The role of industrial policy in development

Comments

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ODI meeting: 15 October 2009, London
Lin-Chang debate:
- Renewed interest in the role of state in development.
- The DPR debate signals progress in the debate on the role of the state in driving industrial upgrading. But...
- Not clear how to identify an appropriate role for the state

Need to focus on “State-business relations” (IPPG):
- Markets fail to allocate resources efficiently in theory and practice, but governments may fail to overcome market failures.
- Appropriate institutions and co-ordination mechanisms (SBRs) can help to address market failures without leading to failed interventions (also refer to Williamson, Ostrom)
Why comparative advantage conforming is not enough

- **Uneven growth**: wrong specialisation in poor countries can lead to divergences in incomes (Feenstra, Grossman, Helpman) and a low–skill, low–income trap

- **Competitive advantage** – e.g. ICT from India

- **Cambodia** – compared to other ASEAN countries, the lack of industrial policies has led to a lack of clustering/industrial upgrading, which is now showing problems as footloose industry disappears during GFC

- **Costa Rica** – the attraction of an Intel plant needed active skills and investment policies, solving dynamic market and co-ordination failures
Why comparative advantage defying intervention can go wrong

- Appropriate intervention requires perfect information (Arrow), e.g. a full set of price and income elasticities (Stiglitz);

- Intended misallocation of resources and rent-seeking

- The Tanzania Industrial Research and Development Organisation (TIRDO, plugging a technological market failure) performs useful technical functions but failed to produce significant technological benefits to the private sector (Lall, Pietrobelli, 2002).

- Malawi – politics of SBR (Leftwich, IPPG research): private sector owned in large part by public sector
IPPG research on SBRs: What works, and how

- **SBRs as institutions**: provide economic functions (more efficient allocation of resources, better investment climate, less policy uncertainty) and rules on how power is shared.

- **Good SBRs** (transparency, reciprocity, credibility, trust amongst public and private sectors).

- **Measurement/effects** (Sen and te Velde, 2009) in SSA:
  - Private sector organisation
  - Public sector capacity
  - Institutionalisation of SBRs
  - Effective competition
IPPG research, e.g.

- Mauritius (Rojid et. al.): Joint Economic Council is influential private sector actor in SBRs in Mauritius; Measured SBR leads to higher growth (1970-2005). How? E.g. suggested budget proposals for better industrial policies are frequently taken over by government budgets.

- South Africa (Natrass, Seekings): Nedlac did not provide a real consensus seeking forum, due to weaknesses in state, although some success in industrial policy.

- Zambia (Bwalyas, et al.): analysis of new, transparent mechanism to channel budget proposals suggest that business organisations / actors have influenced budget outcomes (esp using civil servants), more than other stakeholders.

- Ghana (Ackah et al.): the more developed the social networks (politicians, civil servants) of firms (#256) the better firm performance.

- Across Africa (Qureshi and Te Velde): business membership leads to better firm performance by reducing policy uncertainty and lobbying, but individual lobbying remains important!
Conclusions

- Helpful debate: industrial policy is “back”, ie there is agreement there is a role for the state but no agreement on comparative advantage conforming or comparative advantage defying role

- ODI research suggests there are pros and cons for each side in practice

- IPPG research suggests an understanding of SBRs will be key to unlock the mechanisms behind formulating effective industrial policy, which could be either CAC or CAD.

→ Build capacity in governments to facilitate SBRs, build private sector capacity; note this is a long process which is not simple and straightforward.
Thank you
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Industrial Policy in development