POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA
APRIL 19-20, 2007
TOKYO

COMMENTS ON AISEN, "DETERMINANTS OF GROWTH IN LOW-INCOME ASIA"

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Paper presented at the Conference: POLICY OPTIONS AND CHALLENGES FOR DEVELOPING ASIA—PERSPECTIVES FROM THE IMF AND ASIA
Organized by the International Monetary Fund (IMF) and
Japan Bank for International Cooperation (JBIC)
April 19-20, 2007
Tokyo, Japan

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Comments on Aisen, "Determinants of Growth in Low-Income Asia"

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Contribution of the Paper

- Focus on low-income Asia
  - Lower investment ratio
  - Smaller effect of investment on growth than in the case of emerging Asia
- Policy implications to low-income Asia
  - To increase the investment ratio
  - To increase the marginal productivity of capital
  - To increase openness

Comment 1: What kind of "openness" really matters?

- Trade variable used in this paper: (exports + imports) / GDP
- Which really matters, export, import, or both?
- Import of final goods or intermediate goods? High-tech goods in particular?
- The use of detailed classifications of trade ➔ more practical policy implications

Comment 2: More direct tests of impacts of policies?

- Policies suggested in the paper includes:
  - removing barriers to free flow of technology
  - improving the business climate
  - deepening the financial sector
- But effects of these policies are not explicitly tested
- More direct tests of such policies may be possible by using proxies for those policies

Obstacle to incorporating comments 1 & 2

- Data are not always available, in particular for low-income Asia
- But, data for recent years may be available
- In that case, using shorter panel data, rather than long panel data for 1970-2000, is a possible second-best approach

Comment 3: Econometric and data issues

- Endogeneity
  - System GMM estimation, rather than random- or fixed-effects estimation, is suggested
- Rule-of-law index
  - The value in 2000 is used for all periods.
    ➔ reverse causality