

**D. Papageorgiou, M. Michaely, and A.M. Choksi (editors), *Liberalizing foreign trade: Indonesia, Pakistan and Sri Lanka*, (Basil Blackwell Ltd, UK, 1991), pp. xii + 428, n/p.**

The book under review is the fifth of seven volume series published under the auspices of the World Bank containing the foreign trade liberalization experiences of three countries — Indonesia, Pakistan and Sri Lanka. The series contains experiences of nineteen countries of three major regions — Latin America, Asia and the Pacific and the Mediterranean. Editors take the benefits of open trading for granted and set the objective of each country study as how has it achieved trade liberalization.

Various distinct periods of liberalization are identified in each study which are termed as "liberalization episodes". A subjective index of liberalization is constructed for each country which shows "a rough and ready measure of liberalization perceived by the author of the country study in question". Liberalization episodes are analysed by posing various questions to assess their success. Half of the book is devoted to the Indonesian case study and the remaining half is divided between Pakistan and Sri Lanka studies.

In the Indonesian case study, Mark M. Pitt traces "one of the most complex and volatile" trade regimes of the world. He identifies five periods in the progress of Indonesian economic policy; Colonial Dutch regime ending in 1949 with Indonesian independence, period of constitutional democracy, Sukarno's "Guided Economy" of 1958-65, dramatic liberalization period of 1966-71 and the post liberalization period.

Post World War II and pre-independence period resulted in extensive foreign exchange and price controls which were more pervasive than before. Import licences were distributed on the basis of historical rights resulting in severe discrimination against Indonesian firms which received not more than 10 per cent of import foreign exchange. Post independence period naturally resulted in a policy of awarding import licences in a different manner. Benteng system of importing reserved a share of import foreign exchange for ethnic Indonesians which resulted in corruption.

It seems that Pitt exaggerates the resulting discrimination to ethnic Chinese. He terms the number of Benteng importers of 751 to be "nume-

rous" as opposed to the number of other-mostly Chinese-importers of 3119 (p. 34). He also offers data (Table 3.1, p. 36) describing the official racial discrimination resulting in "rapid" rise of enterprises controlled by Indonesians. If one looks at both the small number of Indonesian enterprises and their growth rates, official racial discrimination" can more aptly be described as affirmative action. At this point one feels a shortcoming of this case study — lack of description of any background of Indonesian demography (including the ethnic composition) and economy. This kind of information, like ethnic Chinese constitute only 2.3% of total Indonesian population, would have weakened the case of discrimination.

The dramatic and far reaching liberalization of 1966 and following economic performance is discussed in detail. Circumstances under which it took place were also dramatic and politically volatile. Gradual downfall of Sukarno started with 1965 coup and was completed in 1967 when General Suharto became president. Economy was in shambles in 1965. Terms of trade were at their lowest since independence. Productivity was down and the inflation rate exceeded 1000 per cent by the first half of 1966 and corruption was at its peak. Pitt describes the ridiculous liberality of the black market economy of this period suggesting that there were significant free market economies for most commodities based on black market prices.

Sukarno's regime of direct control of economy was changed dramatically by heavy reliance on free market economy especially in the foreign trade sector. Importers were free to buy almost any good they wished as the import license restrictions were abolished. Old export inducement scheme — Bonus Ekspor — was revived linking export with import. A market of complementary foreign exchange was allowed resulting in dual exchange rate system which eventually ended in 1970 with exchange rate unification. Policy of maintaining fixed exchange rate was also abolished in 1967.

Pitt shows that the Indonesian economy improved enormously after the introduction of trade liberalization. The GDP increased rapidly as well as exports and imports and the inflation was reduced from 635 per cent in 1966 to single digit levels in just a few years. However, the impact on manufacturing output was less remarkable which, in fact, declined in the first year following the liberalization.

Lack of strong conclusions linking foreign trade liberalization to economic success seems to be a weakness of this study. The question whether the trade policy or other fiscal and monetary policies contributed more to the economic success is not discussed. A sophisticated "innovation accounting" based on the technique of vector autoregression fails to link effects of trade policy variables to GDP or other output measures due to lack of data. However, links to volumes of exports and imports are indeed es-

established. We think that the exclusion of output variables from this exercise is a serious drawback because the given data suggest that the short run effect of liberalization on manufacturing output was negative. The strength of the study lies in cogently discerning the paths toward liberalization in a volatile and complex trade regime.

Guisinger and Scully authored the Pakistan case study. They identify two liberalization periods in the "tortoise like progression toward liberalization" associated with Ayub and Bhutto regimes. Background on Pakistan's economy is generously provided covering more than half of the study. Incorrectly calculated growth rates of population are provided at the outset in table 1.1, p. 209. Structure of foreign trade is described together with a construction of subjective indices describing export, import and trade liberalization. Authors put Pakistan's trade regime halfway between ranks of zero and 20 representing total control and complete liberality.

Both liberalizations are discussed in detail highlighting antecedents, timing and instruments of import controls and export incentives. Liberalization is discussed more as an end in itself rather than concentrating on its consequences resulting in an extremely weak and almost redundant conclusion:

"Liberalization had no readily apparent adverse effects on Pakistan's economy and yielded many benefits that simply do not show up in the macroeconomic indicators" (p. 205).

This weakness, authors contend, is due to various factors including the small scale of liberalization, relatively insignificant trade sector compared to GNP and the simultaneous occurrence of other economic and political events with the introduction of trade reforms. "Neither economic science nor the statistical data are refined enough to extract the independent effects of liberalization from these other factors" (p. 206). However, important insights are provided with the comparison and interpretation of the two liberalization periods which share several common features like the ad-hoc nature of policy changes and absence of long-range planning.

The case study of Sri Lanka, authored by Cuthbertson and Athukorala, traces the timing and sequencing of trade liberalization policy. Colonial heritage is shortly described together with an ample and excellent background on economy, demography and political development in independent Sri Lanka; A cyclical development of trade and commercial policy took place in line with the swings in the government from centre-right to centre-left leaning respectively to free market and state control.

Two liberalization episodes are identified; first beginning in 1968 which ended very soon and the far reaching second attempt starting in 1977 which has fortunately broken the cyclical pattern of closing and

opening the economy. Important inferences are drawn from the timing and sequencing of liberalization like large gains can be made from initiating significant opening up of trade barriers in one shot; switching from quotas to tariff is beneficial if rates are set not too high; seperate export promotion strategy does not necessarily yield the desired results. However, the important question whether the economy-wide growth can be identified as a liberalization outcome is left unanswered.

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