

differentiated from true regionalism entailing systematic institutional arrangements between two or more countries as under Article 24 of GATT. The authors feel strongly that current fears that regionalism is inconsistent with, and antithetical to, global multilateralism are misplaced. Both organizing principles are required to sustain the world economic order. In light of the fact that unencumbered global free trade remains an elusive goal, carefully crafted regional alliances (based on the exchange of information and policy initiatives aimed at international problems) can be the vehicle for carrying GATT principles "further and sooner into practice".

This volume provides irrefutable evidence of the complex interdependency of the global economy — a cause and consequence of the growth in investment, development and trade over the last several decades. Yet, to utilize an ecological analog, the tighter systems linkages forged in this period bring greater risks as well as benefits. The increased threat to system resilience follows from the fact that no system component can insulate itself from the potentially detrimental acts of commission or omission of other major entities.

One message that is clearly articulated by this volume is that the health of the global economic system depends on carefully crafted and coordinated policy responses from the major international players. These actions include continued liberalization of trade and financial systems within the NIEs and other developing countries of the Pacific Rim, substantial deregulation of the Japanese domestic economy and encouragement of domestic demand, a greater degree of engagement by Europe in external economic and political issues, and progress in solving America's budget and current account imbalances. In this respect, there have been at least two disturbing trends in the United States. While the dynamic economies of East Asia have devoted substantial resources to infrastructural development and education of a skilled labour force, the United States prior to the election of President Clinton has followed a divergent path, flirting with the deterioration of many infrastructure components, and a weakened public education system. Accompany-

ing this has been an increasingly politicized and trivialized public debate over the size of the U.S. budget deficit. This debate has abstracted almost completely from such specific issues as the relative productiveness of budgetary components (for example military versus infrastructure expenditure) and the extent to which some government expenditure such as education and infrastructure can be viewed as social investment. The recent economic policy proposals of the new Democratic administration are encouraging, but the renewed calls for a constitutional amendment for a balanced budget could prove disastrous. If such a mandated balance were ignored, it could further shake public confidence in government institutions; if followed, it could eliminate an essential Keynesian remedy for a major economic recession or depression. This latter outcome summons up a draconian scenario of a U.S. Government, faced with a weakened economy, forced into a cycle of mutually reinforcing contractionary budget balancing measures.

In conclusion, despite the emergence of the Pacific Rim as a major player in the international economy, it must be said that now, as in 1929, the United States, through its macroeconomic performance and policy responses, remains the linchpin of global economic stability.

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"Trade Reform" Lessons from Eight Countries. Edited by Geoffrey Shepherd and Carlos Geraldo Langoni. An International Centre for Economic Growth Publication. San Francisco, California: ICS PRESS, 1991.

Most of the newly independent developing countries of Latin America, Africa and Asia in the

early post-war period have adhered strictly to "inward-looking import substitution policies", behind huge tariff walls and highly restrictive quantitative restrictions and regulations with attendant disincentives for exports, to stimulate and sustain rapid rates of economic growth.

However, one of the most significant developments in the areas of international economic and trade relations since the mid 1960s has been the abandoning of the system of excessive protection in the developing areas due to past sluggish trade and industrial growth, and gradual and explicit realization that "too much" use of interventionist policies, administrative controls and a highly bureaucratic structure in the various sectors are very detrimental in the long run to economic growth whereas incentives and productivity, and free and fair trade will help better in the optimum allocation of available resources and making their economies more efficient.

The present book, containing ten chapters written by experts, is quite timely and academically useful as it surveys and examines in depth the growth experience of a number of countries that have introduced liberalization policies during the last two to three decades, with the help of economic criteria. It also draws lessons and outlines measures to design and implement structural reforms successfully in future.

The cumulative evidence from the liberalization experience of various countries, including both the resource rich and poor, geographically big and small, and having uneven stages of development measured in terms of per capita product, at the initial stages of the reforms since the 1970s, clearly reveal that, in general, (1) consistency in the continuation of the policies of deregulation, decontrol and delicensing spread over at least six years, political stability, coupled with the right type of macroeconomic policies, that is fiscal, monetary and credit, are essential for the success, (2) the successful liberalizers maintained continuously smaller budgetary deficits (fiscal austerity), realistic effective exchange rates and higher rates of growth of exports relative to real gross domestic product (GDP) and output in the various sectors of their economies compared to the non-

liberalizers, and (3) the gradual reduction in the size of the public sector and high degree of "openness" as measured by the ratio of exports to national income are positively correlated with higher rates of economic growth.

The accomplishments of a majority of the countries, in particular Singapore, South Korea, Spain after 1959, Greece, Yugoslavia and also of Argentina, Brazil and Chile, which provide examples of the long process of trade liberalization and structural reforms, measured in terms of macroeconomic variables, are quite impressive compared to the developed countries. The partial success or little achievements in some of the cases is primarily due to weak and hesitant attempts, temporary policy reversals in between, dismal export performance particularly due to economically unrealistic exchange rates, failure to correct distortions both in the product and commodity markets and continuous unfavourable political climate. Further, it is indeed very interesting to know, contrary to the popular belief of the intellectuals in some of the quarters, that the countries which have introduced reforms did not face net decline in the quantum of overall net employment, including manufacturing sectors, as the major target of any liberalization scheme is to reallocate factors of production through reduced protection on trade and manufacturers. Although the sector specific unemployment (adjustment costs) was quite inevitable in the transitional period, this was exactly matched by an increase in the employment of agricultural and non-tradable sectors, in the long run, as is evident from the experience of Argentina, Philippines, Spain, Chile and Yugoslavia after its political break with Moscow in 1948.

The policies of liberalization and structural reforms, which in fact go hand in hand, theoretically make sound economic sense, as excessive pursuit of an import substitution strategy well-sheltered behind huge trade barriers, provision of direct and indirect subsidies to exports and consumables as a means of generating political support from the rapidly growing and unemployed urban population often results in protected, inefficient entrepreneurs who are unwilling to promote activities

conducive for further growth, and resultant state monopolies affect considerably in the long run efficiency and productivity which are explicitly borne by the high incremental capital-output ratio in most of the developing areas. There is no denying the fact that in the short run, these policies showed some positive results but ultimately turned out to be illusory. In this context, the remarks of Bowley are quite appropriate, that is too much of protection brings in its train the loss of purity in politics, the unfair advantage given to those who wield the powers of jobbery and corruption, extreme inequalities of income and the growth of sinister interests. A sweeping programme of overall liberalization coupled with appropriate monetary and fiscal policies can only correct such distortions and inefficiencies and is urgently needed for promoting technological progress which is an integral part of any sound development strategy. In fact the South have at present few alternatives but to comply. Admittedly, some of the countries after the initiation of specific reforms could not achieve significant economic growth and had to face numerous economic difficulties such as the persistent serious payments imbalances, financed largely by the inflow of external resources including huge commercial borrowings, rising debt servicing obligations to exports and real national income, and the two digit high rates of inflation and increasing unemployment. It is not untrue that the two external oil shocks of 1973 and 1979 and high waves of recession in the early 1980s in the industrial countries were partly responsible, but internal mismanagement, that is failure to correct distortions, and market imperfections, half-hearted reforms and other domestic polity errors, taken as a whole were no less important for this sorry state of affairs. If we examine their growth experience over a period of time, we will easily find that these problems did not emerge suddenly but are the results of long and cumulative processes.

Singapore and South Korea achieved spectacular economic successes with a fair distribution of income, after the introduction of short term macroeconomic management and long term structural reforms, within a short span of time despite

two external shocks and world recession in the early 1980s. In fact, they even outperformed, in the 1970s and 1980s, both absolutely and relatively, in terms of growth rates of total and per capita income, industrial production, and exports some of the industrialized countries, with low to moderate rates of inflation and unemployment. Their growth experience, on closer examination does indicate that consistency in the reforms with reasonable fiscal discipline, primarily through cuts in public spending and subsidies and continuous restraint on wage growth, light monetary policies, efficient management of external sector by drastically dismantling tariffs and non-tariff barriers, coupled with the use of complementary macroeconomic policies in the labour and capital markets, maintenance of realistic exchange rates; were instrumental in generating unprecedented growth rates. There is no doubt that the industrial and trade policies and structures were greatly affected by considerable government guidance and encouragement but always subject to the constraints of global competition. Sometimes it is argued that Singapore, a city state, had no option except to adopt an export oriented trade strategy but this is mistaken view. If this is a matter of population only, then there are many countries of similar size that have not followed this path. A growth rate for real per capita income of 7.6 per cent for 20 years to give an average income level of US\$7,420 in 1985 in a country with few natural resources suggest many useful lessons for others to follow.

There is no denying the fact that the market oriented economic policies and export led growth strategies paid rich dividends in the past, and are quite essential under the present international economic scenario in correcting internal and external imbalances and promoting growth through an increase in efficiency and productivity in developing areas but the success of these policies, if the past is any guide, will partly depend upon the "external trade environment", which should foster a fairer, freer and non-discriminating open multilateral trading system, the overall performance of GATT, and the macro domestic policies of

the three most important areas, that is the United States, Japan, and the EC, in the near future.

This scholarly piece of work, besides being useful and invaluable to policy makers, enhances significantly theoretical and empirical stimulation and interest in further academic research in this area.

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The Impact of Trade-related Investment Measures on Trade and Development. By United Nations Centre on Transnational Corporations/United Nations Conference on Trade and Development. New York: United Nations, 1991. Pp. 98.

Trade-related investment measures (TRIMs) along with Trade-related aspects of intellectual property rights (TRIPs) and trade in services represent some of the more recently generated contentious issues within the framework of talks on the General Agreement on Tariffs and Trade (GATT). This UN-sponsored study reviews existing theory and evidence from available studies and then concludes with policy implications on TRIMs. Its principal author is Theodore H. Moran.

TRIMs have no commonly agreed upon definition of core components. This is due mainly to conflict between developing and developed countries over what actually distorts trade and investment flows. Fourteen potentially distorting measures have been introduced mostly by developed countries who seek their ban or restriction. In some cases these measures may describe the same practices. These include investment measures, local equity requirements, licensing requirements, remittance restrictions, foreign exchange restrictions, manufacturing limitations, transfer-of-technology requirements, domestic sales requirements, manufacturing requirements, product-mandating requirements, trade-balancing

requirements, local content requirements, export requirements and import-substitution requirements.

This study focuses largely on local content requirements and export performance requirements (perhaps because the U.S. proposals have singled out these measures for complete ban). For the Association of Southeast Asian Nations (ASEAN), of course, these often represent high profile policies that are frequently implemented by its individual countries to stimulate the most advantageous type of foreign direct investment (FDI) possible. Even the ASEAN Industrial Joint Venture Programme contains its own unique set of local content requirements and export performance rewards.

The major point of contention between developed countries and developing countries is whether such measures are to be regarded as distortionary per se or demonstrated to be so on a case-by-case basis. Developing countries argue that these measures are often necessary to offset trade restrictive and distorting effects of transnational corporations, and do not inherently have any adverse effect on world trade. Singapore and India go even further than this in their GATT submissions by arguing that GATT articles pertain only to border measures and not in any way to production measures. On the other hand, developing countries, particularly the United States and Japan, argue that it is unrealistic to deal with perceived distortionary measures after the fact, so they need to be prohibited as a grouping in order to avoid negative trade effects.

Parts I and II of the book serve to summarize many of the significant surveys and case studies on TRIMs (conducted mostly during the 1980s) and to discuss applicable theory. Part I entitled "Characteristics of Trade-related Investment Measures" summarizes the results of six surveys of corporations. Five were commissioned by U.S. Government entities and one by the World Bank. (It is unfortunate that none could be found from the EC or Japan.) The most surprising conclusion from the collection of surveys was that although large numbers of countries with a great deal of foreign direct investment within their borders