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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
  o 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
Why: What you Make Matters

- More diverse economies have better long run growth
- Some economic activities have larger growth payoffs
  - Unconditional convergence in manufacturing
- Economies with more sophisticated manufacturing sectors grow faster
  - “Sophisticated” products embody advanced country knowledge and productivity

Source: 6-digit product data (BACI, CEPII) and Hausmann et al. (2002) methodology
Note: Values are expressed in compound annual growth. The figure shows the four SSA resource-rich MIC and comparators (other lower or upper middle-income countries).
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
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• 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.
See also: econ.ku.dk/ftarp/