

# AN ANALYSIS OF KALDOR'S FIRST GROWTH

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## INTRODUCTION

It was always the contention of Nicholas Kaldor that the manufacturing sector is the engine of growth and that conventional studies of growth are far too aggregative in their approach. This paper aims to study and test the Kaldorian approach to South East Asian economic growth with purpose of investigating the Kaldorian interpretation of the growth and development process in the region.

In most previous literature on the growth and development process in East Asia, two types of empirical studies have been conducted. The first type of study involves cross-country regression covering a large number of countries. These studies point out several factors contributing to East Asian economic growth such as outward-looking development strategies, high domestic saving rates, strong inflows of foreign direct investment, technological 'catch-up', relatively low income inequality, a stable macroeconomic environment, a market friendly policy environment, and so on. The second type of study has been growth accounting exercises, which calculate total factor productivity (TFP) growth using country specific time-series. Some of the studies find significant TFP improvement, but several studies conclude that rapid expansion of the East Asian economies relied principally on the mobilisation of additional resources, especially capital accumulation.

However, none of these approaches pick out any one particular sector as the driving force behind growth, yet in practice the growth of any country will be linked to the growth of its most dynamic sector. It was always the contention of Nicholas Kaldor that the manufacturing sector is the engine of growth and that conventional studies of growth are far too aggregative in their approach.

This paper aims to study and test the Kaldorian approach to South East Asian economic growth using the applied econometric technique of Seemingly Unrelated Regression Equations (SURE) technique. The purpose is to investigate whether the Kaldorian interpretation of the growth and development process is supported by data taken from the Asian Development Bank (ADB) on South East Asian economic growth. This should help us to understand whether the manufacturing sector has played a major role as an engine of growth as proposed by Kaldor. The study will cover the period of 1972 to 2002 for 5 countries, i.e., Indonesia, Malaysia, Philippines, Singapore, and Thailand.

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