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Export Growth and Industrial Policy: Lesson from the East Asian Miracle Experience. Comments

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Export Growth and Industrial Policy: Lessons from the East Asian Miracle Experience

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What are the questions?

- ***Is industrial policy still relevant? What policies are relevant?*** **The paper focuses on these questions. But an additional question is key to understanding the LA experience:**

- ***What factors enabled some countries to successfully implement their industrial policies; while these policies quickly failed in others?***

Implementation “Details” are Essential

- **Similar policies have different effects because of uncertainty concerning the links: *institutions*➔*policies*➔*outcomes*.**
- **The idiosyncratic features of the socio-economic structure generate:**
  - ***path-dependence and sequencing problems,***
  - ***macro disequilibria and financial crises,***
  - ***unintended distributional impacts and political unrest.* Hence,**
- **A canonical blueprint may be too rough a guideline for policy reform. It is important**
  - ***To design context-informed policy packages and to rectify during the implementation stage***
  - ***To facilitate social (institutional/organizational) learning***

Weiss: Lessons About Industrial Policy

(East Asia)

1. **The ability to stimulate high private investment in new manufacturing , which led to productivity improvements and exports is the key.** ***What role for aggregate volatility and structural factors?***
2. **Industrial policy must be flexible:** ***Who are the policy actors? Distributional conflict? "Rigid" institutions?***
3. **The role of directed credit policy has been much debated.** ***What about the Korean/Indonesian/Thai financial crises? How to manage risk?***

Weiss: Guidance for Countries

- → Export orientation (The RER? The Monetary Regime? Protectionism? Factor Endowment?)
- → Time-bound support (Political economy?)
- → Support in relation to well defined performance criteria (What criteria if volatile/conflictive context?)
- → A focus on innovation and technological upgrading
- → Coordination of initiatives (What about coordination failures and bad rules of the game?)
- → Flexibility (Who should be flexible? Institutional arrangement?)

Reformsa Are Processes of Institutional Change

- **Industrial policies call for institution building but there is no such a thing as an *interest-free institutional engineer*.**
- **The identification of the agents of change and their *collective action* problems is as important as the identification of the "best industrial policy".**
- **The ability to make *political transactions* is key to institution building → Political institutions matter.**

The Political Economy Dimension is Key

- **Distributive conflicts are primary determinants of the content and path of industrial policies and it is very difficult to organize compensation arrangements.**

- **In addition to "traditional" interest groups:**
  - **elites; regional/ ethnic cleavages; fiscal federalism**
  - **State capture is frequent and lobbying at the implementation stage is typical.**

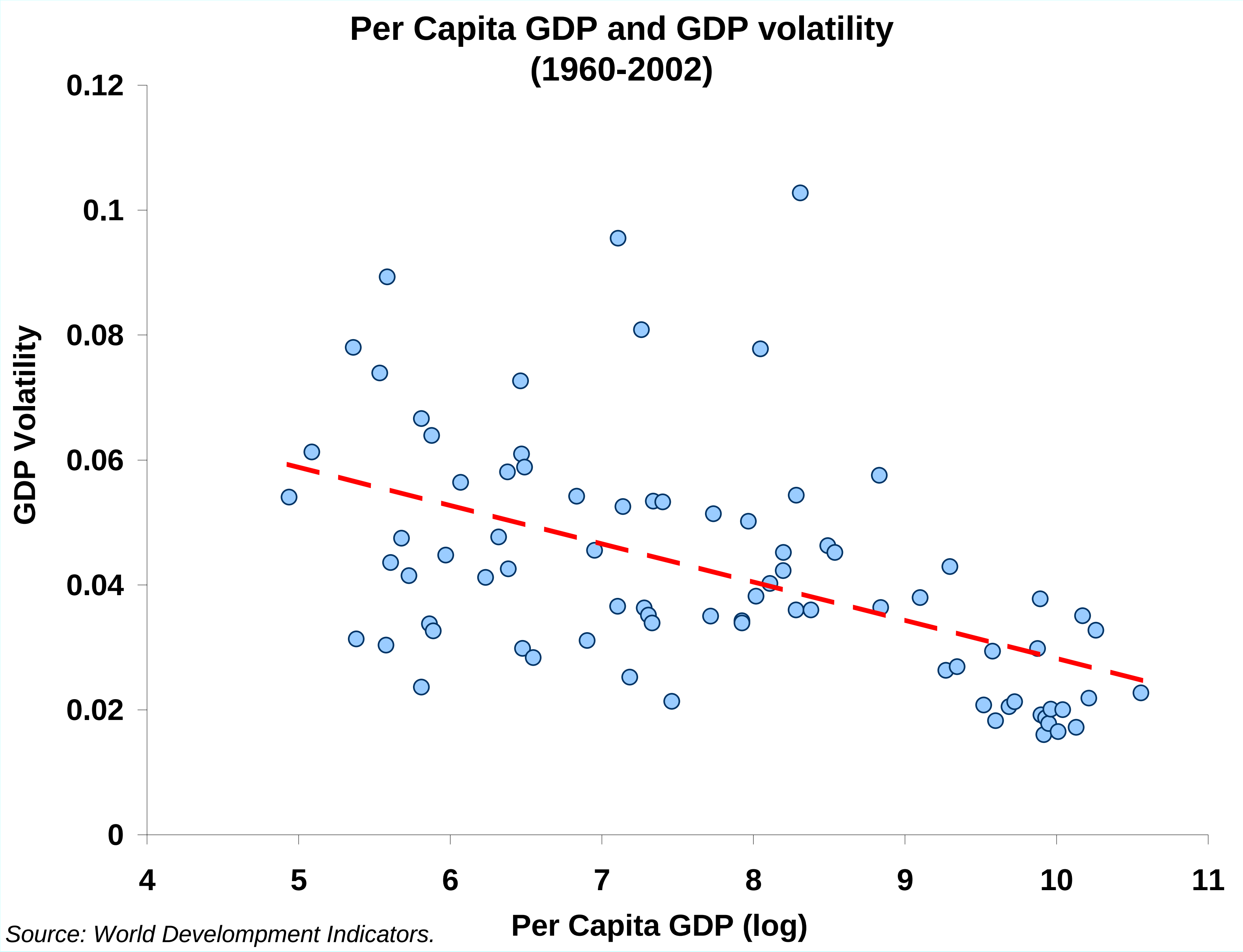
- **Problem: The *political economy* is not in the blueprint.**

Aggregate Volatility Matters

- **Emerging Economies are highly volatile: it is difficult to separate stabilization and industrial policies: "fear of floating"; sterilization and reserve accumulation.**

- **Macroeconomic volatility is inimical to institution building: Crises induce institutional disarray: Indonesia vs. Korea.**

- **Resilience to external shocks is key: Investment in Thailand; Indonesia.**


Per Capita GDP and GDP volatility
(1960-2002)
GDP Volatility
0.12
0.1
0.08
0.06
0.04
0.02
0
4
5
6
7
8
9
10
11
Per Capita GDP (log)
Source: World Develompment Indicators.

Volatility and Shocks

- **Volatile countries grow slowly but volatile sectors within countries grow fast: cyclical comovement is more synchronized across sectors in low growth and volatile countries.**
- **The economic structure may be a source of excessive volatility if increasing productive specialization makes the economy more vulnerable to shocks and international markets do not help to manage this increased vulnerability.**
  - ***US commodity-producing regions are more volatile.***
  - ***UE "peripheral" countries are more volatile.***
  - ***In Mercosur, the bulk of cyclical movements are explained by idiosyncratic country risk***
  - ***The common cycle in Mercosur correlates with country risk premia.***

The GDN Project reveals that Successes/Failures are associated with ….

- **The quality of the state: a rapid and correct response to shocks; the management of distributional conflicts; the quality of bureaucracy.**
- **External shocks are important influences.**
- **The ability of society to learn in a context of coordination failures (ideologies and behavioral patterns matter)**
  - ***Many countries repeat the same mistakes***
  - ***Distributional conflicts affect the ability to learn and to cooperate.***
- **Significant differences in the ability to solve collective action problems and undertake political transactions:**
  - ***Democratization, the search for legitimacy by authoritarian regimes, and civil society are key factors.***