State-Business Relations and Industrial Policy

An Introduction


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SBR & industrial policy: Overview

- Renewed interest in industrial policy (context of structural transformation and job creation)
- We know a lot on appropriate role of industrial policy in development
- Relevance of state-business relations for industrial policy (economic functions, principles, practices)
- Examine → What are characteristics of effective SBRs for industrial policy
- Large gap in literature!

- Research on SBRs progress in 2 areas
  - historical institutionalist (from PE/PS angle)
  - economic / measuring (pushing boundaries of economist / PSc)

- Moving forward:
  - Systematic analysis of SBR case studies (e.g. principles)
  - Comparative analysis of SBR practice (measuring)
  - SBRs and structural change
Growth Policy Pendulum

A more managed and regulated economy (addressing market failures)

A less distorted and freer market economy (addressing governance failures)

The Washington Consensus

- Fiscal discipline
- Expenditure switching from indiscriminate subsidies toward the provision of public services such as education and health
- Broadening of the tax-base and modest tax rates
- Market determined positive real interest rates
- Competitive exchange rates (but not necessarily market determined ones)
- Import liberalisation and low, uniform tariffs
- Easier FDI regimes
- Privatisation
- Deregulation and prudent oversight of financial services
- Secure property rights

Development Policy Review

A Better Investment Climate for Everyone
Relevance of industrial policy

• Agreement of presence of market, government and co-ordination failures (e.g. skills, technology) (e.g. Pack and Westphal, Stiglitz, Rodrik, Lall);

• But different and evolving views on relative importance of market failures vs government failures in constraining innovation / growth; (assessment framework?)

• Industrial policy works in some cases/areas/times (Ireland, Singapore, Mauritius, Malaysia) but fails in others (parts of Eastern Europe, Latin America and SSA); (assessment framework?)

• Emphasis shifted to design principles for effective industrial policy (Rodrik 1994; World Bank, 2012), area of comparative advantage (Lin, 2012) and institutional setting (incl. SBRs).
SBRs and industrial policy

• Theoretical underpinning (economic functions)

• Principles behind benign SBRs (institutional)

• Forms / practice of SBRs

• Study of SBRs and next steps
SBRs for Industrial Policy

Economic functions

• Market complementing functions (e.g. Doner and Schneider, 2000 for BAs)

• Addressing market, government and coordination failures (Sen, 2013; Velde, 2010)
  – More efficient public spending (relevance, coordinating, affecting budget process)
  – Better reform policies (prioritising, acting on private sector constraints, standardisation)
  – Reducing policy uncertainty (reducing probability of policy reversal)
SBRs for Industrial Policy

*Principles*

- Evans (1995); Maxfield and Schneider (1997); te Velde (2006):
  - Transparency;
  - Reciprocity;
  - Credibility;
  - Trust

- Rodrik (2004)
  - Political leadership at top;
  - Co-ordinating/deliberating councils;
  - Mechanisms for transparency/accountability
SBRs for Industrial Policy

**Practices / forms**

- Formal/informal; national/sector; ad-hoc, regular; skills/capacity; position papers; function (e.g. providing information, standardisation)

- WB/OECD (2006): Charter for using PPD in PSD (10 points); Mandate, structure, champions, facilitator, outputs, communications, etc

- ITC diagnostic: mandate and institutional alignment; structure and participation; strong leadership and champions; contribution to policy formulation and evaluation/monitoring; private sector contributing capacity; building stakeholder confidence
Studying effects of SBRs

Two strands

- Historical / institutionalist (e.g. Chingaipe and Leftwich 2009 for Malawi; Schmitz et al 2012 for Viet Nam; Nattrass /Seekings 2011 for SA), focused esp. on principles (& LT development): insights that not all formalised structure work (eg NEDLAC)

- Economic (measuring, correlation, careful macro/meso/micro level), focusing on measurable forms, functions and impacts (Sen, 2013); example next page or Bwalyas and Rohid on SBRs and budget process in Mauritius and Zambia

- Key challenges: cause / effect; measurement, policy?
Value of services of business association *revealed* mirrors *stated* preference (Zambia – enterprise survey data)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Estimated coefficient on productivity equation</th>
<th>Mean of perceived value of BA by individual firms</th>
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<td>Lobbying government</td>
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<td>Information on domestic markets</td>
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<td>Resolution of disputes</td>
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Business associations affect performance by reducing policy uncertainty and by lobbying government over regulations (Qureshi and Te Velde in Sen, 2013)
Why both strands are important

• Cambodian Government-Private Sector Forum (G-PSF) to promote an open dialogue between the government and the private sector (2000).

• Forum led to more US$100 million of savings for the private sector and improvements in Doing Business ranks (GoC).

• However, currently, there are questions on sustainability of PPD? (building on political settlements / local institutions vs. externally supported fora?)
Next steps?

• **Which SBR principles matter for what/when?** Systematic analysis on the characteristics of effective SBRs across case studies in LICs (e.g. hist/inst empirical studies on successful economic functions of SBRs & *good* industrial policy design)

• **Which SBR forms help for what?** Examine the practice of SBRs by comparing across locations a few selective indicators which can be measured objectively (e.g. ICT, impact assessments, skills)

• **Bringing them together?** E.g. good practice helps only / esp. in combination with principles

• **Time Horizon?** SBRs and quick solutions vs structural transformation
Evidence?

1. The transformation of Mauritius into one seamless and integrated business platform;
2. The adoption of transparent, simple and minimum procedures to start and operate businesses;
3. The establishment of a competitive air access policy;
4. The introduction of competitive pricing policies for international bandwidth;
5. The establishment of an open policy to import high skills;
6. Operationalization of the Public Private Partnership (PPP) legislation; and the mainstreaming of SMEs in the new economic model;
7. Transforming the labour environment into a more flexible one;
8. Establishing the right balance between legislative control and "space" for investment.

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<th>Budget proposals of JEC (2006/2007)</th>
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<th>Not Implemented</th>
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