

International Political Economy (SOCS-SHU 222)

TRADE AND DEVELOPMENT II:

NEOLIBERALISM AND INSTITUTIONALISM

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Trade and Development II: Neoliberalism and Institutionalism

READING ASSIGNMENT:

Oatley Chapter 7

Part 1: The Problems of ISI

Recall Government Policies to Promote ISI

- Investment in activities the private sector would not produce
- State-owned Enterprises (& mixed-owned)
- Trade barriers (tariffs)
- Tax policies (marketing board)

Costly & Unbalanced

Government Budget Deficits

- Government budgets
 - Public investment and SOEs require (a lot of) money
 - But these SOEs are rarely profitable
 - Urban subsidies and public sector expansions added to government expenditure
 - Why pleasing the urban population?

Why was it hard to break free of ISI?

Figure 1. Four Main Types of Factor Endowments

		Land-Labor Ratio	
		High	Low
Advanced Economy		Abundant: Capital Land Scarce: Labor	Abundant: Capital Labor Scarce: Land
Developing Economy		<div>Pro-trade ☺ Abundant: Land</div> <div>Anti-trade ☹ Capital Labor</div>	Abundant: Labor Scarce: Capital Land

Current Account Deficits

- Current account deficits
 - Current account: Registers a country's imports & exports of both goods and services
 - Deficit means: Imports > Exports
 - Why?
 - Manufactured goods were not globally competitive – only sold domestically
 - Marketing boards weakened agriculture
 - Governments preferred overvalued exchange rates (benefit imports but hurt exports)

Part 2: Changes and Reforms

How did governments keep the system going until the 1980s?

- Where does the money come from?
 - Borrowing!
 - Foreign loans
 - Loans need to be repaid, but:
 - Infrastructure projects & domestic consumption, did not generate enough revenues
 - International shocks: oil price ↑, terms of trade ↓, interest rates ↑
 - The IMF & the World Bank
- At what prices?**

Structural Adjustments

- Governments needed to take a smaller role in policy areas where markets work reasonably well
- Stable macroeconomic environment –
 - transform budget deficits into surpluses; raise interest rates; devalue the exchange rate
 - ➔ cut demand; change current account deficits into surpluses
- Liberalize trade
- Privatize State-Owned Enterprises
- Neocolonialism? (Dependency theory?)

Why is this (im)possible?

Part 3: The East Asian Miracle

The East Asian Model

- Export-oriented strategy
- Post-war period: “easy ISI”
- Late 1950s / Early 1960s: shift emphasis to exports.
 - Forced manufacturers to worry about international competitiveness
 - Invested resources in domestic industries that were profitable in world markets (Latin American & African countries did not)
- Relied on protectionism for their domestic markets
- BUT allowed selective liberalization to lower costs for “critical inputs” (so did Latin America, no?)
- Stable macroeconomic environment:
 - Low inflation: Helps encourage savings
 - Appropriately valued exchange rates: Helps promote exports
 - Conservative fiscal policies (borrowed little)

3 Stages of the East Asian Model

1. Industrial policy promotes labor-intensive light industry (easy ISI – e.g., textiles)
 2. Target heavy industries (e.g., steel, shipbuilding, petrochemicals)
 3. Target high skill plus R&D-intensive industries (e.g., computers)
- (How is this different from Latin America?)

Using monetary policy to promote exports

- Exporting firms paid interest rates of 6-12%
- Other borrowers paid 20-22%
- Short-term loans unlimited for confirmed export orders
- Credit also made available to exporters' input suppliers (and the suppliers' suppliers)
- Created “free-trade zones” / “export processing zones”

Was success due to markets or states?

- Centralized or Decentralized mechanisms of allocation?
- Mix?
- Used industrial policy to shift resources to the export industry
- Used world markets to “get prices right” for export industry
- Emphasized exports rather than the domestic markets

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Thank you!

Your answer

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“Hi I think the class would be more interesting if there were in class debates on topics.

...

I think an in-class debate would be very engaging”

Here to go!

Debate: State vs. Market in the East Asian Miracle

Topic: What was the key to the East Asian Miracle?

- **State-led industrial policies:** access to cheap credits, protections, skill development, R&D investment, etc.
- **Market-oriented reforms:** stable macroeconomic environment (low inflation, appropriate XR, low borrowing, etc.)

Team Assignment

- Roles (in order): everyone has **1 minute**
 - Opening remarks * 2
 - Rebuttals * 2
 - Closing remarks * 1

Debate: State vs. Market in the East Asian Miracle

Procedure

1. *Preparation & Discussion* (5 minutes)
2. **Opening statements** (4 minutes)
3. *Discussion* (2 minutes)
4. **Rebuttals** (4 minutes)
5. *Discussion* (2 minutes)
6. **Closing Statements** (2 minutes)

Topic: What was the key to the East Asian Miracle?

- **State-led industrial policies**
- **Market-oriented reforms**

Thank You!



Take-away

- Neo-liberalism & Export-oriented industrialization
- Winners, losers & economic reform
- Current Account
- Conservative macroeconomic policies
 - Low inflation
 - Appropriately valued exchange rates
 - Conservative fiscal policies (low spending, adequate taxation)