions seem to be based on a disputable interpretation of previous research which underlined the importance of a neutral incentive system and an overall consistent domestic policy framework rather than crude export orientation. But they are also due to the fact that the SGNICs (if one dares to define some) are much more heterogeneous than the FGNICs. Sheila Page's sample of country studies bears impressive witness to this heterogeneity as she lists Malaysia, Thailand, Colombia, Peru and Zimbabwe as new NICs. At least the two latter countries provoke some doubts on the appropriateness of the criteria of selection, and these doubts have nothing to do with short-term policy disturbances as, for instance, in Peru and Colombia. The analysis of the export performance, domestic policies and the external environment of each of the five countries is the backbone of this book, and thus the individual country studies require a closer look.

To begin with, they are uneven in scope and analytical deepness. Unlike in the old studies of the 1970s and early 1980s on the FGNICs, the individual authors in this book were not disciplined through a common set of issues to be treated and analytical tools to be used, but were widely free to discuss what they regarded as relevant. The study on Malaysia written by *Mohamed Ariff* and *Muthi Semudram* is a routine piece describing correctly what is known for Malaysia from a number of Ariff's recent publications, that is, high macroeconomic costs arising from the heavy industrialisation programme (capital-intensive second stage import substitution) and from the equity-oriented New Economic Policy, an over-regulated economy and the uncertainties associated with export demand for commodities. In the statistical part which is provided for each country study I missed a reference to nontariff barriers, effective protection and the role of private domestic financing. Yet, neglecting the latter aspect is not specific to this study. It is in line with the overall treatment of finance in this book, confining it to external finance and public domestic finance.

The study on Thailand written by *Supote Chunanuntathum, Somsak Tambunlertchai,* and *Atchana Wattananukit* is very similar in its review character to the study on Malaysia (with the same empty boxes and caveats). The authors stress the coherence between the private sector which could decide on its investment freely and the public sector oriented towards efficiency rather than towards equity as in Malaysia. Additionally, I would have paid more attention to the role of monetary stability and of growth coalitions between bureaucrats, businessmen, military officers, and technocrats. Recent analyses (Hughes, Helen, Achieving Industrialisation in East Asia. Cambridge 1988) strongly support this view.

The Colombian study written by *Juan José Echavarria* is more analytical in its approach than the two other pieces. Basically, Echavarria addresses the Colombian policy response to two external shocks in the early and late 1970s, the instabilities inherent in commodity exports (primarily in coffee), as well as the typical problem of many Latin American economies of reliance on external finance and low efficiency of utilising resources in an inflation-driven environment. He denies a dutch-disease problem to be clearly identifiable for Colombia and attributes a large importance to future policies shifting resources out of the coffee and oil sector. Stabilisation policies are described as relatively successful given the fact that monetary policies tended to be more conservative and sound than in other Latin American economies. Yet, there is a major reservation to be made. There is only a footnote on the underground commodity sector, that is drug production and exports, and as the author was fully aware of the "buying social and political peace" problem in Colombia by the time he wrote the piece, one would have wished some more attention to this issue which is critical to Colombia's political and economic future.

The Peruvian study by *Jürgen Schuldt* is an excellent example of the fate which sometimes threatens scholars working empirically, that is that they have to eat their own words and studies, respectively. After a short description of the pronounced and frequent changes in economic paradigms from state-run development to market orthodoxy until the mid-1980s, Schuldt offers a model to forecast macroeconomic indicators under President Garcia's "heterodox" policy, that is, to redistribute capital intersectorally towards backward sectors and to treat trade and external finance as second-rate. The short-run model which, however, is applied to the modern urban sector only, predicted a current account deficit of US $ 820 mill. in 1987, whereas the actual figures were twice as high. Thus, there remains very little to say on the Peruvian study except that it did not anticipate the full collapse of a policy of economic "heterodoxy" for which the author seemed to have some sympathy.

Peter Robinson's study on Zimbabwe, finally, traces prerequisites of the ambitious high-growth targets of the First Development Plan 1986–90 and stresses the critical importance of external constraints (South Africa problem, structural import dependence, transport bottlenecks, access to private risk capital as well as external public funds) both for traditional exports as well as for new markets and new products. In general, Robinson seems to argue that Zimbabwe can become an African NIC with a fairly good human and physical capital endowment by African standards. This would require that policy shifts towards complementing the external-sector orientation by socioeconomic policies are introduced gradually and not overnight.

The following chapters in part three summarise the findings of the country studies and add additional information from other developing countries and FGNICs. Given the heterogeneity of the sample countries, it seems difficult to sort out common results beyond those mentioned above. As far as export diversification is concerned, links to absorptive and dynamic markets including those in developing countries have been relevant. In this respect Asian countries are found to be much better off than Latin American countries. Exchange-rate policies were not identified as an important policy

instrument in the past (and in future? strategies, p. 275). Yet, as exchange-rate policies are not in the center of the country studies, there is little beyond that in the summarising chapters.

The chapters on external financing conclude that for highly indebted countries access has generally deteriorated sharply, especially for bank loans but also for foreign direct investment (FDI) which is found to be mostly inward-oriented or in commodities. Unfortunately, international data on FDI are presented in terms of flows only which do not allow for disaggregating FDI by sectors and – more importantly – do not reveal the performance of various developing countries in the competition for risk capital from individual home countries. Stock data available for the major OECD countries would have brought clear support for the finding that the SGNICs failed to compete successfully for FDI in the 1980s. This view gives rise to concern as the country studies conclude that external public savings and FDI were used to finance long-term deficits. The countries would face serious bottlenecks if they were graduated as no longer eligible for concessional public financing, but at the same time were not appointed as a promising host for FDI. If financing is exogenously determined, as the book suggests, this would be an extremely binding constraint. However, this assessment seems to underrate the importance of the domestic policy framework for mobilising domestic savings and allocating them efficiently.

What can be said about the lessons for the 1990s? This is what the study wants to clarify, but it remains speculative, of course. External constraints in terms of demand and financing are hypothesized to become even more relevant than in the 1980s. So are active policy initiatives in the new NICs based on individual strategies rather than on masterplan recipes. Good fortune is essential, and so is generous credits for temporary setbacks. The development of domestic markets should not be shifted to the background as the "export orientation" literature has allegedly recommended, at least implicitly.

What I miss is that governments have a decisive influence on the performance of their countries in worldwide competition for scarce resources through pricing their immobile factors. With ongoing globalisation, products will lose their country-specific identity and gain corporate identity.

In spite of that, international firms will continue to rate price policies for immobile factors highly and will give premiums and credits to reliable national policies which do not intervene excessively and discriminatorily. The country studies, for instance those on Thailand and Peru, to cite the two poles, provide more scope for clear messages from domestic policy failures and government responsibilities than Sheila Page would probably be prepared to accept. In this respect, this very informative and interesting book complements but does not reject findings of the old literature.

Rolf J. Langhammer

Pearce, David W., R. Kerry Turner, Economics of Natural Resources and the Environment. New York, London, Toronto, Sydney, Tokyo 1990. Harvester Wheatsheaf. XIII, 378 pp.

What constitutes a good textbook in economics? Although one can imagine many answers to this question, presumably most of them would require that it fulfills one or several of the following criteria:

1. It should develop a cohesive theoretical framework for the issues at hand.
2. It should present and evaluate methods with which the problems arising in the field can be tackled.