

Learning Objectives

- Having examined numerous arguments for free trade, we now turn to explore various arguments that would support trade policies that could lead to import restriction or export promotion.
- Discuss the basis for trade restrictions on the grounds of gaining from terms of trade, protecting national security, correcting domestic market failure, defending labour rights and protecting the environment.
- Also explore the validity of free trade policies by examining the unique price and income elasticity characteristics of agricultural products, the main exports of developing countries.
- Examine how high economic growth rates are often positively correlated with high export growth rates in a handful of Southeast Asian countries.

6.1 Motivation

So far our theoretical models as well as most of the empirical data have suggested that free trade, in general, is better than restricted trade. Restricted trade may raise a country's total surplus, but such a protectionist move is very likely to be met with retaliation. Retaliation, or trade war, will decrease total surplus, and in the end, no country gains. However, if we watch the news or simply surf the internet, we can easily find various arguments against free trade. The protests against free trade go far beyond protecting domestic jobs, although this reason is a popular one. We would explore some of these criticisms, but we will see that some criticisms against free trade are more valid than others.

Critics of free trade have also argued that trade policies of developing countries should warrant a different perspective, given that these countries mainly export primary products such as raw materials and food. Raw materials and food tend to have inelastic demand and supply. For example, if the price of wheat drops by 50%, we are unlikely to consume an additional 50% of wheat products. Demand for wheat is also income inelastic in the sense that as our income rises by 50%, we are unlikely to buy an additional 50% of wheat. Supply of wheat is also rather inelastic, given that it takes a long time for wheat to be planted and harvested. Inelastic demand and supply imply that whenever there is a shift in demand and/or supply, the corresponding change in the price is large because of the steep demand and supply. As the world GDP grows over time, the demand for wheat coming from the developed countries is not going to rise in the same proportion as GDP growth. Price inelasticity and income inelasticity mean that developing countries may often face volatilities in export prices as well as an overall downward trend in export prices. Price volatilities can be easily measured but the overall price trend is debatable. Given the unique features of primary commodities, critics argue that trade policies need to be adjusted accordingly. We will examine the validity of such claims.

Overall, we do observe that countries that have a high degree of openness tend to have enjoyed higher economic growth rates in the past few decades, although internal improvements such as higher savings rates, better education and less corruption perhaps have played important roles as well. We would look at some case studies, such as the rise of the Southeast Asian economies, to demonstrate how exports have functioned as an engine for economic growth.

6.2 Arguments for Trade Protection

Terms of Trade Argument

The first argument for a country to impose import protection such as tariffs and quotas is that such restrictions can improve the country's terms of trade (TOT), or simply, the country enjoys a discount. The import restrictions will shift the import demand inward, and hence the world price of the imports will go down. The sellers have to absorb part of the price increase due to the tariffs or quotas, and hence they effectively offer a discount to the importing country. The TOT argument is valid to a certain extent if the importing country is a large country, such as the US, that can affect the world price. However, the TOT gain of the importer is the TOT loss of its trading partner. The TOT argument is essentially a beggar-thy-neighbour policy that enables one country to gain at the expense of another. The trading partner is very likely to retaliate and set off a vicious cycle such as the Smoot-Hawley tariff debacle.

The TOT argument is not valid for small open economies such as Canada. As a small buyer, the inward shift of our import demand curve will hardly cause a dent on the world price. Import restrictions will only create production and consumption efficiency losses, without any TOT gains. The TOT argument for trade restrictions is unlikely to be valid. It does not work for small economies, and it would induce trade wars if large economies attempt to capture TOT gains by imposing trade restrictions on their trading partners.

Table 6.1 shows some TOT measurements of the US, based on Hufbauer and Elliot's classic study in 1994.¹ Essentially, the US was using its buying power to force the exporters to offer the US a discount. The US' TOT gains are the exporting countries' TOT losses.

Effects of US Tariffs on US Domestic Prices and the World Prices in Percentages			
Products	Tariff Rates	Increase in US Prices	Decrease in World Prices
Chemicals	9	6.5	2.5
Orange Juice	30	21.7	8.3
Luggage	16.5	11	5.5
Footware	20	16.1	3.9
Lumber	6.5	4.1	2.4
Glassware	11	7.3	3.7

Table 6.1 US' TOT Gains as a Result of Tariffs on Selected Products

Source: G. Hufbauer and K. Elliot, *Measuring the Cost of Protection in the United States*, page 28-29.

Domestic Market Inefficiencies Argument

The second argument for imposing trade restrictions is that such restrictions could be used to correct for domestic market inefficiencies. For example, suppose the H labour market is inefficient such that the market-clearing wage rate cannot be reached due to rigid labour contracts or powerful unions. As a result, we observe artificially high wages and resulting excess supply of labour, or unemployment. Opponents of free trade would argue that we could impose import barriers to increase employment. Proponents of free trade argue that this is a theory of the second best. Essentially, we are creating a new problem (restricting imports) to solve an existing problem (unemployment). Ideally, the first best solution is to solve the root of the problem, that is, to decrease the labour market rigidities. Of course, this is much easier said than done, especially in countries that have traditionally powerful labour unions, such as western European countries. The approach of solving the initial problem by tackling the root causes is also called the specificity rule. (Say "specificity" 5 times quickly!)

¹ G. Hufbauer and K. Elliot, *Measuring the Cost of Protection in the United States* (Washington, D.C.: Institute for International Economics, 1994).

The counter-argument to using trade restrictions to save jobs is that the jobs are created or salvaged at the expense of the consumers. In a sense, trade restrictions are forcing the consumers to pay higher prices so that some people can keep their existing import-competing jobs. Consumer surveys have found that some consumers are indeed willing to pay a bit more for products that are “Made in Canada”.² However, note that the consumers of the imported products can be other Canadian firms. For example, import restrictions on imported steel can save some Canadian jobs in the steel industry, but consumers of steel, such as automobiles and machinery, would suffer as their own production costs increase. The import protection for steel indirectly translates to a loss in our competitiveness in our automobile and machinery export sectors³. Jobs saved in the steel industry also translate to jobs lost in other industries. Overall, using trade restrictions to save jobs is a very costly tool that could translate to overall net job losses for the whole country. Protection in the upstream, input providers tends to translate to losses to the downstream, final product producers.

A classic example of how import protection granted to one industry can lead to overall job losses for the entire economy is the US’ tariff imposition on steel in 2002. The US imposed an average tariff rate of 30% on steel imports from the EU, Japan, Korea and China.⁴ Studies found that the tariff protected around 19,500 jobs in the steel industry that has a total of around 187,500 workers employed. The increase in costs and job losses to the automobile, machinery and transport equipment industries totaled 197,000. Note that the job losses in the downstream industries are larger than the entire work force in the steel industry.⁵

Studies have also found some perverse incentive effects in cases where downstream firms support import protection for the upstream firms, even though such trade restrictions would raise their own input costs.⁶ Knowing that their own costs would rise, the downstream firms may use this as an excuse to lobby for their own import protection, such as antidumping duties. These results suggest that the demand for import protection can easily escalate throughout the economy and the consumers would pay.

National Security Argument

Critics of free trade argue that trade in products that can affect national security should be governed by more than just economics. This is probably a valid argument, depending on the product in question. Trade in military weapons should probably not be driven by economics, given that the consumption of the product is not a “good”, but rather most likely a “bad”. A second product that tends to raise the question of security and patriotism is food. Some critics argue that trade in food should be limited and that we should be more self-sufficient in food supplies. We should not rely on imports because a trade war could lead to food shortage and possibly starvation. Self-sufficiency could prevent such a scenario from arising. This was perhaps a more valid argument in the past centuries when transports costs were high, rendering imports from various different sources very costly. However, with much lower surface shipping costs, diversification of import sources is much more feasible. Since a country can import from various countries, it is highly unlikely that having trade disputes with our some of our trading partners would lead to starvation of our own people.

² http://www.cfa-fca.ca/pages/index.php?main_id=321.

³ <http://www.cafta.org/members2.html> and http://www.cbc.ca/canada/story/2002/07/05/steel_020705.html.

⁴ <http://www3.interscience.wiley.com/cgi-bin/fulltext/118738357/PDFSTART>

⁵ http://www.tradepartnership.com/pdf_files/2002jobstudy.pdf and http://www.citac.info/study/job_dislocation.html.

⁶ www.wellesley.edu/Economics/skeath/research/USDSfinal.pdf and <http://www.jstor.org/pss/135850>.

Environmentalists have frowned upon globalization as a main reason for pollution and global warming. It is a fact that industrialization, or globalization, produces more pollution, simply because of higher production levels. By extension, restricted trade will decrease exports and production in the exporting country, which would lead to less pollution in the exporting country. However, note that import protection encourages domestic production in the protected industry, and hence the effect on total global pollution is unclear. Suppose for the moment we assume that both countries have similar environmental standards and legislation. The concept of comparative advantage tells us that the exporting firms must be the cleaner, more efficient firms. It is true that the environment may improve because total consumption and production will drop because of higher prices, but we are substituting some output from the cleaner exporting firms with the less clean import-competing firms. In total, even though the quantity produced is smaller, the pollution per unit produced is likely to be higher, and the total amount of pollution could be higher or lower than under free trade.

Some critics argue that pollution is a negative externality, which means it is a by-product or side effect of production, and hence a tax should be imposed to correct for such externality. For example, firms that produce machinery emit noise and air pollution. If the firms are not responsible for cleaning up the pollution, they do not take into account the clean up costs. Pollution would be “over-produced”. One way to force the firms to pollute less is to tax the firms and use the tax revenue to pay for clean up costs. Once the firms have internalized the taxes, the firms’ private marginal cost of production would correctly reflect social marginal cost. In equilibrium, the socially optimum amount of product and pollution would be produced. This is certainly a valid argument, as discussed in microeconomics courses. A tariff could potentially correct for this incorrect private decision rule. However, the argument against such a tariff is similar to our previous labour market inefficiency discussion. If we want the firms to internalize pollution costs, a domestic carbon tax would be the first-best solution that tackles the root of the problem. In reality, of course, not all countries have the same environmental standards, and no country can force another to tax their own firms on pollutants. Hence, some critics argue that imposing trade restrictions by the importing country could be the only feasible way to equate private marginal costs to social marginal costs in the exporting country. Developed countries often try to use this argument as a justification for imposing import restrictions on developing countries, which tend to use older, dirtier technology to produce their products. Critics also argue that if dirtier production methods are not taxed, firms in various countries would “race to the bottom”, and produce products with the cheapest but dirtiest production methods.

However, using trade policies to correct for such private and social cost misalignments is highly controversial, for at least two good reasons. The WTO does not allow developed countries to use differences in environmental standards as an excuse to impose import restrictions, fearing that the noble banner of “protecting the environment” could be easily abused to become a form of disguised protectionism. Developing countries are highly critical of using import restrictions to adjust for different environmental standards across developed and developing countries. They believe that the developed countries have already gone through their own Industrial Revolution in the past centuries, which heavily polluted the environment. Developed countries went through their own learning process and they now have newer and cleaner technology. The developing countries believe that they are going through the same phase, only a hundred years later. The developing countries also view environmental protection as a luxury good that should come after, not before, economic growth. Studies have found that as an economy improves to around US\$5,000 per capita, its people also increase their demand for “cleanliness”⁷. From the perspective of the developing countries, the concerns of developed countries, especially the US, over the environment may seem hypocritical since the US is one of the largest polluter in the world. With

⁷ Grossman and Krueger, “Environmental Impacts of a NAFTA”, NBER paper, No.3914, 1992

around 300 million people, the US is one of the largest emitter of greenhouse gas⁸ and consumer of fuel⁹. Developing countries are likely to view any attempt by developed countries to use environmental concerns to limit imports as blatant protectionism.

Are developed countries emitting more or less CO₂ than developing countries? Table 6.2 shows that on a per-capita basis, developed countries emit much more CO₂ than developing countries. Specifically, Canadians and Americans emit about two to 24 times more CO₂ than people from the BRIC countries. The World Bank has also found that people in high-income countries consume on average 10 times more electricity than people in low-income countries.¹⁰ However, it is true that China, a developing country, has been the world's largest emitter of CO₂ since 2010. The emission coming from the BRIC countries is likely to rise in the future as they become more industrialized and luxurious items such as private cars, heating and electrical appliances become more affordable. The problems with pollution are likely to intensify as the world economy grows over time.

Table 6.2: Carbon Dioxide Emission, Per Capita in Metric Tons and Total in Billions										
Country	1990		1995		2000		2005		2010	
	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total
US	19.10	4.99	19.36	5.26	20.25	5.87	19.72	5.94	17.56	5.50
Canada	16.20	0.45	15.66	0.48	17.37	0.55	17.43	0.57	14.68	0.55
Germany	..	1.02	10.58	0.92	10.10	0.87	9.78	0.85	9.11	0.82
UK	9.98	0.59	9.58	0.56	9.23	0.55	8.97	0.55	7.86	0.51
France	6.83	0.39	6.61	0.39	6.00	0.41	6.21	0.41	5.56	0.39
Korea	5.76	0.25	8.31	0.40	9.52	0.45	9.62	0.50	11.49	0.59
Japan	8.86	1.16	9.44	1.25	9.61	1.28	9.69	1.32	9.19	1.24
Mexico	3.65	0.31	3.44	0.33	3.67	0.38	3.93	0.42	3.76	0.44
Brazil	1.40	0.22	1.60	0.27	1.88	0.35	1.87	0.37	2.15	0.44
Russia	..	2.44	11.22	1.75	10.63	1.66	11.29	1.72	12.23	1.71
India	0.79	0.66	0.96	0.87	1.14	1.06	1.25	1.29	1.67	1.78
China	2.17	2.51	2.76	3.52	2.70	3.56	4.44	5.85	6.19	8.74
South Africa	9.47	0.27	9.04	0.29	8.38	0.31	8.31	0.36	9.04	0.33
Burkina Faso	0.07	..	0.06	..	0.09	..	0.08	..	0.11	..
Ethiopia	0.06	..	0.04	..	0.09	..	0.07	..	0.07	..

Table 6.2 CO₂ Emissions by Selected Countries

Sources: Per-capita data from the World Bank and Total data from http://edgar.jrc.ec.europa.eu/news_docs/pbl-2013-trends-in-global-co2-emissions-2013-report-1148.pdf

⁸ <http://www.cbc.ca/news/interactives/gmaps/greenhouse-emitters> and <http://news.bbc.co.uk/2/hi/science/nature/3143798.stm>.

⁹ http://english.peopledaily.com.cn/200508/01/eng20050801_199605.html

¹⁰ http://www-wds.worldbank.org/external/default/WDSCContentServer/TW3P/IB/2003/05/30/000094946_03051504051563/Rendered/PDF/multi0page.pdf

The Labour Standard Argument

Labour activists often argue that workers in developing countries should be paid minimum wages, guaranteed vacation pay and benefits, as well as have the right to unionize. Also, children under the age of 15 should be prohibited to work in the labour force. In short, workers in developing countries should be able to enjoy the conditions that workers in developed countries possess. Developing countries, however, are adamantly opposed to such suggestions. They argue that their abundance in labour and low-wages are the sources of their comparative advantage. Due to their low national income, these governments could not provide public education for most children under the age of 15. As a result, their population tends to begin work at a much younger age in comparison to developed countries. According to a study by the International Labour Office¹¹, approximately 175 million children between the ages of five and 14 worked in 2008. This represented a drop of 20 million children compared to 2004. The 175 million children accounted for 14.5% of all children in the world, and 60% of the child workers were male compared to 40% female. Of the child workers, approximately 60% worked in agriculture, 26% in services, 7% in manufacturing, and the remaining 7% in various other industries.

Table 6.3 shows that child workers are most common in low-income countries. In Sub-Saharan Africa, about 30% of all children are engaged in some type of work to help support their families, followed by around 15% in Asia and the Pacific. For the Others, which include developed countries, less than 5% of children under the age of 15 worked in 2008.

Child Workers Under the Age of 15 (2008)		
Regions	Millions	As a Percentage of All Children
Sub-Saharan Africa	58.2	28.4
Latin America	10	9.0
Asia and the Pacific	96.4	14.8
Others	10.7	4.3
World Total	175.3	14.5

Table 6.3 Percentage of Children Aged 10-14 in the Labour Force
Source: <http://www.ilo.org/ipecinfo/product/viewProduct.do?productId=13313>, 2010.

The Developing Countries Argument

In general, developing countries have comparative advantage in producing primary products, such as food, coffee and raw materials, as well as labour-intensive products such as textiles and clothing. In contrast, developed countries have comparative advantage in producing capital-intensive, higher value-added products such as machinery and automobiles. The main feature of primary products is that they exhibit inelastic demand and supply. The demand for primary products is both price inelastic and income inelastic. Price inelasticity means that if the firms offer a price discount of, say, 50%, the quantity demanded will rise by less than 50%. For example, if potatoes are on sale for half-price, we are not likely to consume twice as many potatoes. Inelastic demand means the demand curve is quite steep. This also implies that for a given shift in demand, a steep demand curve will lead to a much larger change in price compared to a flat demand curve. **Figure 6.1** shows the comparison, holding the horizontal shift in the demand curves identical across the two graphs. The supplies are also identical across the graphs. The demands on the left graph are elastic while the demands on the right are inelastic. With the same magnitude in demand shifts, the graph on the right yields a much larger change in price. This implies that exporters of primary products tend to face more volatility in their export prices than the exporters of manufactured products.

¹¹ <http://www.ilo.org/ipecinfo/product/viewProduct.do?productId=13313>

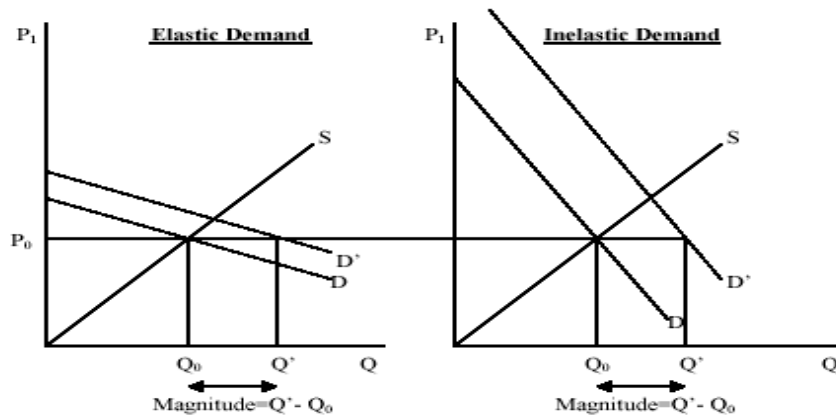


Figure 6.1 Contrasting Elastic and Inelastic Demands with the Same Horizontal Shift

The supply of primary commodities also tends to be rather inelastic due to the time needed to produce such products. The supply of natural resources is limited by nature, and the yield of agricultural products is also limited by the availability of agrarian land. As an exercise, draw two graphs with identical demand curves but one with elastic supply and the other one with inelastic supply. The case with inelastic supply should show a higher degree of price variability for a given horizontal shift in the supply curves. This implies that with an inelastic supply, an increase in supply will lead to a large drop in prices and total revenue.

Income inelasticity means that if our income rises by, say, 40%, our quantity demanded for potatoes will rise by less than 40%. In fact, it is questionable if our quantity demanded for potatoes will rise at all because we tend to buy more expensive foods when our income rises. Potato could be an inferior good. In other words, the demand for agricultural products can have a small, positive income elasticity at best, or a negative income elasticity at worst. Since the world's GDP rises over time, we can infer from the income inelasticity that the demand for such commodities rises very slowly or even falls over time. Therefore, the price and income elasticity features of primary products render them not a very attractive group of products to export. Table 6.4 shows some selected terms of trade indices of some products between the years 1972 and 2009. Note that these numbers are rather volatile across the years.

Changes in Commodity Prices, 2000=100							
Commodity	1972	1980	1995	2000	2005	2007	2009
Food	59	139	127	100	122	155	163
Beverages	60	191	154	100	132	163	204
Raw Materials	27	80	124	100	102	116	95
Metals	43	110	122	100	160	292	192
Petroleum	10	130	61	100	189	245	217

Table 6.4 Changes in Selected Commodity Prices
Source: International Monetary Fund, International Financial Statistics, various years.

Given the undesirable economic characteristics of primary products and the fact that trade in textiles and clothing as well as agriculture has been highly restrictive over the past few decades (recall the MFA and CAP from Chapter 4), developing countries have been trying to divert their export interests into manufacturing industries. However, developing countries do not have comparative advantage in producing such products, and hence they argue that the new manufacturing industries in their infancy stages should be sheltered from import-competition. In addition, the domestic governments need to subsidize these industries through grants and low interest loans. The protection could offer time for these industries to develop its own technology and eventually compete with the rest of the world. This is often referred to as the infant industry argument for import protection.

While the idea behind the infant industry argument is ideally sound, the application of this idea is a different story. The protection granted through tariffs and subsidies created an incentive problem. The idea of such policies is to provide some breathing space for the infant industry to become more productive and once they have become competitive, they can compete in the world market. But from the firms' perspectives, would they have incentives to become more productive? From actual cases, the answer is an astounding "no". Countries in Latin America and Mexico adopted this import-substitution and export-promotion strategy, but the result was the debt crisis in these countries in 1982. The industries they subsidized did not improve their productivity, and yet the subsidies had to be financed by either raising domestic taxes (not politically popular) or from borrowing abroad (which was a short-term fix). As these countries accumulated more and more foreign debt, they eventually failed to pay back the debts and interests. These countries had to seek financial aid from the International Monetary Fund for emergency loans as well as debt restructuring. Recall from our discussion on NAFTA and Mexico in Chapter 5.

If primary commodities have undesirable economic characteristics and production subsidies tend to create incentive problems, what can the developing countries do in order to diversify their export products? A World Bank study found that some developing countries that previously adopted import-substitution policies have since switched to a higher degree of trade liberalization. Their reforms mainly included reductions in tariffs and eliminations of quotas since the 1970s.¹² An interesting result is that these countries have also begun to change the types of products they export, as shown in [Table 6.5](#). It appears that as they became increasingly more open to trade, their rate of adopting newer technologies also increased, which enabled them to focus more on manufactures as their merchandise exports. Such transformation may take decades, but the competitive forces that arise from a higher degree of free trade seems to guide the changing export patterns of these countries.

Manufactures as a Percent of Total Merchandise Exports		
Countries	1983	2008
India	52	63
Malaysia	25	54
Thailand	31	74
Argentina	16	31
Brazil	39	45
Chile	7	12
Mexico	37	74
South Africa	18	52
Kenya	15	37

Table 6.5 Changing Patterns of Exports in Developing Countries
Source: World Bank, World Development Report, 2011.

6.3 Trade and Growth

Openness and Economic Growth

So what should the developing countries do to improve economic growth? There is no quick solution. Historically, we have seen a handful of countries/economies, such as Japan, Korea, Singapore, Taiwan and Hong Kong that managed to change their economic status from developing countries to developed countries/economies over a period of 50 years. Their experience suggests that the combination of openness to trade, high savings rates and capital accumulation, sound fiscal policies and institutions, investment in education and *economic freedom* seem to be the keys to economic growth.

¹² D. Rodrik, "The Rush to Freer Trade in the Developing World: Why So Late? Why Now? Will it Last?", NBER Working Paper No. 3947, Jan 1992, p. 3-4.

A study by Dollar and Kraay¹³ illustrated that developing countries that have increased their degree of openness (recall from Chapter 1) have grown much faster than developing countries with a decreased degree of openness over the past few decades. They found that countries with an increased openness index and decreased tariff rates have experienced 3.5% and 5% real GDP annual growth rates over the decades of 1980s and 1990s, respectively. In contrast, less open countries experienced 0.8% and 1.4% in the same periods. **Table 6.6** summarizes their findings. The “globalizers” are the countries that have cut their tariffs by at least 22 points and around a 100% increase in trade openness index between the 1970s and 1990s.

Globalizers versus Non-Globalizers and Economic Growth						
Globalizers	Annual GDP/Capita Growth		Openness Index		Weighted Average Tariffs	
	1970	1995	1970	1995	1985	1995
Argentina	2.3	5.2	11.3	32.9	27.5	11
China	1.4	7.8	12.5	34.2	38.8	20.9
India	-1.2	4.4	12.7	22.1	99.4	38.3
Bangladesh	-7	3.7	10.3	26.7	92.7	26
Uruguay	0.1	4.3	35.5	84.3	33.7	9.6
Non-Globalizers						
Pakistan	-2.4	-0.3	47.6	34.5	69.2	41.7
Venezuela	-1.1	0.2	61.4	54.7	31.1	12.7
Brazil	8.8	1.6	11.1	17.9	42.8	12.7
Kenya	9.2	0.6	109.5	78.2	39.4	13.5
Ecuador	8.3	0.6	49.8	57.5	34.3	11.7

Table 6.6 Increased Openness and Economic Growth Rates
Source: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=632684, page 38.

Case Study: Southeast Asian Countries and Economic Growth

Perhaps the most commonly quoted case study that supports the view that a high degree of openness to trade can function as an engine for economic growth is a group of Southeast Asian countries/economies known as the Newly Industrialized Countries (NICs). These NICs include Hong Kong, Korea, Singapore, Taiwan, Malaysia, Indonesia and China. **Table 6.7** shows that these NICs experienced on average high single-digit annual real GDP growth rates throughout the 1980s and 1990s, but export growth rates were even higher. Note that industrial countries are countries that have a per-capita income of at least US\$32,000 in 2004 constant dollars, and developing countries have a per-capita income lower than this value. Of course, besides export-oriented growth, these economies also possess the features of high savings rates, improvement in education and training, rapid rate of adoption of new technology, a shift from agrarian economies to industrial economies, and an increasing degree of economic (not necessarily political) freedom. For some of these economies, such as Singapore, Korea and Hong Kong, their per-capita GDP is now comparable to those of the US and Canada. Also note that these Asian countries did experience a financial chaos in 1997 that included an economic recession and massive depreciation in their currencies. Chapters 8 and 9 will discuss this and other financial crises in more detail.

Average Annual Export and Real GDP Growth Rates in NICs and Other Countries				
Countries	Exports		Real GDP	
	1980-1990	1991-1995	1980-1990	1991-1995
Korea	12	13.4	9.4	7.2
Hong Kong	14.4	13.5	6.9	5.6
Singapore	10	13.3	6.4	8.7
Thailand	14	14.2	7.6	8.4
Indonesia	5.3	21.3	6.1	7.6
Malaysia	10.9	14.4	5.2	8.7
China	11.5	15.6	10.2	12.8
Developing Countries	7.3	5.2	2.8	2.1
High-Income Countries	5.2	6.4	3.2	2

Table 6.7 Average Annual Export and Real GDP Growth Rates of Selected Countries
Source: World Bank, World Development Report, 1997.

¹³ D. Dollar and A. Kraay, “Trade, Growth and Poverty”, World Bank Research Paper, March 2001, p.38.