

Book Review

Trade, Technology and International Competitiveness, Edited by Irfan ul Haque, Economic Development Institute of the World Bank, Washington DC, Pages 218

The book deals with the issue of international competitiveness and why developing countries need to look at this aspect of world trade in the context of their aspirations and limitations, keeping in mind the fact that the global economic system is becoming more and more unipolar and sophisticated. Haque's book contains papers by a number of well-known economists and policy analysts, all of who deal in detail with the present scenario of world trade and the lessons learnt from the past.

International competitiveness as defined by the US Commission on Industrial Competitiveness is "the ability of a country to produce goods and services that meet the test of international markets and simultaneously to maintain and expand the real income of its citizens". Haque explains in his Introduction that the issue of developing specific public policies for increasing a country's international competitiveness in the free market has become contentious, in that economists are divided both on their extent and efficacy. He argues that competitiveness need not become a "dangerous obsession". The recent advances in thinking on the issues of trade, technology and competitiveness have a relevance for developing economies. These countries stand to learn a great deal from the current debate, as the benefits they can derive from their integration into the world economy will depend on their capacity to build up and sustain their international competitiveness not only through technological innovation, but equally by developing a well-thought out theoretical framework for a viable public policy at home.

Recent developments in international trade have led to a much faster growth in trade rather than industrial output, with the result that exports today account for roughly one fifth of world output. The growth in exports has led to a major shift in favour of manufactures which account for about 80 percent of world exports. This has had a dramatic impact on the economic structures of many developing countries which are no longer following the traditional pattern of supplying primary products to the industrialized countries in exchange of manufactured products.

The jump in manufactured exports has led to many changes in trading relationships, in that a) intraindustry trade has increased product differentiation and specialization and b) there is an increase in resource

outflows to developing countries due to their cheaper labour costs (which in turn has led to the controversy about the mobility of capital versus labour). On the other hand, within the supplier countries, this has led to a shift of resources (for example, from agriculture to industry), creating imbalances which may prove to be expensive in more than one sense. Countries that were following the strategy of building up their domestic industrial base for import substitution and overcoming their balance of payments difficulties have affected a change in public policy as a result of the export successes of the East Asian economies, and are trying to follow their path. But how equipped are they for this option?

The capitalist world economy thrives on enhanced consumer behaviour leading to technological innovation, economic growth and trade expansion. In order to survive in an increasingly competitive environment where the volume of trade, high standards of products, changing technology, and the backup of a strong trade balance remain the key factors, developing countries need to take a long look at their policy frameworks in the context of the external environment.

1. What is this external environment really like? Haque and his colleagues explain the challenges faced in world trade not only by the developing countries, but by the developed ones as well. Briefly put, these are:
2. The dominance of big companies in world trade, the restrictions of playing on an even field, and the awareness of the inherent contradictions of a system which may or may not endure in the long run; the export bias of governments at the expense of local industrial self-sufficiency; development pressures;
3. The development of technology, the implications of its transfer, the absorption capacity of recipients and internal resource limitations; the question of investment in research and development vis a vis the returns from intellectual property;
4. Industrial policy and its success/failure in domestic development in relation to consumer behaviour and international trade;
5. The tension between outward investment and domestic unemployment in a free market;
6. Measuring capital costs versus productivity efficiency; the role of intangible inputs – design, service, management techniques, resource

alternatives – in developing a comparative advantage; picking or creating “winners”;

7. Macro policies and structural adjustments in developing countries; implications for the production processes as well as poverty programmes; and the choices for governments;
8. The Uruguay Rounds and their impact on the policies of developing countries.

There is extensive discussion of these challenges and the book is full of examples and very good analysis especially by Sanjaya Lall on the Creation of Comparative Advantage and the Role of Industrial Policy. Haque and his colleagues hold that the world trade system would be strengthened through a positive contribution from developing countries. However, this to a large extent is dependent on the policies followed by these countries. While on the one hand, the example of the East Asian economies has vindicated the survival of the existing system despite (or because of), the disparities in world incomes, on the other hand, the options available to the poor countries of South Asia, Africa and Latin America are limited. These are countries nagged by the problems of balance of payments, low technology, poor human resource development, and limited competitive capability.

In the concluding chapter, Haque discusses the policy of import substitution, which had dominated the trade policies of India, Pakistan and some African countries previously as a viable alternative to their problem of balance of payments and developing appropriate technology by protecting domestic industries. He rightly concludes that in this process, these countries lost out on technological innovation and higher consumer standards at home, while not being able to allocate resources to key areas in human resource development, physical infrastructure and agriculture that could have become comparative advantages. While on the one hand, developing countries need to sift the lessons of the NIEs of East Asia, on the other hand they also need to look at their own performance over the last few decades in evolving policies which could have addressed (and also anticipated) requirements of a world trade system based on the dominant economic theory.

There is no doubt that public policy is a viable instrument in creating international competitiveness by developing countries provided that the policy makers are informed and can take decisions over and above self-interest. While bureaucracy can play a neutral role, its practical and theoretical information is severely limited. On the other hand, entrepreneurs may have the required

solutions, but they can become self-serving. In order to create a sustainable policy for economic growth through industrialization and export enhancement, it is important to have meaningful participation by all the stakeholders, including the workers. There is no question of economic growth without investing in human resource development and increasing the capacity needed for absorption of and innovation in technology – components of work ethics – to build international competitiveness. Similarly, protectionism and reliance on indigenous industrial investment and technological capability as in the case of Korea cannot be disregarded.

In this sense, this book is a must read for policy makers in Pakistan, especially the bureaucracy, which has failed to evolve a sound, long-term trade policy over the last fifteen years in the face of the changing global scenario, and domestic, macro-economics-dominated environment. They need to review government investment made so far in human resource development, technology, and national industrial capability to give a direction to export development, rather than ritualistically setting annual export targets. Pakistan cannot develop international competitiveness without increasing, basically, its *capacity* to export. At the same time, apart from this very important book, policy makers should also try to develop indigenous alternative approaches, or at least catch up on the new ideas offered by the World Social Forum to counter the dominant world economic system.

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