

EASTERN UNIVERSITY SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT

Final Year 1st Semester Examination in BBA

2013/2014(Dec.2015/Jan.2016)

ECN 4013 Industrial Development

Time: - 03 Hours

Answer all Questions



Industrial Policies: Taiwan

1) The remarkable industrial development of Taiwan during the past decades cannot be attributed to the historical circumstances alone. The reason is that such performance would not have been possible if not for the sound industrial policies implemented by the government. Until the late 1950s Taiwan followed Import Substitution Industrial Policy (ISI). During the 1960s it moved away from ISI and turned to Export Oriented Industrial Policy. The 1970s were marked by an attempt to target heavy and investment intensive industry. From the early 1980s, the focus shifted to High-Tec industry.

Import Substitution Industrial Policy

Taiwanese industrial policy was largely characterized by Import Substitution up to 1960s. With the objective of developing an industrial base for economic self-sufficiency, the government protected local producers of consumer goods, and invested heavily in infrastructure to support domestic industrialization policies included the usual import controls, tariffs, and multiple exchange rates, and the domestic currency was overvalued to facilitate the necessary imports of technology and capital goods. Import substitution was successful in the sense that industrial production more than doubled during the 1950s.

However, the limits to growth based on import substitution began to emerge already in the mid-1950s. As the small domestic market gradually becomes saturated, the GDP growth rate declined. The financial costs of import substitution were also significant. In addition to the government budget deficits caused by the heavy public investment expenditures, the policy contributed to a growing trade deficit. Under the ISI policy, the trade regime encouraged imports of technology, capital goods, and intermediate goods, but discouraged exports.

Export Promotion Industrial Policy

In the 1960s, Taiwanese government was compelled to change its industrial policy. Taiwan shifted to emphasise outward orientation with export promotion emerging as a new policy objective. Consequently it introduced a series of policies to support exports and to promote inflows of foreign direct investment. The multiple exchange rates were gradually transformed, which translated into an effective devaluation benefiting exporters. Tariffs and other import controls on capital goods and intermediates used by exporters were removed. A broad package of fiscal and institutional incentives –including cheap credits for exporters, income tax exemptions, and cheap export insurance was put in place to further promote exports. The China External Trade Association was established for providing marketing services. Foreign direct investment was also promoted with a powerful incentive scheme including a tax-free trade regime, and corporate income tax holidays for foreign investors. The government established several Export Promotion Zones, bonded factories, and bonded warehouses.

Industrial Diversification

Beginning in 1973, the Taiwanese government had embarked on a strategy to consolidate industrial development. The new plans focused on the development of capital intensive, heavy, and petro chemical industries. In addition, a massive public investment program was implemented. This program included investment in highways, rail roads, airports, and construction of nuclear power plants. The attempts to establish a heavy industrial base was not a total success. Growth rates fell, inflation rose, and Taiwanese exporters continued to suffer from the pressure of newly emerging low wage competitors in the region and elsewhere.

A new strategy was formulated in the early 1980s. The Taiwanese government decided to focus on high-technology industries, such as information technology, biotechnology, machinery and precision instruments, and environmental technology industries. This shift required broad and coordinated efforts. Tax laws were revised to encourage commercial Research and Development and upgrading of production technologies. New firms were supported with access to venture capital. Universities received additional resources to strengthen programs focusing on science, mathematics, engineering, and computer science. Programs were introduced to encourage qualified Taiwanese nationals to return to Taiwan. The speed of economic liberalization was accelerated. In contrast to the heavy industry scheme, the focus on high-tech industry proved relatively successful.

Answer the following questions.

- a) Explain how the ISI policy of Taiwan would have helped for the industrial development in 1950s.

- b) Indicate some problems emerged during the ISI regime in Taiwan. **(04 Marks)**
- c) What is meant by 'Export Promotion Industrial Policy'? **(04 Marks)**
- d) List out some series of policies which supported for the export promotion policy of Taiwan during the 1960s. **(04 Marks)**
- e) Define foreign direct investment. List out some implications of foreign direct investment in developing countries, like Taiwan. **(04 Marks)**
- f) How do you define 'Low Wage Competitors'? How did Taiwanese exporters suffer from the pressure of low wage competitors in the 1970s? **(04 Marks)**
- g) What types of industries have been identified as high- technology industries in Taiwan in the 1980s? **(04 marks)**
- (Total 28 Marks)**

- 2) a) "The term 'Industry' covers a multitude of meaning". Explain **(06 Marks)**
- b) What is meant by market oriented Industry? Explain with examples. **(06 Marks)**
- c) Explain how do the structural changes in an economy facilitate industrialization of a country. **(06 Marks)**
- (Total 18 Marks)**

- 3) a) State the activities made by the Meiji government regarding the introduction of new technology in the various industries in Japan. **(06 Marks)**
- b) Explain how the abolition of feudalistic class system contributed to the industrial development of Japan during the Meiji period. **(06 Marks)**
- c) Explain the following industrial strategies of Japan after the second World War with examples.
- i) Labour-intensive production
 - ii) Physical-Capital intensive production
 - iii) Human-Capital intensive production
- (06 Marks)**
- (Total 18 Marks)**

4)

- a) Explain the role of liberalization policies on the industrialization of Sri Lanka after 1978. (06 Marks)
- b) State some attractive incentives for foreign investors offered by BOI after the liberalization policies. (06 Marks)
- c) What is meant by Factory Industry Production Index? List out the products which are listed in the above index in Sri Lanka. (06 Marks)
- (Total 18 Marks)

5)

- a) Briefly state some export promotion oriented industrial policy interventions of South Korean government. (06 Marks)
- b) How do the third world countries depend on developed countries in the areas of markets and human resources on their attempts of industrialization? (06 Marks)
- c) "One of the main arguments for the commitment of third world countries on industrialization is employment generation". Discuss. (06 Marks)
- (Total 18 Marks)