

THE OUTSIDE AND THE INSIDE:
Trade, Finance, and Domestic Conflicts

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- EXPORT DIVERSIFICATION AND THE NEW PROTECTIONISM: THE EXPERIENCE OF LATIN AMERICA.* Edited by WERNER BAER and MALCOLM GILLIS. (Champaign: University of Illinois, 1981. Pp. 301. \$13.50.)
- INTERNATIONAL COMMODITY TRADE: LATIN AMERICA—EEC.* Edited by C. W. M. DEN BOER, L. F. HAGEDOORN, and J. H. STROOM. (Amsterdam: Center for Latin American Research and Documentation, 1981. Pp. 351.)
- DEVELOPMENT STRATEGIES AND BASIC NEEDS IN LATIN AMERICA: CHALLENGES FOR THE 1980s.* Edited by CLAES BRUNDENIUS and MATS LUNDAHL. (Boulder, Colo.: Westview, 1982. Pp. 180. \$17.50)
- INDUSTRIALIZATION AND THE STATE IN LATIN AMERICA.* Edited by JEAN CARRIÈRE. (Amsterdam: Center for Latin American Research and Documentation, 1979. Pp. 465.)
- LATIN AMERICA AND THE NEW INTERNATIONAL ECONOMIC ORDER.* Edited by RICARDO FFRENCH-DAVIS and ERNESTO TIRONI. (New York: St. Martin's Press, 1982. Pp. 254. \$27.50.)
- FINANCING DEVELOPMENT IN LATIN AMERICA.* Edited by JEAN-CLAUDE GARCIA-ZAMOR and STEWART E. SUTIN. (New York: Praeger, 1980. Pp. 354. \$30.95.)
- TRADE AND EMPLOYMENT IN DEVELOPING COUNTRIES, VOLUME 1: INDIVIDUAL STUDIES.* Edited by ANNE O. KRUEGER, HAL B. LARY, TERRY MONSON, and NARONGCHAI AKRASANEE. (Chicago: University of Chicago for the National Bureau of Economic Research, 1981. Pp. 548. \$39.00.)
- THE CHALLENGE OF THE NEW INTERNATIONAL ECONOMIC ORDER.* Edited by EDWIN P. REUBENS. (Boulder, Colo.: Westview, 1981. Pp. 298. \$30.00.)

A happy characteristic of research on Latin American experience is that study of any specific topic leads almost inescapably to the recognition that it is bound up with everything else that matters: research naturally goes outward toward connections among fields rather than inward toward isolated questions. This tendency is true of most of the studies

included in the above set of books. It endows them with wide general interest but compounds the difficulty of giving any adequate report on their contributions within a review focused on international trade and finance. Still, if one is confined to a single port of entry into the diverse Latin American ways of coping with the modern world, this focus can be particularly rewarding.

These books go well beyond familiar contrasts between “open” and “closed” strategies of development. Six different themes or strategies are discussed: (1) the open-economy approach of the nineteenth century, brought back in Chile and Uruguay since 1973, and in Argentina since 1976; (2) promotion of industry through protection, exemplified in extreme form by early postwar Argentina and Brazil, and more recently by the Velasco regime in Peru; (3) promotion of industry and diversified agriculture more by means of stimulus to nontraditional exports than by protection, as in Brazil and Colombia since 1967, and Mexico until the onset of the peculiar form of populism associated with its oil export boom; (4) primary attention to basic needs, with consequent emphasis on nontradable goods and services and a partial withdrawal from trade but not in order to stimulate industry, as exemplified perhaps by Sri Lanka prior to 1976 and to some degree by Cuba; (5) opting out of the world economy as implied by dependency arguments; (6) collective international action to restructure the external economy through regional agreements or more generally through some version of the New International Economic Order (NIEO).

All of these themes except (4) and (5) are discussed in the most distinctive of these volumes, the one edited by Ricardo Ffrench-Davis and Ernesto Tironi. Its title, *Latin America and the New International Economic Order*, is misleading. It is not confined to the NIEO, although the very useful commodity export study of Roberto Junguito and Diego Pizano and that of Ernesto Tironi are directed to that concern. What is most distinctive about the book is that it presents the results of a conference hosted by a Latin American research center, dominated by Latin American scholars, and directed toward the identification of research issues most relevant to them. This context gives the book a certain bite that is not to be found in the usual northern conference. This tone is particularly noticeable in Edmar Bacha’s combat-prone essay on international monetary and financial issues and is caught precisely in Pedro Malán’s comment about “Anglo-Saxon tinkering with foreign trade regimes in LDCs” (p. 188).

This volume features concern for new research possibilities rather than conclusions to sell. The authors stick to economic analysis to clarify basic issues, including questions of equity and conflicts among group interests along with issues of efficiency. The essay by Ffrench-Davis is outstanding. It is primarily a dissection of competing versions of export-

oriented strategies and provides a good antidote to some of the more all-out export orientations in the Baer and Gillis volume. It does not retreat to the self-defeating protectionism of strategy (2), but it rises above the atavistic appeal of strategy (1). Ffrench-Davis also collaborates with Carlos Díaz-Alejandro to provide a concluding chapter that is a gold mine of ideas for research. In addition to many good research suggestions in the other articles, Albert Fishlow (yes, a northerner) offers an unusually suggestive brief comment on financial questions. He proposes that requirements for debt repayment be tied to commitments by the industrialized countries to accept a corresponding export surplus from Latin America. "A requirement to repay foreign debt, in the absence of such a world economic environment, places sanctity of private contract above considerations not only of equity, but also of global efficiency" (p. 46).

Strategy (4), concern for basic needs, is presented effectively in *Development Strategies and Basic Needs in Latin America*, edited by Claes Brundenius and Mats Lundahl, especially in the multifaceted essay by Paul Streeten. The chapter by Brundenius gives a good picture of Cuba as a mixed example of success in terms of meeting basic needs and mediocrity in terms of ability to organize production for growth and for external autonomy. Lundahl provides an illuminating review of the pressures of excess population in Haiti, where there is little technological progress and no attention to basic needs. Other chapters with individual questions worth special attention are those of Pedro Malán on Brazil, Javier Iguíñiz on Peru, and Rosemary Vargas on the Dominican Republic. Frances Stewart complements Streeten's paper on basic needs by attacking the question of why the North keeps evading NIEO and talking about basic needs instead, while the South is often suspicious of the latter as yet another disguise for neocolonialism. The topic is promising, but the essay is too short to go very deeply into it.

Strategy (5), opting out, gets support in some of the articles in *Industrialization and the State in Latin America*, edited by Jean Carrière, but not much. Along with rather general explanations of the evils of multinational corporations and the impossibility of true development in the periphery, Fred Jongkind provides a study going rather the other way. It is presented as a direct test of Osvaldo Sunkel's version of dependency theory in terms of Venezuelan experience. Jongkind is respectful of the theory but concludes that it does not fit reality in Venezuela. Autonomous national industry has been growing strongly alongside an active, but nondominant, foreign sector. He reports a theme that I also heard in Mexico: "In my interviews with foreign entrepreneurs they complained frequently that one or more of their local employees started their own firms with the most profitable products of the broad range produced by the MNC" (p. 204).

Three other articles in the Carrière volume are especially worth

attention. One is the three-way comparison by Carlos Fortin of the regimes of Frei, Allende, and Pinochet. The discussion is based on a Marxist perspective of class conflict, which fits the present regime all too well. As Fortin applies it, the perspective is broad enough to include explicit recognition of the possibility of accumulating capital through improvements of efficiency, with simultaneously increasing welfare for workers, instead of a narrow vision that sees exploitation as the only possible outcome. This sense of alternatives makes it possible to analyze with sympathy the partial success and ultimate failure of the Frei regime, as well as the breakdown under Allende. Fortin concentrates on the political, rather than economic, conflicts and is particularly accurate on their nature under Pinochet: the middle class initially supported the military after they turned against Allende, but that part of the middle class that relies on domestic industry and trade has been hit hard and turned against the system by the combination of increased import competition and domestic deflation called for by the regime's economic strategy. He might have added that the destructive pressures were compounded by freezing the exchange rate and returning to prolonged overvaluation in the late 1970s, demonstrating that ultraright military regimes are capable of policy distortions that are sometimes believed to be the exclusive privilege of populism.

The other two particularly valuable articles in this volume center on relations between labor and the state. One is an incisive review by Jackie Roddick of methods used to control labor in the Southern Cone, especially the Chilean combination of extensive new labor legislation with "the total lawlessness of the government itself" (p. 254). The other is Juan Carlos Torre's analysis of the tortured relations among Perón, Argentine labor leaders, and the state from 1955 to 1976. Carrière apologizes in his introduction for the lack of financing to translate this and other Spanish-language chapters into English, but he should be glad instead. It would have been a crime to demote Torre's marvelously compelling style into everyday English. One arbitrary example: the picture of Isabel Perón's isolated Minister of Economy, Gómez Morales, forced to wait "en vano el aval de la Presidente Isabel para lanzar su plan económico, mientras se ocupaba de cuestiones menores y contemplaba, impotente, el avance del deterioro económico" (p. 368).

The volumes edited by Anne Krueger et al. and by Werner Baer and Malcolm Gillis include major additions to the evidence and analysis of export-oriented industrialization. The Krueger volume, *Trade and Employment in Developing Countries*, focuses on the important question of how trade policies relate to employment. It provides powerful evidence from details of trade and employment trends in ten developing countries of the fact that the protectionist strategy (2) makes employment conditions worse than they otherwise would have been, and that redirecting

policy more toward industrial growth through exports increases the growth of employment relative to output. The four Latin American countries included in these studies are Brazil, Chile, Colombia, and Uruguay. The best studies are those of Brazil and Colombia, whose governments both redirected policy toward exports from 1967 on, and both of which subsequently gained a much faster growth of employment through the decade of the seventies. The chapter by Francisco Thoumi on Colombia should be required reading for anyone who cares about the prospects for employment growth in Latin America.

Export Diversification and the New Protectionism, edited by Baer and Gillis, includes three studies focusing on industrial exports. They all contain valuable factual material on export performances and their consequences, but to varying degrees, they all tend to squeeze the whole world of development possibilities into a limited vision of export promotion versus protection. Each of them needs the balancing effect of the accompanying critical comments. Of the three, Gustav Ranis's comparison of East Asian "superexporters" to Latin American trade patterns is the broadest, including a good discussion of differences in factor endowments and other considerations rather than just economic policy. But even in this case, the critical comments by Hollis Chenery are needed to correct what becomes an excessively bipolar perspective. Bela Balassa's article starts as an informative comparison of exports and import substitution in Brazil, Mexico, and Uruguay in the period 1970–74, using a helpful methodology that clarifies the facts, but it then leaps past all the most interesting questions about these economies to a surprisingly arbitrary conclusion about the overall effects of trade policies that lauds Uruguay as a model that Brazil and Mexico unfortunately failed to match. Carlos Longi accurately points out the gap between Balassa's facts and his overly generalized conclusion. Donald Keesing indicates somewhat greater reservations about the total desirability of an export orientation and provides a valuable analysis of actual trends, but still leans overboard in the direction of identifying the growth of industrial exports with success in economic development. Rudiger Dornbusch provides a particularly useful criticism of this study.

Balassa's unquestioning approval of Uruguay's export performance and Keesing's similar view of Chile raise a serious question that falls partly within the economic sphere and partly outside. Economics is supposed to be and can be very useful for comparing costs and benefits. It is beneficial for any economy to be able to develop industrial exports. But to place great stress on this particular achievement without raising any question whatsoever about the costs involved seems something of a betrayal of what economics is about. The peculiarly vicious character of the Pinochet regime and the close imitation of the same approach in Uruguay sometimes lead their critics to ignore or run down particular

achievements that are valuable in themselves. Such conclusions falsify reality and may blind the eventual successors of these regimes to the possibility of gain by using *some* of their economic policies. Such a bias should be checked by professional concern for accurate presentation of positive factors as well as negative. It may nevertheless be considered somewhat more understandable than the reverse approach of lauding a particular result without any concern for the destructive character of the methods underlying its achievement.

Other articles in the Baer and Gillis volume include intriguing discussions of export performances of public enterprise by Raymond Vernon, of Latin American external debt by Millard Long, and of the Andean Group by Miguel Urrutia, complemented by especially good additional comments by John Williamson. Standing somewhat apart from these is a farsighted study of "The Mexican Oil Syndrome" by Abel Beltrán del Río. Although the conference covered in this volume was held in early 1980, when the Mexican government still appeared to the international financial community to be a prudent anti-inflationary regime, del Río pointed out at that time the pressures leading to a possible loss of control, in exact accord with what subsequently happened. The essence of what went wrong was that inflationary pressures coming from the oil exports were allowed to become compounded by rising governmental deficits, while the exchange rate was held constant, thereby choking off exports other than oil and encouraging an avalanche of imports. This study might usefully be compared to that done on Mexico by E. V. K. Fitzgerald in the Carrière volume. The latter article, from a conference held two years earlier, failed to note the early symptoms of the "oil syndrome" central to del Río's analysis, but gave useful background on the longer-run structural issues and focused on the inability of the government to tax the private sector and the role of public enterprise as an alternative to reliance on private investment. Fitzgerald's discussion is weakened by an unswerving allegiance to protectionism, as if Mexico's truly excessive imports could be explained only by reduced protectionism and had nothing to do with freezing the exchange rate under conditions of rising inflation.

The other three volumes contain useful material but fall somewhat short of the preceding ones. Both *The Challenge of the New Economic International Order*, edited by Edwin Reubens, and *International Commodity Trade*, edited by C. W. M. Den Boer et al., concentrate on the NIEO. The latter is almost exclusively concerned with trade between Latin America and the EEC, giving a great deal of information about it more from the point of view of EEC policy than of Latin America. A major theme is that not much is to be expected from measures taken to stabilize the prices of primary products. The volume edited by Reubens raises

many more issues, always coherently, but mostly in such a sober and temporizing style that it takes the fun out of them. Two papers that rise above the rest are those by Paul Streeten, "Constructive Responses to the North-South Dialogue," and Robert S. Browne, "Changing International Specialization and U.S. Imports of Manufactures." Browne does not pay much attention to Latin America, but he successfully brings out the impact of imports of labor-intensive manufactured goods on the less-skilled, lower-wage, and relatively inflexible labor associated with these industries in the United States. As he notes, the workers displaced by such imports are often members of minority groups who have little or no chance to move to high technology alternatives. This structural problem is seriously aggravated when U.S. policy is insistently deflationary, thereby fostering more protectionism and leaving displaced workers with few chances to move.

The remaining volume, *Financing Development in Latin America*, edited by Jean-Claude Garcia-Zamor and Stewart Sutin, is almost outside the frame of reference of this review. It is mainly addressed to bankers in the industrialized countries who might be considering loans to Latin American countries or companies. This approach could have been more interesting if the essays had detailed what lenders actually do, and why, but the essays do not. Still, there is useful material on exchange rates and capital flows in the chapter by Alda Pardee, on financieras in the one by Hugh Schwartz, and especially on discrimination against medium and small business borrowers in Brazil in the analysis by William Tyler.

Writing in the early 1580s, in his *Essais* that include striking comments on the ways in which the New World was being debased in the name of commerce, Montaigne provided exactly the right comment for this collection of studies. "The consequences which we wish to draw from similarities among experiences is insecure, in as much as they are always unlike: there is no quality as universal in this image of things as that of diversity and variety" (Book 3, chapter 13, "On Experience").

The lively variety of these interpretations of Latin American experience does not add up to any compelling one-track explanation of causation or of desirable strategy. Rather, it works against all righteously exclusive models, whether the extremes of Chicagoinism as in strategy (1), simplistic protectionism as in (2), overly simplified export promotionalism as in (3), or the understandable wish to withdraw from the world as in (5). This conclusion does not mean that the six suggested lines of strategy come out equally well. No one makes a good case for the first two or gives much positive content to (5). But export promotion, concern for basic needs, and possibilities for a better international economic order all gain good support. The individual studies often sound as if the particular line being extolled is the one best prescription, but the works

reviewed collectively argue for finding methods to combine these last three approaches: for policy combinations rather than for the one enlightened path.

In terms of existing research, these studies add a great deal of information (particularly valuable in the Krueger volume on trade and employment, but on all these other issues as well). Research into how countries might combine concern for basic needs with industrialization through export promotion, without stepping on the weak in the process, might be the most rewarding general direction to explore right now. More specific research suggestions abound in the volume edited by Ffrench-Davis and Tironi. In that volume, economics at its best coincides with humane concerns and with deep awareness of Latin American reality. Is that because the Anglo-Saxon component is so exceptionally dominated by Latin American scholars? Or is it more because they are scholars with exceptionally open minds?