Dollars and Democracy

The Post-Cold War Decline in Developing Democracies' Share of Trade and Investment Markets

November 10, 1999

Ten Years After the Fall of the Berlin Wall - November 9-11, 1989

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Developing Country Democracies' Declining Share of Trade and Investment Markets

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Executive Summary

The end of the Cold War, sparked by the determined resistance of the Polish Solidarity trade unionists and marked by the dismantling of the Berlin Wall ten years ago in November, 1989, helped open up a 10-year flood of new trade, investment and economic growth in the world. Despite the setback of the 1997 financial crisis, this economic boom has by and large been a good thing for many people in both developed and developing countries. And if such gains can be more widely shared, the possibility of sustained growth built on technology-driven productivity gains holds much promise for future improvements in standards of living.

But underneath this encouraging possibility lurks an unsettling pattern: as a group, the *democratic countries in the developing world are losing ground to more authoritarian countries when it comes to competing for U.S. trade and investment dollars*. This finding raises the question of whether foreign purchasing and investment decisions by U.S. corporations may be inadvertently undermining the chances for survival of fragile democracies. This is one of the key questions emerging from this study by the New Economy Information Service, a non-profit organization which explores the effects of rapid economic change on work life, families, and communities. The study found that:

- In the post-Cold War decade, the democracies' share of developing country exports to the U.S. (excluding oil) fell from 53.4 percent in 1989 to 34.9 percent in 1998. ("Democratic" countries are those ranked as "Free" by Freedom House, a human rights organization that has produced an annual survey of freedom in the world since 1972.) Of this 18.5 percentage point loss, 10.8 percentage points were picked up by countries ranked as "Not Free," and 7.7 percentage points were gained by countries ranked as "Partly Free." The loss by developing democracies holds true even when China and Mexico, our two largest trading partners in the developing world, are excluded from the data.

- An even greater shift in market share was found in exports of manufactured goods to the U.S., which are vital to a developing country's economic success. The developing democracies' share of manufacturing exports to the U.S. fell by 21.6 percentage points, from 56.7 percent to 35.1 percent during the same period. In contrast, countries ranked as Not Free gained 10.6 percentage points, and those ranked as Partly Free gained 10.9 points.

- The developing democracies' loss in export market share occurred both for countries whose Free ranking was the same in 1998 as it was in 1989, as well as for those which moved up to Free status during the decade. In other words, the imbalance revealed in the data cannot be explained by changes in freedom ranking that occurred during the decade.

- Because the U.S. absorbs such a large proportion of developing countries' exported products, American purchases disproportionately affected the democracies' share of exports to the world as a whole. Between 1989 and 1997, the democracies' share of developing country exports to the rest of the world fell from 43.2 percent in 1989 to 39.2 percent in 1997, a loss of 4.0 percentage points. The Not Free and the Partly Free countries gained 0.1 and 3.9 percentage points respectively.

- Regarding U.S. foreign direct investment (FDI) in manufacturing, the share garnered by developing democracies has remained largely stagnant. Between 1989 and 1998, countries ranked as Free gained 1.8 percentage points in market share, moving from 26.2 to 28.0 percent. Meanwhile, the Not Free countries (principally China) gained 5.7 percentage points. The Partly Free countries lost 7.5 percentage points, due almost entirely to Brazil, which nonetheless remains as the largest single developing country recipient of U.S. FDI. By 1998, four countries -- Brazil, Mexico, Malaysia (Partly Free) and China, (Not Free) -- accounted for 67.6 percent ($44.5 billion) of the total U.S. FDI in developing country manufacturing. This was more than twice as much as all the developing democracies put together.

- Regarding foreign direct investment from the world as a whole, developing democracies lost 4.4 percentage points of market share, moving from 32.4 to 28.0 percent of the total, while the not free countries gained 9.5 percentage points and the partly free countries lost 5.1 points.

These findings pose a number of policy questions. How might donor agencies, such as U.S. Agency for International Development (USAID) and international development banks, help the developing democracies compete more effectively? If authoritarian countries are gaining market share despite numerous U.S. laws imposing economic sanctions, what will happen if those sanctions are lifted? Within the private sector, what will be the impact of corporate "codes of conduct" on outsourcing and investment decisions? Will U.S. investors, chastened by the 1997 world financial crisis, now give more weight to transparency and rule of law as criteria for investment decisions, thus shifting the balance back toward democracies?

The toughest questions are faced by the developing democracies themselves. In some ways, the transition to freedom in these countries helped fuel the post-Cold War explosion in trade and investment. Yet so far, they seem to be reaping the least benefit from the global economic boom. This is surprising in light of evidence that democratic institutions of conflict management, civil society, and the rule of law tend to enhance, rather than restrict, a healthy investment climate and economic stability.

Do the developing democracies need to develop a greater group consciousness to explore ways that would help them compete? Should they press for global trade rules and international aid criteria that take democracy into account?

This research suggests that these questions need to be addressed now while the U.S. economic expansion is still under way and trade and investment flows to developing democracies are still on the rise (albeit at a slower rate than for authoritarian countries). Otherwise, some countries might conclude that to compete in the global trade and investment game, it pays to become more authoritarian.

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Developing Country Competition for Trade and Investment Dollars

Perhaps no idea has enjoyed wider acceptance than the "trade and investment" strategy for promoting the development of Third World countries. In its most free market form, the strategy urges developing countries to open up their borders to the free movement of goods, services and capital flows, reduce the size of government, and reap the growth rewards that are sure to follow. Some analysts have cautioned that the Asian tiger economies which are so often held up as models for this view succeeded with a good deal more government intervention than the free market version allows. Others have qualified the trade and investment theory of development even further, suggesting that only certain kinds of exports (manufacturing) and certain kinds of foreign investment (the long-term kind that builds factories and enterprises rather than the short-term kind that can destabilize financial markets) lead to the greatest gain. However, none of these qualifiers questions the need for developing countries to aggressively expand exports and attract foreign direct investment.[1]

In the United States, both major political parties have supported the trade/investment policy even as they have largely abandoned foreign aid as a development strategy. U.S. development assistance was under criticism for alleged ineffectiveness even before the end the Cold War removed its anti-Communist rationale. When the Berlin Wall fell in 1989, the U.S. provided $2.6 billion in development assistance to Third World countries. Ten years later the level of aid is roughly the same, despite a sizable rise in our Gross Domestic Product and the additional Congressional appropriation of funds to aid the newly freed countries of the Soviet bloc. The U.S. now contributes less per capita in foreign aid than most other major developed countries.

This is all to the good according to the "Trade-Not-Aid" consensus. As stated recently by Congressman Phil Crane (R-IL) in support of the bi-partisan Africa initiative (the African Growth and Opportunity Act, HR 434), "Traditional foreign aid alone has not and will not make countries self-sufficient. Only private sector investment can bring about the type of economic development that we would all like to see."[2]

President Clinton, while supporting a higher level foreign aid to Africa than Congressional Republicans, clearly shares this sentiment:

> countries and individual citizens in the developing nations of the world—not just in Africa, but throughout the world—will never be able to rise to the level of middle class nations with huge numbers of people earning good, sustainable incomes, unless they do it through the energy of private economic interchange, through trade and investment.[3]

Developing country governments have largely adopted the trade/investment strategy as their own. Whether by choice or under pressure from international financial institutions backed by the U.S. government to reduce hard currency debt, most developing nations have competed fiercely to increase exports and attract foreign investment to create jobs and develop production capacities. As a whole, they have done so successfully. In the post-Cold War period between 1989 and 1997, developing countries' merchandise exports have grown from 17.9 percent to 22.9 percent of total world exports, a gain of 5 percentage points in market share at the expense of the developed countries. In like manner, foreign direct investment has increasingly flowed to the developing world. Between 1989 and 1997, developing countries increased their share of world FDI net inflows by 28 points, from 12.7 to 40.8 percent.[4]

As "importer of first, and last, resort," the United States has played a pivotal role in absorbing this expanding export flow. Total exports to the U.S. (excluding oil) from developing countries increased from $124 billion in 1989 to $344 billion in 1998 (rising from 30 percent to 40 percent of exports to the U.S. from all countries during the 10-year period). Developing country exports to the U.S. of manufactured goods have increased at an even faster rate, from $93 billion to $322 billion over the same period, a 246 percent increase. In like manner, the U.S. has been the source of the greatest amount of FDI flowing abroad to the developing world. U.S. direct investment in developing countries has increased from $56 billion to $204 billion during the same period, a nearly four-fold increase.[5] Although the bulk of U.S. FDI still flows to developed countries, the proportion invested in the developing world is rising.

It is evident that the collective choices Americans make about where in the world we purchase products, services and off-shore production facilities have an enormous impact on whether particular developing countries will succeed or fail in global competition.

In order to compare how authoritarian and democratic countries within the developing world are faring in this competition, we examined U.S. import data made available by the Census Department and data on U.S. foreign direct investment abroad from the Commerce Department's Bureau of Economic Analysis. In addition, we looked at data from the World Bank regarding world-wide trends in trade and investment.

We defined "developing" countries as those which had a per capita gross national product of less than $9,000 in 1989, at the beginning of the 10-year period under review. This definition excludes Japan and the European countries, as well as Singapore, Hong Kong, Qatar, United Arab Emirates, and Kuwait.

To separate countries into groups according to the degree of democracy, we relied on rankings published by Freedom House, a well-known human rights organization which has published its annual Freedom Survey since 1972. Based on two series of checklists, one for questions regarding political rights and one for civil liberties, the Freedom House Survey assigns each country or territory a numerical rating between 1 and 7 for each category. The political rights and civil liberties ratings are then averaged and used to assign each country and territory to an overall status of "Free," "Partly Free," or "Not Free."

Using the latest available Freedom House Annual Survey (1998), we compared how each of these three categories of countries fared during the past 10 years when it comes to exporting goods and services and attracting foreign direct investment.

Since a number of countries changed freedom status during the period, we also compared countries whose freedom rank was different in 1998 and 1989 with those whose freedom rank stayed the same. A complete list of the countries falling into each category may be found in the box below.

Country Freedom Status

1. **Countries by Freedom Rank in 1998** (the most recent Freedom House Annual Freedom Survey) A complete list of these countries may be found in Appendix 1.
   - **Not Free** (47 countries ranked by Freedom House as "Not Free" with a GNP Per Capita of less than $9,000 in 1989)
   - **Partly Free**. (51 countries ranked by Freedom House as "Partly Free" with a GNP Per Capita of less than $9,000 in 1989)
   - **Free** (64 countries ranked as "Free" by Freedom House with a GNP Per Capita of less than $9,000 in 1989)
   - **Other countries** (24 countries ranked as "Free" by Freedom House with a GNP Per Capita of more than $9,000 in 1989. Also includes four countries—Singapore, Qatar, United Arab Emirates and Kuwait—in the "Not free" or "Partly free" categories which had a GNP Per Capita of more than $9,000 in 1989. In addition, there are several countries that are not ranked by Freedom House, including Hong Kong, Macao, and a number of small, largely island countries)

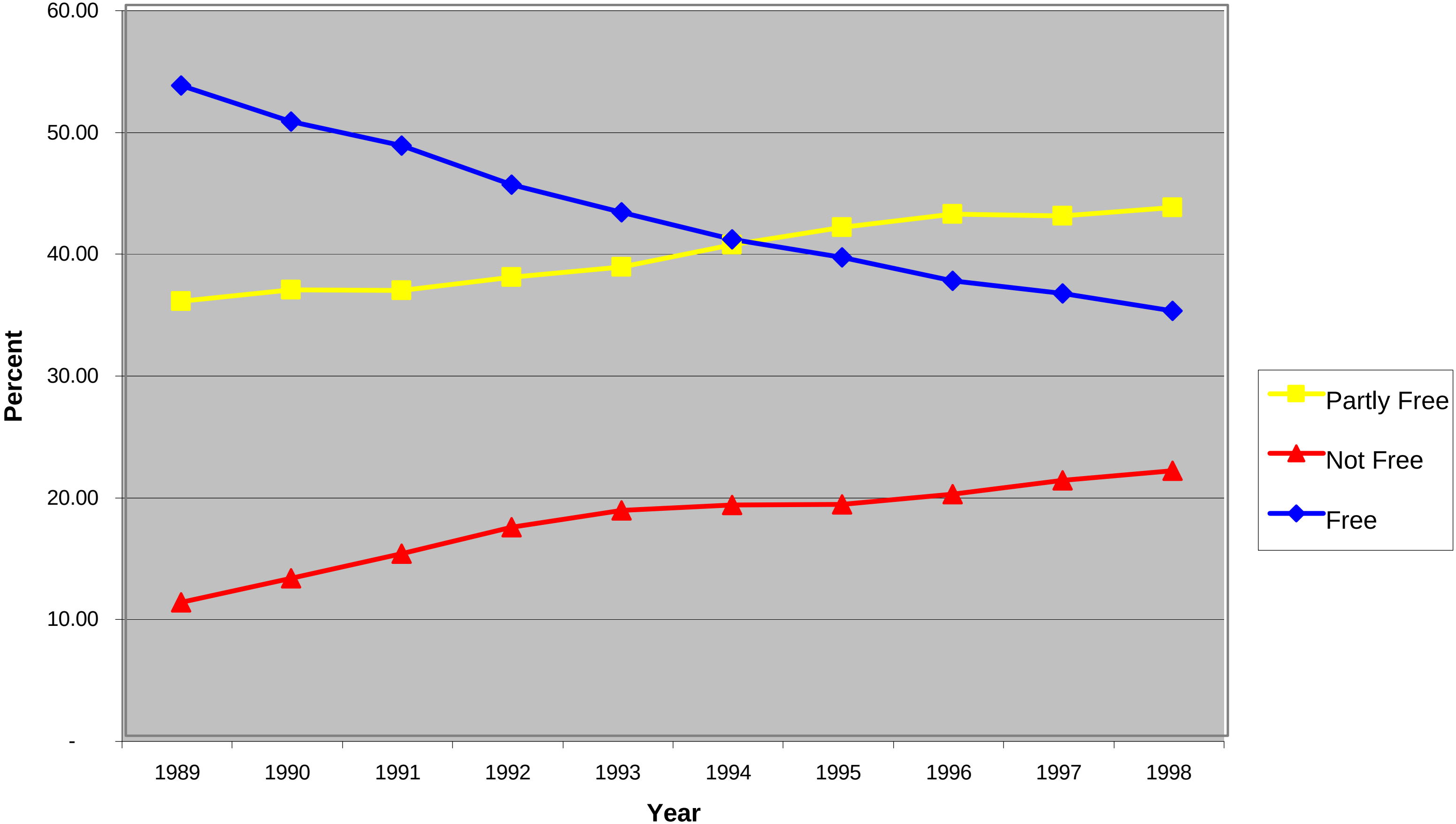
2. **Developing Countries whose freedom rank in 1998 was the same as in 1989** (Unchanged countries)
   - **Not Free Unchanged** (Afganistan, Angola, Belarus, Brunei, Burma, Burundi, Cambodia, Cameroon, Chad, China (Mainland), Congo, Cuba, Djibouti, Equatorial, German Democratic Republic, Guinea, Iran, Iraq, Kazakhstan, Kenya, Laos, Lebanon, Maldive Islands, Mauritania, Niger, Oman, Rwanda, Saudi Arabia, Somalia, Sudan, Syria, Tajikistan, Togo, Turkmenistan, Uzbekistan, Vietnam, Zaire)
   - **Partly Free Unchanged** (Bangladesh, Bosnia-Herzegovina, Colombia, Croatia, Fiji, Guatemala, Indonesia, Jordan, Macedonia, Madagascar, Malaysia, Mexico, Morocco, Nepal, Nigeria, Pakistan, Paraguay, Peru, Senegal, Sierra Leone, Sri Lanka, Suriname, Tonga, Turkey, Uganda, Zambia, Zimbabwe)
   - **Free Unchanged** (Andorra, Argentina, Barbados, Belize, Bolivia, Botswana, Costa Rica, Cyprus, Dominica, Dominican Republic, Ecuador, Micronesia, Grenada, Honduras, India, Jamaica, Kiribati, Korea (South), Liechtenstein, Malta, Marshall Islands, Mauritius, Monaco, Nauru, Palau, Papua New Guinea, Philippines, San Marino, Solomon Islands, St. Kitts-Nevis, St. Lucia, St. Vincent, Thailand, Trinidad and Tobago, Tuvalu Islands, Uruguay, Vanuatu, Venezuela, Western Samoa)

3. **Developing Countries whose freedom rank in 1998 was different than in 1989** (Changed countries)
   - **Up to Partly Free** (Albania, Armenia, Azerbaijan, Burkina, Central African Republic, Comoros, Eritrea, Ethiopia, Gabon, Georgia, Ghana, Guinea-Bissau, Haiti, Kyrgyzstan, Lesotho, Liberia, Moldova, Mozambique, Russia, Seychelles, Tanzania, Ukraine)
   - **Up to Free** (Benin, Bulgaria, Cape Verde, Chile, Czech Republic, El, Salvador, Estonia, Guyana, Hungary, Latvia, Lithuania, Malawi, Mali, Mongolia, Namibia, Nicaragua, Panama, Poland, Romania, Sao Tome and Principe, Slovakia, Slovenia, South Africa, Taiwan)
   - **Down to Partly Free** (Antigua, Brazil)
   - **Down to Not Free** (Algeria, Bahrain, Bhutan, Egypt, Ivory Coast, Swaziland, Gambia, Tunisia, Yemen, Yemen Arab Republic, Yugoslavia)

The Decline in Developing Democracies' Market Share of Exports

In the post-Cold War decade, the share of developing country exports to the U.S. (excluding petroleum) of countries ranked as Free declined from 53.4 to 34.9 percent.[6] Meanwhile, developing countries ranked as Not Free increased their share by 10.8 percentage points. Those ranked as Partly Free gained 7.7 percentage points (See Chart 1 and Table 1).[7] (Note: these percentages are based on exports from *developing* countries only. It should be noted, however, that market share of *developed* democracy exports to the U.S. also declined during the decade, from 67 to 57 percent of exports from *all* countries.)

Chart 1: Market Share of Developing Country Exports to U.S. (All Except Oil)



Source: U.S. Census Dept.

Because the U.S. absorbs such a large proportion of developing countries' exported products, American purchases from authoritarian countries disproportionately affected their share of total world exports. According to World Bank figures, countries ranked as Free lost 4.0 percentage points in their share of developing country exports of merchandise to the world, falling from 43.2 percent in 1989 to 39.2 percent in 1997. Not Free countries' share, in contrast, rose a fraction of a percentage point to 27.3 percent in 1997, and Partly Free countries' share rose from 29.6 to 33.5 percent in the same time period.[8]

Table 1: Democracies' Share of Developing Country Exports (Percent)

Category	1989	1998	Percentage Pint Gain/loss in Mkt share
Exports to the U.S. (All Except Oil)*	**53.4**	**34.9**	**-18.5**
Exports to the U.S. (Manufactured Goods)*	**56.7**	**35.1**	**-21.6**
Exports of Merchandise to the World**	**43.2**	**39.2*****	**-4.0**

Note: "Democracies" include those developing countries ranked as "free" by Freedom House in 1998.
"Developing Countries" include those countries with GNP per capita of less than $9,000 in 1989.
Sources:
*Data on exports to the U.S. are from U.S. Census Bureau.
**Data on exports of Merchandise to the World are from World Bank, *World Development Indicators 1999*. CD-ROM. World Bank, Washington, D.C. (Includes only countries for which data was available in both 1989 and 1997).
*** 1997 figures.

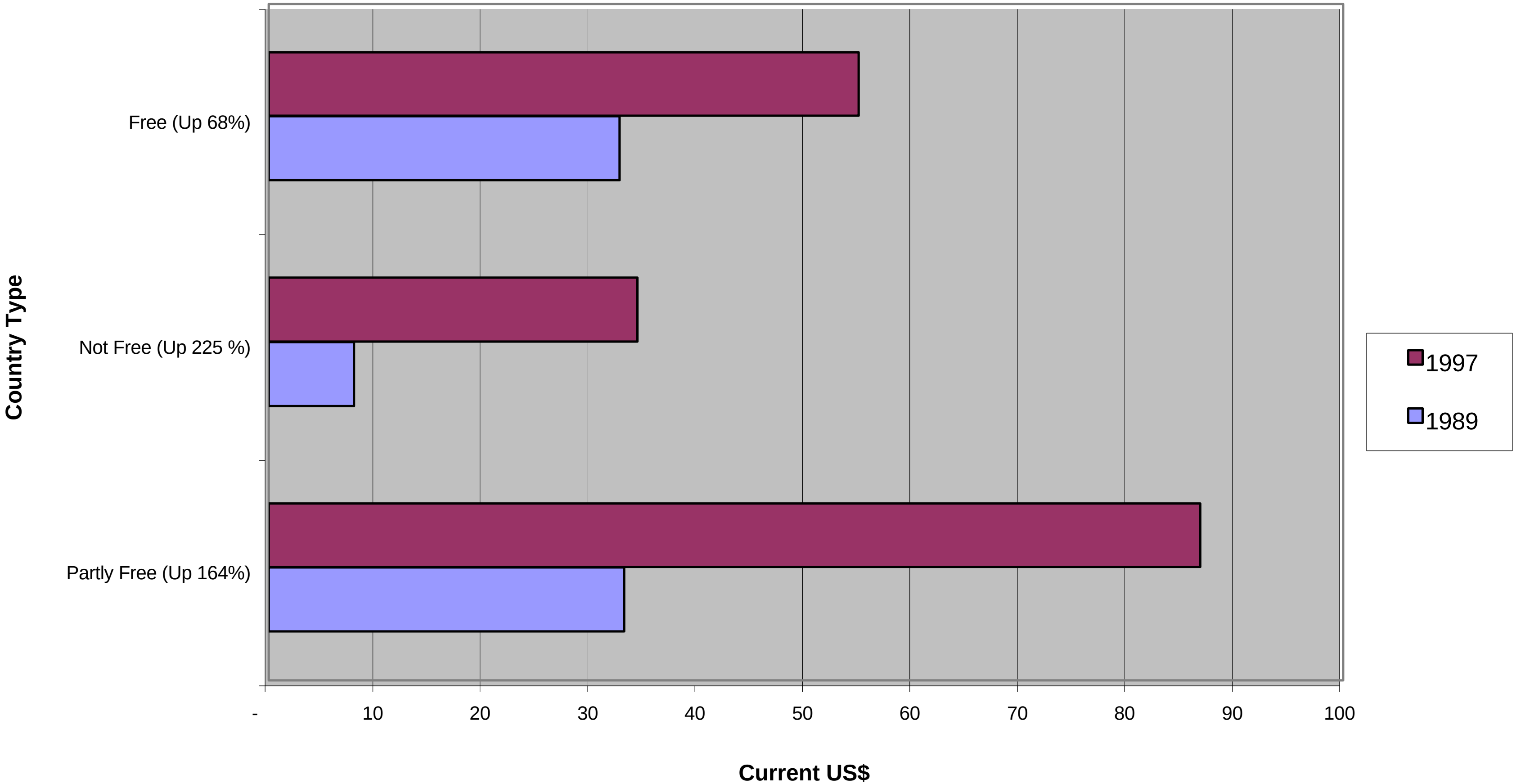
The shift in market share becomes even more dramatic when considering exports of manufactured goods to the U.S. Many economists believe that the ability to export manufactured goods is a more important indicator of developing country economic health than are exports of raw materials and agricultural commodities. For example, a 1996 Organization for Economic Cooperation and Development (OECD) study of the relationship between trade and worker rights decided to focus on manufacturing trade rather than total trade because of the volatility of raw material prices and their relative decline as a percent of total world trade.[9] Similarly, in a study for the Economic Policy Institute, Stephen C. Smith argued that "one of the most important determinants of long-term development success from export promotion seems to be a focus on manufacturing as opposed to (or in addition to) primary products. There have long been important arguments in the development literature in favor of limiting dependence on exports of primary commodities."[10]

The democratic countries' share of developing country manufacturing exports to the U.S. fell from 56.7 percent to 35.1 percent between 1989 and 1998, a loss of 21.6 percentage points. During the same period, the Not Free countries gained 10.6 points, and the Partly

Free countries gained 10.9 points. (See Appendix 1 for the gain/loss in market shares of individual countries in each category.)[11]

Since a number of countries changed freedom category during the 10-year period, we recalculated market share in several different ways to double-check our conclusions. For example, we compared countries that changed freedom status with those that did not. We looked at market share by categorizing a country's freedom status as it was *in each year*, rather than as it stood at the end of the decade. We even calculated market share of exports on a *per capita* basis, so that exports from China would not seem so large given its huge population. (See Chart 2) These alternate methodologies and their results are described in Appendix 2. Our conclusion is that regardless of the method used, developing democracies are being outperformed by other countries when in comes to selling goods—especially manufactured goods—to the U.S. and to a lesser extent, to the world. In other words, the imbalance revealed in the data cannot be explained by changes in freedom ranking that occurred during the decade.

Chart 2: Per Capita Increase in Exports to U.S. (all except oil) from Developing Countries, 1989-1997



Source: U.S. Census Bureau

Do Subjective Freedom Classifications Distort the Findings?

A legitimate question may be raised about whether the necessarily subjective classification of a country's freedom status—especially those partly free countries with high volumes of trade with the U.S.—might explain the results described here.

Few would quarrel with the inclusion of China, Saudi Arabia, Algeria, Egypt, Cambodia, Oman, Vietnam, Kazakhstan, Burma, and Bahrain in the Not Free category. Together, these ten countries accounted for 99 percent of that category's exports to the U.S. in 1998.

In the Free category, the top ten exporters are Taiwan, South Korea, Thailand, Philippines, India, Venezuela, Dominican Republic, South Africa, Honduras, and Costa Rica, which together account for 90 percent of the exports to the U.S. from that group of countries. In this case, the only questionable inclusion would be Thailand, which was ranked as Partly Free between 1991 and 1997 and which, according to Freedom House, continues to partly censor the press, tolerate child labor and forced prostitution of young girls, discriminate against workers who seek to form unions, and wink at corruption.

Questions could be raised about the classification of some of the Partly Free countries as well. The 10 largest exporters to the U.S. in this category are Mexico, Malaysia, Brazil, Indonesia, Russia, Turkey, Sri Lanka, Bangladesh, Pakistan, and Peru. Together, these ten account for 96 percent of that category's exports to the U.S.

Brazil is especially problematic. Unlike the other countries in this group, Brazil was ranked as Free from 1985 until 1993, when it was "demoted" due to election problems and rampant lawlessness as a result of a notoriously dysfunctional judicial system. Freedom House reports that "human rights, particularly those of socially marginalized groups, are violated with impunity on a massive scale." But in 1998, according to Freedom House, "the elections were considered free and fair, with opposition candidates winning the governorships of three of the biggest states." And in spite of a continuing climate of lawlessness, human rights violations, and "chronic corruption that undermines the entire political system," Brazil allows a much freer press and greater freedom of association, especially for trade unions, than does Mexico.

Mexico, despite hopeful progress in the direction of freer elections during the decade, is still a long way from creating the relatively level playing field for opposition parties that is found in Brazil. Like Brazil, Mexico is plagued by high levels of corruption, lawlessness, and human rights violations. But unlike Brazil, Mexico is much more authoritarian when it comes to freedom of the press and freedom of association. According to Freedom House, "for more than four years, the human rights situation has seriously deteriorated, with hundreds of arbitrary detentions, widespread torture, scores of extra-judicial executions, and a number of forced disappearances reported by nongovernmental organizations." In addition, Mexico's media depend on the government for advertising revenue, and the ruling PRI party dominates television. Unlike the labor situation in Brazil, in Mexico, "officially-recognized labor unions operate as political instruments of the PRI," and "the government does not recognize independent unions, denying them collective-bargaining rights and the right to strike. …Independent unions and peasant organizations are subject to intimidation, blacklisting, and violent crackdowns."[12]

In view of these considerations, it might be considered reasonable to shift Brazil to the Free category and shift Thailand to the Partly Free category. Were this to be done, however, the findings of this study would be reinforced, not weakened. They would show an even greater decline of market share of trade and investment for the democracies. That is because Brazil, one of America's largest trading partners, fell from a 6.4 percent market share of manufacturing exports to the U.S. in 1989 to a 2.8 percent share in 1998, a drop of more than half. And as will be seen in a following section, Brazil also experienced a sizable drop in market share of foreign direct investment from the U.S., falling from 42.6 to 33.9 percent. Thailand, on the other hand, gained market share in both exports and investments. In manufacturing exports to the U.S., Thailand rose from a 3.3 to a 3.7 percent market share, in third place behind Taiwan and Korea among countries in the Free category. In foreign direct investment, Thailand increased its market share from 2.4 to 2.5 percent.

Switching these countries would thus make the findings of this study more pronounced. Rather than second guess the Freedom House categories, we decided to leave them as they are and report the findings as shown.

Exports to U.S. - Regional Differences

Some, but not all, of the increase in authoritarian country market share is due to exports by China and Mexico, the developing countries which were most favored by U.S. importers in 1998. In the case of Mexico, location plays a role, and we would expect a higher level of exports from countries close to our borders, especially those involved in the new NAFTA trade agreement.

Even without China and Mexico, however, the democratic countries' market share of manufacturing exports to the U.S. fell by 11 points during the decade (from 77.2 percent to 66.2 percent).[13] Losses by South Korea (down 9.2 points) and Taiwan (down 10.8 points), dragged the Free countries down. Most of the gain was made up by Partly Free countries led by Malaysia (up 7.1 points) and Indonesia (up 2.4 points). The Not Free countries, with China excluded, went up only a fraction of a point, with Cambodia, Vietnam and Algeria making slight gains of 0.1 percentage points or less.

An analysis of countries' market shares by geographic region is presented in Appendix 3. As might be expected, the Middle East is the region most dominated by non-democratic states, with only 7.5 percent of 1998 regional exports coming from countries ranked as Free. Next in order, with the percent of regional manufacturing exports to the U.S.

coming from Free countries shown in parentheses, are Latin America and the Caribbean (16.1%), the Former Soviet Bloc (39.5%), the Asia-Pacific region (46.0%), and Africa (77.4%). (Note: unlike the percentages in Appendix 1, these percentages are based on the totals *within* each region.).

Africa is the only region where developing democracies dominate trade with the U.S. Because the U.S. buys such a tiny portion of our foreign-made manufactured goods from Africa (1.2 % in 1998), the relative success of its developing democracies has little effect on the overall picture. Currently, America purchases most of its imported manufactured goods from Asia (58.6%), followed by Latin America and the Caribbean (35.4%), the Former Soviet Bloc (3.3%), the Middle East (1.4%), and Africa (1.2%).

Foreign Direct Investment

In the global competition for foreign investment, especially direct foreign investment in manufacturing facilities, many developing countries have offered a variety of incentives to investors, including tax breaks, easing of capital controls, industrial parks and export processing zones, and sometimes lax enforcement of labor laws. U.S. investors have responded with substantial increases in manufacturing investment abroad. The developing countries share of U.S. FDI in manufacturing has increased in the past decade from 19.0 percent to 23.9 percent of the total. In 1998, this amounted to $68 billion.[14]

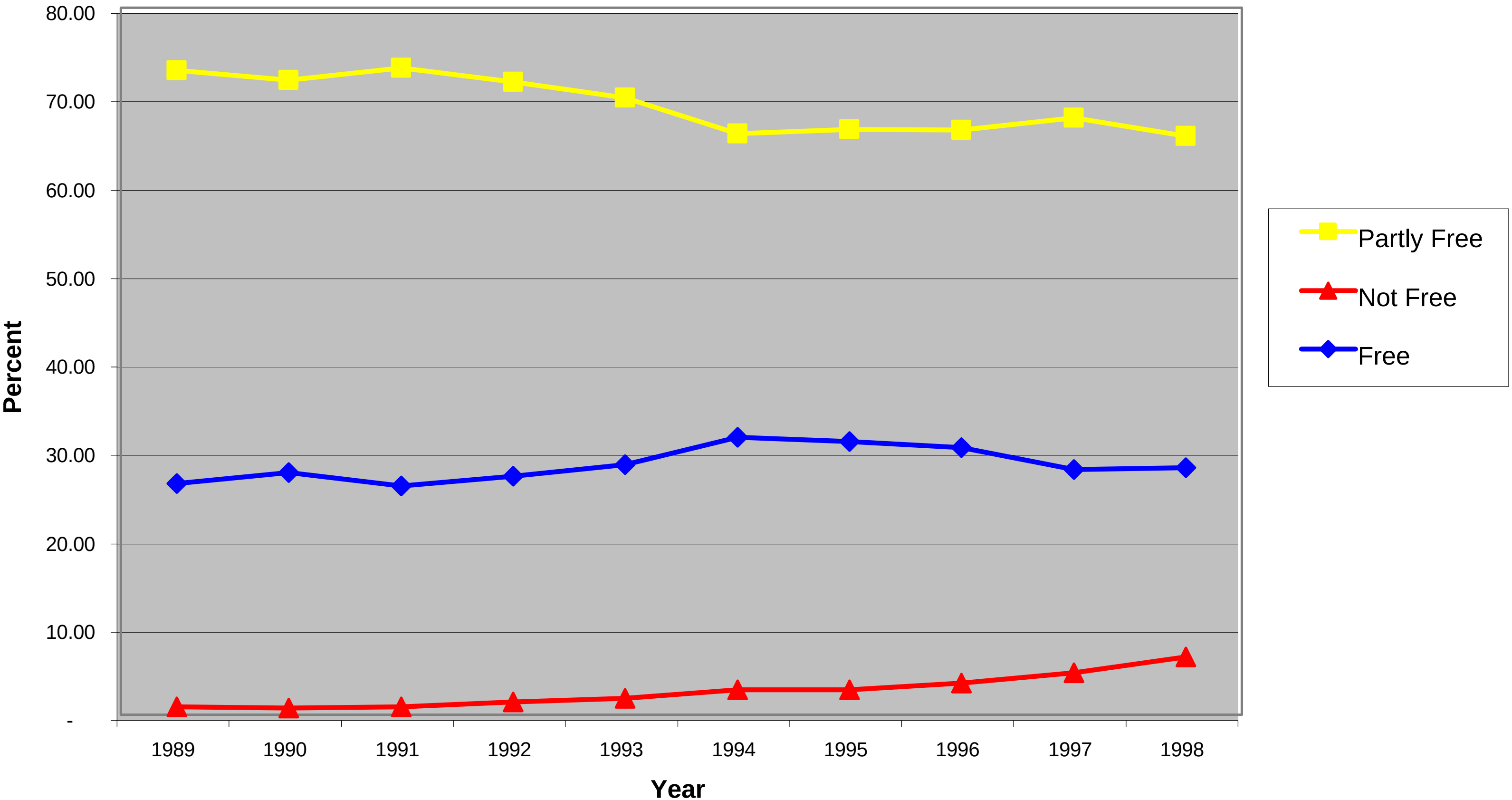
Unlike the situation with exports, the flow of U.S. dollars into foreign direct investment in manufacturing in the developing world is overwhelmingly concentrated in a handful of countries. The top four recipients accounted for 67.6 percent of the total for developing countries in 1998. These were Brazil, Mexico, Malaysia, and China. The first three are ranked as Partly Free, and China is ranked as Not Free. The $44.5 billion garnered by these four countries was more than twice as much as that invested in all the developing democracies put together.

Although the data for U.S. foreign direct investment is far less complete than for exports, making comparisons more tenuous,[15] the developing countries ranked as Free appeared to have held their own during the period—at around 27 percent. Seventy-three percent of U.S. FDI stayed in the Partly Free and Not Free countries.. Between 1989 and 1998, countries ranked as Free gained 1.8 percentage points in their share of U.S. FDI to developing countries, moving from 26.2 to 28.0 percent of the total. However, the Not Free countries (principally China) gained more—5.7 percentage points. The Partly Free countries lost 7.5 percentage points, due almost entirely to Brazil. Despite the loss, Brazil remains the principal developing country destination for U.S. foreign direct investment, with 32.8 percent of the total in 1998. (See Chart 3 and Table 2)

Table 2. U.S. Foreign Direct Investment in Manufacturing in Developing Countries

Country	1989 (%)	1998 (%)	Gain/Loss in Mkt. Share, 1989-98
Not Free Countries Total	**0.89**	**6.57**	**5.68**
China	0.47	5.66	5.20
Egypt	0.28	0.66	0.38
Kenya	0.14	0.24	0.09
Yemen	-	0.02	0.02
Congo (formerly Zaire)	-	-	-
Sudan	0.00	-	(0.00)
Rwanda	0.00	-	(0.00)
Brunei	-	(0.01)	(0.01)
Partly Free Countries Total	**72.93**	**65.47**	**-7.46**
Brazil	42.55	33.85	(8.71)
Mexico	24.25	21.66	(2.59)
Malaysia	2.38	6.38	4.00
Colombia	2.26	1.66	(0.60)
Turkey	0.72	0.92	0.19
Peru	0.26	0.33	0.07
Indonesia	0.39	0.30	(0.09)
Guatemala	-	0.29	0.29
Nigeria	0.06	0.09	0.03
Zambia	0.05	-	(0.05)
Free Countries Total	**26.18**	**27.96**	**1.78**
Argentina	4.24	5.55	1.31
Taiwan	4.98	4.95	(0.03)
Korea, Republic of	4.33	4.46	0.14
Venezuela	2.44	2.82	0.38
Philippines	2.37	2.48	0.11
Thailand	2.35	2.48	0.13
South Africa	1.50	1.31	(0.19)
Chile	0.53	1.28	0.75
Dominican Republic	0.24	0.59	0.35
Costa Rica	0.53	0.56	0.04
India	0.71	0.39	(0.33)
Honduras	-	0.29	0.29
Ecuador	0.31	0.29	(0.03)
Jamaica	1.08	0.22	(0.86)
Panama	0.54	0.21	(0.33)
Slovenia	-	0.04	0.04
Bulgaria	-	0.03	0.03
Barbados	0.03	0.01	(0.02)

Chart 3: Developing Countries' Share of U.S. Foreign Direct Investment in Manufacturing



Source: U.S. Commerce Dept. Bureau of Economic Analysis
(Includes only countries with data available for all years)

What seems to be happening is that Brazil has lost considerable direct investment over the past 10 years as China and Malaysia have gained. For example, Brazil lost over 40 percentage points in U.S. direct investment in industrial machinery and equipment, while China gained 9 points and Mexico 12. In electronics, Brazil lost 12 points as China gained 15. In the category of other manufacturing, Brazil lost 40 percentage points in FDI as both China and Mexico gained.

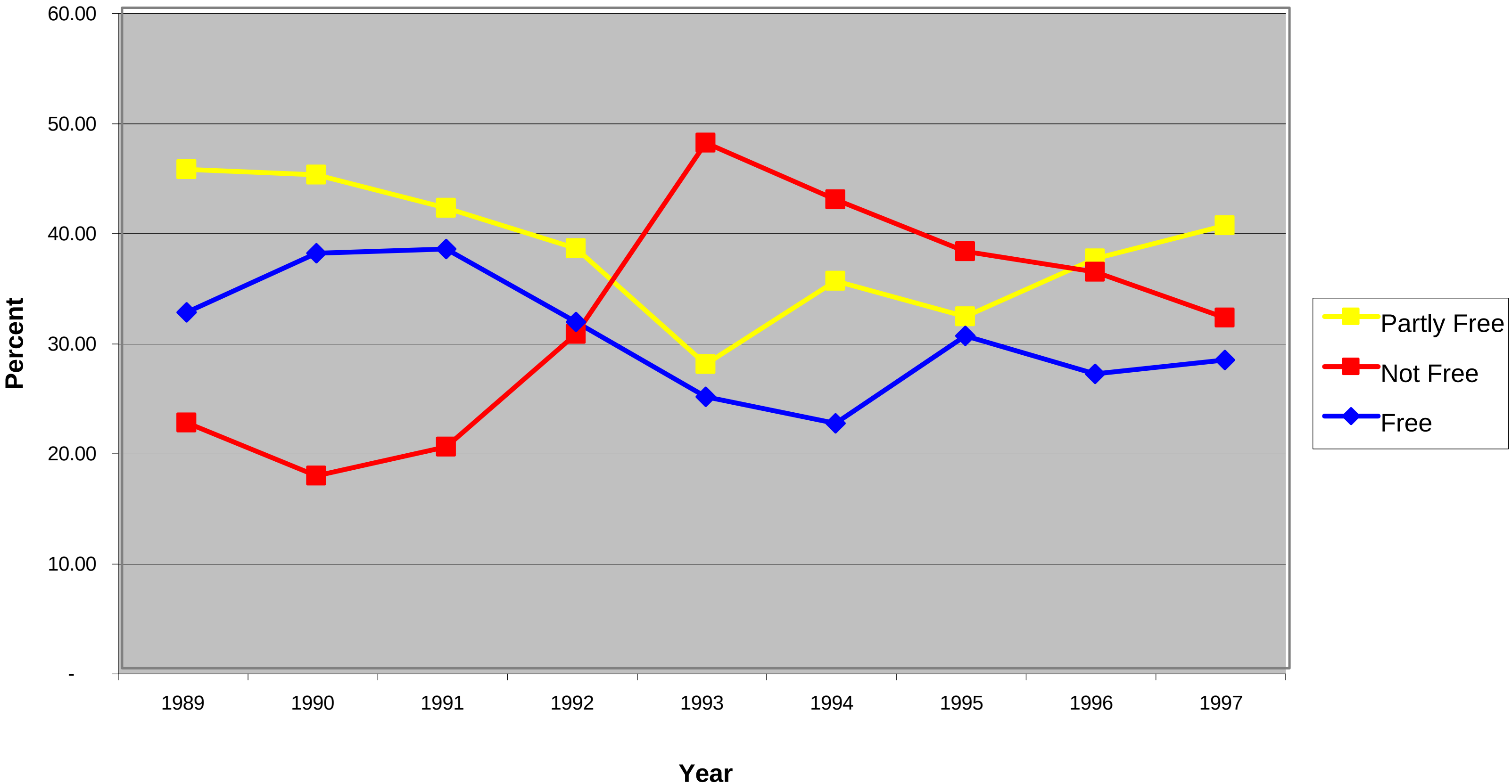
If the comparison is limited to those countries whose freedom rank did not change between 1989 and 1998, the pattern is the same. Of this group of "unchanged" countries, those that began and ended the decade as Free gained 1.5 percentage points in U.S. manufacturing FDI market share, compared to a 5.3 point gain for the Not Free countries and a 1.3 point gain for the Partly Free Countries.

Of those countries with a different freedom rank in 1998 than in 1989, those that fell from Free to Partly Free (Brazil) lost 8.7 market share points, more than the group of countries that became Free (gained 0.3 points). Countries that worsened to Not Free status gained 0.4 points.

When it comes to attracting direct foreign investment from the world as a whole (including the U.S.), there is no readily available comparative data for investment in manufacturing. That is because the World Bank export data is only available for all industries, rather than for investments in manufacturing. Furthermore, the World Bank data is expressed as net FDI inflows each year, which are more volatile than the data we obtained from the U.S. Bureau of Economic Analysis, which is expressed as the value of U.S. ownership of foreign assets on a historic cost basis for those assets in which the U.S. interest is greater than 10 percent. On the other hand, the World Bank data is available for more countries than is the U.S. data.

World Bank data on FDI net inflows also show that democracies performed less well than countries ranked as Not Free between 1989 and 1997. During this period, developing countries increased their share of world FDI net inflows (all industries) by 28 percentage points at the expense of the developed countries, whose share fell by an equal amount.[16] Analyzing the FDI net inflows to developing countries only, those countries ranked as Free lost 4.4 percentage points in market share, moving from 32.4 to 28.0 percent of the total. The Not Free developing countries moved up from 22.3 to 31.8 percent, a gain of 9.5 points. The Partly Free countries lost share, moving from 45.3 to 40.2 percent.[17] (See Chart 4) If the comparison is limited to those countries whose freedom rank was the same in 1989 and 1998, the pattern is the same.

Chart 4: Share of World-wide Foreign Direct Investment (net inflows) in Developing Countries



Source: World Bank, World Development Indicators 1999

Exports to the U.S. - Industry Differences

Not all U.S. industries are equal when it comes to purchasing goods from abroad from democratic countries. Table 3 ranks the exports to the U.S. of various manufactured products by the proportion coming from democratic countries in 1998. Footwear is at the bottom of the list, with 11.2 percent, followed by vehicles and transportation equipment, wood and fiber products, petroleum, miscellaneous manufactures, leather and fur products, coffee and related products, chemicals, and electronics, all of which give countries not ranked as Free an above-average market share. In most of these product categories, the democracies have lost market share over the past ten years. Once again, footwear led the way with a 57.7 percentage point loss.

Table 3: Percent of Developing Country Exports to U.S. From Democratic Countries

(Ranked by percent in 1998) (Source: U.S. Census Bureau)

Product Category	1989	1998	Difference
Arms & Ammo (HS 93)	54.2	62.9	8.6
Processed Food (HS 10-11, 15-16, 19-21)	56.3	58.4	2.1
Agricultural (HS 01-08)	48.1	47.9	(0.2)
Nuclear Reactors & Machinery (HS 84)	61.0	46.6	(14.4)
Minerals (HS 25-26, 68-71)	57.6	45.6	(12.0)
Agriculture & Food (HS 01-24)	42.2	44.0	1.9
Carpets (HS 57)	42.1	42.3	0.2
Metals (HS 72-83)	57.4	38.0	(19.4)
Rubber (HS 40)	34.1	36.9	2.9
Misc Processed Foods (HS 12-14, 22-23)	34.1	35.7	1.6
Apparel & Textiles (HS 51-57)	59.9	35.1	(24.8)
All (except oil)	53.4	34.9	(18.5)
Electronics (HS 85)	49.0	34.7	(14.3)
Chemicals & Related (HS 28-39)	52.1	33.9	(18.2)
Coffee-Sugar-Tobacco-Cocoa (HS 09,17,18,24)	30.8	30.5	(0.3)
Leather & Fur (HS 41-43)	71.9	30.5	(41.4)
Misc Manufactures (HS 65-70, 82-83, 90-92, 94, 96)	62.9	26.8	(36.0)
Oil, Petroleum & Related (HS 27)	21.7	26.8	5.1
Wood & Fiber Products(HS 44-49)	38.6	25.7	(12.9)
Transportation Equip Including Vehicles (HS 86-89)	47.9	17.5	(30.5)
Vehicles (HS 87)	47.8	17.3	(30.5)
Footwear (HS 64)	68.9	11.2	(57.7)

Decisions about the sourcing of consumer products are generally not made by individual consumers, despite labeling and a growing public consciousness about the conditions under which products are made. Instead, a handful of large corporations does the purchasing. In the footwear category, for example, Nike, Reebok, Adidas, Caldor, David Comment, May Department Stores, Ninewest, Target, Timberland, Striderite, and Payless appear to be the big players. Try purchasing a pair of tennis shoes, for example, and finding the model and size you need without it coming from China. It can be done, but not without a great deal of searching. That is because in 1998, footwear importers purchased 69 percent of their shoes from China, followed by Brazil (8.8%), Indonesia (6.4%), Mexico (3%), and Vietnam (1%). Among the developing democracies, Thailand, the Dominican Republic, South Korea, and Taiwan hang on to a dwindling market share of between 1 and 3 percent each.

Many firms have adopted corporate codes of conduct in recent years which include "freedom of association" as one of the criteria for outsourcing. Some codes explicitly mention the right to organize unions and bargain collectively. In an August 19, 1999 opinion piece in the Asian Wall Street Journal, Reebok's CEO Paul Fireman urged other business leaders to follow Reebok's lead in respecting this right:

> Reebok was one of the first multinational corporations to adopt a code of conduct to help ensure that the factories of our global suppliers are fair, humane and in compliance with internationally recognized human rights standards. Among other things, our code of conduct commits us to respecting the rights of workers to freedom of association, including the right to organize and bargain collectively. …Multinational companies should use their voices to promote respect for human rights in the places they do business. … I do not accept the argument that raising these issues with governments where our products are made, and where our brand reputations are on the line, is improperly interfering in another country's internal affairs.

It is unusual to hear a CEO using this kind of language, and even more unusual for one to intervene with government leaders to secure the release of jailed trade unionists, as Mr. Fireman did in the case of Ms. Dita Sari, an activist involved in helping Indonesia's largely female apparel workforce to organize.

But the fact remains that Reebok, like most other footwear companies, outsources most of its products in undemocratic countries where freedom of association is not allowed. According to the PIERS database of U.S. Customs shipments, in 1998 Reebok purchased 63 percent of its imported shoes from authoritarian countries (China, Indonesia, Vietnam) and only 30 percent from democratic countries (Philippines, Taiwan, Thailand). The remaining 7 percent came from Hong Kong, which is unranked by Freedom House but which would probably fall into the "Partly Free" category if it were ranked. (Note: These figures are based on inadequate data because Reebok, as well as Nike and some other companies, bring in most imports through third parties which do not specify the ultimate destination of the imported product). Some other companies appear to have purchased even larger proportions of their imported shoes from authoritarian countries, as shown in Table 4.

Table 4: Footwear Exports to U.S. in 1998 (percent of total tons) - Selected Companies

Country	Striderite	May Dept	Adidas	Target	Ninewest	Caldor	Timberland
Developing Country Total	**99.9**	**63.7**	**99.7**	**37.1**	**69.7**	**77.6**	**97.8**
Pt. Free Total	**0.0**	**25.5**	**30.9**	**-**	**51.1**	**0.1**	**0.0**
Brazil	-	-	-	-	51.0	0.1	-
Bangladesh	-	0.1	-	-	-	-	-
Guatemala	-	-	-	-	0.1	-	-
Indonesia	0.0	-	30.7	-	-	-	-
Malaysia	-	-	0.2	-	-	-	-
Pakistan	-	-	0.0	-	-	-	0.0
Sri Lka	-	25.4	-	-	-	-	-
Not Free Total	**99.8**	**38.1**	**65.0**	**31.6**	**6.0**	**59.4**	**67.5**
China	99.8	38.1	64.7	31.6	6.0	59.4	67.5
Vietnam	-	-	0.4	-	-	-	-
Free Total	0.1	0.1	3.8	5.5	12.7	18.2	30.2
Dominican Rep	0.0	-	-	-	12.4	-	4.3
Honduras	-	-	-	-	0.2	-	-
Philippines	-	0.1	-	-	-	-	-
Thailand	0.0	-	0.7	-	-	0.1	25.9
Taiwan	0.0	-	3.1	5.5	-	18.1	0.0
Panama	-	-	-	-	-	-	-
Free Developed Total	**0.0**	**-**	**-**	**-**	**-**	**0.8**	**0.1**
Greece	-	-	-	-	-	-	0.1
Israel	0.0	-	-	-	-	-	-
Sweden	-	-	-	-	-	0.8	-
NA – Hong Kong	**0.1**	**36.3**	**0.3**	**62.9**	**30.3**	**21.6**	**2.1**
Grand Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: PIERS Data Base, 1998. Note: This data is incomplete because companies do not consistently use the same names when reporting shipping information to U.S. Customs.

Why are developing democracies losing market share?

Given the large volume of exports to the U.S. from China and Mexico and the surge in direct foreign investment in China, it is tempting to explain the decline of the democracies' market share as the inadvertent result of government policy encouraging trade and investment in these countries. During the Cold War period, the goal of promoting democracy and defeating Communism usually trumped commercial interests when it came to foreign policy priorities. President Reagan, for example, frequently wielded the sanctions weapon and generally gave priority to democratization as the primary rationale for commercial initiatives such as the Caribbean Basin Initiative. As the threat of totalitarianism faded, however, straightforward commercial goals have become more central to U.S. foreign policy. Beginning with President Bush and continuing through the Clinton Administration, trade with China and Mexico has become a priority of U.S. foreign policy, culminating in the signing of NAFTA in 1993 and the probable admission of China to the WTO in the near future. NAFTA no doubt increased investor confidence in Mexico by providing a new level of appeal for trade complaints that might otherwise get quashed in the corrupt and inefficient Mexican judicial system.

But as shown earlier, developing democracies are losing market share even without counting China and Mexico. And in spite of recent sentiment against use of economic sanctions, the U.S. still has no less than 47 separate laws that authorize such sanctions against countries like Cuba, Libya, Iraq, Iran, North Korea, Syria, Burma, Sudan, and a number of other dictatorships. With few exports to the U.S. allowed from these countries, the growth of the authoritarian countries' market share is all the more remarkable.

Whatever the impact of government policies, most decisions about purchasing and investing abroad are made by individual businesses, not the government. Does the evidence suggest that U.S. businesses prefer dealing with authoritarian countries?

If the question implies some sort of deliberate corporate rejection of democracy, the answer is likely to be "no." Most businesses use other criteria to make decisions about purchasing foreign-made goods and making investments abroad. These include exchange rate stability, market access, reliability and quality of suppliers, workforce skills and labor costs, political stability, quality of infrastructure (such as transportation, port facilities, and communications), tax policies, location, and any number of other considerations. With some products, such as apparel and textiles, U.S. quotas play a role.

Do the developing country democracies fail to meet such criteria? No doubt in particular cases they do (India comes to mind), just as particular authoritarian countries may excel in creating a good "business climate." But whatever the rationale may be for particular cases, such differences do not explain the overall pattern of preference.

Harvard economist Dani Rodrik has found persuasive empirical evidence that "there is a strong association between various measures of democracy and relative economic performance." He also provides evidence, based on both the 1970's oil crisis and the more recent world financial crisis, that democracies are more resilient and better able to adjust to economic shocks than are authoritarian countries. This finding has led Rodrik to conclude that "institutions of conflict management," including "participatory political institutions, civil and political liberties, free labor unions, noncorrupt bureaucracies, high-quality independent judiciaries, and mechanisms of social insurance such as social safety nets," are important pluses for developing country economic success.[18]

Furthermore, democracies tend to be less corrupt and more transparent than authoritarian countries. Data from Transparency International indicates that the average "corruption perceptions" index for developing democracies was one point higher (on a scale of 10) than it was for developing countries ranked as Not Free or Partly Free in 1998. Since business respondents participate in these rankings, and since business presumably prefers to invest in countries where bribery is less a factor, this difference would logically seem to favor the democracies. In practice, however, the less democratic countries seem to get the benefit of the doubt.

Given that some business investment choices are driven by the need to access natural resources, it may be the case that democracies, both emerging and established, have more environmental regulations than authoritarian governments. Investors may feel less encumbered by setting up shop in authoritarian countries where such regulations may be less of a problem. This hypothesis, however, is speculative at this point and will require further research.

Are labor costs a factor? Several studies have found that developing country wage levels are somewhat higher in democracies than in authoritarian countries. On the other hand, an OECD study concluded that "in countries where core [labor] standards have improved, there is no evidence that real wages grew faster."[19]

We were unable to find sufficient comparable wage data to rank all the countries analyzed in this study. But to the extent that general standards of living can be measured by GDP per capita, a comparison can be made. We found that in 1989, developing democracies had a higher GDP per capita than Not Free countries but a lower GDP per capita than the Partly Free countries.[20]

Higher wages may explain the shift away from countries like Taiwan and South Korea, which in turn may explain much of the decline in market share of the Free countries. But there would seem to be plenty of low-wage countries among the remaining developing democracies which would attract trade and investment from the U.S. The Philippines, Thailand, Romania, Poland, South Africa, Benin, the Czech Republic and many Central American and Caribbean countries are examples. Indeed, some of these countries have gained slightly in export market share (Thailand, Philippines, Honduras, Hungary). But other low-wage countries have lost market share. Thus it is doubtful that wage rates alone can explain the findings of this study.

We are therefore left with as many questions as answers. As a group, developing democracies would seem to be favorable places for attracting U.S. trade and investment dollars. Yet they have lost market share over the decade. The data suggests that wages may be the most important factor. But to better understand the reasons for this pattern will require further research on an industry-by-industry basis to find out what factors are paramount in the trade and investment decisions of U.S. corporations.

Does it Matter?

In a decade of increased democratization and economic growth around the world, some might argue that U.S. trade and investment decisions have little import. After all, most developing democracies have enjoyed an absolute increase in exports and foreign investment during the decade, even if their share has fallen relative to the authoritarian countries.

Furthermore, it is often argued that the best way to democratize the authoritarian countries is to increase their economic growth through exports and foreign direct investment. Growth, in turn, will produce a rising middle class which will eventually demand greater freedom. Countries like South Korea, Taiwan, and Thailand are often held up as models to prove this thesis. Democracy will be almost inevitable, the theory goes, once economic development has progressed to a certain level.

One version of this theory holds that authoritarianism may even be a *necessary* stage before democracy becomes possible. “Premature” democracy will only make it harder for countries to adopt the difficult economic stabilization and restructuring reforms necessary for growth. And without the strong middle class that growth brings, democracy will be unsustainable, according to this view.

This “modernization theory,” as it is sometimes called, has been challenged by a number of analysts, especially in the wake of the 1997 financial crisis. Daniel A. Bell points out that not only are there examples of modernized, relatively affluent countries that have not democratized (Singapore, Hong Kong), there are also many examples of rising middle classes which have supported authoritarianism (Malaysia, Indonesia).[21]

In the case of South Korea, Robert Kagan has written a devastating critique of the modernization theory, arguing that only U.S. aid and intervention, plus the events and personalities particular to Korean history, can explain the course of Korean democratization. “Economic prosperity and a growing middle class,” he concludes, “may help to sustain a democracy, but they do not create one.”[22]

This conclusion is in line with an earlier study by Adam Przeworski and Fernando Limongi exploring the relationship between democratization and *per capita* income in 135 countries between 1950 and 1990. They found that “the causal power of economic development in bringing dictatorships down appears paltry.” However, they also found that once democracy is established, it is more likely to survive in countries that are more developed: “The probability that a democracy will die during any particular year in a country with an income above $4000 is practically zero.”[23]

The main cause for worry, therefore, is this: if success in foreign trade and investment fosters economic growth, and if growth helps sustain democracy, then lack of success in these indicators may well threaten democracy in the less well-off countries. Perhaps this threat is not great at the moment, when a strong U.S. economy is still absorbing growing volumes of exports from developing democracies, albeit at a slower rate than from authoritarian countries. But what happens if there is a slowdown in U.S. growth and stagnation in the world economy? Will the less well-off democracies become destabilized? Will they revert to authoritarian practices in order to maintain market share?

What should be done?

In addition to concerns about stability, Americans are likely to be bothered on moral grounds by the shift of so much of our collective purchasing power away from developing democracies. It is hard to accept the notion that countries which repress freedom, deny fundamental worker rights, and sometimes inhibit religious liberty are increasing their share of our developing country dollar outflow, while countries like Poland, where the crack first appeared in the Iron Curtain, are losing market share. U.S. foreign policy has long been identified with the cause of helping democracy, and many are likely to wonder whether policy changes might help redress this imbalance. At the same time, most Americans would feel uneasy about managed trade or protectionism as a solution. Are there other initiatives that can be taken?

One thing seems evident. Developing democracies themselves may need to develop a stronger group consciousness about their importance on the world stage and explore new policies that will lead to greater economic success. Collectively they could request research and seek advice from think tanks and international financial institutions about how they could compete more successfully in the global economy while preserving their democratic institutions.

The democracies could also join together in pressing international lending institutions to give more attention to democracy and human rights criteria in making grants, loans, and bail-out agreements. Until now, these issues have been pushed primarily by human rights activists rather than governments. If the link between economic performance and democracy holds up, such demands could be justified by governments on economic grounds as well.

Another policy option that warrants a review by democratic governments in developing countries is the incorporation of some form of freedom of association rights into trade agreements. Properly constructed, a trade-related worker rights mechanism would do far more to help the developing democracies gain market share for their exports than it would to protect industries in the developed North. The manufacture of many goods, such as those assembled in export processing zones, is not likely to return to the U.S. The real choice is which developing countries will be chosen—the democracies or the more authoritarian countries.

The idea that trade-labor linkage could help the developing democracies was inadvertently confirmed in a 1996 study by the Organization for Economic Cooperation and Development (OECD). The study tentatively concluded, based on admittedly sketchy data, that "the view which argues that low-standards countries will enjoy gains in export market shares to the detriment of high-standards countries appears to lack solid empirical support." However, the study focused on loss of market share by the developed, OECD countries, not on the shift in shares among the developing countries. When that comparison is examined, the study's data on textile exports shows that the more a developing country represses labor rights, the greater its market share.[24] Trade rules with worker rights criteria would thus reduce the market advantage of the more repressive countries.

Despite this potential benefit, most democratic governments in the "South" have resisted linkage out of fear that it is motivated by protectionism. In August 1999, for example, the "Group of 15" developing country bloc agreed to "resolutely oppose" any renewed attempt to raise this issue in the WTO when it meets in Seattle this November. The G-15 includes four democratic countries (Argentina, Chile, Jamaica, Venezuela) as well as 11 states that are Not Free or Partly Free (Algeria, Brazil, Egypt, India, Indonesia, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Sri Lanka, Zimbabwe).

The developing democracies would do well to consider whether this stance, which is encouraged by many multinational corporations, really serves their interests. Is a "North-South" view of the world, which pits the "haves" against the "have-nots," conducive to developing democracies' economic success? Or should the "have-not" democracies develop independent policies?

If trade unions and labor rights activists in the developed world want to further this development, they will have to redouble their efforts to reassure the developing democracies that they reject any protectionist advantage from linkage. In the U.S. certain industrial unions are so wounded by job attrition that they are likely to oppose new trade agreements regardless of whether they contain worker rights linkage. Although the majority of unions have resisted this protectionist impulse, they must work to reassure the developing democracies that an internationalist perspective prevails.

Unions should also think carefully about the Africa and Caribbean trade preference initiatives that perennially come before congress. Assuming that such bills contain enforceable worker rights clauses, U.S. unions might find it advantageous to help democratic countries in the Caribbean, Central America, and Africa to compete with Mexico. It is currently very difficult for independent unions to be established in Mexico, whereas in the more democratic countries, workers are more likely to be able to bargain for higher wages with solidarity from their U.S. counterparts.

Meanwhile, friends of democracy in the U.S. might keep an eye on several other policy debates currently underway. One has to do with economic sanctions. A well-financed corporate effort to drastically limit sanctions is progressing through the U.S. Congress. If it passes, "dollars for dictators" will increase even further. Rather than lament the disadvantage such sanctions impose on U.S. business, it would be helpful—although it is not likely—if some of the energy and financial clout of the anti-sanctions lobby were turned toward convincing other countries to join the U.S. in applying sanctions when warranted.

Second, the issue of U.S. foreign aid might be revisited. In the aftermath of the 1997 world financial crisis it has become more evident--even to many proponents of the "Trade-Not-Aid" policy—that legitimate and well-functioning institutions of government and civil society are vitally important to both democracy and economic prosperity. For example, in a September 1999 book, two authors from the business-oriented American Enterprise Institute argue that China should be "forced to accept administrative reform as a condition for WTO membership" in order to become more transparent. It thus may be time to reverse the decade-long stagnation in U.S. development aid, and re-examine our priorities on how that aid is used. The objective would not be to return to old-style aid programs, but to create new programs to strengthen the link between economic development and democratic institutions—a trade *and* aid policy. High on the list of priorities should be increased support to pro-democratic civil society institutions in authoritarian countries. The organization best equipped to provide this help is the National Endowment for Democracy, which is currently kept on all too short a funding leash by Congress.

Another government policy that merits reevaluation is our quota system for certain products. On September 6, the U.S. announced that it would relax import quotas on textiles from Turkish firms because of the devastating earthquake. If quotas can be adjusted on humanitarian grounds, might they be adjusted on democratic grounds as well?

In the private sector, individual businesses with a commitment to humane production abroad might wish to review how they are implementing their codes of conduct. If clauses on freedom of association are to have any meaning, then companies should be prepared to report on the proportion of their foreign purchases coming from each country of origin. Presumably, with other factors being equal, they would over time seek to shift production to the developing democracies where freedom of association is more likely to be respected.

> Codes of conduct aside, there appear to be bottom-line reasons for shifting trade and investment to democracies. The 1997 world financial crisis raised a warning flag: investment is risky—and recovery is slow—where authoritarian corruption and cronyism prevail over the rule of law and democracy. This is especially true in the rapidly growing information technology sector. The free flow of information is discouraged in authoritarian countries, as shown by China's recent prohibition of investment in web-based companies. To flourish, the information economy needs democracy. Will corporations heed this evidence and reverse the pattern of the past decade?

Appendix 1: Exports of Manufactured Goods to the U.S., by Country

(Includes SIC Codes 20-39, in Current US$)

Category and Country	1989	1998	Mkt. Share of Developing Country Total 1989 (%)	Mkt. Share of Developing Country Total 1998 (%)	Gain/Loss in Mkt. Share (Percentage Points)
Developing Country Total	**92,810,914,863**	**321,670,159,258**	**100.00**	**100.00**	**-**
Partly Free Total	**29,038,259,177**	**135,827,173,659**	**31.29**	**42.23**	**10.938**
Down to Pt. Free	**5,892,872,176**	**9,087,299,115**	**6.35**	**2.83**	**(3.524)**
Brazil	5,891,133,993	9,086,570,382	6.35	2.82	(3.523)
Antigua-Barbuda	1,738,183	728,733	0.00	0.00	(0.002)
Partly Free (Unchanged)	**22,281,220,632**	**120,266,025,435**	**24.01**	**37.39**	**13.381**
Mexico	14,936,735,687	81,796,987,735	16.09	25.43	9.335
Malaysia	2,496,988,786	18,396,076,611	2.69	5.72	3.029
Indonesia	1,420,992,858	7,644,865,103	1.53	2.38	0.846
Turkey	649,902,136	1,958,036,064	0.70	0.61	(0.092)
Bangladesh	356,469,028	1,750,216,126	0.38	0.54	0.160
Sri Lanka	418,012,770	1,737,407,621	0.45	0.54	0.090
Pakistan	457,328,591	1,670,689,040	0.49	0.52	0.027
Peru	449,811,445	1,503,668,184	0.48	0.47	(0.017)
Guatemala	235,174,050	1,393,159,808	0.25	0.43	0.180
Colombia	468,387,306	1,271,332,432	0.50	0.40	(0.109)
Morocco	54,977,826	268,289,410	0.06	0.08	0.024
Macedonia	0	158,358,693	-	0.05	0.049
Nepal	45,319,947	134,953,623	0.05	0.04	(0.007)
Zimbabwe	100,755,225	106,666,186	0.11	0.03	(0.075)
Nigeria	15,278,884	102,900,794	0.02	0.03	0.016
Suriname	68,977,227	89,758,533	0.07	0.03	(0.046)
Fiji	9,379,066	76,143,524	0.01	0.02	0.014
Croatia	0	67,488,927	-	0.02	0.021
Zambia	23,362,539	45,619,817	0.03	0.01	(0.011)
Madagascar	6,082,298	29,651,754	0.01	0.01	0.003
Paraguay	36,394,889	28,913,172	0.04	0.01	(0.030)
Sierra Leone	22,653,938	11,898,352	0.02	0.00	(0.021)
Jordan	5,925,741	11,886,613	0.01	0.00	(0.003)
Bosnia-Herzegovina	0	6,670,473	-	0.00	0.002
Senegal	2,219,797	3,308,167	0.00	0.00	(0.001)
Tonga	73,106	600,008	0.00	0.00	0.000
Uganda	17,492	478,665	0.00	0.00	0.000
Up to Pt. Free	**864,166,369**	**6,473,849,109**	**0.93**	**2.01**	**1.081**
Russia	0	5,310,897,296	-	1.65	1.651
Ukraine	0	497,296,656	-	0.15	0.155
Haiti	328,184,698	253,145,990	0.35	0.08	(0.275)
Ghana	70,432,026	115,645,437	0.08	0.04	(0.040)
Moldova	0	107,325,712	-	0.03	0.033

Lesotho	17,628,676	99,990,262	0.02	0.03	0.012
Mozambique	12,385,227	25,457,133	0.01	0.01	(0.005)
Tanzania	25,464,536	20,558,111	0.03	0.01	(0.021)
Georgia	0	13,683,223	-	0.00	0.004
Armenia	0	11,095,740	-	0.00	0.003
Gabon	1,518,157	8,617,392	0.00	0.00	0.001
Albania	69,582	4,633,288	0.00	0.00	0.001
Ethiopia	0	2,393,735	-	0.00	0.001
Azerbaijan	0	804,099	-	0.00	0.000
Seychelles	1,819,162	588,627	0.00	0.00	(0.002)
Eritrea	0	424,354	-	0.00	0.000
Burkina	195,276	406,970	0.00	0.00	(0.000)
Liberia	34,153,143	304,098	0.04	0.00	(0.037)
Central African Rep	493,631	186,903	0.00	0.00	(0.000)
Comoros	321,865	144,988	0.00	0.00	(0.000)
Guinea-Bissau	1,350	131,007	0.00	0.00	0.000
Kyrgyzstan	0	118,088	-	0.00	0.000
ETHIOPIA	5,199,207	0	0.01	-	(0.006)
USSR	366,299,833	0	0.39	-	(0.395)
Not Free Total	**11,187,679,915**	**72,983,121,756**	**12.05**	**22.69**	**10.635**
Down to Not Free	**1,004,339,695**	**1,301,402,172**	**1.08**	**0.40**	**(0.678)**
Egypt	165,345,300	592,622,181	0.18	0.18	0.006
Algeria	49,484,009	397,849,018	0.05	0.12	0.070
Bahrain	67,233,516	143,730,672	0.07	0.04	(0.028)
Ivory Coast	61,613,929	63,105,856	0.07	0.02	(0.047)
Tunisia	19,014,064	59,035,174	0.02	0.02	(0.002)
Swaziland	8,021,601	24,668,734	0.01	0.01	(0.001)
Yugoslavia	0	10,381,495	-	0.00	0.003
Republic of Yemen	83,141	7,431,015	0.00	0.00	0.002
Gambia	83,798	1,707,344	0.00	0.00	0.000
Bhutan	243,683	870,683	0.00	0.00	0.000
YEMEN A	54,168	0	0.00	-	(0.000)
YUGOSLAVIA	633,162,486	0	0.68	-	(0.682)
Not Free (Unchanged)	**10,183,340,220**	**71,681,719,584**	**10.97**	**22.28**	**11.312**
China	9,738,496,438	69,321,618,702	10.49	21.55	11.058
Saudi Arabia	162,296,201	698,280,331	0.17	0.22	0.042
Cambodia	201,362	362,403,801	0.00	0.11	0.112
Oman	8,121,218	196,587,234	0.01	0.06	0.052
Vietnam	0	196,328,062	-	0.06	0.061
Kazakhstan	0	162,590,775	-	0.05	0.051
Burma (Myanmar)	12,088,057	157,804,627	0.01	0.05	0.036
Belarus	0	104,789,281	-	0.03	0.033
Brunei	5,150,310	80,973,708	0.01	0.03	0.020
Angola	32,746,267	67,406,114	0.04	0.02	(0.014)
Kenya	26,921,832	61,120,369	0.03	0.02	(0.010)
Congo (Brazzaville)	4,489,269	46,637,985	0.00	0.01	0.010
Cameroon	9,113,019	34,280,415	0.01	0.01	0.001
Tajikistan	0	32,501,244	-	0.01	0.010
Lebanon	26,465,777	31,603,951	0.03	0.01	(0.019)
Maldives	11,528,393	31,399,805	0.01	0.01	(0.003)
Uzbekistan	0	30,805,855	-	0.01	0.010

Syria	4,686,334	22,581,311	0.01	0.01	0.002
Laos	211,261	20,938,232	0.00	0.01	0.006
Guinea	18,645,036	13,275,970	0.02	0.00	(0.016)
Turkmenistan	0	2,166,619	-	0.00	0.001
Equatorial Guinea	0	1,366,096	-	0.00	0.000
Afganistan	1,045,811	1,076,048	0.00	0.00	(0.001)
Niger	1,424,207	1,008,665	0.00	0.00	(0.001)
Togo	395,356	990,526	0.00	0.00	(0.000)
Somalia	33,196	536,621	0.00	0.00	0.000
Burundi	133,084	166,004	0.00	0.00	(0.000)
Rwanda	1,969,010	153,818	0.00	0.00	(0.002)
Mauritania	18,414	152,188	0.00	0.00	0.000
Djibouti	110,360	60,893	0.00	0.00	(0.000)
Chad	77,097	53,685	0.00	0.00	(0.000)
Sudan	6,526,523	33,700	0.01	0.00	(0.007)
Iran	3,169,211	26,949	0.00	0.00	(0.003)
German Dem. Rep.	96,906,103	0	0.10	-	(0.104)
Iraq	9,901,913	0	0.01	-	(0.011)
Cuba	0	0	-	-	-
North Korea	469,161	0	0.00	-	(0.001)
Free Total	**52,584,975,771**	**112,859,863,843**	**56.66**	**35.09**	**(21.573)**
Free (Unchanged)	**29,275,164,535**	**70,699,362,449**	**31.54**	**21.98**	**(9.564)**
Korea, South	15,604,307,970	23,365,525,569	16.81	7.26	(9.549)
Thailand	3,077,339,782	11,795,401,799	3.32	3.67	0.351
Philippines	2,094,470,282	11,501,001,556	2.26	3.58	1.319
India	3,011,754,451	7,752,504,649	3.25	2.41	(0.835)
Dominican Republic	1,295,878,498	4,116,174,929	1.40	1.28	(0.117)
Venezuela	1,352,239,193	3,567,139,109	1.46	1.11	(0.348)
Honduras	147,764,890	2,131,385,887	0.16	0.66	0.503
Costa Rica	541,530,872	1,966,879,035	0.58	0.61	0.028
Argentina	946,768,076	1,488,872,345	1.02	0.46	(0.557)
Trinidad and Tobago	179,268,415	663,543,407	0.19	0.21	0.013
Jamaica	382,119,423	600,115,608	0.41	0.19	(0.225)
Malta	15,414,325	332,626,760	0.02	0.10	0.087
Mauritius	137,357,381	256,214,926	0.15	0.08	(0.068)
Liechtenstein	6,581,468	241,698,060	0.01	0.08	0.068
Ecuador	72,943,984	239,929,031	0.08	0.07	(0.004)
Uruguay	171,193,295	213,843,253	0.18	0.07	(0.118)
Bolivia	78,832,053	190,320,602	0.08	0.06	(0.026)
Papua New Guinea	1,583,103	41,199,810	0.00	0.01	0.011
Belize	25,623,689	37,415,199	0.03	0.01	(0.016)
St Kitts and Nevis	15,967,354	29,457,327	0.02	0.01	(0.008)
Barbados	30,381,278	29,206,653	0.03	0.01	(0.024)
Cyprus	9,729,753	25,412,068	0.01	0.01	(0.003)
Monaco	5,389,055	24,657,773	0.01	0.01	0.002
St Lucia	21,927,952	20,947,535	0.02	0.01	(0.017)
Botswana	15,759,334	19,238,832	0.02	0.01	(0.011)
Palau	4,160	13,343,258	0.00	0.00	0.004
Micronesia	1,146,032	12,071,304	0.00	0.00	0.003
Grenada	5,330,336	9,715,118	0.01	0.00	(0.003)

San Marino	121,691	3,972,811	0.00	0.00	0.001
St Vincent-Grenadines	10,413,001	3,930,935	0.01	0.00	(0.010)
Dominica	5,647,913	3,270,398	0.01	0.00	(0.005)
Marshall Islands	1,599,598	1,686,495	0.00	0.00	(0.001)
Western Samoa	153,316	405,907	0.00	0.00	(0.000)
Nauru	7,642,510	97,397	0.01	0.00	(0.008)
Solomon Islands	273,075	73,943	0.00	0.00	(0.000)
Andorra	97,769	68,525	0.00	0.00	(0.000)
Kiribati	605,485	12,659	0.00	0.00	(0.001)
Tuvalu	3,773	1,977	0.00	0.00	(0.000)
Up to Free	**23,309,811,236**	**42,160,501,394**	**25.12**	**13.11**	**(12.009)**
Taiwan	20,187,116,610	32,096,944,347	21.75	9.98	(11.773)
South Africa	1,371,065,987	2,735,549,390	1.48	0.85	(0.627)
Hungary	250,903,935	1,497,002,315	0.27	0.47	0.195
Chile	729,261,947	1,299,092,406	0.79	0.40	(0.382)
El Salvador	99,728,797	1,294,024,443	0.11	0.40	0.295
Poland	317,198,786	752,425,992	0.34	0.23	(0.108)
Czech Republic	0	642,692,297	-	0.20	0.200
Romania	146,637,767	387,685,157	0.16	0.12	(0.037)
Nicaragua	23,920	326,901,769	0.00	0.10	0.102
Slovenia	0	283,304,386	-	0.09	0.088
Slovakia	0	163,577,889	-	0.05	0.051
Bulgaria	25,079,117	160,596,741	0.03	0.05	0.023
Estonia	0	118,748,714	-	0.04	0.037
Latvia	0	111,592,023	-	0.03	0.035
Panama	81,109,384	95,080,080	0.09	0.03	(0.058)
Lithuania	0	77,562,961	-	0.02	0.024
Guyana	5,595,063	39,759,568	0.01	0.01	0.006
Mongolia	449,391	39,471,705	0.00	0.01	0.012
Malawi	10,535,317	18,139,412	0.01	0.01	(0.006)
Namibia	3,336,702	16,827,302	0.00	0.01	0.002
Mali	6,063,878	2,619,359	0.01	0.00	(0.006)
Benin	2,120	604,180	0.00	0.00	0.000
Cape Verde	1,830,562	190,198	0.00	0.00	(0.002)
Sao Tome-Principe	21,288	108,760	0.00	0.00	0.000
Czechoslovakia	73,850,665	0	0.08	-	(0.080)
Total, Developing Countries	**92,810,914,863**	**321,670,159,258**	**100.00**	**100.00**	**-**

			Mkt. Share of All Country Total 1989 (%)	Mkt. Share of All Country Total 1998 (%)	Gain/Loss in Market Share
Free Developed Total	**187,955,945,652**	**446,676,983,541**	**63.19**	**55.95**	**(7.240)**
Canada	48,423,461,465	144,293,436,584	16.28	18.07	1.794
Japan	63,275,965,978	118,111,666,131	21.27	14.79	(6.479)
Germany	15,896,672,416	47,055,347,805	5.34	5.89	0.550
United Kingdom	12,300,633,793	30,232,400,682	4.14	3.79	(0.349)
France	10,490,087,031	21,288,429,051	3.53	2.67	(0.860)

Italy	9,384,638,644	20,020,490,360	3.15	2.51	(0.647)
Israel	2,855,121,247	8,257,278,160	0.96	1.03	0.074
Ireland	1,234,281,674	7,949,852,634	0.41	1.00	0.581
Belgium	3,310,101,343	7,883,294,347	1.11	0.99	(0.125)
Switzerland	3,040,442,856	7,515,751,355	1.02	0.94	(0.081)
Sweden	2,586,396,389	7,396,564,301	0.87	0.93	0.057
Netherlands	3,347,653,339	6,033,621,884	1.13	0.76	(0.370)
Spain	2,460,759,211	4,423,933,059	0.83	0.55	(0.273)
Australia	2,703,701,443	4,149,468,096	0.91	0.52	(0.389)
Finland	1,228,559,964	2,511,618,955	0.41	0.31	(0.098)
Austria	956,379,029	2,458,071,467	0.32	0.31	(0.014)
Denmark	1,214,348,020	2,224,264,687	0.41	0.28	(0.130)
Norway	952,845,521	1,506,058,651	0.32	0.19	(0.132)
New Zealand	911,984,602	1,299,533,851	0.31	0.16	(0.144)
Portugal	605,468,051	1,224,093,661	0.20	0.15	(0.050)
Greece	299,710,770	367,409,794	0.10	0.05	(0.055)
Luxembourg	156,145,050	359,409,689	0.05	0.05	(0.007)
Iceland	19,356,325	57,999,325	0.01	0.01	0.001
Bahamas	301,231,491	56,989,012	0.10	0.01	(0.094)
Not Applicable Total	**16,367,946,581**	**29,256,442,151**	**5.50**	**3.66**	**(1.838)**
Hong Kong (Unranked)	8,533,766,787	9,923,433,861	2.87	1.24	(1.626)
Macao (Unranked)	580,246,012	1,102,999,570	0.20	0.14	(0.057)
Singapore (Developed)	7,082,491,290	17,483,109,820	2.38	2.19	(0.191)
Kuwait (Developed)	26,743,151	65,200,899	0.01	0.01	(0.001)
Un. Arab Emirates (Devel.)	121,849,212	522,850,565	0.04	0.07	0.025
Qatar (Developed)	22,850,129	158,847,436	0.01	0.02	0.012
Other Countries (Not Ranked)					
Aruba	393,382	448,472,526	0.00	0.06	0.056
Netherlands Antilles					
Congo (Kinshasa)	166,765,896	99,576,042	0.06	0.01	(0.044)
French Polynesia	6,686,872	22,484,766	0.00	0.00	0.001
New Caledonia	46,454,458	17,670,932	0.02	0.00	(0.013)
Cayman Islands	1,217,387	10,777,293	0.00	0.00	0.001
British Virgin Islands					
Tokelau	2,989,979	2,795,115	0.00	0.00	(0.001)
Anguilla	163,196	1,667,662	0.00	0.00	0.000
French Southern and Antarctic					
Svalbard, Jan Mayen Island					
Guadeloupe	249,762	781,773	0.00	0.00	0.000
Turks and Caicos Islands					
Cook Islands	65,582	504,872	0.00	0.00	0.000
French Guiana	2,705	415,772	0.00	0.00	0.000
British Indian Ocean Terr					
Vanuatu	5,608	280,316	0.00	0.00	0.000
Faroe Islands	1,715,103	267,676	0.00	0.00	(0.001)
Reunion	194,632	256,745	0.00	0.00	(0.000)
Christmas Island	367,725	222,191	0.00	0.00	(0.000)
St Helena	768,764	220,491	0.00	0.00	(0.000)
Montserrat	2,082,153	200,144	0.00	0.00	(0.001)
Heard and McDonald Islands					
Cocos (Keeling) Island					

Pitcairn Island	127,817	125,131	0.00	0.00	(0.000)
St Pierre and Miquelon					
Gaza Strip Administered by Isr	0	92,970	-	0.00	0.000
Niue	242,973	75,601	0.00	0.00	(0.000)
Martinique	371,645	73,617	0.00	0.00	(0.000)
West Bank Administered by Isra	0	58,664	-	0.00	0.000
Greenland	7,105	43,415	0.00	0.00	0.000
Falkland Islands	13,509	27,806	0.00	0.00	(0.000)
Norfolk Island	43,115	6,068	0.00	0.00	(0.000)
Western Sahara	0	4,689	-	0.00	0.000
SA NZ	56,467	0	0.00	-	(0.000)
Wallis and Futuna	0	0	-	-	-
Bermuda	1,777,161	3,362,772	0.00	0.00	(0.000)
Gibraltar	999,306	1,480,755	0.00	0.00	(0.000)
Vatican City	453,431	318,620	0.00	0.00	(0.000)
			-	-	-
Grand Total (All Countries)	**297,461,068,710**	**798,401,965,687**	**100.00**	**100.00**	**-**

Appendix 2: Other Ways of Grouping Countries

Since more countries improved than worsened with respect to their freedom ranking during the past decade, we decided to separate those countries that changed from those that did not, and calculate the market share by freedom status of countries within each group. Of those countries that did not change (in other words, countries whose freedom rank was the same in 1998 as it was in 1989), developing democracies' share of manufacturing exports to the U.S. fell from 47.4 percent to 26.9 percent during the period. During the same period, the unchanged Partly Free countries gained 9.7 points while the unchanged Not Free countries gained 10.8 points.[25] (Based on a "universe" of unchanged countries only.)

Most countries whose freedom rank was different in 1998 as compared to 1989 lost market share of manufacturing exports to the U.S. Of this group of "changed" countries, those that moved up to Free status lost 12 percentage points of manufacturing export share; those that moved up to Partly Free gained 1.1 points; those that fell from free to Partly Free lost 3.5 points; those that fell from Partly Free to Not Free lost 0.7 points. (Based on a "universe" of changed countries only.) On the whole, countries that moved up in freedom status lost more market share than those that moved down.

Some countries with identical freedom rankings in 1989 and 1998 nevertheless underwent a change of status during the intervening years. For example, India and Thailand were ranked as "free" at the beginning and end of the decade, but were ranked as "partly free" between 1991 and 1997. Conversely, Bangladesh and Zambia are ranked as "Partly Free" in 1989 and 1998 despite the fact that between 1990 and 1992, they were ranked as "Free." Other countries, like Taiwan, ended the decade as "free" but spent several earlier years as "Partly Free." To take account of such countries, we took the time to analyze manufacturing exports to the U.S. separately for each year of the study, categorizing a country's freedom status as it was *in each year*, rather than as it stood at the end of the decade. Thus, exports to the U.S. from Thailand, for example, would be shown as coming from a "Free" country during the years 1989-1990 and 1998 and from a "Partly Free" country during the years 1991-1997.

The results of this method show Not Free countries gaining 11.4 percentage points of market share and the Partly Free countries losing 8.3 points. The developing democracies lost 3.1 points of market share. Calculated this way, the loss in market share for the democracies is less dramatic, largely due to the fact that Taiwan, with a 21 percent market share as a "Partly Free" country in 1989, had an 8 percent market share as a "Free" country in 1998. The problem with this method, of course, is that it does not reflect the fortunes of individual countries over time, but reflects the figures for a different set countries each year. In any case, in 1998 the democracies' share of developing country manufacturing exports to the U.S. stood at 35.1 percent, compared to 42.2 percent for the Partly Free countries and 22.7 percent for the Not Free countries.[26]

Finally, in order to take into account the population size of developing countries, we examined exports to the U.S. (all except oil) from developing countries on a *per capita* basis. In this way, exports to the U.S. from China, for example, would not seem so large given its huge population. Using this method, exports to the U.S. of all goods (except oil) from Not Free countries rose from $8 *per capita* in 1989 to $26 *per capita* in 1997, a 225 percent gain. Exports from Partly Free countries rose from $33 *per capita* to $87 *per capita*, a 164 percent gain. In contrast, *per capita* exports from free developing countries rose from $33 to $55 over the same period, a gain of only 68 percent.[27] (see Chart 2) Put another way, Free countries were above the *per capita* average in 1989 ($23), and below the *per capita* average in 1997 ($57) .

No matter how the data is sliced and diced, the authoritarian countries appear to be outperforming the developing democracies when in comes to selling goods—especially manufactured goods—to the U.S. and to a lesser extent, to the world.

Appendix 3: Regional Differences

An analysis of countries' market shares by geographic region is presented below (Note: unlike the percentages in Appendix 1, these percentages are based on the totals *within* each region.)

Within the **Asia-Pacific** region, the democratic countries' share of manufacturing exports to the U.S. fell from 74.6 percent of the regional total in 1989 to 46.0 percent in 1998, a loss of 28.6 percentage points. In contrast, countries ranked as Not Free gained 20.7 percentage points. China led the way with an enormous 33-point gain, and by 1998 accounted for 36.8 percent of regional exports to the U.S. Partly Free countries also gained market share, led by Malaysia and Indonesia, with gains of 8.9 and 3.6 percentage points respectively. On the democratic side, the majority of countries ranked as Free (9 out of 15) lost market share, led by Taiwan, which lost 17.2 percentage points, and South Korea with a loss of 12.1 percentage points. Of the free developing countries, only the Philippines showed a modest gain (2.6 percentage points). India, with a population second only to China's, lost about a percentage point.

In the **Latin America-Caribbean (LAC)** region, among the democracies, only Honduras, El Salvador, Nicaragua, and Guyana made slight gains in market share (between 1.4 and 0.02 points). Currently there are no countries ranked as Not Free in the region (except for Cuba, which is not allowed to export to the U.S. because of the embargo). Partly Free countries' share of manufacturing exports to the U.S. from the region increased from 78.3% in 1989 to 83.9% in 1998, a 5.5 point gain at the expense of the developing democracies. This gain is due entirely to Mexico, which gained 20 percentage points of market share during the period. Almost all other countries lost market share, including Brazil, a Partly Free country which lost 12.6 points. There is no doubt that Mexico, which already dominated export trade to the U.S. in 1989 with a 52 percent share and which rose to a 71.8 percent share by 1998, has been aided by NAFTA at the expense of the competing democracies in Central America and the Caribbean, which collectively remained stuck at around 10 percent market share.

In the **Former Soviet Bloc**, not surprisingly, the Not Free countries lost market share as several of them (the USSR, East Germany, and the former Yugoslavia) went out of existence entirely, and other countries, including many new independent states, became Partly Free or Free.[28] The Partly Free countries, led by Russia and Ukraine, made the biggest gains, moving from a 19.2 percent share of regional manufacturing exports to the U.S. to a 57.7 percent share in 1998. The Free countries lost some ground, from 42.6 percent to 39.2 percent. Of these, Hungary held its own at 14 percent of the regional total in 1998; the Czech Republic gained ground, and Poland and Romania each lost market share (9.5 and 4.1 percentage points respectively).

The **Middle East** is dominated by authoritarian countries. The only countries in the region ranked as Free are Cyprus and Malta, the latter of which garnered a gain in market share of 5.8 percentage points. Meanwhile, the Not Free countries gained 4 points to reach 45.3 percent of regional manufacturing exports to the U.S. in 1998. Of this group, Algeria gained the most ground (4.3 percentage points) followed by Oman (up 3.5 points) and Saudi Arabia (up 1.8

points). Bahrain, Egypt, and Lebanon all lost ground. Among the Partly Free countries, Turkey dominated with a 41.3 % market share in 1998, although this represented a 10 point drop from the beginning of the decade.

Africa is the only region where developing democracies dominate trade with the U.S. Their share of regional manufacturing exports to the U.S. rose from 75.1 percent of the regional total in 1989 to 77.4% in 1998. Leading the way were South Africa, which gained 2.8 percentage points to extend its domination of regional trade with a 69.5 percent share in 1998. Mauritius, another country ranked as Free, held on to a 6.5 percent regional share in 1998 after having dropped by a fraction of a point. Among the Partly Free countries, Ghana, Zimbabwe, Nigeria, and Lesotho each gained more than 1.5 percentage points, while Zimbabwe and Liberia lost ground. Among the Not Free countries there was little change.

Table: Developing Country Exports of Manufactured Goods to U.S.

(SIC Codes 20-39) by Region

Region	1989	1998	Regional Mkt. Share 1989 (%)	Regional Mkt. Share 1998 (%)	Gain/Loss in Mkt. Share Within Region
Africa Total	**2,058,166,636**	**3,941,529,201**	**100.00**	**100.00**	**-**
Pt. Free	339,982,429	575,372,752	16.52	14.60	(1.92)
Not Free	172,211,638	316,664,090	8.37	8.03	(0.33)
Free	1,545,972,569	3,049,492,359	75.11	77.37	2.25
Asia-Pacific Total	**58,961,402,355**	**188,203,031,651**	100.00	100.00	-
Pt. Free	5,204,564,152	31,410,951,656	8.83	16.69	7.86
Not Free	9,768,388,665	70,172,337,620	16.57	37.29	20.72
Free	43,988,449,538	86,619,742,375	74.61	46.02	(28.58)
Former Soviet Bloc Total	**1,910,108,274**	**10,716,795,939**	100.00	100.00	-
Pt. Free	366,369,415	6,178,372,195	19.18	57.65	38.47
Not Free	730,068,589	343,235,269	38.22	3.20	(35.02)
Free	813,670,270	4,195,188,475	42.60	39.15	(3.45)
Latin America/Caribbean Total	**28,616,086,811**	**113,791,269,606**	100.00	100.00	-
Pt. Free	22,416,537,478	95,424,264,969	78.34	83.86	5.52
Not Free	0	0	-	-	-
Free	6,199,549,333	18,367,004,637	21.66	16.14	(5.52)
Middle East Total	**1,252,960,804**	**4,747,135,692**	100.00	100.00	-
Pt. Free	710,805,703	2,238,212,087	56.73	47.15	(9.58)
Not Free	517,011,023	2,150,884,777	41.26	45.31	4.05
Free	25,144,078	358,038,828	2.01	7.54	5.54
Grand Total	**92,798,724,880**	**321,399,762,089**			-

Source: U.S. Census Dept.

End Notes

[1] In the aftermath of the Asian-led financial crisis of 1997, at least one economist, Harvard's Dani Rodrik, has begun to question the wisdom of the export-foreign investment strategy, arguing instead for greater emphasis on domestic demand and domestic investment. "The emphasis has to shift away from encouraging exports and DFI to thinking about how imports–particularly imports of ideas, of investment and intermediate goods, and of institutions–can enhance growth opportunities. Policymakers have to understand that integration into the world economy is unlikely to bring long-term growth on its own. They have to complement openness with other policies, including an explicit and coherent domestic investment strategy. They have to realize that openness raises the premium on high-quality domestic institutions of conflict management, and that strengthening such institutions requires reforms that go beyond the standard economic remedies and adjustment packages." [Rodrik, Dani. *The New Global Economy and Developing Countries: Making Openness Work,*" Overseas Development Council. Washington, DC: 1999] Even Rodrik, however, recognizes that developing countries need to expand exports enough to finance needed capital goods imports and to attract enough foreign direct investment to provide an inflow of new ideas and institutions.

[2] Interview with Congressmen Jim McDermott and Philip Crane, "A Congressional Perspective Moving Africa from Aid to Trade," in *Electronic Journals of the U.S. Information Agency*, Vol. 1, No. 11, August 1996.

[3] The White House: Remarks by the President and Deputy President Thabo Mbeki, Cape Grace Hotel, Cape Town, South Africa. M2 Press Wire, April 7, 1998.

[4] Source: The World Bank, *World Development Indicators 1999*. Available on CD-Rom from the World Bank, Washington, DC. The definition of "developing countries" is our own, as indicated in a subsequent paragraph. Figures taken from our table entitled, "Countries – FDI World Bank," Worksheet "Dev. Country share, 89-97 only." Includes only countries with data available in both 1989 and 1997.

[5] Source: For import data, the U.S. Census Bureau. For foreign direct investment, the U.S. Department of Commerce, Bureau of Economic Analysis, USDIA: *Balance of Payments and Direct Investment Position Estimates, 1982-98*; Table 17. The definition of "developing country" is our own, as explained in a subsequent paragraph.

[6] Chart one is based on Spreadsheet: Imports to U.S. – All Except Oil – Aggregate 9-3-99, Worksheet: "Chart 1 (%) (2)." Source: U.S. Census Bureau.

[7] We excluded petroleum from this total because its sources are limited by geologic happenstance to certain countries which are largely authoritarian – over 70 percent of our petroleum imports come from countries that are not free or partly free.

[8] Based on Spreadsheet: "Countries - Exports of Merchandise 9-1-99," Worksheet "Dev. Country Share 98-97 Only." (Source: The World Bank, World Development Indicators 1999. Available on CD-Rom from the World Bank, Washington, DC.) This data includes only those countries for which data was available in 1989 and 1997.

[9] Organization for Economic Co-operation and Development, "Trade, Employment and Labour Standards – a Study of Core Workers' Rights and International Trade." Paris, France: 1996.

[10] Stephen C. Smith, "Industrial Policy in Developing Countries." Economic Policy Institute, Washington, DC: 1991, p. 12.

[11] Taken from spreadsheet entitled, "Imports of Manufactured Goods (SIC Codes 20-39) – 9-3-99, Worksheet: "Ranked." Source: U.S. Census Department

[12] Freedom House, "Freedom in the World – the Annual Survey of Political Rights and Civil Liberties – 1998-1999." Available on the World Wide Web at http://freedomhouse.org/survey99/.

[13] Taken from spreadsheet entitled, "Imports of Manufactured Goods (SIC Codes 20-39) – 9-3-99, Worksheet: "WOChina&Mex." The remaining figures cited in this section are taken from the worksheet: "Regional." Source: U.S. Census Department.

[14] Based on spreadsheet, "DFI-US-Manufacturing, worksheet Mnfr No Ds" Source: US Dept. of Commerce, Bureau of Economic Analysis. USDIA: Balance of Payments and Direct Investment Position Estimates, 1982-98; Table 17.

[15] The problem, as noted by the Bureau of Economic Analysis, is that the data for certain years in some countries "have been suppressed to avoid disclosure of data of individual companies." Eliminating those countries with

incomplete data, we are left with a universe of 36 countries, which include all the major destinations for U.S. FDI. These countries are shown in Table 4.

[16] Based on spreadsheet, "Countries-FDI World Bank" Worksheet: "FDI 89-98 only." Includes only those countries with data available for both 1989 and 1990. Source: World Bank, World Development Indicators 1999 on CD-ROM, Washington, DC.

[17] Ibid. Worksheet: "FDI All (2)"

[18] Rodrik, op. cit., p. 83, 18.

[19] OECD. op. cit. p. 88

[20] Taken from spreadsheet entitled, "Countries Freedom and GNP 8-30-99." Worksheet: GDP Per Capita. Source: World Bank, World Development Indicators 1999 on CD-Rom, Washington, DC.

[21] Daniel A. Bell. "After the Tsunami." *The New Republic*, March 9, 1998, p. 22. Bell writes, "The middle classes were the main beneficiaries of state economic paternalism, which gave them a strong stake in the perpetuation of authoritarian rule."

[22] Robert Kagan. "What Korea Teaches." *The New Republic*, March 9, 1998, p. 46. Kagan writes, "Had Korean society undergone some remarkably swift evolution and 'maturation' between 1980 and 1987? Did the rise of a hitherto unknown middle class make dictatorship suddenly unsustainable.? Had the many years of dictatorship under Park and Chun provided the necessary period of stability in which liberal juices could ferment and eventually produce this democratic wine? The common wisdom holds that the answer to all these questions is yes, that South Korea was 'ready' for democracy in the late 1980s but not before. An so will Indonesia eventually be 'ready,' and so will China, if we just give them time in which economic growth and domestic stability can perform their politically transforming (and, for American business, economically bountiful) magic. But again the common wisdom has elevated theory over facts, and broad economic and social trends—the stuff of political science—over events and people, the stuff of history. And again the models have omitted from their calculations that most critical factor in South Korean politics: the United States." [p. 45]

[23] Przeworski, Adam, and Fernando Limongi, "Modernization: Theories and Facts." *World Politics* 49.2 (1997), pp. 155-183.

[24] OECD. op. cit. p. 105 and p. 137. The study grouped countries according to the degree of observance of freedom-of-association rights, with group 1 being the free developed OECD countries, and groups 2 through 4 being the developing countries, with group 4 being the most repressive. Of the developing country groups, group 4 held an 11.9 percent market share; group 3 held a 9.9 percent share, and group 2 (the least repressive) held an 8.0 percent share.

[25] Taken from spreadsheet entitled, "Imports of Manufactured Goods (SIC Codes 20-39) – 9-3-99, Worksheet: "Ranked." Source: U.S. Census Department

[26] Taken from spreadsheet entitled, "Imports of Manufactured Goods (SIC Codes 20-39) – 9-3-99, Worksheet: "Yr-yr." Source: U.S. Census Department

[27] Taken from spreadsheet entitled, "Imports to US – All Except Oil Aggregate – 9-3-99, Tab "Per Cap." Chart is from worksheet: "Chart 2 –per cap. Source: U.S. Census Department.

[28] Yugoslavia, both before and after its breakup, is included in the Not Free category as separate countries. The German Democratic Republic ceased to exist as a country, and its small export totals were left in the Not Free category prior to its dissolution. The USSR, Russia, and many of the new independent states are classified as Partly Free.