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Structural Adjustment in the World Economy and East-West-South Economic Cooperation. Edited by Karl Wohlmuth. Institute for World Economics and International Management, University of Bremen, 1989.

Just how precarious is the world economic order? Karl Wohlmuth and his fifteen colleagues from Germany, Poland, Hungary, Austria and South Korea provide a comprehensive and sombre analysis whose observations and conclusions appear remarkably robust despite the fact that recent events in Eastern Europe have overtaken some of this work.

This edited volume is the result of an international seminar held in Dubrovnik in 1985 convened to address the critical issue of improving "the conditions for global structural adjustments by East-West-South economic cooperation" and "the conditions for international economic cooperation by policy reforms in the East, the West and the South." This is a remarkably ambitious work, reflecting in part the diversity of issues raised in the original conference by participants from academe, research institutes, government and international organizations.

Possibly the most enlightening contribution to this volume is the extensive overview of the issues provided by the editor, Karl Wohlmuth, a professor of comparative economic systems at the University of Bremen. Wohlmuth proceeds from the assumption that a fundamental prerequisite to an in-depth analysis of issues of structural adjustment is a clear and concise definition of the process itself. As the editor remarks, even the phrase "structural adjustment" has been subject to multiple interpretations. Belassa's definition quoted by the author is particularly compelling: structural adjustment policies are "policy responses to external shocks [e.g., oil price changes, world recessions, or interest rate increases], carried out with the objective of regaining the pre-shock growth path of the national economy." In this sense, adjustment cannot be confined to short-term changes in the balance of payments, but must also address a longer term "reordering of priorities and a reconsideration of policy instruments."

A number of very strong themes emerge from this volume. First, many of the dire economic problems which afflict developing nations cannot be resolved by structural adjustment within these countries alone. A symmetrical adjustment process is required where the developed nations facilitate rather than resist the necessary mechanisms for Third World recovery. Foremost among these requirements is a reversal in the continuing trend in the First World towards protectionist barriers which severely diminish the capability of developing nations to alleviate their problems through export-led growth.

Second, "getting the prices right" is a necessary but not sufficient condition for successful structural adjustment in the Third World. While the economic capabilities and performance of many Third World governments has been grossly deficient, if not counterproductive, this fact does not in itself suggest that sole or principal reliance on private sector initiatives and market forces can work in this highly constrained environment. Indeed, innovative and "battle-tested" economists such as Peter Timmer of Harvard have argued convincingly that only a co-operative nexus between the private and public sectors can achieve successful adjustment and development in these countries.

Third, economic issues are imbedded in a socio-political framework that constrains the types of economic policy decisions which are considered either feasible or desirable. This phenomenon comes as no surprise to those economists and political scientists who are familiar with national multi-component objective functions which explain the unwillingness or inability of states to implement policies more consistent with the principle of global allocative efficiency.

Fourth, while transnational corporations have contributed in many instances to the process of development, "social, economic and ecological effects of these international operations are neither identified nor controlled by any institution. No international organization has any direct responsibility and capacity with regard to the international market power of transnational corporations and how it affects global structural adjustments" (Wohlmuth).

Fifth, international organizations such as the IMF, World Bank and GATT, which have performed such essential functions in the postwar period, require significant reform in order to address the major problems facing the global economic community today. Wohlmuth focuses in particular on the pressing need for new instruments for GATT. To quote:

> a new GATT — an International Production and Trade Organization — should review all national policies which have international repercussions, not only the barriers to trade, but also all types of adjustment assistance, all types of subsidies and the whole range of sectoral policies.

Wohlmuth's analysis, supported by the other contributious to this volume, is rather sobering and not one which leads easily to optimistic conclusions. We observe an international economic order beset with a multitude of seemingly intractable problems — conflicting and potentially irreconcilable policies with respect to agricultural products, intellectual property and services, increasing international debt, and mounting ecological damage. These factors are coupled with protectionism and an apparent lack of appreciation of an emerging international order characterized by complex and fragile linkages between national economies, and the vulnerability of attendant political and social structures.

It is difficult to envisage a rapid resolution of this diverse range of international issues; perhaps the best that one can expect is a continuing process of economic growth which prevents any one of these problems from blossoming into a full scale crisis which can threaten the stability of the current international economic system. To Wohlmuth, the "success of reform will depend largely on the OECD countries' economic policies and the transmission effects associated with OECD growth" — yet the editor is not overly optimistic at the prospect of sustainable and mutually consistent structural adjustment in the OECD capable of supporting policy reforms in socialist and developing countries. Because of the intractable difficulties facing a truly effective internationalization of the global economy, Wohlmuth concludes that "a regional integration process may be a second-best solution in order to promote economic, social and ecological stability." Brief commentary follows on each of the specific contributions to this volume.

The three articles in Part I, by Adam Gwiazda, Laszlo Lang and Judit Kiss, focus in particular on some of the problems currently afflicting both the Eastern bloc and developing world. As Gwiazda states, "global economic interdependence does not always have positive implications both for the development of Third World countries and for the expansion of East-West-South cooperation." He astutely cautions the developed countries that increased protectionism and its impact on the ability of the Third World to repay debt could have potentially disastrous consequences, leading to a possible collapse of the international financial system. Here is the most potent message of global interdependence which many countries have not yet completely grasped.

Both Lang and Kiss chronicle the declining competitiveness of the Eastern European bloc and its marginalization in the global economy. Kiss concludes that the loss of ground by the socialist bloc and developing countries in their crucial EEC markets "was determined much more by the competitiveness of products supplied than by the trade policy applied towards the individual countries." This diagnosis leads to the prescription that both blocs of marginalized countries should not only pursue immediate domestic structural reforms (including product price, quality, goodwill and marketing), but also seek increased interblock co-operation particularly in matters relating to agricultural development, and trade in farm products and technology.

Articles by Hanns D. Jacobsen and Udo Ernst Simonis, in Part II of this volume, focus on two specific issues: the effectiveness of economic sanctions as a policy instrument, and the increasing imperative of environmental control in the international arena. Jacobsen provides a convincing demonstration of how economic sanctions can have a negative impact not only on the target country, but also the initiator and innocent third parties. The range of examples cited to support this conclusion is indeed illuminating, and includes the 1935 League of Nations embargo against Italy over Abyssinia, the 1940–41 U.S. embargo of Japan, the 1962–63 NATO pipeline embargo against the USSR, US sanctions against Castro's Cuba, and the 1980–81 American grain embargo against the Soviet Union. This historical experience reflects poorly upon the prospects for success in the current multinational blockade of Iraq.

In some respects, Simonis has the most difficult assignment in this volume — an attempt to generate possible solutions to the apparent conflict between economic development and the integrity of the natural environment. The author acknowledges the critical role of economic growth in maintaining the international order, and quotes Henry Wallich's observation that "growth is a substitute for equality. As long as there is growth, there is hope, and this makes inequality tolerable."

Burdened with the acknowledge necessity of continued growth, Simonis searches for means to shift "maldevelopment" to relatively benign or sustainable development. His plea is for greater exploration of opportunities to harmonize socio-economic and environmental objectives, replacing the traditional criterion of economic efficiency with broader critera of success, the use of international environmental impact assessment, and the increased training of personnel capable of conducting such essential research.

There is no doubt that many nations have demonstrated an increased awareness of global ecological threats such as the greenhouse effect, acid rain, and ozone depletion, as well as more localized detrimental effects of industrial waste; in fact, the recent Montreal convention on the reduction of chlorofluorocarbon production is particularly salutary in this respect. Nevertheless, the prospects for co-ordinated global action are not particularly bright because of the rising pressure of population growth and the drive to industrialize on a contracting renewable as well as non-renewable resource base. One of the most conspicuous examples of this failure in environmental policy is provided by global deforestation for food, fuel, and export revenue, with its concomitant effects on hydrology, soil quality and stability, atmospheric carbon dioxide and climate. Conventional market systems dominated by private sector discount rates and uninternalized externalities are insufficient for the solution of this distinctive class of mega-problems, and at best provide signals which are too little and too late. The unusual demonstration of collective will at Montreal remains anomalous and of uncertain effectiveness.

In Part III, Claudia Dziobek and Dirk Hansohm address the unduly narrow analytical focus of the IMF and its frequently inappropriate policy prescriptions in the Third-World. Dziobek, in particular, reviews the historical preoccupation of the Fund with budgetary remedies to the exclusion of international transfers essential for structural adjustment. She concludes that the conditions for solving the transfer problems are extremely unfavourable, and cites Keynes' analysis that the key obstacle to effecting large debt payments is, and has been, the behaviour of the creditor countries themselves. While Dziobek illustrates the general failure of IMF/World Bank policies within the context of Latin America, Hansohm focuses his analysis on one country in Africa, the Sudan. While he is far less critical of IMF/World Bank policies in contributing to the economic debacle in the Sudan, Hansohm does stress the necessity for innovative development strategies largely outside the mainstream of conventional international prescriptions. In a manner analogous to Panayotou's (1990) insightful analysis of Thailand, he argues for agricultural-demand-led industrialization marked by a "shift of public resources towards hitherto neglected sectors, such as traditional agriculture and small industry development."

Two articles by Kunibert Raffer and Robert Kappel in Part IV reaffirm the marginal position of most Third World actors in the global economic drama and their relatively dire prospects. Raffer's analysis is certainly one of the most pessimistic on this account as he sees little opportunity for the "peripheral countries (PCs)" to escape the commodity price/debt trap. His prescription would give little comfort to free market economists, as he recommends that PCs,

> should concentrate as much as possible on establishing domestic economic structures that are better balanced, and that ensure the functioning of the economy with reduced exports and imports. They should try to form economies based on domestic needs rather than the needs of the centre [i.e. developed countries], dissociating themselves to a certain degree from the "world market." They should try to produce important products within their own borders .... PCs should clearly not expect great help from the North which obviously prefers global structural adjustment according to its own needs, without caring much about the problems of the periphery.

The developed nations fare not much better in Kappel's analysis which identifies consistent national protectionism in the shipping industry as completely negating market forces, to the detriment of potential entrants into shipping from the developing world. Kappel cites the practices of both the United States and Japan as being particularly discriminatory. In the latter case, "the protectionist tie-in concept, including cargo reservation, a permanent rationalization and a clear maritime strategy have helped Japan to become a leading shipping nation and to benefit from a relatively stable development."

The final part of this volume is devoted to case studies, with two articles on the Federal Republic of Germany, two on the CMEA (Council of Mutual Economic Assistance), one on the Sudan, and one on the Pacific Basin. In the first of thesse articles, Joachim Wagner develops an insightful model of labour market segmentation in the West German economy and seeks to demonstrate that such segmentation, with its inherent reduced mobility and flexibility, will tend to increase the costs of adjustment in those structural changes induced by foreign trade with less developed countries.

In the second article in Part V, Lutz Bellman and Joachim Wagner utilize an econometric model in an attempt to identify the impact on employment of adjustment strategies in import-sensitive manufacturing industries in the FRG. As expected, employment appears to be negatively affected by import-pressure and positively influenced by some adjustment strategies. The authors acknowledge the need to test these hypotheses more effectively at the firm rather than industry level of analysis.

The third article by Jan Monkiewicz reviews the historical experience of Western direct investment in Romania, Hungary, Bulgaria and Poland. While these CMEA countries encouraged such investment in the hope that it would transfer Western technology, facilitate local technological growth and exports, and induce increased competitiveness and structural adjustment, the author's assessment of the outcome is universally negative.

Horst Brezinski, in his contribution to this volume, reviews the impact of CMEA developmental assistance to three of their own LDCs — Cuba, Mongolia, and Vietnam. Here too, despite the best of state intentions, the result of external guidance on these Third World economies has been largely unfavourable. Burdened with debt, these nations have found themselves increasingly forced into the role of suppliers of natural resources and agricultural products for their more industrialized sponsors.

The penultimate article in this collection by Dirk Hansohm and Karl Wohlmuth represents the second contribution devoted to the Sudan. In a sense, the situation in this country typifies the almost insurmountable barriers to successful structural adjustment and economic development in the Third World. Located in the world's poorest region, Sudan appears, at least in theory, to be the most able of these nations to achieve economic success — blessed with vast areas of cultivatable land, plentiful water and animal resources, significant deposits of minerals, and proximity to large markets in the Middle East.

Since the country's independence in 1956, it has passed through several distinct economic-political stages, linking its development strategy successively to the West (1956–69), East (1969–71), South (1971–78), and West once again (1978 on). In spite of these linkages, or perhaps to some degree because of them, "all attempts have failed to stabilize the economy and to reverse the trend of negative real rates of growth, of increasing indebtedness, of high inflation rates and intense dependence on Western, Arab and multilateral creditors to finance the current account deficit and to reschedule the foreign debt of more than $ 10 bn."

As the authors conclude,

> the experiences of North-South, East-South and South-South cooperation illustrate the importance of a more self-reliant pattern of development. The present development model of Sudan is based on a high degree of export compulsion in order to provide the imports needed for the capital intensive and import-intensive economic structure; if not altered, a continuation and acceleration of the economic crisis in Sudan is inevitable .... No form and direction of international cooperation can substitute for an economic policy aiming at more reliance on the utilization of a country's own resources and the generation of a broader domestic market.

Finally, it is refreshing, to say the least, that this volume should end with a success story. Chong-Ki Choi outlines the successful pattern of regional development and cooperation in the Pacific Basin. The author highlights the characteristics which distinguish this high growth region from the rest of the developing world:

> First and foremost are effective government policies, buttressed by close cooperative efforts by government, industry and academic .... The Asian NICs and the ASEAN nations have consistently emphasized export promotion .... Second ... is the high rate of investment, specifically investment backed by dramatically higher domestic savings rates .... Third ... is an aggressive and active private sector operating within what is basically a market economy system .... Fourth... [are] the improvements made in agriculture ... Fifth is the success of various countries' economic adjustment policies.

Added to this list are a wealth of natural and, most important, human capital resources. Yet in keeping with the general tenor of this volume, such success is not without its potential problems. The author stresses excessive export dependence on primary commodities in ASEAN (see also Nemetz 1990), a fear of dominance by the two principal trading partners, Japan and the United States, and mounting protectionist sentiment in the Western economic powers.

In sum, what message can be gleaned from this comprehensive volume? It is certainly an interesting if not moderately depressing analysis. Traditional free market economists would despair at some of the recommendations for greater regionalization and an increased focus in the Third World on domestic economies — a policy which flirts with autarky. Yet it would be wrong to dismiss such prescriptions out of hand as they are symptomatic of a broader malaise which afflicts the international economic arena — self-centred policies of the developed world manifested by protectionism and intervention in the market which exacerbate economic conditions in the Third World and which subverts efforts at remediation. Some of the prescriptions are incontestable — especially those stressing the need for efficient institutions, administrative competence, and consistent development objectives and policy. Yet it is ironic indeed that the universal and traditional palliative for many of these ills — economic growth — faces an ominous new constraint in the form of ecological destruction.

On an optimistic but perhaps naive note, the solution to this litany of global problems requires first and foremost their clear delineation — in this respect, this volume succeeds only too well.

PETER N. NEMETZ
Faculty of Commerce and Business Administration
University of British Columbia

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Meeting The East Asia Challenge: Trends, Prospects and Policies. By Alan Bollard, Sir Frank Holmes, David Kersey and Mary Anne Thompson. Wellington: Victoria University Press For the Institute of Policy Studies, 1989. Pp. 186.

Stepping Stones to Freer Trade? Canadian, Australia and New Zealand Perspectives. Edited by Sir Frank Holmes. Wellington: Victoria University Press for the Institute of Policy Studies and the Trade Development Board, 1989. Pp. 72.

A collaborative effort involving the Institute of Economic Research and the Institute of Policy Studies resulted in *Meeting The East Asia Challenge*. The collaboration proceeded from a recognition that rapidly growing East Asian economies are bringing about significant structural changes in Pacific Rim production, trade, and investment patterns. Understanding how to respond to the phenomenon poses a challenge to New Zealand's policymakers. The intent of the study is to help fill the gap in understanding the nature of the changing economic relations that follow from East Asia's dynamic growth.

The study proceeds in two parts, the first consisting of a review of trends and prospects in trade and investment in East Asia, *and* New Zealand's stake in the region. By East Asia, the authors mean Japan, the People's Republic of China, the newly industrializing economies and the ASEAN states. Their sketch of the highlights of each country's growth and export performance and prospects, while brief, is nevertheless useful to readers who are unfamiliar with the region. More interesting, however, is Part One's three chapter elaboration of New Zealand-East Asian merchandise trade, invest-