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Economic Relations With Newly Industrialising Countries

by Dietrich Kebschull, Hamburg*

It is often maintained, with reference to the increasing competition from newly industrialising countries, that Western support for the development of LDCs' economies would only amount to supplying the rope with which one will later be hanged. Our author argues that, contrary to that opinion, the coming into existence of NICs should be looked upon not as a threat, but as a chance for improvement of the international division of labour and for further growth.

Economic relations between industrial and developing countries are never without problems. The advocates of a more intensive cooperation between the countries of the North and of the South argue mainly on the basis of an economic order based on the principles of free trade in which the philosophy of interdependence plays a major role. It is assumed that the transfer of resources from the industrial countries would create growth in the developing countries. The corresponding increase of the national product would lead to additional demand for products from the industrial countries. These additional exports would, in turn, contribute to growth in the industrial countries, in which case a reinforcement of the effects via multipliers and accelerators would be probable.

According to this concept, problems of structural adjustment can be mastered if the price and market mechanisms are not disturbed and the mobility of factors is maintained, so that every country can utilise its specific comparative advantages to the full. The specialisation and adjustment process must not be delayed or prevented by government intervention. This "faith in the market" will then reward all the parties involved with permanent and stable growth.

This opinion is often opposed with the argument that the development of the LDCs' economies with Western

support is economically after all hardly anything else than assistance to East-bloc economies by the so-called capitalist states. It is a case of "supplying the rope with which one will later be hanged", along the lines of Lenin's motto. With good intentions, new competitors are cultivated who then contest the industrial nations' home markets as well as their sales with considerably cheaper products. The consequences are unemployment and growth losses in the industrial North. This is all the more to be feared as the process of structural adjustment, owing to a multitude of interventions, in practice occurred neither without friction nor rapidly. The developing countries' growing competition leads to an escalation of protectionism because the industrial nations' governments see themselves increasingly compelled to dampen the internal effects. It is also stated that the developing countries frequently do not stick to the rules of the international division of labour and shut themselves off from international competition with more or less plausible arguments (infant industry argument, or defence against the economic power of others).

Looking at the different groups of the total of about 120 developing countries, the fear of competition concerns above all the small group of newly industrialising countries. These are usually meant when the competition of low-price countries is mentioned. Especially in phases of economic recession and marked structural problems they are blamed with sharing the responsibility for increased unemployment.

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Characteristics of NICs

A uniform definition of the group of countries to be considered and which are called "take-off countries", "threshold countries" or "NICs" (newly industrialising countries) does not exist as yet. But for the characterisation of these countries, which belong to the economically most advanced ones in the Third World, the following common features may be mentioned:

- ☐ a per capita income of at least US \$ 1,000;
- ☐ above-average growth rates of the gross national product and of industrial production;
- ☐ a share of industry in the gross domestic product of more than 30 %;
- ☐ a rapid change in the structure of production;
- ☐ a well-trained labour force, which in the opinion of OECD should e.g. be the case when the illiteracy rate is less than 30 %;
- ☐ comparatively low wages and costs accessory to wages.

Three main groups are significant if these criteria are applied: the oil-producing countries, the large states of Latin America including Mexico, and the South-East Asian countries of Hong Kong, Taiwan, South Korea and Singapore. The rapidity of their development can be seen particularly clearly in the foreign trade sector.¹

During the period from 1960 to 1979 world exports grew from 130 billion US \$ to more than 1,600 billion US \$. The exports of the newly industrialising countries have grown at a considerable speed. After a phase of stagnation in the fifties they succeeded in doubling their exports in the following decade and even in increasing them nearly tenfold in the last decade (cf. Table 1), although their share in world exports remained nearly constant, rising only from 8.0 per cent (1960) to 8.7 per cent (1979). Exceptional circumstances played a decisive role in the case of the oil-exporting countries. But even apart from this, the successful growth of the other newly industrialising countries, accompanying their exports, remains a phenomenon comparable only with the era of the Japanese and the German economic miracles (cf. Table 2).

Particularly in the South-East Asian states, integration into the world economy, with its division of labour and the growth process of the past two decades, was linked with extensive structural changes. The

Table 1

Development of World Exports and the Exports of Newly Industrialising Countries 1960-1979

Countries	Exports in US \$ million		Share of world exports (in %)		Average Growth Rate (in % p.a.)
	1960	1979	1960	1979	
World	128,275	1,627,030	100.0	100.0	14.3
NICs total	10,198	141,165	8.0	8.7	14.8
Hong Kong	689	15,156	0.5	0.9	17.7
Singapore	1,136	14,233	0.9	0.9	14.2
South Korea	33	15,055	0.0	0.9	38.0
Malaysia	— ^a	11,079	—	0.7	—
Argentina	1,079	7,810	0.8	0.5	11.0
Brazil	1,269	15,249	1.0	0.9	14.0
Uruguay	129	789	0.1	0.0	10.0
Venezuela	2,432	13,111	1.9	0.8	9.3
Mexico	740	8,768	0.6	0.5	13.9
Algeria	394	8,198	0.3	0.5	17.3
Nigeria	475	— ^a	0.4	—	—
Greece	203	3,855	0.2	0.2	16.8
Portugal	327	3,468	0.3	0.2	13.2
Spain	726	17,903	0.6	1.1	18.4
Yugoslavia	566	6,491	0.4	0.4	13.7
USA	20,412	178,578	15.9	11.0	12.1
Japan	4,055	103,045	3.2	6.3	18.6
Federal Republic of Germany	11,415	171,540	8.9	10.5	15.3

^a Not available.

Source: United Nations: Yearbook of International Trade Statistics 1979.

Table 2

Annual Growth Rates of GDP and Industrial Production in Selected NICs and Industrial Countries, 1960-1979

Country	Per capita income in US \$ (1979)	Growth rate in per cent p.a.			
		GDP		Industr. Production	
		1960-1970	1970-1979	1960-1970	1970-1979
Hong Kong	3,760	10.0	9.4	—	4.3
Singapore	3,830	8.8	8.4	12.5	8.6
South Korea	1,480	8.6	10.3	17.2	16.5
Malaysia	1,370	6.5	7.9	—	9.9
Argentina	2,230	4.2	2.5	5.9	2.4
Brazil	1,780	5.4	8.7	—	9.6
Uruguay	2,100	1.2	2.5	1.1	4.2
Venezuela ¹	3,120	6.0	5.5	4.6	3.1
Mexico ¹	1,640	7.2	5.1	9.1	6.4
Algeria ¹	1,590	4.6	5.8	12.9	6.5
Nigeria ¹	670	3.1	7.5	12.0	11.2
USA	10,630	4.3	3.1	5.1	2.7
Japan	8,810	10.5	5.2	10.9	5.6
Federal Republic of Germany	11,730	4.4	2.6	5.2	2.1

¹ Belongs also to the group of oil-producing countries.

Sources: A. R. Milton: Die Industrialisierung der Dritten Welt und ihre Auswirkungen auf die Struktur des deutschen Außenhandels, in: Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen, Information, 1982/1, p. 32 ff.; World Bank figures.

¹ Figures for 1960 and 1979 are compared in the following for the description of the characteristics because more recent data are not available for all the countries under discussion.

industrial sector expanded vigorously to the detriment of agriculture and the services sector (cf. Table 3).

One consequence of this internal structural change is the breaking-down of the traditional division of labour between industrial and developing countries. It was, and still is, characterised by the fact that developing countries export almost exclusively raw materials, while vice-versa they import capital goods and high-quality consumer goods from the industrial countries. On the other hand, the newly industrialising countries (with the exception of the oil producers) are characterised by the fact that they increasingly participate to a large extent in the exchange of industrial finished products and are becoming more and more integrated into the world economy (cf. Table 4). This development is again particularly distinctive in the South-East Asian countries.

Corresponding to the diverging initial conditions in the newly industrialising countries, different specialisation patterns are emerging. Thus Argentina, Mexico, Spain and Yugoslavia dominate in chemical goods, while Singapore, Brazil, and also Spain and Yugoslavia, are the main exporters of machinery and transport equipment. With the exception of Singapore, the South-East Asian countries reach export ratios in manufactured goods of more than 70 %, as do Portugal, Greece and Mexico. The manufactured goods mostly exported from Hong Kong and South Korea are: textiles and clothing, skins (also from Argentina), clocks (also

from Singapore), travel requisites, toys and sports articles (also from Spain) and footwear (also from Brazil and Yugoslavia).

Differences are also shown in the regional direction of export flows. In 1979 about 60 % of the newly industrialising countries' exports were directed to industrialised markets, and only 24 % were sold in developing countries. On the strength of its geographical position the United States is the most important trading partner for the Latin American countries, while the Federal Republic of Germany is the chief importer from the European countries, and Great Britain from the South-East Asian newly industrialising countries.

In spite of all the differences the newly industrialising countries also have important common features. It must be particularly emphasised that precisely the most dynamic countries register longer liberal phases in their economies. These enabled them to achieve a more efficient factor allocation than occurs when structures are distorted by protectionist and dirigistic measures.

Moreover, an important role was probably played by the comparatively good educational and training systems of these countries. The extensive investments in human capital have strongly improved the quality of the factor labour. This was an important prerequisite for specialisation and the utilisation of innovations. The

Table 3
Percentage Share of GDP of the Economic Sectors
in Selected NICs and Industrial Countries,
1960 and 1979

Country	Share of GDP					
	Agriculture		Industry		Services	
	1960	1979	1960	1979	1960	1979
Hong Kong	4	1	34	—	62	—
Singapore	4	2	18	36	78	62
South Korea	37	20	20	39	43	41
Malaysia	37	24	18	33	45	43
Argentina	16	13	38	46	46	41
Brazil	16	11	35	38	49	51
Uruguay	19	13	28	37	53	50
Venezuela ¹	6	6	22	47	72	47
Mexico ¹	16	10	29	38	55	52
Algeria ¹	21	7	33	58	46	35
Nigeria ¹	63	22	11	45	26	33
USA	4	3	38	34	58	63
Japan	13	5	45	42	42	53
Federal Republic of Germany	6	2	53	49	41	49

¹ Belongs to the group of oil-exporting countries.

Sources: See Table 2.

Table 4
Export and Import Shares of Industrial Finished
Products in Selected NICs and Industrial Countries
in Per Cent of Total Exports and Imports,
1960 and 1979

Country	Share of finished goods ¹			
	Exports		Imports	
	1960	1979	1960	1979
Hong Kong	80	97	54	73
Singapore	26	46	26	57
South Korea	14	89	58	59
Malaysia	6	21	42	63
Argentina	4	26	73	73
Brazil	3	34	54	51
Uruguay	29	43	25	52
Venezuela ²	0	2	71	83
Mexico ²	12	30	84	77
Algeria ²	7	1	68	78
Nigeria ²	3	1	75	82
USA	63	69	41	58
Japan	79	96	17	23
Federal Republic of Germany	87	88	38	59

¹ Not included are agricultural exports, fuels, minerals and metals as well as other raw materials.

² Also belongs to the oil-exporting states.

Sources: See Table 2.

economic conditions in the newly industrialising countries understandably make them particularly attractive for investments by foreign enterprises. This applies particularly to countries such as the Federal Republic of Germany where foreign investments are mainly export-oriented and dominated by the manufacturing sector. Although altogether investments in countries with comparatively large domestic markets are dominant, it is the small states which are registering high growth rates. The share of newly industrialising countries thus amounts to more than 40 % of total German investments in developing countries (cf. Table 5).

This situation is similar to that in large investing countries such as the United States, Japan, Great Britain and France, each of which invests about 30 % in developing countries, especially the newly industrialised.

What applies to direct investment can generally also be said about the transfer of technology in the form of patents and know-how licences. The comparatively secure political situation in the newly industrialising countries and the existence of experienced entrepreneurs particularly favour this form of cooperation. No wonder that in 1979 almost 50 % of Germany's patent and licence revenues from developing countries originated from newly industrialising countries.

Table 5
German Direct Investments in NICs, 1960 and 1979
(in DM million)

Country	German Direct Investments	
	31. 12. 1960	31. 12. 1979
Hong Kong	7.0	152.8
Singapore	3.1	225.9
South Korea	8.2	44.2
Malaysia	5.7	64.2
Argentina	460.7	728.8
Brazil	1,342.8	4,996.4
Uruguay	29.9	34.2
Venezuela	38.2	109.6
Mexico	274.5	800.0
Algeria	50.9	235.7
Nigeria	25.4	230.4
Total investments in NICs	2,246.4	7,622.2
Total investments in developed and developing countries	17,618.3	65,001.8
NICs in %	12.8	11.7
Total investments in developing countries	5,383.4	18,065.4
NICs in %	41.8	42.2

Source: Ministry of Economics of the Federal Republic of Germany.

Owing to the above-mentioned factors it is understandable generally that the newly industrialising countries' integration into the world economy is observed suspiciously by just those states which – at least in part – have similar ranges of exports. For it must be expected that the newly industrialising countries' exports will impair their sales chances on their home markets, in third countries and possibly also in the newly industrialising countries, due to an improvement in the latter's ability to meet their own needs.

Debt Problems

Special problems for the international economy could, in the coming months and years, arise from the particular phenomenon of highly increased indebtedness abroad. This concerns especially the newly industrialising countries. Their high growth rates and steady expansion favoured the inflow of foreign private and public credits. Here the Latin American countries play a considerably more important role than the smaller countries in South-East Asia, where only South Korea registers a high indebtedness which, however, hitherto has not given cause for alarm because of otherwise favourable conditions.

In Latin America, on the other hand, the consequences of the international economic recession and endogenous factors led to a critical situation. In 1982 many countries got into balance of payments difficulties. Of US \$ 40 billion of debt rescheduling to be carried through at that time, about two thirds fell to the share of Latin America. Here the pronounced bundling of short-term maturity dates must be taken into consideration. In 1982 Argentina was due to repay about 47 %, Brazil 35 % and Mexico almost half of all outstanding liabilities.²

High debt service payments would be no insoluble problem if they could be financed from high export revenue for goods and services. That this was not the case is shown by the deterioration of the relation between debt servicing and export proceeds between 1978 and 1982. In Argentina this ratio has risen from 70 to 179 %, in Brazil from 84 % to 122 % and in Mexico from 124 % to 129 %.³

In the short run, debt service payments which surpass total export revenue can be financed by a reduction of

² For the structure of maturity cf. Wissenschaftlicher Beirat beim Bundesministerium für Wirtschaftliche Zusammenarbeit, Ausschuß Internationale Verschuldung: Stellungnahme zur Auslandsverschuldung der Entwicklungsländer, Hamburg, 11 April 1983, p. 3; and Aktueller Informationsdienst Lateinamerika, No. 15/16, Hamburg 1982.

³ Cf. Morgan Trust Company of New York: World Financial Markets, New York 1982, p. 5.

foreign exchange reserves or by new credits, as long as no moratoria or debt refunding are agreed on. In the longer run, however, a further expansion of exports becomes compulsory precisely in those countries which are, generally speaking, competitive. Here there exists the risk that individual countries, in order to guarantee their national wishes in the short term, take measures to subsidise their exports which internationally distort competition. Moreover, their foreign exchange situation would compel them to reduce their imports in a dirigistic way and with that to strengthen further the international tendencies towards protectionism.

In addition, the high indebtedness creates a further problem for the world economy. For the collapse of banks on a wide scale would – owing to the close interlocking of economic relationships among the highly developed national economies – cause a rapid expansion of tendencies towards depression and thus further enhance the probability of a serious worldwide crisis.

A way out of this situation appears to be possible only if short-term successful crisis management with the financial aid of international organisations such as the IMF or the World Bank is supplemented in the long run by promotion of export strength without dirigistic and protectionist measures. To achieve this, it is on the one hand necessary that the industrial countries further open their markets instead of sealing them off. On the other hand, considerable efforts on the part of the newly industrialising countries will be required in order to gain and maintain international competitiveness. Apart from an export-oriented trade policy and a realistic exchange-rate policy, a budget policy is therefore required which regulates government expenses to correspond to the sum which can be financed internally by means of taxes.

General Effects Hitherto

If we examine the effects of the newly industrialising countries' competition in a country such as the Federal Republic of Germany, it is relatively clear that there is still little cause for panic. Nevertheless, there also appears to be little justification for disregarding the role of this group of developing countries.

In the Federal Republic of Germany the supply of industrial finished goods from newly industrialising countries has increased almost fivefold during the last decade, rising from DM 3 billion to more than DM 14 billion. At the same time these countries' share in total imports increased only from 2.7 % to 3.8 %. This

relatively small change in the share of the market indicates that the German economy has not been flooded with goods from low-price countries, but that industry was in fact able to a large extent to maintain its competitive position.

In the struggle for markets in other industrial countries and LDCs, the Federal Republic's companies also appear to have been more successful than average. For they succeeded not only in keeping up with the rapid expansion of world trade of the last two decades, but also simultaneously in increasing their share of total world exports from 8.9 % to 10.5 %. This also applies to supplies to the newly industrialising countries, which with an increase from DM 3.7 billion (1970) to DM 13 billion (1980) developed similarly to the corresponding imports. This does not take the explosively increased deliveries to the Arabian oil countries into consideration, which contributed considerably to the stabilisation of German economic conditions.

These few figures are enough to show clearly that in the past in the Federal Republic there was little cause to dramatise the risk of imports from newly industrialising countries. So far, the structural pressure to adjust, originating from the newly industrialising countries' integration into the world market, could largely be mastered without critical developments occurring in the economy as a whole.⁴

The thesis of the hitherto moderate influence of these countries and of German industry's relatively great ability to adjust cannot, however, be generalised and projected into the future. This applies especially with regard to individual industrial sectors. The fact that, for instance, the structural crisis in the textile industry could be mastered at a national level – although with much suffering to those directly involved – cannot simply be projected into the next two decades. Rather, it seems more appropriate to anticipate a considerable intensification of competition between the old and the young industrial nations. This is indicated on the one hand by the fact that the hitherto already strong newly industrialising countries will probably continue increasing their capacity to supply those products for which they already enjoy competitive advantages today. On the other hand, they will make efforts to produce goods of technically and economically higher quality via specialisation and thus to continue diversifying their range of supplies. Although the resulting structural

⁴ UNIDO: The impact of trade with developing countries on employment in developed countries. Empirical evidence from recent research, UNIDO/ICIS 85, Vienna 1978, inter alia deals with the employment effects in industrial countries owing to increased trade relations with LDCs.

difficulties in the industrial countries will probably tend to be mitigated by the wage level rising in the course of growth, the possibly flickering hope of an assimilation is illusory in view of the inflationary budgetary and wage policies of most industrial countries.

And, in addition, competitive pressure will rise with the appearance of further newly industrialising countries. There are already indications that countries such as India, Indonesia, the Philippines, Pakistan, Tunisia and a number of further Central and South American countries will also push their way into the world market. Against this background, the question arises as to which industries will have to anticipate a considerable intensification of competition in future, and how economic policy could make adequate allowance for the changed conditions.

Sectors Jeopardised in Future

In the attempt to answer the question which industries and producers will suffer especially from the growing pressure of competition in the next ten or twenty years, all more or less agree that the most massive competition is to be anticipated in those branches in which the LDCs have already had an advantage for a long time owing to their available labour supply and lower unit labour costs. The following branches are thought to be especially endangered: the electro-technical industry, the textile and clothing industries, wood and wood processing, the production of musical instruments, sports articles and toys, leather production and processing and the footwear industry. In future, the iron-producing industry, mechanical engineering and vehicle construction, as well as shipbuilding could also be involved. This list should not be interpreted to mean that all enterprises of these branches in industrial countries are already sentenced to bankruptcy. But the gaps and niches in the market remaining to them will gradually become narrower – as shown by the textile and clothing industries – if they cannot be secured by rationalisation, specialisation and new products.

A forecast, going beyond the above, as to which products are especially threatened, is extremely problematical, simply because of the lack of predictability of technical progress and exogenous events. Nevertheless, due to several factors which can already be clearly recognised, some characterisation is possible.⁵ Above all the following products will be subjected to competition by old and new newly industrialising countries:

- ☐ goods whose production does not require technologies which are particularly difficult to learn or

acquire, or whose technology is normally transferred together with their export;

- ☐ standardised or standardisable products in connection with which additional services such as consultation, servicing and guarantee, as well as frequent changes in demand preferences, play only a minor role vis-à-vis the price;

- ☐ further processing of raw materials which are available in sufficient quantities in the newly industrialising countries. This does not only apply to agricultural commodities, but in the long run also to minerals and the entire petro-chemical sector;

- ☐ products which, owing to environmental protection requirements, can only be produced at high additional cost in the industrial countries, while LDCs still tolerate adverse effects on the environment;

- ☐ goods which are required as inputs within the framework of industrialisation processes but in the course of an import substitution policy can also be produced in LDCs.

In such a description of potential difficulties the possibilities which result from world economic development should not be denied. The progressive industrialisation of LDCs and the development of further newly industrialising countries offer the highly developed countries extensive additional sales possibilities due to the specialisation of the latter on the production of industrial finished goods. The numerous forecasting models for the course of growth in the countries of the Third World do not commit themselves to certain growth rates, but their scenarios agree in that up to the year 2000 they expect higher percental growth rates for the developing countries than for the industrial countries. World Bank, OECD and others appear to agree that an annual real growth rate of the gross domestic products of the newly industrialising countries between 5 and 8 % is not at all unrealistic.

The utilisation of the possibilities resulting from this development will not be possible if the industrial nations of the West – for fear of growing competition from the so-called “low-price or low-wage countries” – continue to attempt to safeguard their economies by protectionist measures.

⁵ Cf. inter alia H. Dicke, H. H. Glisman, E.-J. Horn, A. D. Neu: Beschäftigungswirkungen einer verstärkten Arbeitsteilung zwischen der Bundesrepublik und den Entwicklungsländern, Kieler Studien 137, Tübingen 1976; Rationalisierungs-Kuratorium der Deutschen Wirtschaft, Battelle Forschungszentrum, Genf, und Ifo-Institut für Wirtschaftsforschung, München: Direktinvestitionen der deutschen Wirtschaft – die Industrialisierung der Entwicklungsländer und ihre Rückwirkungen auf die deutsche Wirtschaft – Perspektiven bis 1990, Eschborn 1981.

The leading industrial countries have been more than inventive in this field in the recent past. But it would be a fallacy to believe that one can enjoy the advantages of exports to other states if these are not granted sales opportunities in one's own country. The Latin American newly industrialising countries' import substitution policy can only be opposed effectively if the signal for an international trade without limitations is given by the industrial countries.

If the objectives of growth and full employment are to continue to be seriously pursued, the way out cannot lie in increased protectionism. Former Chancellor Schmidt described this way very graphically as "flight into suicide". The solution is rather to be found in a structural adjustment policy which is guided by the requirements of international competitiveness and a consistent export orientation.

Consequences

In spite of broad international discussion of the possibilities with regard to structural adjustment, hitherto there exists little agreement on the most suitable forms and measures.

First, it has to be stated that the approaches to a solution are considerably influenced by the size of the involved industries or enterprises within a national economy.⁶ Individual, relatively small enterprises which are no longer up to the newly industrialising countries'

⁶ A summary of measures for structural adjustment is given by the Research Report of the Federal Ministry for Economic Cooperation, H. Körner, K. H. Grünwald, J. Plathothathie: Industrielle Arbeitsteilung zwischen Industrie- und Entwicklungsländern und Strukturanpassung, Munich 1981.

competition can as a rule without any great problem be supported in the restructuring of their production programme using the available instruments, if corresponding alternative opportunities are available (product innovation). The adjustment can then, for instance, be promoted through low-interest credit, grants related to training activities and tax relief.

But in the case of large industrial sectors or regionally concentrated branches the policy of structural adjustment must find a broader approach relating to the general conditions of productivity. This includes:

- ☐ capacity reduction, and incentives for the transfer to LDCs of industries which are no longer competitive,
- ☐ promotion of research and development,
- ☐ increase of mobility,
- ☐ improvement of the quality of training,
- ☐ extension of information on new processes and markets.

Generally speaking, a more pronounced orientation of structural adjustment towards the development of foreign trade, and thus of the world economy, as well as the improvement of the factor labour via investment in human capital, appear particularly appropriate if the newly industrialising countries' competition is to be countered. This has hardly been the case hitherto. In most industrial countries the concept and realisation of structural adjustment is above all determined by domestic considerations. The instruments usually start with the factor capital (cf. Table 6).

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

Table 6
The Most Important Western Industrial Countries
According to Focal Points and Approaches
of their PSA¹

Focal points of PSA	Approaches	
	relative to capital	relative to labour
Domestically oriented PSA	Australia, Austria, Belgium, Canada, Denmark, Fed. Rep. of Germany, Finland, France, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, USA	Australia, Austria, Belgium, France, Norway, Sweden
Foreign trade oriented PSA	Canada, USA	Sweden
Developing countries oriented PSA	Japan, Netherlands	

¹ PSA = Policy of Structural Adjustment.

Source: H. Körner, K. H. Grunewald, J. Plathothathie: Industrielle Arbeitsteilung zwischen Industrie- und Entwicklungsländern und Strukturanpassung, Munich 1981.

The USA, along with Canada, is endeavouring to base its structural policy on the considerations of foreign trade and in accordance with the regulations of the Trade Reform Act, but there is no direct reference to the developing or newly industrialising countries.

Among the group of countries which give priority to labour-related structural adjustment, Sweden alone attempts in addition to carry through a foreign trade related policy. Oriented towards the particularly endangered sectors, the textile and clothing industries, shipbuilding and wood processing, a certain restructuring of these branches was successful, in the course of which the number of persons employed in these industries has been decreasing steadily over a number of years.

In Japan, a steady promotion of structural change for domestic reasons has been taking place since the sixties, which also attempts to support the integration of the LDCs into the international division of labour. In order to counter the shortage of labour in growth industries, enterprises with a weak competitive position instead of receiving maintenance subsidies, were dissolved or transferred to LDCs and the labour released was integrated into growth sectors.

A structural adjustment policy for the industrial countries directed towards the requirements of the world economy must be oriented towards promoting growth in LDCs and thus aiming at the formation of

additional newly industrialising countries. The resulting pressure of competition can be countered most effectively through further specialisation on the basis of an improvement of factor input.

Internal structural changes can at the same time be supported by a policy for the promotion of exports, of foreign investments and of technology transfer. Numerous measures are available to the government for this purpose. It is therefore not so much additional measures that are required, but their effective coordination and the prevention of subsidies and similar practices.

Government promotion measures are, however, not decisive for the winning and securing of new markets or for the formation of subsidiaries. This also applies to the success of structural adjustment. The main task remains that of the enterprises themselves. They must utilise their innovative opportunities more than ever. For the maintenance and improvement of international competitiveness, this requires the utilisation of all rationalisation and modernisation opportunities. Moreover, there is pressure to specialise further by means of a continued concentration on high-technology products and production systems. It is obvious that this presupposes the knowledge and utilisation of national and international know-how, and thus more transparency in the field of research, patent and licence development.

A role not to be underestimated is played in this context by the systematic exploration and research of markets hitherto not, or only sporadically, exploited. This is not only a question of sales opportunities for the existing range of products and services, but also of acquiring information for product changes and new products, as well as of openings for cooperation with enterprises in the newly industrialising countries and for direct investments.⁷

In this context it must be emphasised that the coming into existence of newly industrialising countries – i.e. growth on a broad basis in LDCs – should be the target of the policy of economic cooperation and of the entire community of nations. Governments and enterprises in the industrial countries must adapt their minds to this at an early stage and not look upon it as a threat, but as a change to be used for the improvement of the division of labour and for further growth.

⁷ The initiatives of Baden-Württemberg and the Saarland must be mentioned above all here. Cf. Expert Commission "Export promotion Baden-Württemberg" – EFK, Final Report, Stuttgart 1982; and "To force economic cooperation with the Third World" (no author), in: *epi-entwicklungspolitische informationen*, 12/82, pp. 13.