

The Impact of Macroeconomic Policies on Manufacturing Industry

Evidence From Korea, Lessons to Egypt

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Abstract

Economic growth could be achieved through industrialization. The importance of industrialization to long-term economic development manifests in its potential for strong productivity and real income growth, additionally, its crucial role in transforming many low-income countries to middle-income countries, Such as East Asian countries. the process of shifting from labor-intensive products to capital intensive products and then from Heavy and Chemical Industries (HCI) to technology-based electronic industries led to the 'Four Asian Tigers' namely Japan, Singapore, South Korea, and Taiwan. However, after Asian financial crisis in 1997, most Asian countries were negatively affected by a series of global economic risks such as the global economic slowdown in 2001, and the unexpected devastating earthquake and tsunami occurred in Japan in 2011. Thus, the global financial stability could not be restored and the economic production was negatively affected by the reduction of the external demand, particularly in Asian region. Hence, in this point, a question arises "*Can East Asian manufacturing production survive?*" The answer of this question has been provided through the 2013 global competitive index report. The report casted that China is ranked the most competitive manufacturing nation in the world today, also South Korea, Taiwan and Singapore are ranked the top ten competitive manufacturing emerging economy nations. The high quality of production and competitive cost structure are the key competitive advantages that are achieved through the successful industrial policies and the availability of highly educated and skilled labor force in East Asian countries. On the other side, the prolonged recession in industrialized economies has caused a deceleration and surfaced structural problems related to production and trade of emerging industrial economies such as many African countries. Hence, a gradually reduction in the amount of investment and capital flow directed from European countries to African countries could no longer feed the substantial growth of the manufacturing industry in African emerging economies. With this regard, this research aims to explore empirically the impact of macroeconomic policies on the manufacturing production growth through a comparative analysis between South Korea and Egypt using panel data sets of 24 different categories of manufacturing industries for each country over the period from 1980 to 2013. The time series data are analyzed using panel data analysis via Generalized Method of Moments (GMM) and Granger Causality test.

Keywords: Manufacturing Industries Index, Technological Level, Intellectual Capital, Financial Development.