

# **Industrial Policy in East Asia – Lessons for Europe**

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# East Asian Development

- The fastest industrialisation in human history.
- For example, in 1961, Korea's per capita income was \$82, less than half those of Ghana (\$179) and Honduras (\$182), and similar to that of Kenya (\$72).
- In 2003, at \$12,020, its per capita income was about 12 times that of Honduras (\$970), just under 30 times that of Kenya (\$390), and nearly 40 times that of Ghana (\$320).

# Definitional Issues I

- No agreed definition of industrial policy.
- Sometimes too narrow (equated with subsidies), sometimes too broad (any policy that affects industry)
- Need to define it as a policy aimed to affect *particular industries* to achieve the outcomes which are *perceived by the state* to be *efficient for the economy as a whole*.

# Definitional Issues II

- Many argue that “general” industrial policy, which affects all industries equally, is less distortionary and therefore preferable to “selective” industrial policy.
- However, the distinction between the two is misleading, because virtually all general industrial policies involve an element of selectivity to one degree or another (R&D, higher education).

# Evolution of East Asian Industrial Policy I

- Diversity across countries in terms of policy tools and of policy implementation mechanisms.
- The commonalities and differences are summarised in Table 4.

**Table 4. Summary of Industrial Policies in the Four East Asian Countries**

	<b>Japan</b>	<b>Korea</b>	<b>Taiwan</b>	<b>Singapore</b>
<b>Policies regarding</b>				
Infant Industry Protection	Very strong	Very strong	Very strong	none
Export Promotion	Strong	Very strong	Very strong	Strong but mostly indirect
State-owned enterprises (SOEs) in Manufacturing	Not used	Used in some critical industries	SOEs ran most key upstream industries	SOEs ran some key capital-intensive industries
Large Firms in the Private Sector	Strongly promoted (especially enterprise groups)	Strongly promoted (especially enterprise groups)	Discouraged (Most large firms were SOEs)	Not promoted (Large firms were either SOEs or TNCs)

Small and Medium-sized Enterprises (SMEs)	Promoted by encouraging large firms to upgrade their sub-contractors	Weakly promoted (some SME-specific funds)	Promoted through strong public investment in R&D and infrastructure	Weakly promoted (some SME-specific funds)
Private Sector Corporate Restructuring	Some involvement	Very Deep Involvement	Deep Involvement	Some Involvement
Trans-national Corporations (TNCs)	Strongly discouraged	Strongly discouraged outside selected sectors	Discouraged outside selected sectors	Strongly promoted, but in a targeted manner
Research and Development (R&D)	Private-sector-led	Private-sector-led	Government-led	Government-led

<b>Policy Implemen tation process</b>				
Centralisation in Policy- making	Strong	Very strong	Very strong	strong
Government- Private Sector Relationship	Two-way cooperation, systematic	Top-down direction, less systematic than in Japan	Mixture of antagonism, benign neglect, and central control	Local private sector unimportant
Role of Private Sector Associations	Very Important	Important, but controlled by the government	Important, but controlled by the government	Local private sector unimportant

# Evolution of East Asian Industrial Policy II

- The countries cannot be put along a single spectrum (Singapore much more non-interventionist than Japan or Korea in trade policy, but the reverse is true in relation to SOEs).
- Nor can they be neatly grouped (Singapore closer to Japan re. government involvement in corporate restructuring, but closer to Taiwan re. the use of SOEs; Japan closer to Taiwan re. the promotion of SMEs, but closer to Korea re. the promotion of large local enterprise groups).

# Evaluating East Asian Industrial Policy I

- A very contentious issue that I cannot resolve in this paper.
- However, a few points to bear in mind in “evaluating the evaluations”.

# Evaluating East Asian Industrial Policy II

- Need to look at overall performance rather than individual cases (e.g., Honda).
- Evaluation very much depends on the performance measure and the time frame used (e.g., Japanese automobile, Nokia).
- Need to consider spill-over effects, which requires us to look at the economy as a whole, and not just the industry concerned (or only closely related industries).

# Evaluating East Asian Industrial Policy III

- Following the recent Japanese economic stagnation, it has become popular to argue that industrial policy is not useful for economies on technology frontier.
- While this argument is reasonable, it should not be over-stretched.

# Evaluating East Asian Industrial Policy IV

- The decline of Japanese industrial policy owes more to ideological conversion of the Japanese policy-makers than to a careful assessment of past records.
- It *is* possible for the government even in a frontier economy to identify and support promising industries (US public R&D support, Airbus).

# **Drawing Lessons from East Asia – “Special Conditions”?**

- “Unique” institutions and cultures of East Asia?
- Special-conditions argument can just as easily be applied to the Anglo-American model.
- Historically, the East Asian model has been much more universal than the Anglo-American model.

# General Lessons I

- 1. The target industries need to be selected in a “realistic” manner, in light of the country’s technological capabilities and world market conditions.
- 2. Industrial policy needs to be closely integrated with an export strategy, especially but not exclusively for small countries.

# General Lessons II

- 3. The government should be willing and able to discipline the recipients of its supports.
- 4. The bureaucracy should be competent and politically insulated (but need not be perfect).
- 5. The government needs to interact with the private sector closely while not becoming its hostage.

# Lessons for Europe I

- 1. Need to maintain institutions that enable long-term-oriented investment, such as development banks and enterprise groups.
- 2. Too much emphasis on budgetary transfers, traditionally a preferred means of European industrial policy, should be avoided (coordination and consensus building more important).

# Lessons for Europe II

- 3. Make the purposes and time limits of government intervention more explicit, especially in dealing with declining industries.
- 4. The decline of industrial policy in Japan should not be interpreted as a proof that industrial policy is ineffective for countries at the frontier of technology.