CHAPTER10

TRADE POLICY IN DEVELOPING COUNTRIES

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Import substituting industrialisation

- Infant industry argument
  - Explain
    - Tariff = auto-financed industrial subsidy
  - N. Atlantic experience & history
  - Mkt failure justifications
    - Why private sector doesn't do it?
      - Capital mkt failures
      - Appropriability problems (spillovers &/or external IRS)

Import substituting industrialisation

- GATT’s ‘permission’
  - Enabling clause (i.e. disabling clause)
  - 1970s thinking, UNCTAD, etc.

Why it failed in most instances?

- Underlying assumptions were false in most cases.
  - Lack of c.a. in protected industry
  - Tangle of disadvantages; lack of experience & scale only one.
  - Problems
    - 1. Picking future winners
    - 2. Infants that don’t grow up
    - 3. Defining success: prod’n vs development

Dualism

- Dual economy: advanced/modern sector & poor/traditional ag in rural areas.
- Why big wage differential?
  - Firms sharing gains from protection and market power with the workers.
    - Import substitution policies create industry that can only sell locally and mkt power of these firms so they limit output & employment, but share the profits with the workers.
  - Firms ensuring loyalty an high quality of workers.
- Sign of inefficient mkts.

HPAEs

- 4 tigers' success challenged the import-substitution model of development.
  - Korea's case.
    - Dangers of cultural explanations.
- Trade policy not very free (ex. H.K.) but freer than most developing nations.
- Correlation & causality; openness & growth.
  - Recall: Doctors & dysentery parable.
- High savings rate; good general education.
- Still a mystery.

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