

Asia, Exports, and Industrial Policy

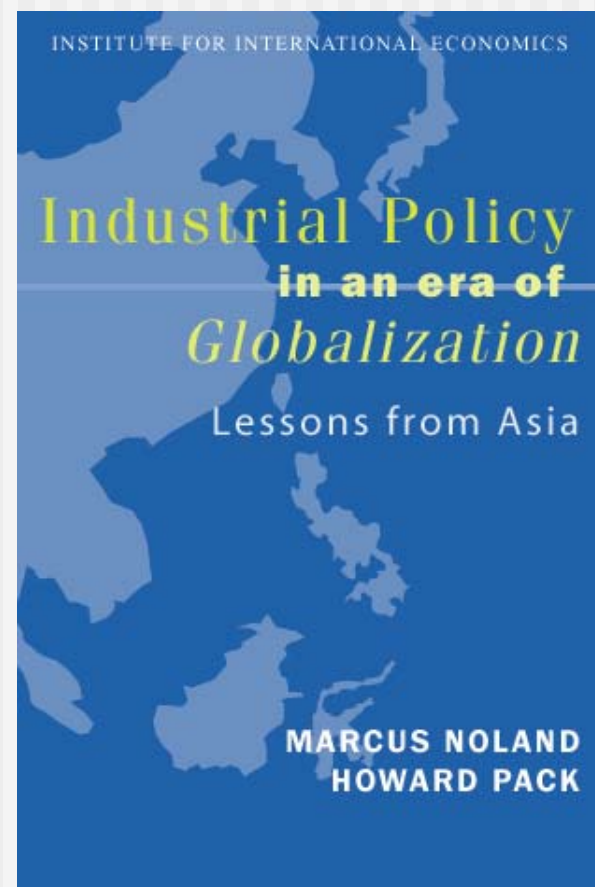
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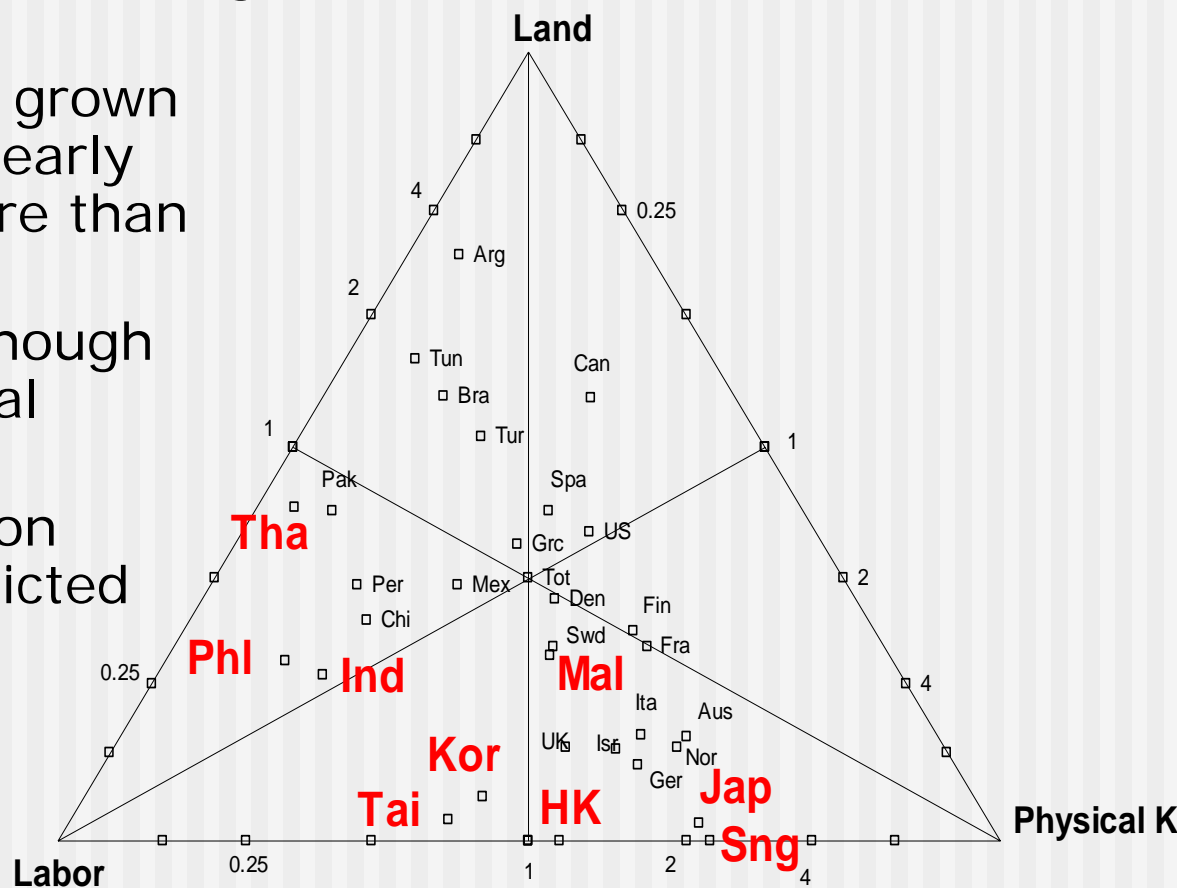
Asia, Exports, and Industrial Policy

- Why exports?
- Has the Asian experience been unique?
- What role did industrial policy play?
- Derived mostly from research with Howard Pack



Has the Asian Export Experience been unique?

- Considerable diversity in export composition among Asian countries.
- Yet exports have grown more rapidly in nearly every manufacture than world trade.
- No single path, though some sub-regional relationships.
- Export composition conforms to predicted pattern.



Four questions regarding the Asian experience:

- What was the impact of industrial policy?
- Are these results likely to be reproduced elsewhere today?
- Does the international system impede implementation?
- Is the pursuit of an industrial policy advisable?

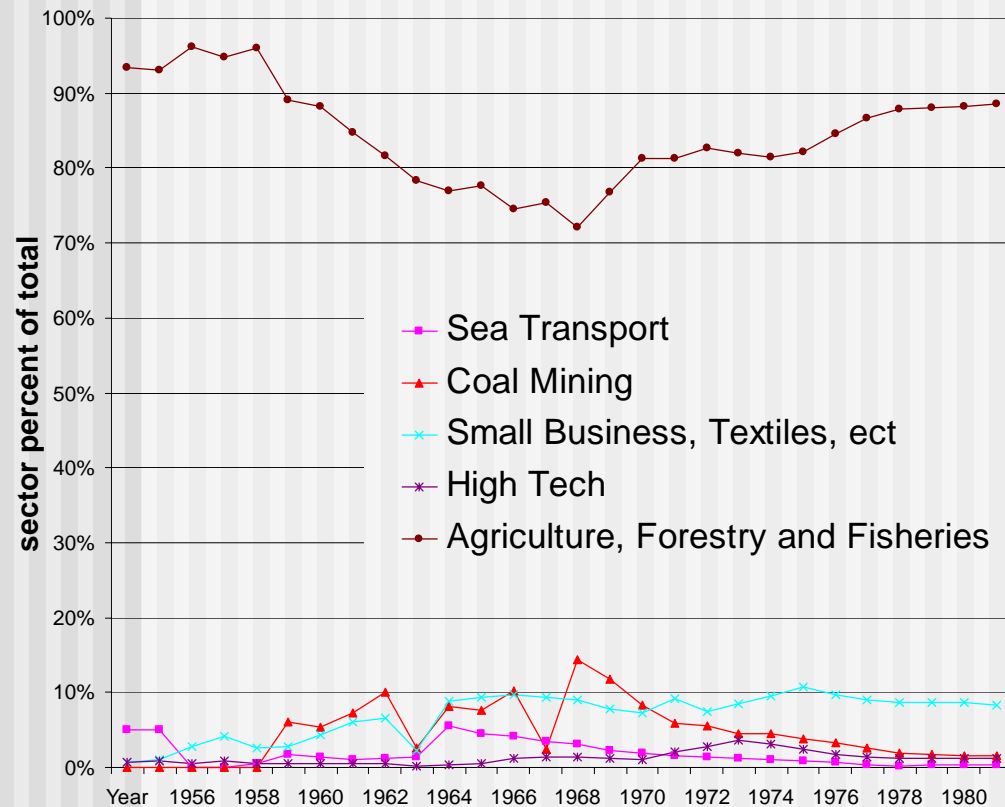
Requirements for Successful Industrial Policy

- Identify market failure
- Design correct policy intervention
- Implement
 - Calibrate intervention,
 - Alter as changing circumstances require,
 - Terminate as need be.
- Note: IP justifications are most often due to internal market failure; some are international rent-shifting models, and in these cases one must consider possibility of retaliation.

Major Policies Actually Applied

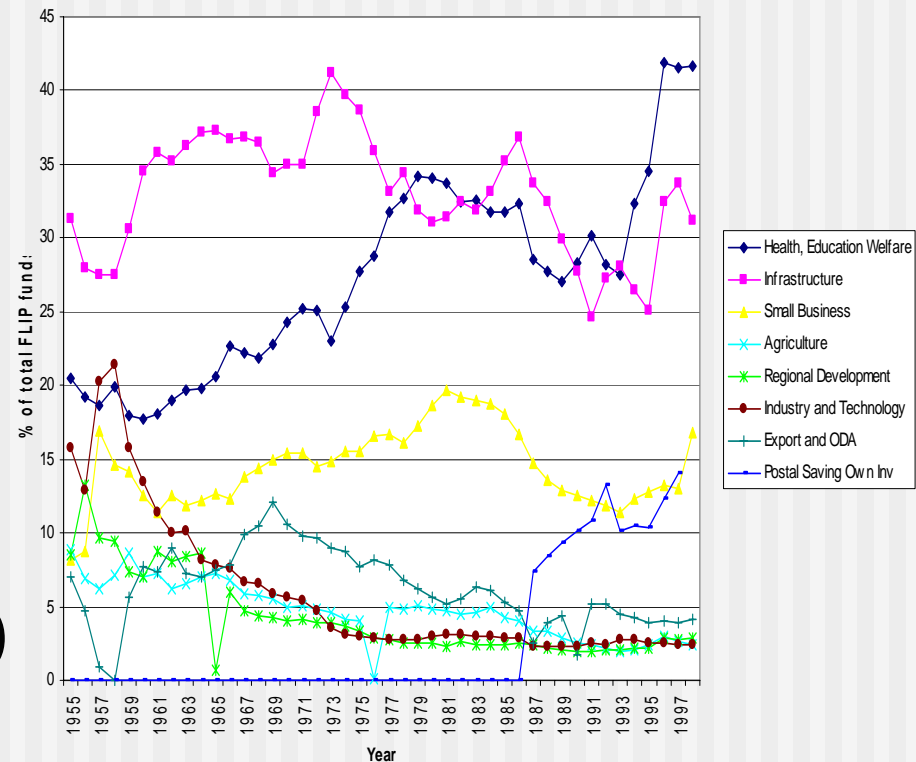
- Financial repression, capital controls
- Capital channeling: direct and indirect subsidies, tax breaks
- International trade and investment protection
- Lax competition policy
- R&D promotion—the most benign

Sectoral Composition of On-budget Subsidies



Variety of methodologies suggest modest impact

- Regressions (Beason-Weinstein, and Noland for Japan; Lee, and Noland for Korea)
- Input-output approaches (Pack)
- Case studies



Source: Fiscal and Monetary Statistics Monthly (FLP Volume), Ministry of Finance

Political economy and ineffectiveness

- Benefits went predominantly to declining natural resource sectors
- Net fiscal flows to manufacturing were negative
- Industrial policy amounted to partial compensation

Industry	1955-1990		1955-1973		1974-1990	
	Normalized Tax Rate	Industry Rank	Normalized Tax Rate	Industry Rank	Normalized Tax Rate	Industry Rank
Electrical Mach.	-0.403	8	-0.26	8	-0.56	10
General Mach.	-0.403	8	-0.26	8	-0.56	10
Trans. Equip.	-0.403	8	-0.13	7	-0.56	10
Fabricated Metal	-0.069	7	-0.26	8	-0.35	8
Pet & Coal	-0.009	3	0.3	3	0.14	3
Precision Inst.	-0.403	8	-0.26	8	-0.35	7
Cer/Stone/Glass	-0.009	3	0.3	3	-0.56	10
Pulp & Paper	-0.891	13	-0.13	6	0	5
Chemicals	-0.009	3	-1.72	13	0.04	4
Basic Metals	-0.069	6	0.3	3	-0.35	8
Processed Foods	-0.736	12	-1.52	12	0	5
Mining	6.658	1	0.92	2	1.04	1
Textiles	0.719	2	11.68	1	0.5	2

Source : Beason and Weinstein (1996), Table 1.

A saving grace: targeting exports

- Clean standard not subject to manipulation
 - “these were the only statistics that could not be faked”
 - Local firms could not rig international competition like they could domestic markets
- Possible externalities
- Support to laggards terminated

Possible lessons

- Modest positive impact at best.
- Are these results likely to be reproduced?
- Does the international system impede implementation of Asian-style policies today?

Are the results likely to be reproduced?

- Three possible sources of “Asian exceptionalism”:
 - “Deceptively poor”
 - Political upheaval, US-led land reforms, and legitimacy through growth
 - Land scarcity and “growth with equity” v. “growth without development”

“Deceptively poor”

- Unusually high levels of human capital
- Low contemporaneous income due to lack of physical capital
- Rapid convergence

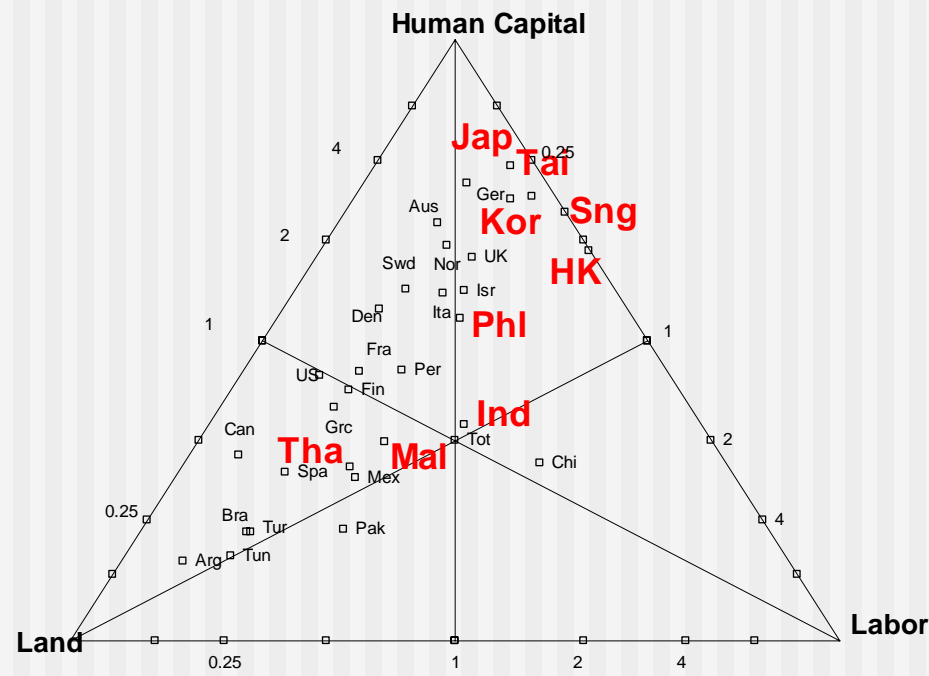
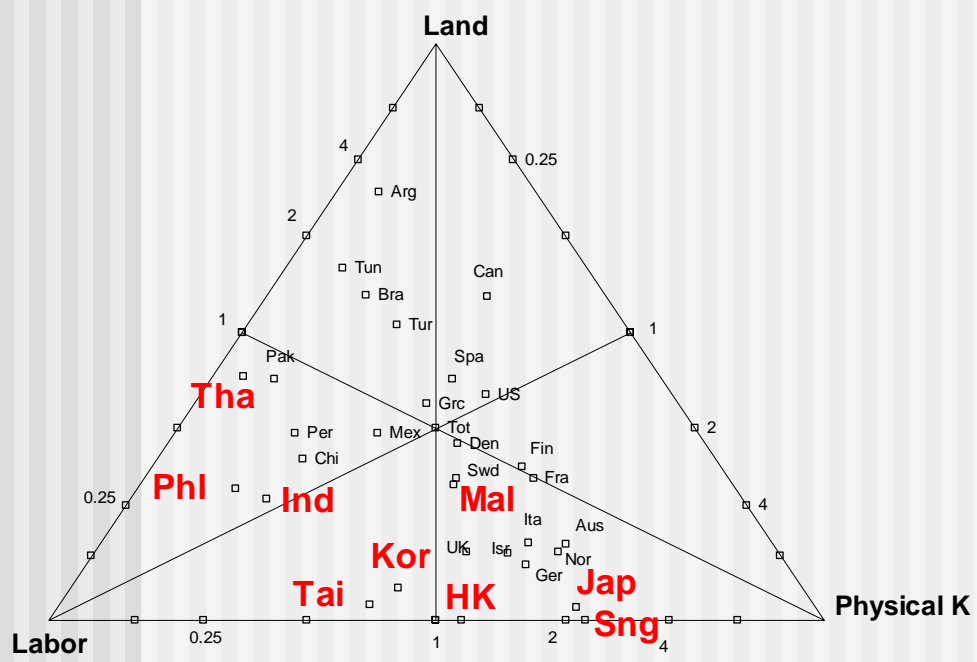
Country	Year	Human Capital Index	Per Capita Income	Ratio of Human Capital Index to Per Capita Income
Japan	1955	1673	519	3.2
The Philippines	1956	738	277	2.7
Korea	1955	494	217	2.3
Israel	1954	1200	609	2
Thailand	1955	302	181	1.7
Greece	1956	693	468	1.5
Malaysia	1957	334	351	1
US	1955	2293	2443	0.9
Italy	1956	787	971	0.8
Turkey	1955	267	365	0.7
Argentina	1955	760	1059	0.7
Mexico	1955	352	637	0.6
Spain	1955	389	652	0.6

Unusually egalitarian

- Unusually equal distribution of income
- US-led land reforms and relatively equal distribution of land
- Legitimacy through prosperity

	Gini Coefficient for Income	Gini Coefficient for Land
Japan	0.4	0.47
Korea	0.34	0.39
Taiwan	0.31	0.46
Simple Average	0.35	0.44
Argentina	0.44	0.87
Brazil	0.53	0.85
Egypt	0.42	0.67
Hong Kong	0.49	n.a.
India	0.42	0.52
Indonesia	0.33	n.a.
Kenya	0.64	0.69
Malaysia	0.42	0.47
Mexico	0.53	0.69
The Philippines	0.45	0.53
Singapore	0.4	n.a.
Thailand	0.41	0.46
Turkey	0.56	0.68
Simple Average	0.46	0.64
Source: adapted from Rodrik (1994)		

Unusual endowments—land scarce, HK abundant

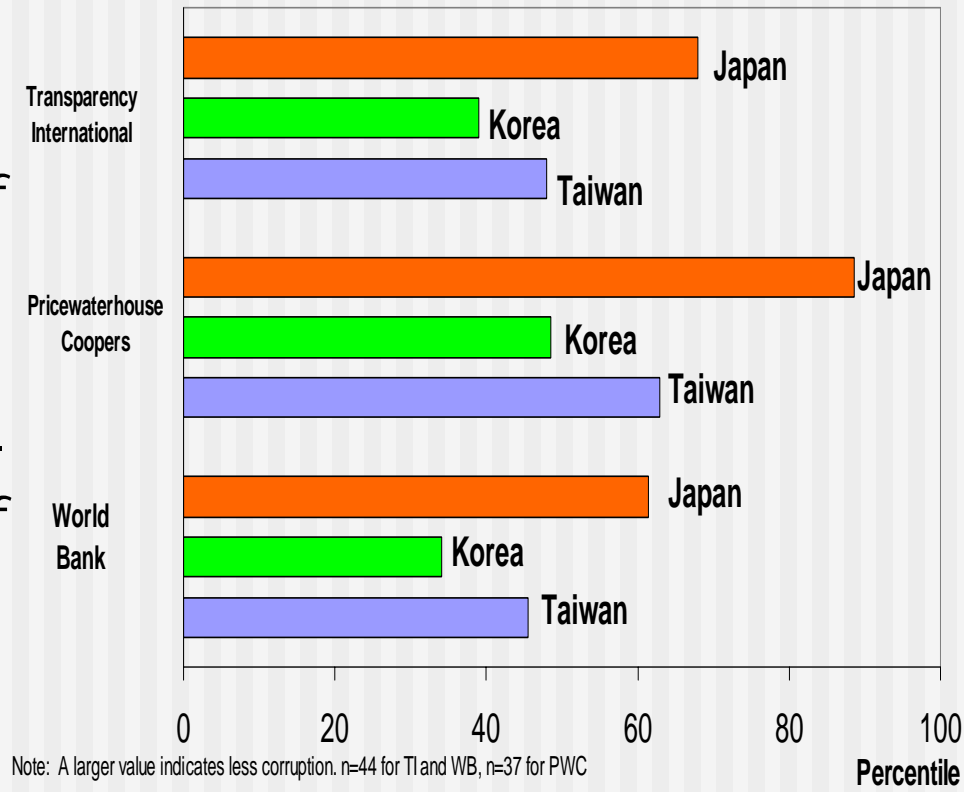


Is it possible to reproduce?

- Can financial systems be repressed today?
 - NE Asians were never liberal—the cat was never out of the bag.
 - Ideological opposition—are we at a turning point?
- Are there new constraints imposed by the WTO?
 - New rules and disciplines—the subsidies code
 - The end of the Cold War and the dispute settlement mechanism.

Weighting costs and benefits

- Modest benefits
- Possible costs:
 - Encouragement of corruption
 - Dumbing down financial system—estimated costs of financial sector clean-up 10-16% in NE Asia



Thank you for your attention

- Exports have played an important role in Asian development
- Role of industrial policy probably exaggerated
- Exports were a useful benchmark
- Replicability questionable

