



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

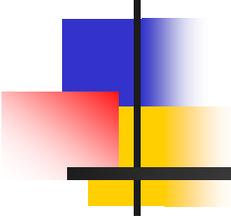


**COMMENTS ON AISEN,
“DETERMINANTS OF GROWTH
IN LOW-INCOME ASIA”**

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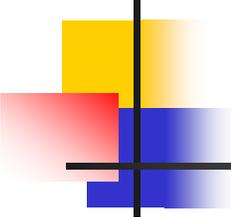
*Paper presented at the Conference: POLICY OPTIONS AND CHALLENGES FOR DEVELOPING ASIA—
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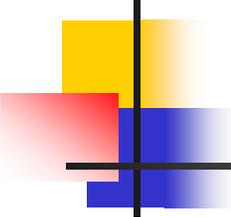
Comments on Aisen, “Determinants of Growth in Low-Income Asia”

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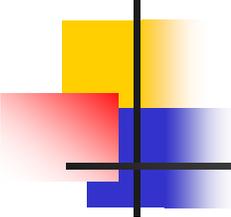
Contribution of the Paper

- 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



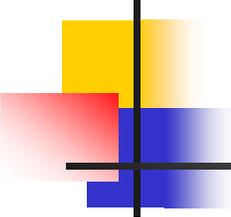
Comment 1: What kind of “openness” really matters?

- 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



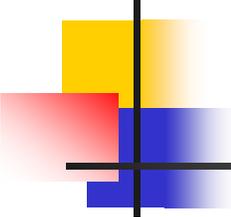
Comment 2: More direct tests of impacts of policies?

- 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