



The What, Why and How of Industrial Policy: Government-Business Coordination

Finn Tarp

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Introduction

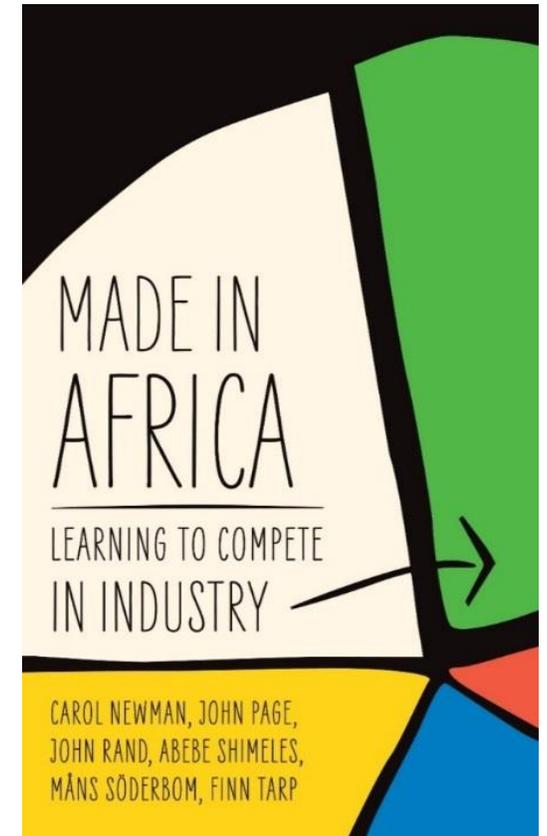
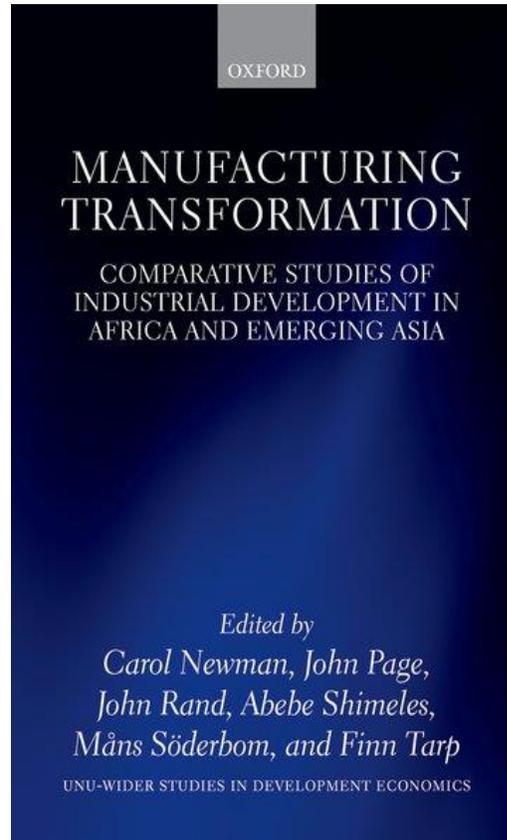
**A Major UNU-WIDER-Brookings Research
Programme**

WIDER's 2014-18 Research Programme

- **3 Challenges**
 - Transformation
 - Inclusion
 - Sustainability
- **3 Concerns**
 - Africa's inclusive growth
 - Gender equity
 - Development finance
- **3 Audiences**
 - Decision-makers in developing countries
 - International agencies, both bilateral and multilateral
 - Global research community

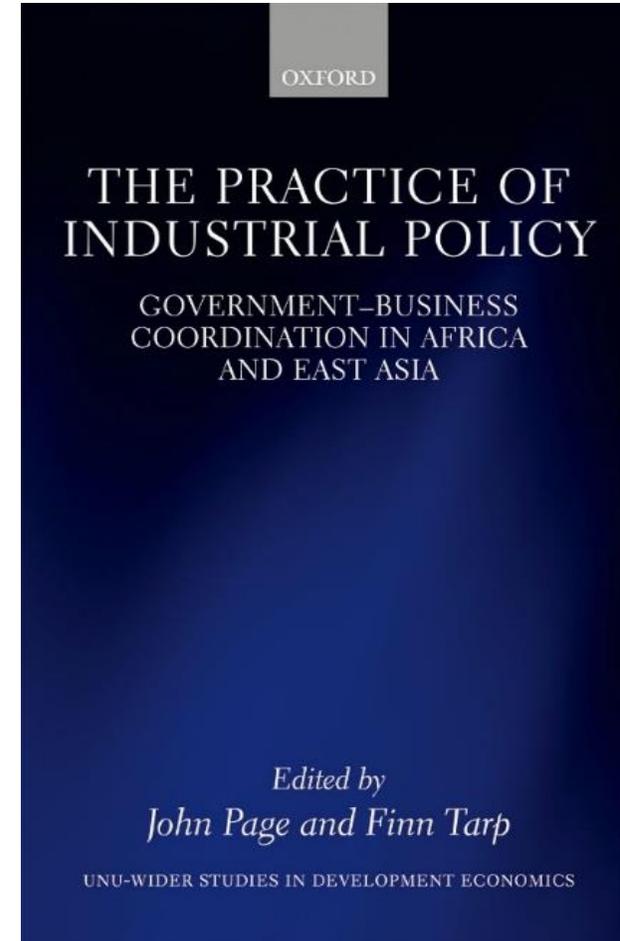
Learning to Compete

- We began with *Learning to Compete* (with AfDB)
- Which tried to answer the question
 - Why is there so little industry in Africa?



About this presentation

- *Learning to Compete* got us thinking about the why and how of industrial policy
- And that led to research on government-business coordination in Africa and East Asia
- This book is the basis for today's remarks



The What

What: Conventional Wisdom

- “Governments can’t pick winners”
 - It is impossible for governments to identify the relevant firms, sectors, or markets that are subject to market imperfections (Howard Pack)
- “Government failures outweigh market failures”
 - Selective interventions are an invitation to corruption and rent-seeking (Anne Krueger)
- Both of the above!

What: A Misdirected Debate

- The debate about “picking winners” misses the point: governments make industrial policy on a daily basis via the budget, regulations and trade policy
- In practice, most interventions, even those that are meant to be “horizontal”, favour some activities over others
 - Financial sector reforms favour larger, formal firms
- The challenge is to find the right intervention

What: “Normalizing” Industrial Policy

- As Dani Rodrik has pointed out, in other areas of policy making (macro for example) economists are willing to accept uncertainty and errors
- For some reason this has been less true over the past 50 years with respect to industrial policy
- But there is a welcome movement to “normalize” industrial policy and apply the same standards to it as to other economic policies

The Why

Why: The Market Place Is Not Magical

- Market imperfections mean that the social returns in growth-promoting investments exceed private returns
 - This is a (neo)classic rationale for public action
- Externalities and coordination failures call for a coherent strategy of public action
- Both provide the rationale for industrial policy

The How

How: The Practice of Industrial Policy

- Knowledge about spillovers, market failures and constraints that block structural change is diffused widely
 - Public inputs that producers require tend to be specific to the activity
- Recent writing on industrial policy has emphasized the need for consultation and coordination with the private sector
 - Identify constraints, shape policies and monitor results

How: The Practice of Industrial Policy

- Businesses have strong incentives to “game” (capture) the government
- Balancing between coordination and capture is the key challenge of the practice of industrial policy

How: Government-Business Coordination

- Coordination mechanisms have been used by all of the high performing East Asian economies
- Countries differed in the form of coordination mechanisms
 - from “deliberation councils” (Japan, Korea) to local authorities (China, Vietnam)
- All were designed to manage the tension between coordination and capture

How: Coordination in East Asia

- Coordination mechanisms featured four elements:
 - A high level of commitment of senior government officials to the coordination agenda
 - Sharply focusing policy decisions and actions on specific constraints to firm performance
 - A striking willingness to experiment (public policy as pharmacology)
 - Careful attention to feedback

How: Rules, Referees and Rewards

- East Asian countries used both incentives and discipline (carrots and sticks)
 - Subsidies were generous (rewards)
 - But they were conditioned on performance: especially on export performance (rules)
- Making incentives conditional on export performance set up the right incentives for firms to increase their productivity

Government-Business Coordination in Africa

Government-Business Coordination in Africa

- Efforts to achieve government-business coordination in Africa have been less successful
- This reflects
 - An uneasy public-private partnership
 - Lack of coordination within government
 - Rewards without rules or referees

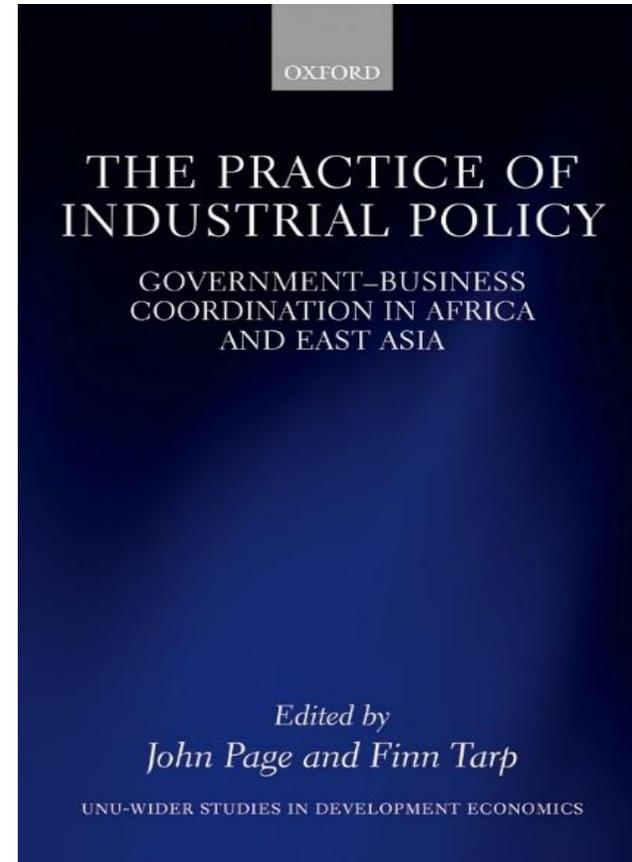
Strengthening Government-Business Coordination in Africa

- High-level leadership is critical to success
 - In Ethiopia, Meles Zenawi, the late prime minister, was personally involved in the successful promotion of cut flowers.
 - President Museveni of Uganda signaled his commitment to its Presidential Investors' Advisory Council (PIAC) by actively participating in meetings and following up on Council decisions
 - In Ghana President Kufour could not find time in his schedule to conduct a meeting of its Presidents Investors' Council in more than two years
- Commitment depends on getting things done which in turn depends on commitment

Summing-Up

Summing Up

- The institutions that shape government–business relations are a key element of industrial policy
- There is no single model of success of business–government coordination or industrial policy
- The experience of successful coordination between the public and private sectors in Africa has been disappointing
- However, with committed leadership, Africa can develop the institutions of public–private coordination
- Look to Asian experiences for inspiration





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