

ECONOMIC CONSIDERATIONS FOR A RENEWED NATIONALISM

Jomo K. S., Professor, Faculty of Economics and Administration, University of Malaya, 50603 Kuala Lumpur, Malaysia. Fax: 603-7561879; <massa@tm.net.my>

Post-war anti-colonial pan-Africanism and Nehru's 1947 Asian Relations initiative came together in the Afro-Asian solidarity movement, with the spirit of Bandung simultaneously becoming the basis for anti-colonialism, non-alignment, Third Worldism, the Group of 77, efforts to establish a New International Economic Order (NIEO) and its various counterparts (e.g. for information and communications through the MacBride Commission). Some of this could be accommodated during the post-war 'Golden Age' until the sixties.

However, after the stagflation of the seventies was blamed, among other things on OPEC and those who sought to emulate the oil exporting cartel, the empire struck back with the Volcker-led deflation and debt crisis of the early eighties, providing the thin edge of the wedge for the neo-liberal economic subordination of the South, often through IMF-imposed stabilization and World Bank-conceived structural adjustment programs since then. The end of the Golden Age led to the demise of Keynesianism which was blamed for the unprecedented 'stagflation' of the 1970s. This was accompanied by what has been called the 'counter-revolution' in development economics, which has rejected Keynesian-inspired government intervention and nationalist economic projects, in favor of renewed faith in the benign superiority of market coordination of private business interests.

THE NATIONALIST ALTERNATIVE

In many circles, there is a stark difference in attitudes towards nationalism. Under more developed or advanced capitalism, nationalism is usually associated with chauvinism, reactionary jingoism, racism and even fascism, for obvious historical reasons. Some dissenters to this predominant view (e.g. Hobsbawm) have sought to assert the progressive potential and possibilities of patriotism, arguing that the left has incorrectly conceded this sphere to the right.

The situation in the Third World, however, has been quite different, with the general presumption being that nationalism was, in and of itself, basically progressive, though some exceptions might have been reluctantly conceded. Nationalism was primarily seen as a legitimate, in fact, necessarily progressive response to imperialism, whether or not it involved formal colonial rule. This was, in turn, formulated in terms of a two-stage agenda for social transformation, with the first stage usually defined in terms of the tasks of establishing genuine national independence and political democratization. Economically, this was usually conceived in terms of a planned mixed economy, usually involving land reform, a sizeable state sector and some central planning co-existing with protected locally-owned enterprises producing for the national economy.

Yet, many in the South now seem to reject a progressive or radical nationalist alternative

for a variety of reasons, sometimes even before seriously considering it. This is partly due to ideological prejudices of various kinds, but also due to the apparent failure and betrayal of various nationalist projects. Also, it is now often claimed that rapid economic growth elsewhere in the world, e.g. in East Asia, has been achieved with liberal, open and essentially export-oriented growth. Hence, it seems important to reconsider the 'nationalist alternative' for the South at the close of the twentieth century, namely several decades after most of Africa and Asia achieved independence from European colonial rule. As an independent and preliminary venture, it may be seen as partial, heretical and provocative, for which no apology is offered. Rather, it is hoped that it will stimulate constructive critical feedback for the further elaboration and refinement of what should ultimately become a necessarily collective enterprise, through honest and free debate.

Many of the new nations which emerged from colonialism after the Second World War were primarily formed by imperialism. In some post-colonial circumstances, one might legitimately speak of a nation being formed in opposition to colonialism, but this was not always the case, though the tendency to retain colonial boundaries was virtually universal. There were many impulses which contributed to the anti-colonial movements which shaped the eventual emergence of the post-colonial world, including apparently contradictory tendencies such as pan-Islamism, pan-Arabism, pan-Africanism, liberalism, socialism, communism, etc.. With the nationalist movements of the Philippines, China and India also inspiring anti-colonialism beyond their respective 'nations', emerging independent labor organization (Gellner 1983), rising literacy (Anderson 1983), westernization and modernization had many unintended consequences.

In view of the apparent failure, if not betrayal associated with nationalism, one might legitimately question the usefulness, relevance and progressive potential of a nationalist agenda at the end of the twentieth century - several decades after the independence of most nation states in Africa and Asia as well as well as nationalist economic projects in these countries as well as elsewhere in the South. Such doubts are highlighted by the rapid economic growth attributed to economic development strategies open to foreign investment and international trade.

In proposing some elements for consideration in formulating a contemporary nationalist agenda responsive and relevant to the times we live in, one has to be mindful of the apparent failures of earlier nationalist economic projects. It would also be utopian, irresponsible and undemocratic to articulate a program for change which is neither feasible nor acceptable to most citizens. Eventually, of course, such a program should emerge through a process of popular consultation and informed debate. Hence, this lecture should be seen as a modest contribution in this context, rather than as a final conclusive statement.

Class

States seem to enjoy varying degrees of generally considerable autonomy from the dominant class, which would preclude a simple instrumentalist view of the state (Miliband 1969; Hua 1983). This does not mean, however, that societal forces, including class and

class fractional interests, have not influenced and constrained the state. In the absence of a strong bourgeoisie, many post-colonial states have been led by Kaleckian 'intermediate regimes', dominated by petty bourgeoisies of white collar professionals and small businessmen inclined to be populist, nationalist and hostile to foreign capital.

The role of the educated petty bourgeoisie in leading the populist, nationalist masses in most struggles for national independence ensured their pre-eminence in post-colonial intermediate regimes. The limited educational opportunities under colonialism further ensured the capture of the state apparatus after independence by the educated petty bourgeoisie because of the dearth of 'qualified' personnel. One does not have to view them as the vanguard of a petty bourgeoisie aspiring to become a state bourgeoisie, or even as the instrument of an ascendant nascent bourgeoisie. Leading elements among them may well have been influenced by Western social democratic and economic nationalist ideologies, and may also have been disdainful or suspicious of their own business communities and foreign investment for a variety of reasons.

It can be argued that the presumption of the existence of a state bourgeoisie is problematic because there is little evidence of a strategy for class reproduction and defence of class interests. Instead, so-called state bourgeoisies are characterized by considerable mobility since their wealth and power are not personally owned and therefore subject to simple inter-generational transfer, for instance. But class privileges derived from political power or influence can certainly be retained and enlarged through various other means, e.g. by appropriating pecuniary benefits and other advantages through official means of resource allocation. However, in so far as members of the state bourgeoisie cannot really retain their privileges inter-generationally, they do not seek to reproduce themselves as a class. This is different from personally retaining class privileges for the duration of tenure, which may ensure inertia and thus, the long term preservation of privilege. Hence, while seeking to preserve personal privilege - which may also ensure longer term preservation of such privilege - the state bourgeoisie is generally also committed to capturing resources which may be deployed for the inter-generational transfer of privilege and advantage, e.g. scholarships for children and other family members to privately appropriate resources for the personal accumulation of 'human capital'.

The ruling petty bourgeoisie tends to use the state and public enterprise to promote its own (class) interests, including private wealth accumulation, thus qualifying as a statist - rather than state - bourgeoisie (Jomo 1986). In this view then, there is no real antagonism between the public and private sectors. Thus, since the state is also committed to create conditions suitable for indigenous private capital accumulation, its subsequent disengagement from direct intervention, with the diminution of the public enterprise sector, may be desired for the further development of the politically dominant indigenous petty bourgeoisie, rather than be perceived as inimical to its interests.

Hence, the recent international pressures for and trend towards privatization, encouraged by various multilateral institutions, may actually serve as a windfall accelerating a process desired by such petty bourgeoisies desiring to transform themselves into bourgeoisies,

albeit of a rentier, rather than of entrepreneurial type. Thus, while a state bourgeoisie - who identify its interests entirely with the fate of the public sector - may be threatened by changes undermining state power and prerogatives, a statist bourgeoisie or petty bourgeoisie, using the state for ultimately private wealth accumulation, is quite capable of using state policy changes, including privatization, to its own advantage.

It has been suggested that this process of economic liberalization has been sustained by the failure of state intervention - rather than by evolving class interests - since the petty bourgeoisie does not really need public enterprise to further its interests and the state is not more far-sighted than the private actors in whose name it rules. However, such clairvoyance need not be ascribed to the state for a class perspective and contradicts many of the class-inspired critiques which emphasize the short-termism of public institutions and the often counter-productive nature of state interventions for private accumulation. There are states and there are states. Just because some states cannot or fail to develop real private sectors does not mean that all states are institutionally incapable of doing so.

While not denying that the problems of state intervention, particularly for accumulation by the ambitious ruling petty bourgeoisie, have been very considerable and would encourage the shift to more private accumulation, the earlier reliance on state intervention has to be seen in the context of the need for state legitimation and resource mobilization for accelerated capital accumulation best achieved through public sector expansion. The blatant private appropriation of public assets and state resources would delegitimize the intermediate regime and its populist, nationalist pretensions, reducing it to a predatory state. Hence, mimicry of market mechanisms, e.g. privatization, and subsequent asset exchange and transformation become important options for legitimizing and protecting the conversion of public into private wealth. The development of such mechanisms may, in certain circumstances, actually serve to reduce some kinds of rent-seeking or corruption, but does not alter the fact of rent appropriation or capture by the politically influential.

The State

Implicit in competing perspectives about the nature and role of government in economic development are different views of the state. An old divide among views of the state has been between those who see the state as primarily the instrument of particular social interests and those who emphasize that the state is largely autonomous of such interests. These different approaches have various consequences for the presumed logic of state actions, with implications for the role determinants, nature, scope, degree and beneficiaries of state intervention.

The now much criticized benevolent view of the state - implicit in much thinking in support of planning, public enterprise and other state intervention - is that the state is peopled by altruistic, competent and far-sighted individuals who would mobilize and deploy scarce economic resources as well as conceptualize and implement policies to achieve sustained growth and general welfare improvements.

One crucial problem, of course, is the assumption of the continued existence of selfless, altruistic, devoted and enlightened public officials who resist opportunities to abuse the powers derived from their control over state intervention and the public sector. Another problem has been the inability to efficiently - and equitably - conceive of and implement strategies and modes of state intervention and public sector growth.

The malevolent ('predatory') view - recently popularized by public choice theory, the new political economy and some varieties of the new institutionalism - regards the state as essentially a collection ('mafia') of self-interested individuals primarily concerned with extracting rents in the form of economic resources. To legitimize such resource extraction ('plunder', 'looting'), the state is obliged to perpetuate certain myths to legitimize its *raison d'etre* and actions.

The autonomous-malevolent view then argues that the cumulative strength of powerful extensive state machineries will eventually result in the abuse of the public interest, with the state exploiting its powers to extract more resources from the disorganized public while rewarding organized interest groups - 'distributive coalitions' (Olson 1982) - allied to the state's executive leadership. Property rights and entitlements are then designed to maximize the power and wealth of powerful individuals and interest groups and to reward the faithful for their loyalty and support. The predatory view of the state and state intervention almost by definition implies short-termism in resource extraction, with its obvious implications for resource conservation and ecological balance (e.g. see Jomo 1992).

Directly unproductive profit-seeking (DUP) involves pursuing opportunities for profit without enhancing the productive forces of the economy. Most microeconomic analysis of this phenomenon has focussed on the role of the government in creating such opportunities through regulation of economic activity, though there is no analytical reason why such analysis of directly unproductive profit-seeking cannot be extended to 'distortions' due to unequal access to information, differential transaction costs or even poor operation and regulation of markets such as the stock exchange. The dominance of the (unproductive) financial sector in the less regulated Anglo-American economic systems, with its consequent domination over manufacturing contrasts with the subordination of finance to industry in the judiciously regulated Japanese and German economies. Similarly, there is little reason to presume that deregulation in Malaysia would ensure that investible funds would be more attracted to industry or agriculture, rather than finance, real property or construction, as has been the case.

Rent-seeking behavior is therefore a subset of the broader analytic concept of directly unproductive profit-seeking, involving all types of rents and not merely those due to state intervention. Hence, state ownership of natural monopolies or natural resources may actually pre-empt, rather than encourage rent-seeking behavior in such instances. Nevertheless, most recent analytical attention has focussed on rents attributed to state intervention with economic resources expended to gain privileges due to public policy, e.g. licences, permits, tariffs, discounted credit, etc.. If such bidding is fully competitive, the

gains from privilege should be totally off-set by bidding expenses, with no net gain to the economy. Interventionist states are therefore presumed to have a tendency to encourage rent-seeking. The best entrepreneurial and managerial talent, as well as the economic resources they are in a position to mobilize and deploy, may thus be diverted from directly productive activities in pursuit of rents. And after rent-seekers have secured their privileged claims to rents, they are likely to resist efforts to dismantle the regulations creating them.

State agencies tend to pursue their own typically expansionist interests, even at the expense of other state agencies, with state economic planners mediating among various lobbies. Since they tend to be mobile within the state machinery and move among different agencies, managers of public resources tend to favor current to future spending, 'front-loaded' over gradually staggered expenditure programs, capital-intensive over labor-intensive projects, and short-term planning horizons.

In many societies, there have not been classes or class fractions of sufficient economic and political strength and coherence to effectively subordinate the state to their interests. Hence, the state has enjoyed considerable autonomy. The concentration of powers and discretion in the hands of the political executive - at the expense of the bureaucracy, the legislature, the judiciary and the constitutional monarchs - has enhanced the significance of this autonomy in operational terms, enabling the executive to make bold initiatives without seeking prior endorsement or support even within the state, let alone society at large.

However, state autonomy, in itself, is no guarantee of economic progress. The principal-agent relationship may be structured in such a manner as to effectively serve to undermine rather than enhance public enterprise performance. Public enterprise board members are often politicians, political appointees or government officers with varying, though generally limited knowledge and understanding of the enterprise. While nominally representing the owner (the government), they have no personal stake in enterprise performance or profitability. Many may be inspired by a sort of bureaucratic imperative to demonstrate their powers by trying to show that they can exercise control. Enterprise managers may therefore see the government's representatives as interfering, or worse. Views expressed by the owner's representatives are often perceived by others as reflecting political decisions made elsewhere for reasons unconnected to the enterprise.

Economic dogmatists at both ends of the political spectrum tend to equate state ownership and hence the public sector with socialism. Such a simpleminded view denies the variety of forms of socialized and collective ownership and control of economic resources, while underestimating the possibilities of state intervention and public sector activity for private accumulation and power. Any serious effort to develop participatory political democracy must address the related question of democratizing the economy. A variety of collective forms of ownership and control need to be explored to advance economic democracy in a meaningful fashion to replace the coercive, authoritarian and hierarchical organization of the modern firm, as well as other existing exploitative systems. Economic democratization will bring about progressive redistributive effects without overly relying on direct transfers

by the state.

Such economic democratization can take place within the context of a mixed economy, involving a socialized or public sector and a private capitalist sector, as well as planning in the national interest to complement market competitive forces. The planning process must therefore be necessarily pluralistic and decentralized, rather than monolithic and centralized, and state intervention should generally be 'market-augmenting' rather than 'market-negating'.

Thus, the initial stimuli to new investments would come primarily from the expansion of the domestic market, mainly through redistributive measures not unrelated to productivity increases. Clearly, a viable strategy of domestic market expansion must necessarily involve equitable redistributive measures. Existing studies show that marginal income increases to lower income earners in Malaysia are more likely to be spent, rather than saved, and the additional expenditure is more likely to be on domestically produced commodities or services. There is considerable evidence that, in the past, significant productivity gains have not benefitted wage earners. Similarly, a comprehensive agrarian reform program, which would increase land and other productive resources available to poorer peasants (through new land development and other similar schemes managed far more cheaply than existing schemes), should greatly enhance rural output and incomes, in turn increasing the domestic market.

The development of a more closely linked national economy would be crucial to reducing import dependence and to ensure more effective (Keynesian) multiplier effects. To this end, the selective development of appropriate heavy industries can go a long way, as the recent experiences of South Korea and Taiwan suggest. Such investments tend to have relatively long gestation periods, but if well-planned and integrated, they can be the cornerstones of a national industrialization strategy. In this regard.

Another crucial ingredient in any serious industrialization program is the technology factor. Recent trends in US-imposed copyright legislation in Southeast and East Asia suggest that options once available to the 'four little dragons' of East Asia may no longer be available to the next generation of aspiring NICs (newly industrializing countries) including Malaysia. By giving way to such US pressure, governments seems to have resigned themselves to climbing the ever higher, more slippery and expensive ladder of 'technology transfer', instead of taking the shortcuts offered by technological 'piracy', so successfully pioneered by Japan in the not too distant past.

Some old-fashioned nationalists conjured a desirable vision of near national autarky. This is a mistaken position wrongly identified with economic nationalism. It is true, however, that many nationalist governments have been forced into situations of virtual or partial autarky by foreign governments (usually the US) hostile to their nationalist and other aspirations. However, it would be a mistake to treat such an externally-imposed situation as a desirable virtue in and of itself, as some nationalists seem to do. In an increasingly fragmented world economy with growing international specialization, efforts for greater

national economic integration and even self-reliance should not be identified with a desire for autarky. A dynamic approach might mean giving up pre-eminence in some sectors in favor of others, but commodity output for international markets will probably remain the basic framework for production and exchange for the foreseeable future. Here again, it is useful to remind ourselves of the distinction between commodity production for the market and wage labor relations involved in capitalist production; the former does not mean the latter.

There is little evidence that a change in legal status of former government departments and statutory bodies - as a consequence of corporatization and privatization - has, in itself, significantly improved enterprise performance. Key enterprise managers are still appointed by the state executive even when the government's ownership share has declined to a small minority. Answering to shareholders, rather than to politicians, does not seem to have had a profound effect on management thus far, perhaps because large enterprise managements are largely insulated from small shareholders without government influence.

It has been argued that if public enterprises are managed like private assets with hard budget constraints and the possibility of exit in competitive factor markets, there is then no economic advantage to retaining such assets under state control. *Ceteris paribus*, however, it should also be emphasized that there is also no disadvantage in doing so. In so far as public enterprises are generally also set up with redistributive goals, the key challenge is to ensure that this distributional commitment does not compromise enterprise efficiency and macroeconomic management.

Many 'intermediate' nationalist regimes of post-colonial Afro-Asia and the populist alliances which dominated much of Latin America from the thirties promoted industrialization directly through state enterprises. In contrast, some regimes of Northeast Asia used such protection of and support for such import substituting industries to force them to produce for export (thus raising quality and efficiency to achieve international competitiveness). Good political organization and government administrative competence have been cited as the single most important explanatory variable of differing economic performance over the last two centuries (Reynolds, 1983). For the Northeast Asian late industrializing economies of Japan, South Korea and Taiwan, it has been suggested that 'embedded autonomy' - in which politicians reign, but technocrats rule (Johnson, 1982), where government organs are relatively insulated from societal pressures - has been key.

Although there is little consensus about the role of the state in late industrialization, very few would quarrel with the desirability of improving state capacity even if the role of the state is to be trimmed. Despite some cynicism about the alleged self-interestedness of politicians and bureaucrats in general, the performance of competent and committed bureaucrats is still appreciated. Unfortunately, the assault on government since the 1980s has taken a heavy toll on public sectors generally, often throwing out the babies with the bath water, with considerable demoralization of the personnel involved. This has often been exacerbated by the increased role and powers of politicians and executives as well as the celebration of the private corporate values, inadvertently undermining the altruism,

morale, discipline and sense of duty in the public service.

Government coordination of and support for concurrent investments in different, but related industries may well be crucial to ensuring that the industrialization effort gets off to a good start as such industries would provide inputs and markets for one another. While many government interventions have been abused or have otherwise gone awry and state-owned enterprises have been badly-run, it is not clear that privatization, deregulation and no further public sector growth are the solutions. 'Harder' budget constraints and managerial reforms are some of the enterprise reforms desperately needed — e.g. organizational flexibility and incentive reform have been important in ensuring good public enterprise performance in Singapore and elsewhere — but 'shock treatment' privatization is rarely necessary and may even be undesirable. In the case of both China and Taiwan, the public sectors have not been significantly privatized; instead, their private sectors have grown ahead of the national economy, reducing the role of state-owned enterprises over time.

While calling for specialization should not be misunderstood as a plea that only those trained in economics should be involved in economic affairs, for example, the regular rotation of civil servants in some countries has often undermined the accumulation of relevant experience and expertise which comes with specialized career paths. The organization of bureaucracies is also very important; poor planning and organization adversely affect implementation, enforcement and efficiency. There has been a tendency for government bureaucracies to become moribund and resistant to change, which partly explains the popular enthusiasm for the organizational and managerial reforms usually accompanying privatization.

EAST ASIAN MIRACLE?

Recent acknowledgement of the Japanese and other East Asian 'miracles' has forced observers of development to shift their gaze from the North Atlantic to the Western Pacific. Unfortunately, historical ignorance and ideological dogmatism have obscured deeper understanding of the richly and differently nuanced experiences of the region, often in favor of cultural exoticism (e.g. Confucianism). Hence, it is especially crucial to ascertain the role of history, not only because of the weight of inertia, but also because of the importance of path-dependence as well as culture, besides assessing the relative contributions of market processes and specific government policies in the creation and sustenance of development capabilities.

Besides drawing some lessons from the East Asian experience, a key question I would like to address is whether the developmental strategies pursued by the second-tier Southeast Asian newly industrializing countries (NICs) provide a better alternative to those pursued by the first-tier East Asian newly industrializing economies (NIEs), as the World Bank (1993) asserts. Both groups are lumped together with Japan as high performing Asian economies (HPAEs) in the World Bank's (1993) influential East Asian Miracle study. Such a perspective of the Southeast Asian experience is likely to disappoint those who see a third

way in the region, as well as both neo-liberals and old-fashioned statist or interventionists. The history of late industrialization in East Asia offers many important lessons for developing countries.

Historical Conjuncture?

A conjunctural factor believed to have been crucial to the late industrialization of the first-tier East Asian NIEs were the favorable economic conditions in the post-war ‘Golden Age’ and Cold War. Buoyant world demand during the first quarter century after the end of the war and much more permissive international trading rules and enforcement provided a crucial window of opportunity which Japan and the first-tier East Asian NIEs successfully took advantage of to develop internationally competitive manufacturing capabilities from temporarily protected import-substituting industries. However, albeit less spectacular, the later emergence of the second-tier Southeast Asian NICs seems to defy predictions arising from such claims of exceptionalism, but closer scrutiny suggests that while undoubtedly declining, there continues to be space for late industrialization initiatives, especially those involving foreign investment, and hence, less threatening to still ascendant transnational business interests.

Although world economic growth has been slower since the 1970s, and especially in the 1980s, less favorable conditions have not completely blocked late industrialization efforts elsewhere. The trends are probably more contradictory and ambiguous than they are often made out to be, and many opportunities still exist within the interstices of the new, more globalized and liberalized economic environment. After the Southeast Asian recessions of the mid-1980s, strong and remarkably sustained recoveries were initially buoyed by improved primary commodity prices and, most importantly, by foreign investments from Japan and the first-tier East Asian NIEs, encouraged by relaxed investment regulations and the marked currency depreciations of the second-tier Southeast Asian NICs. Thus, more conducive and permissive policies successfully attracted foreign investments — especially in export-oriented manufacturing — which helped begin and then sustain economic recovery from the late 1980s.

As shall be elaborated later, it has been argued that the recent resurgence of protectionism and conditional liberalization in the North will mean less favorable circumstances, as suggested by recent developments in international trade and related policies and practices by the advanced industrial economies. The recent extension of GATT’s jurisdiction to foreign investments, the international trade in invisibles (services) and intellectual property rights as well as the establishment of the World Trade Organization (WTO) will probably also strengthen transnational corporate hegemony and impose additional obstacles and costs to new late industrialization efforts, especially if under the auspices of domestic capital, e.g. as reflected in the imminent prohibition of local content requirements. Also, the more recent export-led growth of large economies like China, India and a host of other economies must surely constrain the options for all others seeking to grow and industrialize on a similar basis.

Resources: Blessing or Curse?

Not unlike much of Africa, Southeast Asia has been blessed with much more resource wealth than most of the rest of Asia, Latin America and Europe. However, the limited availability of such resources is said to have strengthened the first-tier East Asian NIC's imperative to industrialize, though often at tremendous human cost, especially for industrial workers, particularly during the early stages of trying to achieve export competitiveness on the basis of cheap labor costs. In contrast, there was probably less of an imperative to industrialize in Southeast Asia as there have often been more resource rents to be captured by extending primary production. In recent decades, agriculture, minerals, forestry and resource-based manufacturing have accounted for most of the growth of the economies of Southeast Asia, and of their exports in particular.

As the contribution of non-resource-based export-oriented manufacturing has been growing rapidly in recent years, especially in countries like Malaysia which tout their countries as attractive export production platforms by offering tax breaks, etc., this resource contribution is often understated by those who cite Southeast Asia as an alternative growth model to the Northeast Asian NIEs. The contribution of resources in Southeast Asia cannot be overstated, despite the large populations involved. Resources have not only made important contributions to overall economic as well as export growth, but have also been crucial for the fiscal viability and political legitimacy of the states, besides providing the basis for further capital accumulation. Unlike the dissipation or extraction of such surpluses in other parts of the world, resource rents captured by the Southeast Asian governments have made possible much of the physical infrastructural development so crucial to capital accumulation and securing political support, besides financing crucial social services (education, training, health) and efforts to enhance the legitimacy (redistribution, 'nation building') and capacity (bureaucracy, public enterprises, security services) of the regimes.

Also, the lack of natural resource endowments in the East Asian NIEs have been more than adequately made up for by the wealth of human resources created by deliberate government policies, often said to have been encouraged by supportive cultural values. In this regard too, the achievements of the second-tier Southeast Asian NICs have been more modest than those of the first-tier East Asian NIEs, as reflected, for example, by comparative literacy rates, differential access to tertiary education and the efficacy of deployment of official resources committed to education and training. Human resource constraints are increasingly acknowledged to be a major constraint to more rapid industrialization and increasing technological sophistication in the second-tier Southeast Asian NICs.

Regional Dynamics

There is clearly an important pan-East Asian dimension to much of the recent economic growth and the underlying relations involved. Not surprisingly, much of this coincides with Japan's wartime 'Greater East Asian Co-Prosperty Sphere' and perceived post-war sphere of influence. The Japanese interest in East, including Southeast Asia, encouraged extended

sojourns by Japanese in the region from the late nineteenth century and then, increasing imports and, wherever possible, control of raw material (especially mineral) production in the region. To offset the consequent trade deficits, East Asia also came to be perceived as the obvious external market for Japanese goods as industry became more sophisticated and internationally competitive. Subsequent trade barriers set up by European colonial powers in the region must have unwittingly encouraged subsequent military expansion.

After the war, Japanese industrial recovery eventually led to the search for external markets in the region, and with the wave of post-war decolonization, Japanese firms sought to expand their market shares in the region by taking advantage of the import-substituting industrialization strategies of most post-colonial regimes in the region, especially from the 1960s. The subsequent relocation (of industrial processes) abroad by Japanese firms to reduce production costs was accelerated by yen appreciations from the mid-1980s. Thus, Japanese firms increasingly became part of the export-oriented industrialization strategies of East, especially Southeast Asia, particularly after the endaka or yen appreciation of the mid-1980s.

The appreciation of the currencies of the other East Asian NIEs except for Hongkong (which has been tied to US dollar since the early-1980s) since then has also encouraged the relocation of manufacturing facilities into lower cost sites in Southeast Asia, China and elsewhere, resulting in an apparent regional economic integration with many novel features.

Southeast Asian economies have thus been well-placed to benefit from such investments as well as government industrial policies which have sought to coordinate such relocation.

However, the flow of Taiwanese investments to South Africa and of Singaporean investments to Bangalore during this period suggests how political such investment decisions have been and can be, and how other host governments can create the conditions to attract such investments.

Foreign Direct Investment

While the World Bank is very concerned that economies remain open to foreign investment, its East Asian Miracle study is surprisingly uninterested in the actual significance, patterns and consequences of foreign investment in the HPAEs. Of the eight HPAEs, only Singapore and Malaysia have relied much more than other developing countries on foreign direct investment (FDI). Also, the greater use of FDI may be a temporary phenomenon observed at a relatively early phase of development, when domestic capital accumulation, technological capacity and external market access is very weak; hence, for example, South Korea relied much more on FDI only up to the early 1970s (Chang 1995b).

Also, the importance of FDI at a particular historical moment may largely be due to strong foreign investor interest, e.g. when industrialization begins in earnest. For example, Indonesian efforts to adjust to the 1986 petroleum price collapse occurred just when Japan and the first-tier NIEs were facing declines in their international competitiveness — in the face of their currency appreciations, rising wage and other production costs, increasing

political instability, greater pressures for industrial pollution controls and so on — and were seeking to relocate their more labor-intensive and environmentally less acceptable industries. Such industrial relocation within the East Asian region can be seen as consistent with product-cycle explanations of FDI as well as Akamatsu's 'flying geese' theory. However, as we shall elaborate later, the pattern and pace of 'regional industrial restructuring' in East Asia has not been simply market-driven, but has also been very much affected by 'home' as well as 'host' country industrial policies which have encouraged such industries to relocate abroad, e.g. in Southeast Asia and China.

Industrial Policy

Although there continues to be some debate about the efficacy and success of industrial policy in Northeast Asia, it is now widely agreed that the elaboration of such policy was not overwhelmingly determined by existing business interests. This has led to various analytical formulations about the 'relative autonomy' of the state and variations thereof. Northeast Asian states have been variously credited with having superior governance capacity, coherence and competence, particularly in terms of their ability to successfully coordinate and discipline private firm behavior and otherwise intervene in market processes without generating serious government failure. It is often asserted that their success in this regard has been due to their ability to avoid capture or diversion by rentier interests. This ability of the states to independently make economic policy has enabled them to create and allocate rents in ways which have induced investments in state-designated priority areas. Thus, the prospect of getting further rents has ensured that the rents so captured have been invested in line with the industrial targets set by the state.

Fine intentions about selective directed industrial policy interventions are not enough to ensure their efficacy and success, and the possibility of getting industrial policy 'wrong' must be conceded. The issue is not really one of more or less industrial policy since industrial policy instruments have been more extensively deployed in Northeast Asia compared to the second-tier Southeast Asian NICs. Perhaps more importantly, much state intervention in Southeast Asia has been on behalf of or captured by politically influential business interests (and for inter-ethnic redistribution in Malaysia), whereas there has generally been less wastage involved in the more feasible ambitions of industrial policy interventions in Japan and the first-tier East Asian NIEs. Nepotism and clientelism have been more important problems in the second-tier Southeast Asian NICs, though it should be emphasized that the structure of corruption has considerable bearing on its consequences, including the wasteful effects of government interventions.

While the resulting — compromised, if not 'captured' — policy measures may be considered unfair, inefficient, distortive and otherwise injurious to dynamic capital accumulation, they rarely engender so much rent-seeking activity so as to dissipate most, let alone all the rents created by such distortions. While some motives for state intervention may be described as rent-seeking in nature, rent capture essentially involves transfers which may be considered unfair, but are not necessarily wasteful in the sense that the rent is entirely dissipated by rent-seeking behavior, as suggested by neoclassical economic analysis

(e.g. Krueger 1974). The Singapore experience suggests that disciplined, competent, efficient and forward-looking policymakers would clearly strengthen state capacity and the quality of industrial policy formulation and implementation, which would go a long way towards structuring rents more effectively to achieve desired policy objectives besides minimizing unnecessary and undesirable rentier activity as well as rent dissipation due to rent-seeking activities. The quality of governance would obviously also benefit from appropriate institution building as well as a capacity for flexibility in responding to new challenges.

Rent transfers may well contribute to, rather than undermine further investments in the national economy since rentiers can usually count on further advantages from making such investments (see Chang 1994). If capital flight is thus discouraged, the greater concentration of wealth associated with such rentier activity may actually have the consequence of raising corporate savings, thus accelerating capital accumulation, growth and structural change. In so far as deregulation and other aspects of economic liberalization may weaken the incentive to further invest in the national economy — as has happened in the case of Indonesia recently — it may weaken capital accumulation within the national economy as there is no guarantee that liberalization measures will consistently ensure greater net investment inflows. Investments are also likely to be enticed by the prospect of capturing rents which may be officially described as investment incentives.

There have also been important recent instances of almost capricious selective industrial policy by national executives, with the technocracy having little say in the elaboration of such policy (e.g. heavy industrialization in Malaysia in the early and mid-1980s, and Habibie's 'hi-tech' heavy industrialization in Indonesia, especially in the 1990s) which do not seem to even seek to eventually achieve international competitiveness or provide crucial support for other industries seeking to achieve international competitiveness. Such interventions have generally given industrial policy a bad reputation in Southeast Asia, and have obscured other industrial policy interventions which have been conceived and sometimes implemented on a more considered basis, e.g. the Thai regime's corporatist initiatives to involve business interests in formulating industrial policy from the Prem period in the mid-1980s, and the first Malaysian Industrial Master Plan for 1986-1995 or the Malaysian government's 1990 industrial technology development policy.

There is now widespread acknowledgement of the role of the state in East Asian late industrialization and of considerable variations in the role, nature and extent of government intervention, and how all this has changed over time (e.g. see Deyo, 1987; White, 1988; Amsden, 1989; Wade 1991). Though state intervention has also been very significant in the Southeast Asian second-tier NICs, the nature and purposes of state intervention have often been somewhat different. In Malaysia and Indonesia since independence, the regimes have often been preoccupied with constraining Chinese wealth expansion and enhancing accumulation by politically influential (non-Chinese) 'indigenous' rentiers. Regime stability in both Malaysia and Indonesia have also enhanced the opportunities for wealth accumulation generally, including by the politically well-connected in both economies. In Thailand, both military and elected regimes have been characterized by varying degrees and

types of rentier activity, sometimes characterized as clientelist patrimonialism. These circumstances have influenced policy priorities, which have often compromised the contribution that state intervention, especially industrial policy, might otherwise have made to late industrialization.

Although often problematic, the role and contribution of industrial policy instruments in the development of the three second-tier Southeast Asian NICs, especially in the last three decades, is undeniable. The role of governments in promoting industrialization beyond what would have been possible and likely without intervention is suggested by the contrasts between the late colonial economies of Malaysia and Indonesia and these national economies today. Despite all the flaws and abuses involved, there is now little doubt that the structural transformation and industrialization of these economies have gone well beyond what would have been achieved by exclusive reliance on market forces and private sector initiatives. There is little doubt that the latter would only have resulted in the development of manufacturing which enjoyed 'natural protection', though of course, the category of such industries would probably have changed with new circumstances, e.g. changing transportation and communications amenities and costs.

The Southeast Asian second-tier NIC experiences also suggest that while other conflicting or rival policy objectives are likely to undermine the commitment to and efficacy of industrial policy, particular policies have specific consequences, some of which may be more compatible with industrial policy. For example, heavy investments by the Malaysian government in the 1970s to improve the quality of ethnic Malay human resources have been much more compatible with industrial policy objectives than, say, the 1975 Industrial Coordination Act's requirement of at least 30 per cent ethnic Malay ownership of enterprises beyond a certain size. Such a finding would be especially important for other developing economies seeking to reconcile redistributive policies with growth objectives, e.g. post-apartheid South Africa.

Before the 1980s, the successful industrial policy experiences of Northeast Asia and Singapore were obscured from international attention by their political alignment with the West (particularly the US) and consequent 'political pariah' status in some other circles, their continued reliance on market signals (including international markets), their growing export orientation, the limited role or profile of state-owned enterprises (SOEs have been especially important in Singapore and Taiwan) and the greater tolerance for, if not appreciation of state intervention before the resurgence of neo-liberal economic ideologies in the 1980s.

Unfortunately, the initial recognition of these counter-factuals to some of the major premises of the neo-liberal counter-revolution to development economics resulted in an almost euphoric reaction reflected in slogans such as 'getting prices wrong' (as opposed to the neo-liberal insistence on 'getting prices right') and a simplistic tendency to see the late industrializing East Asian economies as following a well-trodden path pioneered by Japan, or some variation thereof. While emphasizing the common policies practised, the World Bank report refuses to recognize inter-connectedness, as if geography, location, proximity,

investment patterns and trade partners do not matter. The study also failed to sufficiently recognize the diversity of the HPAEs' experiences and policies (see Perkins 1994) in order to draw its policy conclusions and recommendations.

While agreeing that there is no single East Asian model of development, the World Bank report's suggestion that industrial policy has not been beneficial to the second-tier Southeast Asian NICs is erroneous. Though the consequences of state intervention in the Southeast Asian second-tier NICs have been mixed, this is largely because much of the responsible state intervention has been motivated by considerations other than accelerating late industrialization. Such state interventions should be judged on their own terms, and their negative consequences should not be portrayed as an indictment of all state intervention, let alone the feasibility and desirability of industrial policy.

The Southeast Asian second-tier NICs' experiences with industrial policy offer several important lessons for other developing countries seeking to industrialize. Many such efforts may be constrained by the small initial size of domestic markets, the weaknesses of the national industrial entrepreneurial community, managerial expertise, technological capacity and international marketing networks, as well as domestic and external pressure to liberalize, e.g. due to structural adjustment packages. Foreign investments and the temporary use of foreign human resources (e.g. consultants) have allowed Southeast Asian second-tier NICs to compensate for their own resource inadequacies. While making efforts to attract foreign investment, host governments can also influence such investments to maximize gains for the national economy, particularly in the form of higher incomes and technology transfer; the leverage of host governments can often be enhanced by the presence of more foreign investors from varied sources, both in diverse as well as competitive activities.

It is important to note that in the Southeast Asian second-tier NICs, export-oriented labor-intensive manufacturing by foreign investors did and does not develop spontaneously with the availability of cheap labor, free trade and the absence of capital controls. Besides the provision of infrastructure and primary education, other supportive conditions — e.g. cultural and linguistic affinities, law and order — and policies, e.g. incentives including tax breaks and subsidies, education and training, investment and export promotion, have often been decisive in changing a country's investment environment for attracting the foreign investments desired. From the Southeast Asian second-tier NICs' experiences and theories about the limitations of markets, intervention is most likely to be needed in the areas of international trade, finance, human resources and technology development.

The government's supportive role should be ongoing and not only limited to starting the industrialization process; however, such an ongoing role must adjust to and change with new circumstances, particularly to address new problems of market as well as state failures and constantly changing international conditions. Market failures are usually understood in a static neoclassical sense, but the inability of markets to spontaneously bring about desirable structural transformations, e.g. building dynamic comparative advantage, is another important reason for industrial policy. While a particular state intervention may

not necessarily be a superior solution to a specific market failure, a state failure may be better addressed by different government intervention rather than by relying on the market.

The successful responses of the Southeast Asian second-tier NIC governments to greater Northeast Asian investment interest in the region after the mid-1980s involved appropriate national industrial policy responses in Southeast Asia to the international implications of new industrial policies in Northeast Asia. This industrial policy responsiveness in Southeast Asia to changing East Asian regional circumstances and to Northeast Asian industrial policy reforms was probably more critical than the supposedly ‘neutral’ economic liberalization measures undertaken in attracting massive Northeast Asian industrial investments in the region. Liberalization alone cannot explain the upsurge of Northeast Asian — rather than other — industrial investments in the region rather than in other liberalizing parts of the world, e.g. Latin America or Eastern Europe.

Similarly, the recent proliferation of growth triangles in Southeast Asia suggests that such coordinated industrial policy initiatives recognize and seek to gain advantage from economies of proximity and agglomeration as well as international divisions of labor in local regional settings. Firms could then respond to new opportunities offered by regional agglomeration and perhaps scale economies as well as national comparative advantages, by locating different processes in neighboring countries. Such regional integration would also be attractive to firms anticipating regional economic cooperation, e.g. in the form of the ASEAN Free Trade Area (AFTA). Small countries can also gain by coordinating their industrial policy efforts so as not to undermine one another’s efforts and not to reduce their leverage *vis-a-vis* investors.

As noted earlier, industrial policy should favor and develop national, especially human resources. Many social investments — e.g. education, housing, transport, health — enhance labor productivity and contribute to industrial development by socializing costs and promoting social and political stability. Employers should also be induced to contribute to enhancing worker skills and working conditions as well as remuneration. National technological absorptive capacity can be enhanced through government efforts in education and training. Malaysia’s new Human Resources Development Fund (HRDF) — funded by employer contributions to be disbursed for employee training — is another institution worthy of emulation. Malaysia’s compulsory employee savings scheme — the Employees Provident Fund (EPF) — has not only raised the national savings rate, but also reduced social demands on government to provide welfare facilities for retired workers besides providing the government with a source of relatively cheap funds with which to finance public development projects. Hence, with the inflow of FDI as well, the financing needs of both public and private sectors have largely been met.

The preceding defence of the contribution of industrial policy to late industrialization in the Southeast Asian second-tier NICs does not suggest that all industrial policy in the region has been the best possible in the circumstances, or even consistently desirable. Their experiences also offer instances of bad industrial policy, but again, the existence of bad industrial policy is not proof that all industrial policy is necessarily bad. The fact that the

structural transformations which have occurred would not have taken place without industrial policy, even though much of it may have been bad, underlines the importance of and need for good industrial policy. The circumstances in which industrial policy may prove to have been bad offer important lessons for how industrial policy should and should not be developed. Such lessons can be learnt by the governments of other developing countries. The challenge will be to develop institutional arrangements to make them sufficiently accountable and constrained by fiscal and other financial resources to need to avoid 'heroic' failures.

With the benefit of hindsight, it is clear that many mistakes have been made, while many industrial policy interventions have had objectives other than industrial promotion; indeed, some interventions have clearly been in the interest of or have been 'captured' (abused) by the politically influential. Industrial policy has also been poorly conceived when it has had the following characteristics:

- 1) not based on a sound analysis of the market failures they were supposed to overcome,
- 2) not selective in addressing specific market failures and maximizing the positive externalities of developing strategic industries
- 3) ignored market signals in trying to achieve efficiency,
- 4) underestimated the information requirements necessary for effective interventions,
- 5) overlooked the limited capacities, competencies and capabilities of governments,
- 6) overestimated the human and other resources available to build efficient industries
- 7) otherwise disregarded efficiency, scale and other considerations.

Government interventions should not only be general, but should also be selective and focussed to address specific problems of market failure consistent with realistic long-term industrial plans. Careful analysis — e.g. detailed cost-benefit evaluations of industrial incentives — is a prerequisite for the formulation of efficient and effective industrial policy. What is needed is not just studies of effective protection levels, but what goes on behind protective barriers in terms of costs and profits. Detailed analysis is essential because state intervention is a necessary, but not sufficient condition for rapid industrial growth.

FROM GATT TO WTO

Owing to the recent changes in the international economic environment which are increasingly hostile to any form of economic nationalism, especially industrial policy, we will now survey the major new instrument of neo-liberal reforms at the global level besides the Bretton Woods institutions (the World Bank and the International Monetary Fund), by considering some implications of the conclusion of the Uruguay round of negotiations for the General Agreement on Tariffs and Trade (GATT). The Uruguay Round gave birth to the World Trade Organization (WTO), which has quickly proved to be the new arena for economic struggles between North and South, not only over trade, but other related matters as well as demonstrated by the Singapore WTO inter-ministerial meeting in Singapore in

December 1996.

After the Second World War, plans were drawn up for an International Trade Organization (ITO) to set rules for international trade. Fifty three government drew up and signed a charter at Havana in Cuba for establishing this organization, which would serve as the counterpart in the field of international trade to the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). This trio were considered essential for sustained growth of the global economy.

However, whereas the IMF and the IBRD were set up by the 1944 Bretton Woods conference, the ITO charter faced heavy opposition. When the US Congress declined to approve the ITO, it was dropped. The demise of the ITO, however, did not eliminate the need for an international organization to deal with negotiations for reducing tariff and non-tariff barriers to international trade (Akhtar, 1994).

Twenty three nations agreed to continue extensive negotiations for trade and tariff concessions at Geneva. These were incorporated in a General Agreement on Tariffs and Trade (GATT), signed in October 1947, which came into effect in January 1948. From this unlikely beginning, GATT emerged as a less ambitious counterpart to the IMF and the IBRD. So far, 117 nations have signed the GATT multilateral treaty as contracting parties.

GATT provided a permanent platform for reducing trade barriers. The fundamental objective of GATT was to achieve freer trade through reduction of tariff and non-tariff barriers on the basis of non-discrimination, reciprocity and national treatment. It also provided for safeguards against unexpected situations, binding tariff levels among member countries and establishing a framework for resolving disputes among members over its rules, e.g. over dumping, etc. Generally, the GATT has succeeded in facilitating freer trade, even if only gradually. Since the first trade talks in 1947, tariff rates around the world have fallen. Weighted-average tariff levels have been lowered to below 5 per cent in the major industrialized countries (Lawrence, 1993). The GATT successfully concluded seven rounds of trade negotiations before the Uruguay Round:

1. Geneva in 1947: The 23 countries that founded the GATT decided to exchange 45,000 tariff concessions, worth US\$10 billion.
2. Annecy (France) in 1949: The 13 countries participating in this round proposed 5,000 additional tariff reductions.
3. Torquay (Britain) in 1950-51: The 38 countries involved adopted 8,700 tariff reductions, equivalent to 25 percent of the 1948 level.
4. Geneva in 1955-56: The 26 participating countries decided to further cut customs tariffs worth US\$2.5 billion.
5. The Dillon Round held in Geneva in 1960-62: The 26 participating countries decided to cut customs tariffs on 4,400 items, equivalent to US\$4.9 billion.

6. The Kennedy Round in Geneva in 1964-67: Signed by 50 participating countries accounting for 75 percent of world trade, for the first time, it cut tariffs by whole sectors instead of by product. Aiming for a 50 percent tariff cuts target, it achieved cuts of about US\$40 billion.

7. The Tokyo Round began in 1973 in Tokyo and ended in 1979 in Geneva. The 99 participating countries (including many newly independent developing countries) decided on tariff reductions averaging 20 to 30 percent covering US\$300 billion in trade, and signed agreements on subsidies, technical barriers to trade, government procurement, meat, dairy products and civil aircraft. It also signed the Multifibre Arrangement (MFA) in 1974 to liberalize textile exports and imports.

The Uruguay Round (UR) was the eighth, most tortuous and comprehensive round in the series of GATT multilateral trade negotiations. Involving 125 countries, it started at Punta Del Este in Uruguay in 1986, and was completed on 15 December 1993 in Geneva. Besides tightening rules on dispute settlement, anti-dumping regulations, clarifying subsidies, and introducing new safeguard measures, new agreements were also concluded. The General Agreement on Trade in Services (GATS) contains provisions ensuring most-favored-nation (MFN) treatment (the same treatment to be given to all member countries), national treatment (no discrimination against services of other countries) and abolition of restrictions on market access (no adoption of measures such as those which restrict the number of service suppliers). Agreements were also concluded on trade-related intellectual property rights (TRIPs), and trade-related investment measures (TRIMs); e.g. local content (LC) requirements - specifying that foreign enterprises must procure a certain percentage of their component parts locally - are now prohibited.

Among the main developments in terms of 'market access', (i) developed countries agreed to lower average tariff rates on industrial products by about 40 per cent; (ii) in agriculture, contracting parties agreed to replace various border taxes with tariffs (so-called "tariffication"), lower tariffs and reduce domestic and export subsidies; (iii) in textiles and apparels, contracting parties agreed to integrate the MFA into the WTO in ten years.

The Agreement will force the economies of the developing countries to be more open to industrial countries for trade, capital/investment and technology. The countries will be obliged to agree to increased foreign firm domination with the new intellectual property, services and trade-related investment rules. They also face tougher punitive measures and regulations, e.g. national rules of origin requirements to avoid charges of dumping. In general, the sovereignty of developing country governments will be greatly eroded. Developing countries stand to lose preferential treatment from industrial nations under the Generalized System of Preferences (GSP). Such treatment will be gradually removed, or will be tied to obligations implementing TRIMs, TRIPs, greater foreign access to the services sector, and perhaps labor and environmental standards. This paper offers a preliminary assessment of some implications of the Uruguay Round for the South by considering the likely impact of provisions under the agreement relevant to the economy.

Trade Liberalization

The Uruguay Round promises to ensure that non-tariff measures (NTMs) cannot be used as disguised forms of protection. The OECD NTMs affect a notably higher share of imports from developing countries than imports from other industrial countries. Approximately 18 percent of developing countries' non-oil exports encounter NTMs in OECD countries. However, protectionism in the form of NTMs and tariff escalation may linger on even after their agreed terminal deadline (2005); and even as NTMs and tariff escalation are phased out, the anti-dumping laws, countervailing duties (CVDs), and safeguard clauses may be used even more arbitrarily than is the case now (Smeets, 1995).

In the long run, particularly after the elimination of NTMs, industrial nations will face strong competition from developing countries, threatening their industries and even causing macroeconomic instability. In the immediate future, companies seeking protection will attempt to make far greater use of anti-dumping laws and CVDs. Such protection has increased significantly in recent years and the trend is likely to accelerate. Government procurement may continue to exclude foreign suppliers. Beyond that and over the longer run, governments will probably invent new measures (Kreinen, 1995).

Liberalized tariff levels will bring in more imports and widening domestic market access for foreign goods. Tougher competition between domestic and foreign producers should emerge imposing consumer welfare but also undermining the expansion of indigenous industrial capacity. The economy will also be more susceptible to external shocks, which will adversely affect the country's economic stability. While exports will be further enhanced, payments for imports will also increase.

If the terms of trade (TOT) for a country deteriorate, greater trading will favor its trading partners disproportionately more. The two possible outcomes of a decline in the terms of trade are as follows: (a) a big fall in the terms-of-trade would mean that the country suffers a large loss, either in terms of lower import volume, or a much lower rate of real import growth, if the trade balance is maintained; (b) alternatively, if the country's imports grow at or near the same rate as its exports despite the big terms-of-trade decline, then it would suffer a severe deterioration in its trade balance.

In either case, the terms of trade decline seriously reduces the import-purchasing capacity of the country's exports (i.e. the exports' purchasing power) and thus greatly reduces the quantity of imports into the economy. These developments seem to have been exacerbated by: (a) the secular decline in the primary commodity terms of trade in the eighties; (b) the apparent relative decline in the prices of manufactured exports from the South compared to manufactured imports into the South, especially from the North; and (c) trade liberalization policies dismantling trade restrictions, mainly from the mid-1980s.

As agreed under the Uruguay Round, developed countries are required to reduce tariffs by at least 36 percent, while the figure for developing countries is 24 per cent. Tariff escalation -

involving higher duties for more processed products - is still evident in major developed countries, such as the European Union and Japan, even in the post-Uruguay Round tariff regimes. This discourages the downstream processing and export of processed products instead of primary commodities.

Since 1974, the Multifibre Arrangement (MFA) has placed quotas on Third World exports of textiles and clothing to the North. The MFA was originally conceived as a "temporary measure" to enable industrial countries to adjust to the competitiveness of Third World imports. Current trade in textiles and clothing is conducted under the MFA IV, signed in June 1986. In the new Uruguay Round accord, the MFA will be phased out within ten years (by 2006) by using elevated growth rates in MFA quotas, and sequential elimination of products covered by MFA quota restrictions. At the same time, a new system of temporary selective safeguards whose operational details have yet to be defined - will accompany this process. This is a source of concern to some developing country exporters who fear this regime could prove more restrictive than the MFA it will replace (Hamilton & Whalley, 1995).

Investment Liberalization

Another issue proposed by the European Union recently is to liberalize Trade Related Investment Measures (TRIMs) widely. Investment was the single most important new item for the WTO and industrialized countries grouped in the OECD (Organization for Economic Cooperation and Development) agreed that the issue should be brought to the WTO. It proposed setting up in the WTO a multilateral agreement on investments that would give foreign companies the right to enter and establish themselves in any sector of the economy in all member countries of the WTO. Foreign companies must be given 'national treatment', meaning that there cannot be any measures that favor local firms or discriminate against foreign companies, for instance in opening branches, buying property, or limiting equity ownership and profit repatriation. The WTO would no longer be just a 'trade organization', but an organization regulating investments as well. This would, of course, be a very major extension of the WTO's powers, and would also mean the extension and application of WTO principles and its system of dispute settlement (including the use of trade sanctions and trade retaliation) to investment policy.

The above proposals would have the most profound effects on the behavior, operations and effects of foreign investments worldwide, and on each country. Transnational companies would have greater freedom and rights to conduct business all over the world, free from the many government regulations they now face. Governments would no longer have the right or power to draw up and enforce their own basic policies or laws regulating the entry, behavior and operations of foreign enterprises in their economies. Existing national laws and policies that now place restrictions on foreigners would have to be cancelled or altered to fit the new multilateral investment treaty. This would, of course, have serious implications since most developing countries now have policies that seek to promote domestic companies and to prevent excessive control of national economies by foreign firms.

The developing countries must give closer attention to the industrialized countries' moves on the issue to prevent establishment of the treaty. This is not simply a 'technical trade issue' to be left to trade officials to negotiate. It is primarily of political significance, as it will have an important bearing on economic sovereignty, ownership patterns, the survival of local enterprises, business and farms; employment prospects, as well as social and cultural life (Khor, 1996).

As for market access, the European Union has begun discussing plans to achieve global tariff free trade by 2020, and is pushing for a new round of trade talks by 1999 (Islam, 1996). This will certainly test the solidarity of the South as some Asian exporters and trade negotiators relish the prospect of global free trade. However, without tariff protection, much of the manufacturing, farming and services sectors will crumble in the face of foreign competition.

Strengthening Transnational Intellectual Property Rights

Another key area brought under GATT for the first time under the Uruguay Round is the regulation and enforcement of intellectual property rights - copyright, trademarks, and other such proprietary claims to monopolistic rents. For the South as a whole, the greatest collective loss in the Uruguay Round may be due to Trade Related Intellectual Property Rights (TRIPS). Most countries have exempted agriculture, medicines and other products as well as processes from their respective national patent laws, but with the passage of TRIPs, almost everything will be subject to strict international intellectual property protection, unless explicitly exempted in the agreement. In Third World countries that now have national pharmaceutical industries, it is expected that the prices of medicines will rise significantly and that foreign pharmaceuticals will make deep inroads. New developments in biotechnology will mean that new seed types will be patented by international agribusiness so that, in future, small farmers may have to buy new seeds every year instead of using their own seed. At present, there is little patent protection in most poor countries, where people are often unable to afford expensive royalty payments. Now, Third World governments will have to introduce laws to protect international patents and their owners, mainly foreign TNCs.

Many fear that developing countries will suffer under the tougher rules, since firms in rich countries hold the bulk of registered patents. Nevertheless, since drafting the agreement, the United States has pressed developing countries to comply with the TRIPs agreement more quickly than was agreed to in the Uruguay Round (Business Times, 29 August 1994). The US may well be able to impose its will. Every year, the US publishes a list of countries it accuses of failing to protect US firms' intellectual property. The list currently runs to 37, including the EU and Japan, as well as poorer countries. If countries do not reform, they risk American trade sanctions. Top of the list is China, which the US successfully blocked from becoming a founder member of the WTO.

The scope of patentability has been greatly enhanced under the new patent regime. Patents will

be available for any invention, whether products or processes, in all fields of industrial technologies. Protection will be extended from manufactures and pharmaceuticals to micro-organisms, non-biological and micro-biological processes and plant varieties. In other words, the entire industrial and agricultural sectors and, to some extent, the bio-technology sector will be covered.

The philosophy of the patent system has also been changed. Imports were not previously regarded as working the patent. The patent-holders had the obligation to work the patent in the country which granted the patent rights. The new patent regime provides that imports and locally-produced products will be allowed patent rights without discrimination. This means patents will be considered not only for establishing a manufacturing monopoly, but also for establishing an import monopoly. The patent holder will thus have no obligation as such to the national governments which confer the patent rights. There will be no checks on the imports of patented, and can be sold at high transfer prices. No price controls can be applied to them.

It is clear that the industrial countries, led by the US, brought TRIPS on to the GATT agenda to tighten their firms' monopolies over technology, thus blocking, frustrating and raising the costs of technology transfer to the South. While GATT and the Uruguay Round were supposed to promote liberalization and free trade flows, the TRIPs agreement is clearly protectionist against the South and constrains the free flow of technology to increase the North's advantage in technology and to prevent the emergence of new industrial rivals. The developing countries may incur welfare losses as they adopt the standards set in the TRIPs' provisions of the WTO agreement. The benefits of better protecting foreigners' intellectual property rights under the TRIPs agreement of the WTO (Business Times, 29 August 1994).

The main impact of TRIPs on the pharmaceutical industry will be on the prices of medicines⁴, which may go up so much as to make it extremely difficult for poor people to afford them (Keayla, 1994). A second impact will be on availability (Keayla, 1994). The availability of new drugs/medicines from indigenous sources can hardly be said to exist. Most drugs are imported, and dependence on imported medicines will go up. Also, TRIPs will have an impact on domestic research and development activity. Owing to paucity of funds, particularly in the drugs and pharmaceuticals field, research in both the public and the private sectors has been mainly concentrated on process technologies. Research efforts will be severely affected as there would be no takers for process technologies in the new patent regime. For basic research, most developing countries do not have the funds or the infrastructure to match the TNCs. TRIPs will enable foreign firms to penetrate and dominate global markets more easily.

Since foreign direct investment will be more mobile, to freely move into developing countries, and will be granted protection under TRIPs, technology transfer to the host country might be curtailed⁵. Most TNCs are reluctant to transfer technology. On the other hand, the role of government in promoting technology development is minimal.

Liberalizing Services Trade

Like the GATT, the General Agreement on Trade in Services (GATS) provides a legal basis on which to negotiate the multilateral elimination of barriers that discriminate against foreign service providers and otherwise deny them market access. The GATS differs from the GATT in several respects. Perhaps the most important difference is that the principles of national treatment (i.e. non-discrimination) and market access (i.e. freedom of entry and exit) are provided automatically under the GATT, but are negotiated rights and obligations under the GATS. The negotiations on national treatment and market access for services under the GATS are comparable to tariff negotiations for goods under the GATT. As is well known, the restrictions on international transactions in services are embodied in countries' domestic laws, regulations and other measures. Under the GATS, these restrictions will be liberalized, thus creating for services a regime comparable to a duty-free regime for goods.

The GATS will pose new challenges for the services industry. The inclusion of services in the agreement reflects their growing importance in the world economy. During 1982-92, world exports of services grew annually at an average rate of 9.5 percent vis-a-vis merchandise exports of only 7.1 percent (Harmsen, 1995). Most of the world trade in services is dominated by the major industrialized nations. It is evident that financial liberalization will continue to be the major thrust of the GATS agreement. The GATS Committee on Trade in Financial Services completed its negotiations on 28 July 1995. Twenty-nine members of the World Trade Organization agreed to begin implementing the new schedules of commitment by 30 July 1996. The accord accounts for almost 90 percent of the global trade in financial services. Under the agreement, signatory countries will extend MFN treatment, market access and 'national treatment' to all countries based on commitments in the National Schedule of Commitments. National treatment refers to treatment accorded to foreign suppliers no less favorable than to domestic suppliers.

The World Trade Organization

All members of GATT ratified the establishment of the World Trade Organization (WTO) on 6 September 1994 to replace the General Agreement on Tariffs and Trade on 1 January 1995. Members of the WTO agreed to appoint Renato Ruggiero, the former Italian Trade Minister, as the first Director General of the organization.

The WTO is devoted to the institutional and procedural structure that will facilitate and in some cases, are necessary for effective implementation of the substantive rules that have been negotiated in the Uruguay Round. Second, the WTO will essentially continue the GATT's institutional ideas and many of its practices in a form better understood by the public, media, government officials and lawyers. Third, the WTO structure offers some important changes for assisting the effective implementation of the Uruguay Round (Jackson, 1995).

Another important aspect of the WTO structure is that it facilitates the extension of the institutional structure to the new matters negotiated in the Uruguay Round, particularly services and intellectual property. Without some kind of legal mechanism such as the WTO, this would have been quite difficult to do since the GATT itself only applies to goods. The WTO Charter offers considerably better opportunities for the future evolution and development of the institutional structure for international trade cooperation (Jackson, 1995). This structure is complemented by an effective enforcement mechanism to establish an international economic order to ensure greater freedom of operation for transnational corporations, and under which intervention by governments, particularly of the Third World, will be progressively minimized.

Inevitably, of course, this raises the question of the role of the WTO as part of the “new Bretton Woods System”, as a partner to the International Monetary Fund (IMF), and the World Bank (IBRD). However, unlike the IMF and World Bank, in the WTO, one country will have one vote. But since it will depend on the USA and other G-7 countries for the bulk of its finances, that advantage will probably be lost (Sen, 1994), and since these countries dominate world trade, accounting for two-thirds of such trade. The major powers will certainly try to abuse the WTO for their own interests. Already, the G-7, led by the United States, is trying to draft policies and direct of the WTO in ways favorable to them, as already evident at the United Nations and other international fora in recent years. The major powers will try to abuse the WTO for their own interests. Thus, developing countries fear that the big traders who dominate the system will still be free to wield power through anti-dumping and other measures to ensure that it works to their advantage.

Several European and Asian countries have also warned against some powers using unilateral measures to resolve bilateral trade disputes, an obvious reference to the US use of its Super 301 law against Japan in February 1994 after conclusion of the Uruguay Round in December 1993. This has also been clear since late 1994, when the US led the rejection of the application of China - which had quit GATT (denouncing it as a ‘capitalist cartel’) after the 1949 communist takeover - to join the WTO. Washington has also threatened punitive tariffs on US\$2.8 billion in imports from China on the grounds that Beijing has not done enough to curb widespread piracy of US copyrights, trademarks and patents (Business Times, 2 January 1995). This kind of retaliation and trade sanctions are measures often resorted to by Washington in settling its trade disputes with other countries. Such actions - sometimes seen as part of a ‘managed trade’ strategy - clearly threaten the Uruguay Round agreement, but neither GATT nor the WTO have condemned the Washington actions.

Most members are already finding it a great strain to adjust to the Uruguay Round agreements which require major changes to many domestic laws and policies. At least some of these changes will have negative social and economic effects. Nevertheless, the industrialized countries are introducing new issues to be put on the agenda for negotiation involving foreign investment, labor standards, the environment and competition policy.

The first issue which has faced considerable opposition from developing countries, is inclusion

of 'social clauses' - such as minimum wage rates, human rights issues, environmental measures and competition policy - in the framework of the WTO. Although the US has said that a global minimum wage is not part of the social clause agenda, it has suddenly appeared keen to introduce certain international labor standards as part of the agenda. This proposal has been vehemently opposed by most official spokesmen of the developing world who claim that developing countries are already seriously disadvantaged. The major advantage that developing countries have is their relatively lower labor costs. The move to link international labor standards with trade, it is argued, will be tantamount to undermining the one comparative advantage that developing countries have.

The WTO will be more powerful than GATT in supervising the new international economic order, covering trade in manufactures, agriculture, services, and intellectual property as well as investment regulation. The WTO will have an integrated dispute settlement system, which in effect means that if a country does not fulfill its obligations in one area (say, enforcing intellectual property rights), sanctions can be applied against it in another area which hurts it most (for example, its exports of primary produce) (Khor, 1994). The WTO is also likely to coordinate its programs and policies with the World Bank and the International Monetary Fund, and the result is likely to be 'cross-institutional conditionality'. This might entail World Bank loans only being released if the WTO vouches that prospective borrowers have adhered to WTO rules. The WTO is likely to discipline the South governments based on guidelines set by the major economic powers. However, recent experiences suggest that it is unlikely to enforce its rules when its most powerful members flout them. Thus, the United States and Europe can and have used the WTO to further their own interests. Hence, the WTO is a threat to developing countries' sovereignty, both politically and economically; not surprisingly, the conclusion of the Uruguay Round of GATT and the establishment of the WTO have been identified with the dawn of a new era of recolonization.

The ongoing struggle for human dignity must take into consideration the difficult times we live in, and the need to address contemporary challenges innovatively as we learn the rich lessons from the past. This effort must recognize the necessity of forging unity on the basis of certain shared universal values drawn from all civilizations and cultures. Dialogues for the new century and millennium must accord due respect to our differences while building on the common ethical essence we all cherish. These must recognize and respect the dignity, rights and responsibilities of the human individual, particularly in relation to human community as well as transcendental moral authority. Our future will therefore depend crucially on our sense of mutual respect, accountability and shared responsibility for the human condition.

My fear is that we may have unwittingly forfeited the fora and means for human progress, leaving the market and businesses to fill the vacuum, usually in their own interests. Even the social movements of earlier generations have been largely displaced by the often self-serving non-governmental organizational proxies for particular vested interests disguised as the public interest. The challenge for the South will be to respond adequately and creatively to the difficult new circumstances of our times, by rejecting - among other things - the ongoing relevance of nationalism, given the continuing role of states, especially their potential in the

face of the seemingly irresistible rise of transnational business interests.

Despite the many pitfalls and mistakes associated with economic nationalism in the post-colonial South, the varied history of late industrialization reminds us of the crucial contribution of economic nationalism to such efforts (Gershenkeron 1962, Amsden 1989). Critical consideration of the East Asian Miracle confirms this conclusion, but also reminds us of the difficulties and challenges of getting industrial policy right. And while the more recent experience of the second-tier Southeast Asian NICs may be more relevant to the rest of the South in some respects, the lessons of the superior industrial policy experience of Japan and the first-tier East Asian NIEs should not be lost to others. The conclusion of the GATT Uruguay Round and the establishment of the WTO in its place has been justified by neoliberal economic ideology as ultimately being in the best interests of all partner nations. However, the new regime being created by the WTO will actually further limit and frustrate industrial policy initiatives, thus undermining the prospects for late industrialization, and with it, the possibility of reducing global inequality.

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