GROWTH AND EQUITY IN AGRICULTURAL DEVELOPMENT

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Growth and Equity in Development: An Overview

INTRODUCTION

Given the well-known proclivity of 'dismal scientists', agricultural economists included, to accentuate the negative, it is necessary to remind ourselves at the outset that the actual performance of the so-called developing countries (LDCs) over the more than three decades of post-war growth has indeed surpassed all predictions. Even the major negative 'break' in the international economic environment in 1973 (reinforced in 1979) has not had the predicted cataclysmic consequences. While global stagflation and two major oil shocks have taken their toll of growth rates everywhere, LDC performance has been generally less affected than that of the advanced countries and has, in fact, helped ease the latter's own task of adjustment.

It is, of course, true that once we disaggregate – as we must – growth in the upper income tier of LDCs, that is among the so-called newly industrializing countries (NICs) of East Asia and Latin America, has proceeded at 5 per cent annually in recent years and is seen to have increasingly out-distanced that in the really poor countries with annual rates slightly in excess of 1 per cent. It is, moreover, true that the ability of many LDCs to avoid having to adjust their growth rates radically downward, in the face of largely external shocks, has been closely related to the spurt of commercial bank lending *via* recycled OPEC surpluses, leading to a substantial increase in LDC debt as well as unprecedentedly high levels of commercial bank LDC exposure. The current outlet for our inveterate pessimism is therefore focused heavily on the possibility of widespread LDC defaults and the possible breakdown of the whole OPEC recycling *cum* international monetary mechanism. We have clearly witnessed greater flexibility and responsiveness to adversity in the international economic system than we had any right to expect.

Our main purpose here, however, is not to provide a 'pollyannish' antidote to the guild of international gloom-and-doom sayers. Rather, we accept the general premise that the unprecedented expansion of the world

economy during the 1950–75 quarter century will not soon recur and want to pose the more sensible question dealing with the contemporary LDCs' ability to maintain respectable development performance in the face of a predictably less friendly future environment.

What further complicates matters, of course, is that development performance is itself increasingly being assessed as at least two-dimensional, with equity along with growth a central concern; second, disaggregation forces us to distinguish at least three groups of developing countries: the already more or less full fledged NICs of East Asia, the NICs of Latin America, and an emerging or as yet only 'potential' group of new NICs located principally in other parts of Asia and Latin America. It is in this overall context that the experience of the recent past provides a potentially valuable input into our improved understanding of the future.

Almost by definition, the East Asian and Latin American NICs together represent the best LDC growth performers of the past; but what is less well understood is that their growth performance was itself very differently generated and associated with very different levels of equity – a difference which may turn out to be crucial for the future performance of other LDCs and, indirectly, for the rich countries as well. We believe this because different growth strategies, in the first place, yield large differences in LDC employment and distributional outcomes; and in the second, because they lead to differences in exposure to the vagaries of the inevitable future shocks to the international system.

Much recent discussion, and some development literature, especially that emanating from the national and international aid agencies, has focused on the greater satisfaction of basic needs and/or the achievement of greater distributional equity as an important but neglected objective which needs now to be 'dusted off' for humanitarian and/or socio-political reasons, even if at the cost of some foregone growth. Without for a moment denying the reasonableness and, in some cases, even the urgency of such a possible broadening of traditional development objectives, the approach in this paper is somewhat different. In our view, greater efficiency in resource use will help on both counts, that is *ceteris paribus* a more equitable growth path is likely to yield *higher* growth rates, as well as *less* vulnerability to the exogenous shocks of various kinds which must clearly be anticipated.

Card-carrying members of our dismal science instinctively distrust the possibility of the existence of such 'bargains', that is the relative absence of painful trade-offs. Thus, more employment and greater equity today are usually viewed as possibly desirable but certainly not costless welfare objectives which must be weighed against the desirability of more growth now. What seems to have changed, in the minds of many, is the recognition that existing conflicts might well legitimately be resolved in favour of 'welfare' objectives; much less frequently is it as yet recognized that you can, in fact, very often have your cake (greater equity) and eat it too (more growth). If correct, this may be an ever more important finding for the more constrained decades of the 1980s and 1990s.

This view, then, that even LDCs firmly committed to the importance of

growth relative to welfare or social objectives are well advised to consider a more egalitarian growth path, is based on an examination of comparative NIC performance over the past three decades of transition. While admittedly there exists no 'typical' LDC, no 'typical' African LDC, and no 'typical' Latin American or East Asian NIC, we shall, nevertheless, assume that careful generalizations from individual country performance over time are permissible and instructive, certainly superior to a historical multi-country cross-sectional analysis. We have selected the Taiwan area of China as a proto-typical East Asian NIC, Colombia as a Latin American NIC and the Philippines as a potential 'other Asian' NIC in order to examine the past and illuminate options for the future.

In Section II we will briefly analyze the post-war performance of the 'typical' East Asian NIC, including its response to the exogenous shocks of the post-1973 era, and contrast it with its 'typical' Latin American counterpart. Section III is devoted to generalizing the comparison to other 'potential' NICs and to presenting conclusions and related reflections on the nature and impact of available strategy choices in the years ahead.

GROWTH WITH EQUITY AMONG THE POST-WAR NICs

The East Asian NICs, Taiwan area as proto-type, are relatively small, heavily labour surplus, relatively poor in natural resource endowments, and relatively rich in human resources. Of particular interest to a group of economists focusing on the role of the agricultural sector is that these systems' colonial experience generally featured heavy attention paid to the rural sector and to the extraction of food crops as 'the' colonial raw material. In contrast, the family affinity among the so-called Latin American NICs, Colombia as proto-type, may be summarized in terms of their Iberian raw material export-oriented colonial heritage, a relatively earlier start for their post-colonial transition growth effort, their somewhat larger size, an endowment which is relatively more rich in natural resources, with intermediate levels of entrepreneurial capacity, but nevertheless characterized by substantial pockets of unskilled labour surplus. The Philippine case closely parallels that of Colombia.

Other relevant differences in initial conditions include a more equally distributed asset structure, especially of land, on Taiwan, thanks to two reforms, one during the early years of Japanese control and one in the post-war period, which stands in contrast to a virtually unimplemented land reform effort in Colombia and partial reform in the Philippines. As one consequence, the land ownership Gini stands in the neighbourhood of 0.6 on Taiwan and 0.8 in Colombia. More difficult to assess is the importance of higher initial literacy rates, traditionally stronger saving habits, and greater merit-based access to educational opportunities in the case of the Taiwan area.

Given these differences at the starting gate, the East Asian, the Latin American and other NICs, as virtually all LDCs, initiated their transition

growth effort by moving into what is often called primary import substitution during their respective post-independence periods; this meant a heavy focus on using traditional natural resource exports to finance the growth of a new industrial sector producing non-durable consumer goods – previously imported – for the domestic market. The Latin Americans began this process somewhat earlier, the Asians in the early 1950s. Moreover, as Table I, lines 1 and 2, indicates, the overall performance of the Taiwan area, Colombia, and the Philippines during this first subphase of transition was not all that different, at least not on the surface. Income growth rates *per caput* were certainly more than respectable in all three cases, with the shift of the centre of gravity *via* a gradual reallocation of the labour force from agriculture to non-agriculture proceeding rapidly. All three economies, even the somewhat smaller one of the Taiwan area, remained basically inward-oriented, as the well-known interventionist package of protectionist industrial and foreign exchange policies during import substitution trended the system towards the domestic market. Growth rates were more or less equivalent (lower, in the Philippines), savings rates (see line 3) more than respectable by LDC standards. Distributional indicators, it should be emphasized, whether we use the Gini coefficient (line 4) or possible alternatives (line 5), were generally highly unsatisfactory – in terms of international comparative standards – in all three cases during the import substituting 1950s.

On closer examination we may note, however, the existence of some differences between the Taiwan area of China and the other NICs, even during this common, essentially protectionist and inward looking, subphase of development, which may have relevance for the issues under discussion. One has to do with the relatively better performance of food producing agriculture, both in terms of initial yields and changes over time, in the Taiwan case. This resulted not only from her more favourable initial conditions of rural infrastructure – given better luck with her colonial antecedents – but also her relative non-neglect of agriculture during this early period of post-colonial independent development. For instance, while agriculture's terms of trade are frequently permitted to deteriorate during this phase as an additional assistance to the new industrialist class, this was not the case in the Taiwan area. A related point, if not fully documentable (line 11), is that the level of effective protection of industry was lower in the Taiwan area than in Colombia or the Philippines throughout, making its contribution to a somewhat less 'heated' industrial environment. While the infant industry conversion of a traditional land-based group into non-traditional industrial entrepreneurs requires a reasonable level of protection and profit transfers, the real difference in these two cases in the 1950s must be found in the severity and the length of time over which such policies were pursued, and, consequently, in whether or not they ultimately discouraged or encouraged the maturation process.

From the very beginning, the balanced quality of rural development in the Taiwan area had no equivalent in Colombia or the Philippines. Agricultural activity supplementary to the basic food crops on Taiwan

TABLE 1 *Comparative NIC Performance*

Taiwan (China)

		1950	1960	1965	1970	1973	1974	1975	1976	1977	1978	1979	1980
1	Annual real GDP *per caput* growth rate (%)	4.1 (55–60)	6.1	6.5	10.7	-.8	2.8	11.2	7.8	11.3	5.6	-	-
2	Non-agricultural labour as % of total	37.3	43.9	46.3	63.3	69.5	69.0	70.1	70.9	72.9	75.1	78.5	-
3	Savings/GDP	9.6 (55)	11.4	14.5	18.8	27.5	25.0	19.8	25.0	25.0	27.0	26.1	-
4	Gini coefficient	0.56	0.44 (59)	-	-	0.29 (72)	-	-	-	-	-	-	-
5	Income % of bottom 20%	2.9 (53)	5.6	7.8 (64)	-	8.8 (72)	-	-	-	-	-	-	-
6	Total exports/GDP	8.3 (55)	11.3	18.7	29.7	46.8	43.7	40.0	47.3	49.2	53.1	53.9	-
7	Agricultural exports as % of total exports	-	51.7 (62)	57.9	22.5	15.8	15.5	17.5	13.6	13.4	10.1	9.8	-
8	Non-agricultural income as % of total farm household income	-	-	34.0 (66)	-	54.8 (71)	-	-	-	-	-	-	-
9	Wage share in urban non-agriculture	-	-	62.7 (64)	-	79.8 (72)	-	-	-	-	-	65.8	-
10	Wage share in rural non-agriculture	-	64.1	-	-	-	-	68.0	-	-	-	69.9	-
11	Effective rate of protection	-	-	59.6 (66)	-	-	-	-	-	-	-	-	-

Notes – Table I

Taiwan (China):

1. *Taiwan Statistical Databook, 1976 (TSD); Statistical Yearbook of the Republic of China,* 1980 (SYRC); 2. SYRC; 3. SYRC; 4. Fei, Ranis, Kuo, *Growth With Equity: The Taiwan Case,* Oxford University Press, 1979; 5. Jain, S., *Size Distribution of Income,* World Bank, 1975; 6. SYRC; 7. TSD; SYRC; 8. DGBAS, *National Income of the Republic of China,* Household Surveys; 9. DGBAS, National Income of the Republic of China, Household Surveys; SYRC; 10. Same as (9); 11. Galenson, W., *Economic Growth and Structural Change in Taiwan,* Cornell, 1979.

		Columbia											
		1950	1960	1965	1970	1973	1974	1975	1976	1977	1978	1979	1980
1	Annual real GDP *per caput* growth rate (%)	4.6 (53–60)	1.4	3.1	3.6	3.9	1.7	2.3	2.6	6.4	-	-	
2	Non-agricultural labour as % of total	46.1	-	55.5	62.1	-	-	67.8	68.8	69.8	70.8	71.1	73.6
3	Savings/GDP	8.1 (53)	9.5	9.0	10.2	9.4	11.6	29	12.6	17.5	15.0	-	-
4	Gini coefficient	-	0.53 (62)	0.60 (64)	0.56	-	-	-	-	-	-	-	-
5	Income % of bottom 20%	-	4.1 (62)	4.3 (64)	3.5	-	-	-	-	-	-	-	-
6	Total exports/GDP	15.0 (53)	15.6	11.4	14.2	14.9	14.2	15.1	16.5	17.4	17.8	-	-
7	Agricultural exports as % of total exports	83.1 (51)	78.9	75.3	81.2	68.0	63.1	71.7	73.7	76.9	84.2	-	-
8	Non-agricultural income as % of total farm household income	14.3 (50–52)	12.7 (59–61)	-	9.0 (68–70)	-	-	-	-	-	-	-	-
9	Wage share in urban non-agriculture	37.9	31.8	-	-	-	34.1	-	-	-	-	-	-
10	Wage share in rural non-agriculture	34.8	39.2	-	-	-	40.5	-	-	-	-	-	-
11	Effective rate of protection	-	-	-	-	-	-	-	-	-	-	-	-

Colombia: 1. Real GDP, *UN Yearbook of National Accounts Statistics* (UNYNAS); Population, *UN Demographic Yearbook* (UNDY); *World Table* 1980 of the World Bank (WT); 2. FAO Production Yearbook (FAOPY); 3. UNYNAS; 4. Ranis, G., 'Income Distribution and Growth in Colombia', *(Distribución del Ingreso y Crecimiento en Colombia', Desarrolloy Sociedad,* No. 3 CEDE, January 1980); 5. Same as (4); 6. UNYNAS; 7. FAO Trade Yearbook (FAOTY); 8. Berry A. and Tenjo, Jaime, *'Datos Económicos de los Sectores Agropecuarios y no Agropecuarios',* mimeo, September 1972; 9. *National Accounts* of Colombia; 10. Same as (9); 11. Ranis, G., *Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines,* ILO, Geneva, 1974.

	Philippines											
	1950	1960	1965	1970	1973	1974	1975	1976	1977	1978	1979	1980
1 Annual real GDP *per caput* growth rate (%)		1.4 (55–60)	2.2	1.4	3.1	2.3	4.6	2.2	3.7	2.9	-	-
2 Non-agricultural labour as % of total	-	-	42.9	46.8	-	-	50.4	51.1	57.8	52.5	53.2	54.0
3 Savings/GDP	4.2	10.9	14.3	12.0	17.6	17.1	16.0	15.1	16.2	15.9	-	-
4 Gini coefficient	-	-	-	0.49 (71)	-	-	-	-	-	-	-	-
5 Income % of bottom 20%	-	4.6 (61)	-	3.6 (71)	-	-	5.5	-	-	-	-	-
6 Total exports/GDP	14.2	10.6	17.2	19.1	21.4	22.3	18.6	17.5	19.0	18.8	-	-
7 Agricultural exports as % of total exports	-	-	61.6	43.5	42.9	57.8	55.4	49.1	50.1	42.0	-	-
8 Non-agricultural income as % of total farm household income	-	-	-	-	-	-	-	-	-	-	-	-
9 Wage share in urban non-agriculture	-	-	-	-	-	-	-	-	-	-	-	-
10 Wage share in rural non-agriculture	-	-	-	-	-	-	-	-	-	-	-	-
11 Effective rate of protection	-	-	85.0	-	-	-	-	-	-	-	-	-

Philippines: 1. Real GDP, *UN Yearbook of National Accounts Statistics* (UNYNAS); Population, *UN Demographic Yearbook* (UNDY); *World Table 1980* of the World Bank (WT). 2. *FAO Production Yearbook* (FAOPY); 3. UNYNAS; 4. *Philippines Yearbook,* 1978 of National Census and Statistics Office; 5. Same as (4); 6. UNYNAS; 7. FAO Trade Yearbook (FAOTY); 11. Ranis, G., *Sharing in Development: A Programme of Employment, Equity and Growth for the Philippines,* ILO, Geneva, 1974.

was labour using, in terms of permitting increased multiple-cropping, as well as focusing on new, higher valued and more labour intensive food crops, that is the shift from rice and sugar to vegetables, mushrooms and asparagus; what is even more interesting is that it was apparently the poorer farmers who participated more than proportionately in the expansion of these new more labour intensive agricultural products. This helps explain in large measure the improvements in the equity indices in the course of the 1950s and early 1960s (see lines 4 and 5 of Table I).

Our analysis, moreover, indicates the importance of non-agricultural activities being spatially dispersed, thus permitting the poorest rural, including landless, workers to find alternative employment opportunities outside agriculture but still 'close to home', that is without the necessity of expensive migration to distant industrial activities. Such decentralized industrialization and evidence of much capillary action between agriculture and non-agriculture in the rural areas was not only a by-product of East Asian colonial emphasis on rural expansion, but also the object of conscious post-war government policy, including concentration on rural roads, irrigation and electrification, the construction of dispersed industrial estates, bonded factories, export processing zones and so on, all within daily reach of the rural household. The maintenance of a policy of equal power and fuel rates in rural and urban areas stands in sharp contrast to the signals which make for concentration and agglomeration in the typical Latin American or other Asian NIC. The most dramatic demonstration of this phenomenon is the fact that the average countribution of non-agricultural income to total farm household income was as high as 30 per cent in Taiwan in 1964, rising to a remarkable 52 per cent level by 1972, in contrast with a decline from 14 per cent to 9 per cent in Columbia during the same period (see Table I, line 8).

We all know that this non-durable consumer goods or primary import substitution phase must come to an end as domestic markets are saturated; it did so in Colombia, the Philippines and Taiwan at about the same time, that is around the end of the 1950s. At this point further industrialization has to slow to the pace of population plus *per caput* income growth. Faced with a reduction in industrial growth and the threat of price wars, both the East Asian and the Latin American proto-type had to devise a way out of the threatened *cul de sac.*

In fact, the choice as to the new growth path to follow made at this point may be most important in explaining the more recent divergence in the performance of the two types. The Taiwan area of China moved into primary export substitution, that is the export of the same non-durable industrial consumer goods previously produced for the domestic market into world markets, while the more typical Latin American NIC continued with her import substitution policies, but now of the secondary or consumer durable, raw materials processing, and capital goods type. This choice makes a marked difference with respect to a number of dimensions in which we are interested.

There can be little doubt, for example, that over the past quarter century

of development rapid growth in East Asia has been accompanied by a high level of employment creation and the improvement of equity, whether measured by an increasingly favourable (lower) Gini or some alternative distributional and/or proverty index. By changing its policy environment in the direction of lower levels of protection and more workably competitive conditions in the domestic market, associated with more realistic relative prices, it was possible for the Taiwan area not only to embark on a rapid rural balanced growth process, that is enhanced interaction between decentralized rural industry and agriculture, but also in terms of an export orientation permitting a rapid absorption of her underemployed and unemployed in the form of labour intensive goods for international markets. The contrast in the labour intensity of technology choice and in the non-agricultural output mix is demonstrated by the level and trend of labour's relative share. This was relatively high in East Asia and rising, lower in Latin America and falling, in both rural and urban industry and services (see Table I, lines 9 and 10). As a consequence, in spite of the low wages being generally maintained during this period, the wage share could rise markedly in the East Asian case, as poor families had more of their members in a position to find employment, working more hours per week.

The contribution made by the rapid growth of labour intensive industrial exports in East Asia is documented by the dramatic change in both the overall export orientation (see Table I, line 6) and the equally dramatic shift in the composition of those exports, as captured in line 7. Meanwhile, the agricultural sector continued to make its crucial contribution, as evidenced by both continued productivity increase and near-constancy in the inter-sectoral terms of trade in East Asia, while the Latin American NIC typically maintained a more pronounced cheap urban food policy, often by increasing her food imports.

We may thus conclude that the East Asian NICs as represented by the Taiwan area of China increasingly followed a two-bladed development strategy. One blade is represented by balanced rural growth of the labour intensive variety, encouraged by the allocation of a substantial volume of infra-structure to the rural areas, both in the pre and post independence periods; the second blade is represented by the rapid deployment of a labour intensive technology embedded in output mixes directed towards external markets. The pursuit of such a twin-bladed, employment sensitive growth path was immeasurably aided by the underlying strategy of small-scale rural oriented industrialization combined with rapid agricultural productivity growth. It yielded not only rapid rates of increase in income *per caput* but also good and improving income distribution performance, long before the labour surplus in the economy could be mopped up and long before real wages began to rise in earnest, that is by the early 1970s.

Once this 'turning point' had occurred, Taiwan's comparative advantage in labour intensive manufactured goods gradually began to disappear; her industrial output mix shifted towards more skilled labour, technology and capital intensive goods, both for domestic and export markets. This may be called entering the secondary import *cum* secondary export substitution

phase, reinforcing, of course, elements already present in the earlier subphases as we move along the product cycle in continuing response to gradual changes in the endowment. Capital goods and consumer durables, for example, are now produced in the Taiwan area for the home market as well as for exports, as is the longer term objective of every developing country. An accompanying phenomenon becomes the gradual atrophying of the domestic agricultural sector in which the East Asian NIC basically poor in natural resources does not have a long run comparative advantage. As a consequence, one may observe that food imports are becoming increasingly necessary in Taiwan. But it should also be noted that this is *after* the food producing agricultural sector has performed its historical role of providing a surplus in the form of both savings and released labour – while avoiding massive food imports – in the course of more than two decades of rapid and balanced development.

In the cases of Colombia and the Philippines, in contrast, once primary import substitution ends, the system tries to move directly into a secondary import substitution subphase, meaning the establishment of a more skilled labour, capital, and technology intensive industry mix. This means a continuing industrial orientation towards the domestic market, focusing now on previously imported consumer durables, capital goods, and the processing of raw materials, and necessitating an increase in the severity of the protectionist, controls-oriented policy structure inherited from the prior primary import substitution subphase. Notice the dramatic difference in the evolving levels of export orientation in the 1960s and 1970s (line 6).

While the level of total effective protection declined in the East Asian NICs during the 1960s, it generally remained high or rose elsewhere. Aside from essentially short-lived experiments in the mid-1960s neither in their foreign exchange nor capital markets did the Latin American or other Asian NICs adopt major shifts towards the more liberalized economy of the kind that the East Asian NICs undertook in the early 1960s. Instead, both Colombia and the Philippines essentially continued their relatively heavy reliance on natural resource exports, supplementing traditional ones by new crops wherever possible. To the extent that such raw materials were not only plentiful but enjoyed favourable international terms of trade – the extreme case, of course, being oil – a secondary import substitution strategy can continue to be followed indefinitely even if it becomes more expensive in terms of possibly increasing deviations from efficient industrial output and technology mixes.

A comparative look at Table I, lines 6 and 7, indicates that the contrast in the composition of exports is marked but less severe than the contrast in the extent of overall export orientation, that is the much larger role of international trade in the East Asian case. This is because the desirability of industrial exports is now universally recognized even in the Latin American and Philippine cases. Secondary import substitution regimes have thus been modified to include something which we may call export promotion which, in contrast to export substitution, may be defined as the selective encouragement of particular industries, even firms, to 'push out' exports in

the absence of a general change in the structure of protection or market liberalization. Sometimes such subsidization is carried out *via* direct tax incentives or subsidies, for example public sector fiscal transfers, interest rate differentials, tariff rebates and so on, sometimes by encouraging private sector cross-subsidization, for example assuring companies of a continuation of high windfall profits in protected domestic markets in exchange for improved export performance. In other words, in the typical Latin American NIC, domestic content and export targets are often superimposed on an essentially unchanged industrial structure, with the protection of intermediate inputs and the distortion of relative prices governing the use of labour, capital and imports basically left intact. New industrial exports can grow substantially as a result of special government incentives rather than in response to the increasingly endowment sensitive production and export structure accompanying the trend towards market liberalization.

Increases in industrial exports generated in this fashion may thus have precious little to do with the product cycle type of evolution consistent with enhanced entrepreneurial maturation but result mainly from new incentives planted 'on top of' an existing import substitution structure. All NICs are responsive to the fact that industrial exports, unlike in the early days of ECLA, are now considered a 'good thing' – even if it means moving into the simultaneous domestic production and export of commodities 'up' the technology and capital intensive ladder, as, for example, in the case of automobile assembly where increased domestic component requirements and increased export quotas are frequently linked to continued guaranteed exclusivity in domestic markets.

One consequence of this contrast, already noted, is that the Colombia/Philippines NIC development path has been much less export-oriented overall and evidences a much lower participation of manufactured exports than the Taiwan/East Asia case. One may also note that the proportion of the population shifting from agricultural to non-agricultural activities is somewhat higher in the East Asian case than in the other NIC cases, in spite of the latter's higher initial level of industrialization. The relative neglect of food producing agriculture in Latin America, already noted during the primary import substitution subphase, is likely to be exacerbated in the context of a possibly sharpening protectionist régime. While net food imports thus become an increasingly important factor in the relatively natural resources rich Latin American or other Asian NICs over time, this phenomenon does not occur until much later in the East Asian case.

We should note also that Latin America's export cash crops, favoured by the allocation of public sector research as well as by the distortion of relative prices *via* government intervention, are generally substantially less labour intensive than the domestic food crops. Yet it is the cash crops which are required, along with the inflow of foreign capital, to fuel the continued growth of the import substituting industries. Finally, we should note that unskilled industrial real wages are likely to increase more in the Latin American type of situation, partly as a consequence of the greater rise in the relative price of the scarce agricultural wage good and partly as the result of

the trend towards more 'invisible handshakes' between large-scale capitalists and an élite labour force. More unionization, stronger minimum wage and other welfare legislation typically accompany prolonged import substitution. In the context of the more market-oriented East Asian NIC, on the other hand, real wages do not rise markedly until after the labour surplus is, in fact, exhausted. Consequently, the Taiwan area did not begin to shift towards a more capital-intensive domestic industrial production and export structure until the early 1970s.

Even in the more difficult post-1973 years the East Asian NICs have been able to maintain a healthy export growth rate from an already high base, in spite of the advent of energy price rises, global inflation, recession, and some increase in DC protectionism which have combined to make continuation of growth difficult for non-oil LDCs generally. Overall performance has been maintained at high rates while dangerous levels of indebtedness resulting from too much reliance on foreign capital have generally been avoided.

Moreover, a lot of resilience was demonstrated in reaction to increased non-tariff barriers and other evidence of the 'New Protectionism' in the industrially advanced countries. Contrary to a widely held view, the typical East Asian NIC has had no special advantage in securing access for her labour intensive industrial exports in US and other Western markets during this post-1973 era; in fact, there is ample evidence that success, accompanied by major penetration of 'sick industry' markets in advanced countries, led to the rather rapid imposition or negotiation of voluntary quota arrangements, while less successful or laggard developing countries remained relatively exempt. In summary, I think it is fair to say that, once a country has moved on to an export substitution growth path, with all that connotes for the improvment of employment, income distribution and growth, it has also achieved greater entrepreneurial flexibility which permits it to overcome and 'work around' admittedly noxious defensive measures the advanced countries may resort to. As line 1, in Table I, indicates, the more open and exposed economy of the Taiwan area rebounded much better than either Colombia or the Philippines to resume high levels of growth after the brief post-1973 setback.

CONCLUSIONS AND PROSPECTS

Our analysis thus indicates that the 'typical' NICs of the Third World tried to 'skip' the labour intensive primary export substitution phase and, as a consequence, were unable effectively to mobilize their plentiful unskilled labour *en route* to economic maturity. Moreover, it was essentially their relative abundance of land based raw materials which permitted them not only to move directly into the production and export of more technology and capital intensive industrial products but also afforded them the relative luxury of neglecting their domestic food producing agricultural sectors and instead importing food in order to try to keep wage goods prices from rising unduly.

The availability of plentiful natural resources and/or foreign capital which can be called upon permits this path to be followed and respectable growth rates to be maintained, as they were in most of the NICs over the past two decades. This is in marked contrast to the East Asian cases which at the end of their primary import substitution subphase could not afford to pay for the prolongation of import substitution but were instead forced to turn from a land intensive to a human resources intensive development path.

In theory, of course, a system could be better, not worse, off, *ceteris paribus,* if it has access either to a natural resources bonanza or to additional foreign capital in terms of the buffering of difficult problems of policy adjustment; but it is not difficult to see why, in fact, such bonanzas are often used to put off, or even entirely avoid, difficult decisions, that is in this case to 'skip' the labour intensive export substitution phase coupled with the mobilization of an always stubborn agricultural sector. In most developing countries, especially the Latin American NIC proto-type discussed here, many decades of import substitution growth have led to deeply entrenched habits, with strong vested interest groups, especially in the protected industrial sectors, able to resist reforms or even less radical marginal policy change. A good natural resources base may not only render the system's underlying exchange rate too 'strong', thus effectively discouraging labour intensive exports, but it also provides a psychological cushion or opiate which makes it possible for the system to 'afford' continued import substituting protectionism as it moves into ever more 'expensive' or capital intensive areas of production and export.

But the essential point is that a growth path complementary with an improvement in the distribution of income still represents a feasible development strategy for the future, as it has in the minority of developing country cases in the past. Such a strategy probably requires a somewhat heavier emphasis on the domestic balanced growth blade relative to its complement, the labour intensive export-oriented industrialization blade, in the years ahead. This is partly because of the generally 'larger than Taiwan' size of most LDCs but mainly because growth in the developed world is likely to be less buoyant in the years ahead than it was in the halcyon days of 1950–73. This requires a fuller mobilization of the rural sector, both agricultural and non-agricultural, which has so often suffered from decades – if not centuries – of neglect, but as a reward it also makes the LDCs somewhat less susceptible to exogenous shocks from abroad, and without resort to costly autarchic measures. Even though the East Asian NICs have a much higher export or trade orientation, their ability to integrate the export enclave with the workings of the domestic economy in a balanced triangular fashion is crucial to the system's ability to adjust flexibly to adversity, whether it be foreign or domestic in origin.

The availability of additional natural resources and/or access to foreign capital can, of course, be helpful in easing the transition from one policy régime to another. But unfortunately, human affairs being what they are, such availability can also be, and often has been, used to avoid what for some interest groups represent inevitably unpleasant policy changes, for

example, the need for industrialists to shift from windfall profits in protected low volume domestic markets to earned profits in high volume low margin export markets and/or to domestic balanced growth activities.

In a very real sense, natural resources poor Japan and the current East Asian NICs did not have the easy alternative and thus were forced to seek their long run comparative advantage *via* a mobilization of their systems' human resources, first unskilled, then skilled. It perhaps takes a bit more statesmanship to undo the skipping of the labour intensive phase and pay increasing attention to the rural sector when one is not 'up against it' in the same way. While such 'skipping' of the primary export substitution phase in Latin America may thus be viewed as a politically convenient decision, rather than as the simple consequence of resource allocation and exchange rates, it is also true that many policies such as neglect of agricultural productivity, selective industrial export subsidies and so on can be reversed, and currently existing substantial pockets of unskilled surplus labour productively absorbed. Temporary natural resource bonanzas and the 'Kuwait Effect' can be controlled by running a surplus in trying to sterilize the inflows, and minimum wages plus the power of unions can be made to lag until the labour surplus has been exhausted at its base. Most importantly, the rural sector can be given more attention in terms of both infrastructure and the reduction of paternalism with which local government and local talent in the private sector are customarily viewed.

It is true, of course, that the East Asian NICs had certain initial advantages. But, aside from the choice of colonial antecedents, dimensions such as land reform, educational preparedness, even rural infrastructural heritage, are, of course, amenable to policies at the margin, just as differences in political constraints are amenable to continuous review and reappraisal. Differences in societal decisions are undoubtedly as much a function of political necessity, for example, the inability to overcome the strength of vested interests as long as the system is not 'up against it', as of a lack of adequate wisdom or realization of the technical alternatives available. The basic point here is not that any potential NIC is in a position to imitate the Taiwan case, even on technical grounds, but that there are usually good and sufficient reasons why countries persist with particular policy régimes. Sensitivity to the alternatives available in the difficult last two decades of the twentieth century is about as far as anyone would want to go in this type of comparative analysis of the historical record.

In the real world, of course, economies move in ambiguous, uncertain and non-monotonic paths, lurching forward in one direction, often sideways, partially retracing their steps; moreover, they are too complicated as systems to be as neatly packaged into well-defined typologies or transition phases as we have tried to do here, mainly for reasons of expositional emphasis. At the same time, this very array of real world subtle shades of grey can be viewed as a source of flexibility and strength for any given system at any point in time. There are indeed no inevitable sequences or unbreakable straitjackets – a point well illustrated by noting that some representatives of the East Asian family, for example South Korea, have

considerably more in common with some representatives of the Latin American family, for example, Brazil. There is a good deal of export promotion along with the dominant export substitution pattern in the South Korean situation, especially since the early 1970s when export targets were set, combined with a substantial amount of arm twisting and implied government threats for individual firms. Korea's relative early neglect of agriculture, which was reversed only recently, also meant that foreign capital had to be relied on much more heavily – almost ten times as much as in the Taiwan area – both to support rapid industrial expansion as well as to finance larger food imports. On the other hand, Brazil's performance contains substantial elements of export substitution along with the dominance of secondary import substitution *cum* export promotion, yielding an occasional burst in labour intensive shoe and textile production and exports. There are also strong indications that Brazil is now turning seriously towards the activation of the domestic balanced growth blade in her development strategy, with the crucial help of the mobilization of her domestic food producing agricultural sector.

A brief look at other potential or emerging NICs, typified by the Philippines, is also useful here in assessing the potential reversibility of an LDC transition growth pattern which has a general tendency to attempt to skip the primary export substitution phase. Malaysia, Indonesia, Thailand, plus the Philippines in Asia, as well as Peru, Chile and Venezuela in Latin America have ample natural resource endowments, as well as other characteristics which place them at not too great a distance from the current core group of East Asian and Latin American NICs. Their performance with respect to growth and equity over the last three decades has also been generally somewhat intermediate, with Malaysia performing perhaps the best in Asia and Venezuela the worst in Latin America. In general these systems are to date probably coming closer to following the Colombia/Philippine NIC transition growth sequence, moving from a colonial pattern after World War II, to primary import substitution in the 1950s, and to secondary import substitution since. Some, for example Malaysia, which has had a much less severe primary import substitution régime, and Chile, which has recently undergone a wholesale policy reform, may now be in a position to step into the labour intensive export niche being vacated by the previously most successful East Asian NICs, the so called 'Gang of Four', which, having exhausted their unskilled labour surplus some years ago, are now well into their secondary import *cum* export substitution subphase. Indonesia currently seems to be doing somewhat less well than earlier, partly due to the impact of the oil bonanza-related 'Kuwait Effect', while the Philippines has recently effected some commercial policy and interest rate reforms but is probably still not yet ready for the really substantial shifts in policy required.

India, Pakistan and the mainland area of China, among others, are, of course, also standing in the wings ready to exercise potential flexibility in terms of policy initiatives, with India in particular currently showing substantial signs of a redirection of strategy. These LDCs, of course, are

much larger countries, and have a somewhat poorer natural resources endowment. Hence we can expect of them, and other South Asian countries later on, a greater relative emphasis on the rural balanced growth blade of development strategy and a smaller relative emphasis on its export oriented labour intensive blade.

We have purposely emphasized, in the course of this *tour d'horizon,* that, while growth *cum* equity objectives may be widely shared, along with a substantial unemployment or labour surplus condition, there also exists a wide variety of individual country situations, even if we continue to leave the least developed cases entirely out of consideration. In fact, as the international agencies have been discovering, the number of required categories, or typologies, even to begin to encompass all these differences halfway intelligently, is uncomfortably large. Nevertheless, the need for scientific progress forces some attempt at generalization; and all we are claiming is that, at least for LDCs with substantial agricultural sectors still suffering from a substantial volume of underemployment, a foray through the historical laboratory of the last three decades permits the discovery of certain divergent patterns which give one some confidence about a limited number of carefully circumscribed generalizations. What we are *not* saying is that every LDC, regardless of resource endowment, income level and wage structure, must somehow pass through a light manufactured exports phase on its way to a diversified mature growth régime. What we *are* indeed saying is that past performance among the NICs with a labour surplus initially has demonstrated rather convincingly that more growth can be achieved *via* – rather than in spite of – a more equitable, labour intensive growth path; also that the achievement of such a pattern requires the adoption of a two-bladed development strategy, as described, with each blade given relatively more weight depending on such factors as country size, geography, transport cost, and so on.

The ability of LDCs to fill the various niches of labour intensive manufactured goods in world trade, of course, includes the possibility of increased trade among the developing countries themselves, both in internationally specified and in modified, more 'appropriate', goods, using more 'appropriate' processes. The possibilities of an expanding LDC domestic balanced growth process can thus be extended from considerations internal to any one country to groups of developing countries – with or without resort to regional common market arrangements. In fact, if one talks of the South-South trade potential, the two blades of a strategy enhancing growth *via* a more rural and a more export oriented development strategy begin to merge into each other.

We are certainly not advocating a turning inward or a delinking of the South from the North, nor accepting a continued deterioration of the international environment, either *via* some combination of exogenous shocks of the kind that have been experienced over the last decade or *via* the fuller blossoming of the 'New Protectionism' in the industrial countries. But, with DC growth rates themselves likely to be lower, *ceteris paribus,* in the future than in the past, and with, at best, no major reduction in

protectionism on the part of the developed world, the South really has two main options. One is to continue the search for new natural resource or foreign capital inflow bonanzas which would permit a prolongation of the import substitution subphase on a country by country basis; the second, less spectacular, but more dependable, alternative would be to recognise that the attempt to capture more labour intensive industrial export markets must be combined with a broadened participation by food producers as well as medium and small-scale industrialists in both rural and urban areas within a balanced domestic growth context. Such a strategy would yield faster growth along with better distribution and employment outcomes. A 'trickle down' strategy was not reliable for the long term when respectable overall growth rates on a narrow base were still feasible, as in the pre-1973 period; it makes even less sense in the environment the developing world is very likely to be facing over the next two decades.

The advanced industrial countries, of course, also have some options. They can keep the LDCs on their back burners or recognize the increasing importance for the global economy of maintaining respectable LDC growth rates. This, in turn, will require in many, though by no means all, situations a change in the way in which LDC growth is generated. Effecting the necessary policy changes is, as we have seen, often politically as well as administratively difficult and well-deserving of international co-operation. Such co-operation is relevant not only with respect to the maintenance of market access to accommodate the labour intensive export blade of development; but also to the possible ballooning of aid – and improved access to other forms of foreign capital – in step with the easing of the political and resources pain of required LDC policy reforms in the first place.

DISCUSSION OPENING I – WILHELM HENRICHSMEYER

Professor Ranis has presented to us a broad view on various aspects of development performance and strategies. The general line of his argument and the general conclusions drawn seem to me so balanced and so cautiously formulated that they are rather immune to critical comments.

Therefore I will focus on certain aspects of his analysis and will select a number of issues, which might be fruitful for further discussion. I will *not* comment on the performance of the specific countries, which have been chosen as examples, and will not discuss the question as to what extent the mentioned countries fit into the suggested typology. That might be better done by colleagues from these countries.

1 One of the main points of Professor Ranis's argument is that it is beneficial and rewarding for a country to pursue already in the rather early stages of development an export orientated policy and to expose the economy to international competition. He stresses especially the importance of exports in a phase before a policy of import-substitution for more advanced goods (durable, capital goods) is started.

The advantages of such a strategy are obvious: besides the immediate increase of export earnings it has widespread economic and political consequences:

- Entrepreneurs and policy-makers develop from the beginning a more outward-looking attitude;
- product quality and efficiency are seen under the viewpoint of international competition;
- lower levels of protection lead to less distorted price ratios, so that allocative incentives are given, which tend to adjust the production structures according to comparative advantages;
- and further, such a strategy tends to reduce positions of vested interests and to induce behavioural and institutional changes.

Professor Ranis has explained all that, and there will be hardly any economist who would not support such a strategy *in principle.* But the questions on which I would like to encourage further discussion are:

(a) Is the suggested strategy of primary export development feasible for *all* countries or is it only a chance for some with specific conditions, like the Taiwan area of China?

The question is, whether the market niches of the type discovered in Taiwan are large and numerous enough to allow a similar export strategy in large countries like India, or by a larger group of smaller countries. The danger is that increased supply on narrow markets will lead to a pressure on prices for this type of product.

This question has to be judged especially with the background of stagnating growth in the developing countries and only a slow increase in international trade since the middle of the 1970s. Arthur Lewis – in his Elmhirst Lecture three years ago at this Conference – has pointed out the negative effects on the developing countries if these trends continue.

The second question which we should discuss is therefore:

(b) Do past experiences and future expectations about economic growth in the developed countries suggest (or even make it necessary) to have a change of emphasis from more export orientated strategies to strategies which are more orientated to the growth of internal demand?

Professor Ranis has shown on this point that export-orientated areas, like Taiwan, have done better in this respect during the last years than most other countries. But I think that this question has to be analysed in a wider context, taking into account the causal interrelations between the different determining factors.

2 Here the more general question emerges as to whether the main orientation for the outline of a development strategy, which Professor Ranis has derived from the trade side (the necessity of import-substitution for export expansion) should not be developed more from the resource and production side, including the institutional factors. The starting point for the elaboration of a development strategy would then be:

- an assessment of the country's production potential and of the

obstacles which hinder development, thereby giving emphasis on agriculture, small scale industries and rural areas;
- a specific trade performance would then be the result, not the aim of the development strategy. Some branches would be characterized by import-substitution, others by export-expansion and still others by production for internal demand.

This approach would not be in contradiction with what has been proposed but it would be a change in viewpoint and emphasis.

3 The question of equity – the central theme of this Conference – enters Professor Ranis's argument only through the back door. The idea of the proposed development strategy seems to be that on the path of export-orientated and labour intensive development the labour surplus can gradually be absorbed and the quality of labour can be improved through learning by doing – both contributing to 'social equity'.

This leads to the central conclusion that everything that improves the use of resources and, by that, increases economic growth, also improves the employment situation and income distribution. Economic growth and equity are therefore – according to this view – only two sides of the same coin. In this context a number of questions have to be considered, which will be taken up partly in the following sessions. I will suggest only the following for further discussion:

(a) What do we understand by equity? Professor Ranis gives only an implicit definition, according to which equity improves with increased employment and growth of income per head. Many other interpretations are possible. This question should be cleared at the beginning to have a reference for the discussion.
(b) Even if one takes Professor Ranis' definition, many examples show that income distribution can be worsened in the process of economic growth, for example if the application of new technological knowledge is restricted to a subgroup of well educated and trained people.
(c) Further, it may be questioned that one can be sure whether labour intensive production processes even with low wages are competitive enough to assure an elastic absorption of labour. This is especially the problem of small-scale industries.
(d) Finally, it will need to be discussed whether this proposed strategy is sufficient for the group of the least developed countries with very unfavourable growth conditions, especially those in Africa.

All these points open up a wide field for discussion, which will be taken further in the following sessions. I have brought them up now in this first plenary session to avoid us starting out with too simple a structured answer to the complex set of questions which are related to the problem of growth and equity.

DISCUSSION OPENING II – PER PINSTRUP ANDERSEN

Professor Ranis has prepared a most interesting paper. In line with the request by the programme chairman I shall try to draw attention to some of the issues raised by the Professor which may be further discussed later this session.

Although, as Professor Ranis pointed out, generalizations may have limited validity the three country cases nevertheless add a great deal to our understanding of the development process and how equity is influenced by the choice of growth path.

Furthermore, the paper presents interesting hypotheses regarding the influence of the resource endowment and external capital availability on the choice of development policies and growth path.

Finally, the analysis presented illustrates the role of the agricultural sector under alternative development strategies and offers guidelines for the design of agricultural policies to facilitate growth with equity.

The paper deals exclusively with the newly industrialized countries. Countries at earlier stages of development are completely ignored. Yet these – the poorest of the developing countries – have showed a very limited growth performance during the recent past. While many of these countries may not present serious equity problems, they suffer from mass proverty and the related ills such as malnutrition. These countries are faced with policy decisions and development choices which are likely to influence greatly the extent to which growth and equity goals are simultaneously achieved in the future.

What are the lessons which these countries may draw from the experiences of the newly industrialized countries in order to pursue growth with equity?

Professor Ranis argues, and I agree, that there need not be a conflict between the achievement of growth and equity goals. The difficult trade-offs between the two, which are often mentioned, may not have to be faced if the right development path is chosen.

Keeping in mind that humans are a resource as well as a beneficiary of the development process, a successful growth with equity strategy is likely to include three critical factors. First, underemployed and unemployed human resources must be drawn into the development process. Second, the productivity of human resource must be increased, and third, the control and/or ownership of land and capital resources must be distributed widely.

The importance of all three of these factors is clearly shown in the case of the Taiwan area and one could hypothesize that the absence of emphasis on these factors has contributed significantly to a less successful marriage between growth and equity in Colombia and the Philippines.

The importance of the first factor, that is drawing unused or underused human resources into production, is, I belive, rather clear. Similarly, the very high pay-off, both private and public, to human capital improving efforts such as education has been widely documented.

But just how important is the third factor, that is the resource ownership

distribution? Will a growth with equity strategy only be successful if it is based on an equitable distribution of ownership of productive resources, particularly land? Would the results of the development process in Taiwan have been radically different if the land ownership had been distributed like it was and is in Colombia?

In my opinion, these are critical questions. If equitable distribution of land ownership is a necessary condition for the simultaneous achievement of growth and equity goals, then there are very few countries where a growth with equity strategy is likely to be successful.

Closely related to the question of asset distribution is the political environment within which development strategies and policies are established. The existing power structure will clearly favour a development path which produces the greatest benefits to the ruling classes. Yet such development may not result in maximum resource efficiency and – given the skewness of the distribution of political power in most developing countries – is unlikely to assure an equitable income distribution.

Let me finish by drawing your attention to Professor Ranis's suggestions that the availability of external capital and aid be linked with required policy changes in the recipient countries. This is a suggestion which may deserve some further discussion.