



Asia-Pacific Research and Training Network on Trade Symposium
"Towards a return of industrial policy?"
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Programme with Paper Abstracts

Session 1 "The best kept secret- have we ever lived without an industrial policy?"

Alan Deardorff "Fragmentation, comparative advantage and industrial policy" (PPT)

Wing Thyee Woo "Middle-income developing countries and industrial policy" (PPT)

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Jane Drake-Brockman "Nurturing services industries; the role of innovation policy and education" (PPT)

Manuel Montes "The Role of Industrial Policy in Sustainable Development Strategies" (PPT)

Session 3 "Trade and industrial policy I"

Ed Tower and Alecia Waite "Does the neo-mercantilist preoccupation with protecting manufacturing make sense?"

(No abstract)

Martin Wermelinger "Do "green" state measures make import patterns "climate-friendly"? The case of the Asia-Pacific region"

This paper estimates to what extent "green" crisis-era measures have an impact on the "climate-friendliness" of imports in the Asia-Pacific region. Testable predictions and the empirical strategy are derived from the seminal paper of Eaton and Kortum (2002). At least at the intensive margin, the results are against expectations: implemented "green" measures are associated with an increase of sourcing from more (rather than less) energy intensive countries. One reason for this surprising result may be that governments have often lobbied for state interventions as being "green" although the main purpose of implementation was not the environmental aspect. This argument is nicely supported by the data. Furthermore, the effect points at least in the right direction in specifications for which per se expectations for climate

benefits are most likely, that is, in the sub-sample of liberalizations and the sub-sample of measures for which the “green” clause was the main purpose of implementation. Finally, the results for models looking at the extensive margin, that is, the propensity of importing from a specific source, are slightly more promising. All models yield the expected negative sign: given that “green” measures are implemented, the more energy intensive a source is, the less an importing country is likely to import from that source. The results are, however, not very strong as to statistical and economic significance. In sum, there is only limited evidence for environmental benefits of “green” crisis-era interventions through the import channel. For some cases, the implementation of such measures is in fact associated with an environmental degradation of imports.

Smitha Francis and Murali Kallummal “Preferential Trading Agreements and Emerging Conflicts between Trade and Industrial Policies: An analysis of India’s recent experience”

India’s increased engagement in preferential trade agreements (PTAs), be they bilateral, regional or extra-regional in nature, is a clear break from the past when she undertook trade liberalisation mostly at the MFN level. The majority of India’s PTAs involving both developed and developing countries since the mid-2000s are Comprehensive Economic Cooperation Agreements (CECA) or Comprehensive Economic Partnership Agreements (CEPA), which go beyond goods trade liberalisation to cover WTO-plus liberalisation commitments in agriculture, services and investments, or stricter rules on intellectual property, etc. Similarly, it is seen that the provisions in India’s present CECAs and CEPAs are far more intricate and extensive than those in its model Bilateral Investment Promotion Agreement (BIPA) and its BITs. India is indeed seen to be seeking deeper forms of economic integration via comprehensive PTAs as a development strategy to exploit the potential of “efficiency-seeking” industrial restructuring and strengthen overall competitiveness. This paper examines the various dimensions of India’s changing trade policy strategy as reflected in its rising involvement in PTAs and examines its interplay with industrial policy formulation.

The paper finds that the rising share of East Asia in India’s total trade and the rapid increase in two-way trade observed in India’s trade with Southeast and East Asia particularly in intermediate products point towards India’s growing integration into the regional and global production networks centred on ASEAN and China. It is argued that that the recent PTAs signed by India will accelerate this observed trend of increased production and trade integration between India and East and Southeast Asia because of cumulative rules of origin and overlapping PTAs. However, the benefits garnered by India through this increased integration into global production and marketing networks will depend on the country’s positioning in the division of labour in production networks, which in turn is determined by its domestic industrial and technological capabilities. The latter assumes particular importance in the light of the fact that, in most major markets, non-tariff barriers in the form of standards are proliferating, which also calls for strategic industrial and technological development policies by the State. Focusing on investment disciplines in the recent PTAs, it is then argued that the flexibility to implement many of the industrial policy tools for building and upgrading such domestic capabilities are increasingly being undermined in the recent PTAs. That is, even as the promise of increased access to markets through preferential tariffs become increasingly less significant in most cases, PTAs come with significant costs associated with loss of industrial policy space. It is therefore argued that the increasing trend in India’s trade agreements to go beyond goods trade to cover issues liberalisation in agriculture, services and investment, etc. stands to exacerbate the

growing disconnect(s) between India's trade policy and industrial policy, with implications for its growth plans in the medium- and long-terms.

Sudip Rajan Basu "Diversification versus Polarization: Role of industrial policy in Asia and the Pacific"

This paper aims to understand two recent facts in Asia and the Pacific: i) the need to diversify the economy to gain more from structural changes, and ii) the need to contain polarization of economic diversification within the region to ensure level of development remains even across countries. The structural changes are captured through the prism of factor intensity classification at HS-4 digit over the period of 1995-2008. By using the database, the exports structure has been decomposed into three technology-intensive categories of exports per capita: Low skill- and technology intensive manufactures, Medium skill- and technology intensive manufactures and High skill- and technology intensive manufactures. Then the paper constructs two measures of regional inequality: (i) the standard Gini coefficient and (ii) a measure from the decomposable generalized entropy class (GE). These measures enable us to define the ratio of the between group inequality in total inequality (within group inequality + between group inequality) as a polarization index. Therefore, it measures the contribution of the between group inequality. The polarization index is computed for Asia and the Pacific and then different groups of countries. The results indicate the existence of inequality as well as polarization in the technology content of exports between countries. A special attention is given to explore dynamics of the low income countries in region versus other developing countries of the region for these technology categories. The paper attempts to provide initial set of ideas from the perspective of industrial policy to advocate a set of measures that could help Asian and the Pacific countries expand their domestic production structure. These policy measures should be promoted in a coordinated fashion to generate not only higher national revenues but also to promote positive spillovers to region. Moreover, by developing such industrial policies, governments in the region can help change the production-related allocation of inputs as well as to increase economic-wide surplus. Given the rapidly changing nature of global interdependence, industrial policies can create jobs in Asia and the Pacific and help achieve sustainable development and improved quality of life.

Session 4 "FDI linkages to diversification"

Kazuyuki Motohashi and Yuan Yuan "Foreign technology import policy and firm performance: Evidence from Chinese manufacturing firms in 1995-2004"

We examine the determinants of technology acquisition and the effects of technology acquisition policy using firm-level data between 1995 and 2004 with a detailed historical review of the China's policy for technology acquisition. We contribute to providing the evidence of the connection between technology acquisition policy and firm performance in emerging country. First, we find that innovative firms tend to import technology more after the deregulations, while a lot of firms stop importing technology after that. This finding implies that technology import decision becomes to be made by more market based decision, instead of the government decision. Second, our results show that the positive effects of technology import on firm level productivity become stronger after the deregulation in 2002. In addition, the

complementary relationship between in-house R&D and technology import are also confirmed in this paper.

Shandre M. Thangavelu, Christopher Findlay, Aekapol Chongvilaivan “FDI, Financial Constraints, and Productivity: Firm Level Study in Vietnam”

This paper empirically investigates the effects of foreign ownership, financial constraints, and other firm characteristics using a micro panel of firms in Vietnam from 2002 to 2008. We adopted the semi-parametric framework of Levinsohn-Petrin (2003) to estimate the total factor productivity (TFP) by controlling for the unobserved firm heterogeneity and endogeneity of the structural variables. The results of the paper highlight that foreign ownership is positively correlated with productivity. Financial constraints (e.g. low liquidity and limited access to external credit) appear to be a major threat to the productive performance of firms in the manufacturing industries in Vietnam. Our evidence also points to the presence of scale efficiency and the importance of high-tech and human capital accumulations to productivity enhancement.

Steve Rosefield “Crisis prevention, Stealthy Protectionism and Global Imbalance”

(No Abstract)

Nilanjan Banik “China and GMS: interdependence of investment and industrial policies”

The objective of this paper is to understand ‘why’ the Chinese firms are investing outside China, and ‘how’ China stands to gain from this decision. For our analysis, we consider the case of China’s trade, and investment relation in the Greater Mekong Sub-region (GMS). We find that a reason for the Chinese firms to invest in the GMS has to do with higher domestic input cost, as well as, to evade protectionist measures in the US and the EU. As to, ‘how’ China stands to gain, it is largely explained through elements of complementarities in trading and investment relationship.

Session 5: “Macro issues and country cases”

Dinh Hien Minh, Trinh Quang Long and Nguyen Anh Duong “Trade, Growth, Employment, and Wages in Vietnam”

This research seeks to clarify the interactions between growth, shift in economic structure, job creation, and wage improvement, using the criterion of “high and sustainable growth” - one of the three key components of inclusive growth in the context of economic integration and industrial policy reform. Specifically, the study considers whether the economic opportunities from economic policy reforms – including Vietnam’s domestic economic reform and economic integration – were transformed into high growth, leading to job creation, productivity improvement, income improvement and shift of labor structure in line with industrial upgrading. Apart from the Introduction, this paper comprises of 4 Sections. Section 2 provides an overview of Vietnam’s economic reforms since 1986 with the focus on trade and FDI policies. Section 3 then analyzes Vietnam’s economic performance in terms of growth, employment and wages. Subsequently, Section 4 computes TFP and elasticity of employment to

GDP growth in the years of 1986-2007. The computation of TFP allows for consideration of growth sustainability, while the estimated employment elasticities of growth are used to assess the impacts on job creation and wage improvement. Finally, Section 5 summarizes the key findings and draw out some conclusions of the research.

Rina Oktaviani, Tony Irawan, Lukytawati Anggraeni, and Syarifah Amaliah “The Development of Indonesian Manufacturing Sector: Challenges during External Shock and Effectiveness of Policy Response

Manufacturing Sector has an important role on Indonesia economy. It has the highest contribution to Indonesia’s GDP (more than a quarter). However, it is very fragile from internal and external shock. The government intervention is substantially needed to offset the negative impact that might be occurred due to internal and external shock. The paper attempts to identify the role and the development of manufacturing industry, which are analyzed using Input-Output and analyze the impact of both government fiscal policy and central bank monetary policy on industry and Indonesian economic performance by using Computable General Equilibrium (CGE). The results suggest that the impact of extreme economic condition on Indonesian manufacturing was clearly disadvantageous but some sectors (agricultural-based industry) were recovered quite faster than others. The structure of Indonesian industry was almost constant and the Leontief coefficients are also similar across years which implies that there is no technological changes in the given period. Fiscal and monetary policy will have positive impact to Indonesian macroeconomic performance in terms of change in real GDP, investment, consumption, and capital rate of return, with the biggest impact of fiscal policy. However, the result is expected to vary in the sector level and Indonesian industry is not so responsive with monetary policy.

Purushottam Ojha “Industrial Policy at Crossroad: A Nepalese Perspective”

(No Abstract)

Vaqar Ahmed, Hamid Mahmood, Sahar Hussain “Experiments with industrial policy: The Case of Pakistan”

There is an urgent need for policy makers to adopt a cautious perspective when dealing with the recent revival of protectionism. The changing policy context of global competition requires that emphasis be placed on facilitating broad-based innovation. This is in sharp contrast to the current and past industrial policies that were based on import substitution and sector-picking. This paper briefly outlines Pakistan’s experience with industrial policy over the past 6 decades, and shows how the protectionist industrial and trade policy regimes are ineffective with respect to equipping Pakistan to compete globally. The paper also outlines global best practices with reference to designing an enabling industrial policy and suggests policy reforms that are appropriate in the political and global context of Pakistan. A plea to dovetail industrial policy with national trade policies is also made.

Session 6: Trade and Industrial policy II”

Biswajit Nag “Linking trade policy and industrial policy: Some insights from India”

(No Abstract)

Rajan Ratna “Duty Free Tariff Preferences Scheme by India: Enhancing market access opportunity and inflow of investments for Least Developed Countries of Asia Pacific”

In view of the Hong Kong Ministerial Decision India has put in place a Duty Free Tariff Preference Scheme for the Least Developing Countries (LDCs) through which the products of LDCs can be imported in India at either duty free or at a preferential customs duties. This unilateral scheme will allow goods to reach their final preferential rates of duties in five year time frame. Since this Scheme is open to all LDCs, the preferential market access is also available to the LDCs of Asia Pacific. Can this Scheme provide them a better market access? Has India's FTAs provided greater market access to its trading partners? Has such Agreements led to investment flows from India to the FTA partners? Can this Scheme provide an opportunity to the Asia Pacific LDCs to attract investments from India or any other country for reaping the benefits emanating out of these preferences? Will it lead to backward forward linkages among the industries? Possible answers to some of these questions have been attempted in this paper. This paper first highlights India's Duty Free Tariff Preference Scheme and looks at the existing trade of Asia Pacific LDCs with World and India to identify the potential trade. Since the relationship between the FTAs and Foreign Direct Investments is neither self-evident not straight forward, the paper evaluates this issue by examining India's FTAs with its neighbouring trading partners especially India Sri Lanka FTA and evaluates the terms of trade. In so doing, it also looks at the investment flows between India and Sri Lanka pre- and post- FTA. Finally the paper explores whether a similar situation can exist between the Asia Pacific LDCs and India in view of the DFTP Scheme of India.

Kornkarun Cheewatrakoolpong, Somprawin Manprasert “Trade Concentration and Crisis Spillover: The Case Study of Transmission of the Subprime crisis to Thailand”

The menace of the subprime crisis in the United States started at the beginning of 2007 and later its effect has been transmitted worldwide. It was evident that the trade linkage is the most important transmission channel of the subprime crisis to the East Asian countries, including Thailand. Literature from international trade points out that trade concentration is considered to be one of the important factors to amplify the effect of crisis transmission via an international trade channel. However, Thailand was still hugely affected by the recent crisis although its direct export concentration has been declining over the past forty years. In fact, international trade linkage could be both *directly* and *indirectly* linked through international supply chain production. In this paper, we attempt to measure the importance of *total* trade concentration, which includes effect from indirect linkage, and its connection to the transmission of the external shocks to the Thai economy. By constructing an algorithm that calculates total trade linkages, we found Thailand still has high exposure to the G3 markets. Simulation from the CGE model also confirms that the country was in fact affected tremendously through indirect channel. The results also show that the high concentration of domestic forward linkages in particular activity makes those industries accumulate the external shocks from financial crisis.
