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

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Comments by
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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 \(\rightarrow\) policies \(\rightarrow\) 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
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?)
Reforms 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)

Source: World Development 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.*