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Symposium on Infant Industries: A Comment

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After reviewing the various contributions to the Symposium, I find myself agreeing with everyone—up to a point. But perhaps that is not as strange as it may seem at first glance; if we were to draw some Venn diagrams for the positions taken we would find a substantial area of overlap, some gray areas and some areas of disagreement. I propose to arrange my comments in a similar fashion.

First, I fully agree with what I perceive to be the common view on several issues, to whit that IIP was practiced by every successful, i.e. now developed, country in history; second, that such a regime has been deployed by every developing country in the post-World War II era; and third, that it is necessary, if not sufficient, for developmental success. I also agree that IIP should be more broadly defined than by the simple deployment of tariffs. Nineteenth Century Japan was forced by extraterritorial treaties to use subsidies. Twentieth Century Korea and Taiwan resorted to a large array of instruments ensuring hothouse conditions for a new and relatively inexperienced entrepreneurial class. These extended from selective credit to overvalued exchange rates, to preferential access to rationed inputs, and to favored access to foreign as well as domestic R&D via such institution construction as science and technology institutes, industrial parks and the like. In other words, a broad array of government interventions is likely to be needed to help markets function better once the time has come to turn down the temperature in the IIP hothouse. And here is also where differences among the Symposium contributors begin to appear and where I also enter my own "gray area" of partial dissent from the majority view. Contrary to Chicago School adherents, I believe that an expansive version of IIP is necessary at a relatively early stage of a country's development; but it also has to be made clear to the favored industrial insiders—not only in signals but also in action over time—that the regime is strictly time-constrained. By this I do not mean an announcement of "*laissez-faire* in 10 years" but the assurance of a more or less reliable trend in the direction of a gradual reduction of the paraphernalia of IIP. The focused encouragement of exports via tariff rebates and preferential interest rates in Korea and Taiwan preceded anything like the kind of import liberalization currently being preached by the Bretton Woods institutions. Though it took several decades, i.e. until the 1980s, their domestic markets were incrementally exposed to more and more foreign competition, if never reaching textbook free trade regimes. Stop/go policies, on the other hand, all too frequent in the developing world, tend to maximize market as well as government failures.

In my view, Wade and Lall, along with Stiglitz, pay inadequate attention to the seemingly inevitable hardening of protectionist arteries if the signals for a gradual but persistent lowering of hothouse conditions are not clearly perceived. Wade, erudite and

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entertaining as always, unfortunately cannot resist trotting out some of his favorite conspiracy theories. Should Ricardo really have suggested England concentrate on wine and Portugal on textiles to avoid his neo-colonial charge?

On the other hand, I find myself siding with Wade and Lall when they reject Roberts's exaggerated faith in the large role of foreign direct investment (FDI) as a possible alternative to IIP. For one, as they point out, potentially beneficial rain falls in relatively few places. Moreover, and more to the point, inexperience among newly minted domestic entrepreneurs cannot be solved by FDI or by hiring skills directly from abroad. At best, foreign investment can serve as a complement to domestic development efforts, but the fact is that foreigners, while undoubtedly interested in influencing policy, will adjust their dance-step to whatever music is being played by the domestic decision-makers.

Finally, let me enter the zone where I have some serious disagreements with the Symposium majority. These are essentially of two kinds: one dealing with the more precise implementation of an IIP policy, the other with the quality of the enabling environment.

On the first, Chang claims that since income gaps and therefore productivity gaps between advanced and follower countries are larger today than they were historically, today's developing countries require higher levels of IIP. I must admit to not being able to follow the argument. Presumably a wider income gap is an indication, *inter alia*, of a wider gap in resource endowments, arguing *ceteris paribus* for a relatively greater pressure for encouraging international trade, benefiting both parties, statically as well as dynamically. Secondly, Lall insists that "interventions must be selective and targeted", favoring new, complex and high tech industries likely to provide externalities for others. His identification of development with favored large-scale capital-intensive industry at the neglect of not only agriculture but also the vast potential array of medium and small-scale industrial activities is hard for me to accept in light of the record of the success cases we have witnessed to date. For my taste he has inordinate faith in the operation and exchange of "tacit knowledge" among fat-cat rent-chasing oligopolists.

In a similar vein, Wade's *Governing the Market* describes government interventions on Taiwan *ex post*; but I could find no primer on just how to "act strategically". Here he urges us not to "pick" but to "nurture" winners; but how do you "nurture" without first "picking"? The US defense industry admittedly has generated a lot of "spill-over", but at what cost? And what do we know about the economics of Airbus Industries or Sematech—not to speak of the large herd of industrial white elephants in all parts of the developing world?

Wade also endorses "domestic content requirements" as a useful tool in the IIP arsenal, citing Latin American automobile assemblies as evidence. Volkswagen of Mexico did indeed exhibit some backward linkages. However, their much-ballyhooed pre-GATT, pre-NAFTA ability to out-compete the German product in Germany was based on large export subsidies made possible by even larger profits in the closed Mexican market—and tells us little about the costs of forcing the enhanced use of domestic inputs. All in all, Wade and Lall pay scant attention to the potential abuse of market power bestowed on industrialists by friendly government officials who do the selecting and share in the rents. Thus, while I fully accept the case for a temporary IIP regime, broadly defined, I believe it should be as uniform and non-selective as politically feasible. Chang as well as Lall ignore the issue of government failure in trying to implement a differentiated industry or even firm-specific IIP program.

Secondly—closely related, but too large a subject for a brief comment—some attention should have been paid here to three highly relevant issues: the relative isolation or co-habitation as between industry and the industrial policy-setting bureaucracy; the basic competence of that bureaucracy, even if it is well-intentioned, well-paid and reasonably incorruptible; and the extent of workably competitive conditions in industry. On any of these counts, even if the majority were right on all else, it would be extremely hazardous to extend East Asian experience to most countries of Latin America, South Asia or sub-Saharan Africa under present conditions.