Geekonomics

Frank Flatters and Matthew Stern ask what South Africa can learn from southeast Asia

South Africa has come a long way in integrating itself with the global economy since 1994. Almost all sectors of the economy have become more open and more productive, and experienced simultaneous increases in export orientation and import penetration. Nevertheless, South Africa's growth performance has been less than might have been expected and certainly less than necessary to meet the country's ambitious social and economic development goals.

The government is rightly looking for new ways to raise exports and investment. But there is not uniform agreement on the desired approach and likely outcome. Despite the progress that has been made over the past decade and a half, there are some that feel the need for a strong guiding hand from government in the form of sectoral interventions and strategic restrictions on imports and some exports to promote the country's long term growth and development prospects.

This view is based in part on a misreading of experience elsewhere, especially in Asia, and in part on an overestimation of government's capabilities to design, evaluate, implement and monitor more interventionist policies.

A key feature of the success of the east and southeast Asian economies has been their ability to integrate with global markets and production networks, as demonstrated by their rapidly rising shares of world trade and investment. This required dismantling of institutional and policy barriers to trade and investment, often with an initial emphasis on export-oriented activities.

Another other key requirement was broad macroeconomic stability.

Finally, sustainable growth required wide-ranging institutional and domestic policy reform in tax administration, finance, regulatory regimes, contract law and property rights, ports, infrastructure, law enforcement, and public administration, as well as the development of educational institutions for ensuring broadly based and efficient investment in human capital.

No country has ever gotten all these things "right" and Asia is no exception.

Government support of strategic industries is a common theme in stories of Asia's success. Some allege that the support of strategic infant industries was central to the success of many of these countries.

There is no question that most of the successful Asian economies protected strategic, infant and other industries. The success of the region, however, rested not on this protection, but rather on the ability to reduce its impacts and, where protection could not be eliminated immediately, to reduce its harmful effects on export industries.

Both Indonesia and Malaysia gave strategic support to national car industries. The Indonesian venture, a joint scheme between the President's son and a Korean company, involved tax incentives, high import duties and other privileges available only to the "national" car firm. Fortunately for Indonesia, the scheme was short-lived and so the costs were small.

The Malaysian national car program has been around much longer. It began as a cooperative venture between the government and a Japanese company and was supported by large and highly discriminatory tax benefits paid for by taxpayers and Malaysian consumers. While the incentives enabled the company to dominate the domestic market for many years, it has had limited commercial success as an exporter.

The Malaysian government has continued to pour resources into this uncompetitive sector. The incentives violate Malaysia's regional trade liberalization commitments but the government has declared the sector "sensitive" and tries to create new schemes that it portrays as meeting its trade commitments, but that obviously violate their spirit and their technical requirements. The cost to taxpayers and consumers of supporting this strategic industrial program continues to mount.

While Indonesia recovered quickly from its mistakes in the motor industry, it fared less well in the aeronautical sector. An influential Minister of Science and Technology tried to prove that Indonesia could defy the laws of comparative advantage by leaping into the design and manufacture of airplanes. Small and medium sized regional passenger planes were made and sold to the air force and several ministries. A very small number were exported, at high cost, as part of offset deals on government purchases.

The project was commercially unviable and economically foolish. It was supported by budget and off-budget subsidies, non-commercial loans from state banks and a variety of other funding sources including a timber reforestation fund. The costs were large and non-transparent. It was only the 1997 Asian financial crisis that gave key economic ministers the clout to end the subsidies.

Successful Asian exporters did not develop on the back of previously protected industries. They were based on new investments attracted by institutions that permitted them to import and export as freely as possible. Among the most successful innovations in Indonesia, for instance, were the replacement of Customs by a Swiss pre-shipment inspection service and port reforms that, together, reduced the cost of importing by at least twenty percent in a matter of months

As the South African Government looks to refine its growth strategy, it is quite natural to learn from successful development experiences elsewhere, and especially in Asia. But let’s make sure we draw the right lessons.

The successful Asian economies were not immune from policy mistakes. Their success can be attributed to their ability to get many more things right, and equally importantly, to recognize and correct policy mistakes when they happened.

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