

Politics of Industrial Policy

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Industrial policy is inherently political

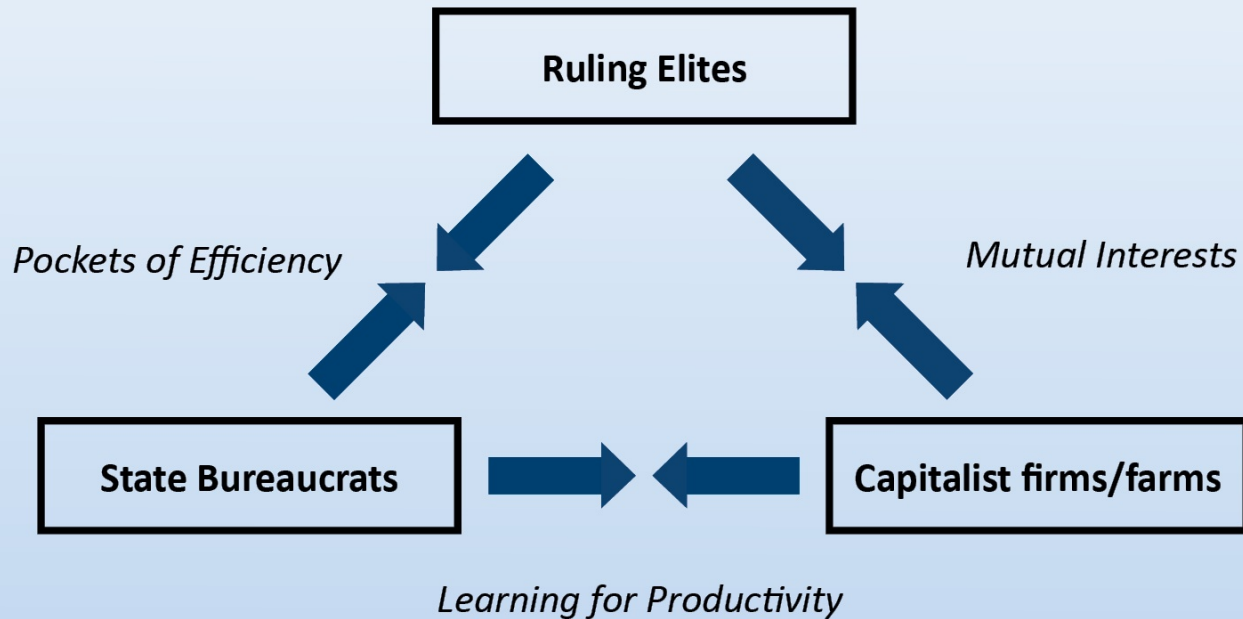
- At the heart of Industrial policy are issues of resource allocation, institutional changes and the enforcement of new rules in institutions governing land, labour and capital as well as ‘learning rents’
 - Which involve changing the distribution of economic benefits → contested
- Governments not only have to create the institutions required for implementation, they have to be willing and able to enforce implementation of socially contested decisions.
- What we mean by the politics of industrial policy:
 - *the conditions under which industrial policies are successfully implemented, and*
 - *the politics that makes those conditions possible.*

Three approaches to the politics of industrial policy

1. ***Developmental state approach***—technocratic elites insulated from distributional pressures within society and political interference devised and implemented long-term industrial policy
2. ***Business-state relations institutionalist approach***—business played a more important role, driving state actions and policy design; focused on what factors determine whether collaborative or collusive BSR emerge; emphasized formal institutionalized relations through business associations (national and sector level)
1. ***Political survival of ruling elites approach***—government policy choices and its ability to implement them, as well as its interactions with businesses, were shaped by incentives arising from the imperatives of ruling elites to remain in power and thus build and maintain political support

Model of Politics of Industrial Policy

Political Settlement



Key points about Political Settlements

Ruling coalitions characterized by

- greater coherence among ruling elites, concentration of power in higher levels of ruling coalition, and few strong political organizations and groups outside the ruling coalition → gives a government greater ABILITY to act and enforce its policies.

Vice versa—greater dispersion of power within the ruling coalition and outside it:

- Leads ruling elites to focus on immediate political survival
- Intense contestation within the ruling coalition constrains the ability of ruling elites to prioritize allocation of resources, shift economic benefits and overcome resistance from factions/individuals

The size and capabilities of domestic capitalists are crucial to WHETHER ruling elites act and WHAT actions they take

- Shapes whether and what kind of mutual interests emerge
- Why and how ruling elites use FDI
- What domestic capitalists try to do with learning rents

Political settlements characterized by intense contestation and domestic capitalists that are weak in capabilities or political influence (or both) are not conducive to ambitious industrial policy

- but that does not mean that no forms of industrial policy will work.

Contestations within and outside the ruling coalition can play out differently across sectors

- Because the relevant capitalists can vary, sectors can be embedded in different institutions and sets of political and socio-economic relations.

Need for a sector approach to the politics of industrial policy, especially in African countries

- state interventions to support certain sectors can be relatively successful while interventions to support other sectors will be downright failures—as in our Mozambique country study

Mozam: Rehabilitation of the sugar industry

Industrial policy:

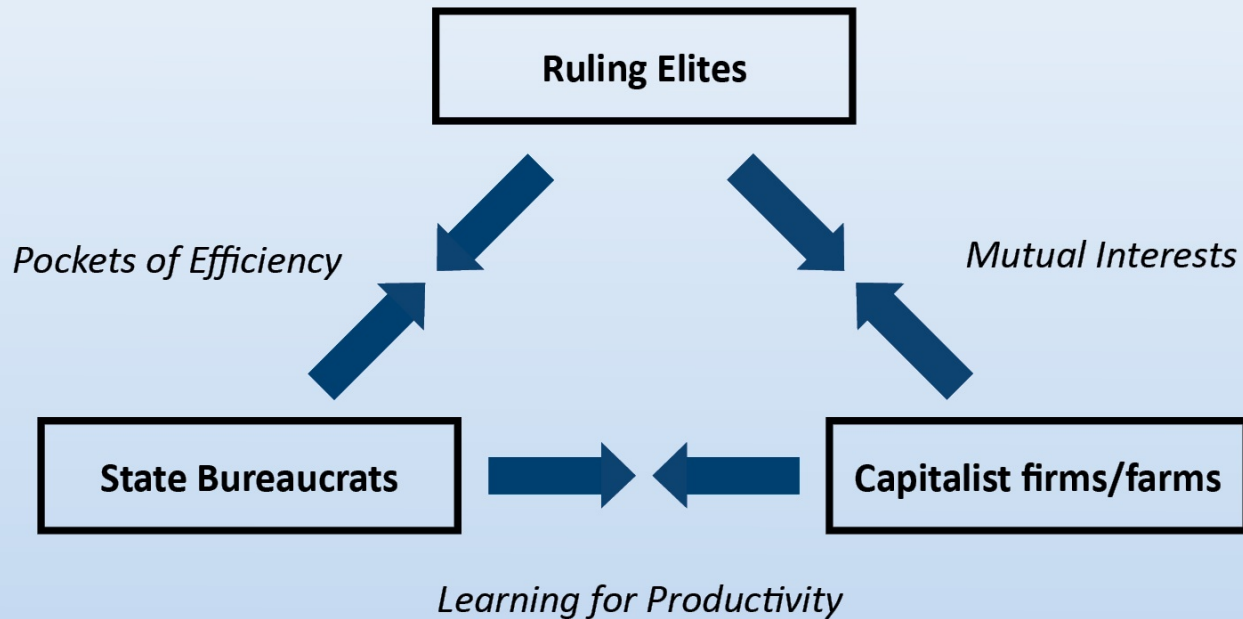
- ***strategic privatization*** of 4 out of 6 state-owned sugar estates to foreign firms and ensuring investments and upgrading in cane production and sugar processing
- ***Creating a protected domestic market*** through tariffs on imported sugar, and prohibiting smuggling from neighbouring countries, which resulted in a threefold temporary increase in the price of sugar
- ***Establishing an internal distribution system***, which also worked to subsidize the loss making estates while they increased productivity and later became basis for collective external marketing

These actions were successfully carried out, resulting in:

- All four estates became competitive;
- generating 30,000 fulltime jobs in rural areas, expanding rural infrastructure and banking access,
- from the mid-2000s, exporting high volumes

Model of Politics of Industrial Policy

Political Settlement



Mozam: Building export fish processing industry

The industrial policy aimed to create a semi-industrial fishing fleet and national processing facilities owned by domestic entrepreneurs by:

- **Reallocation of natural resource rents:** transferring quotas and licenses for fishing from industrial to semi-industrial vessels through an annual allocation system
- **Regulatory measures:** prohibiting semi-industrial vessels from having freezers on-board, so that they have to land catches
- **Subsidizing investments:** rehabilitating vessels, factories and on-shore freezing facilities

These actions were not successful carried out:

- domestic entrepreneurs with licenses and quotas either
 - (1) sold on their quotas and licenses to foreign industrial fishing vessels, or
 - (2) used the vessels but fitted them with freezers and entered into joint ventures with foreign industrial fishing vessels
- New licenses and quotas was granted to top level Frelimo factions, which led to serious over-fishing
- Donors funding the rehab of vessels and on-shore facilities pulled the funding, for two reasons:
 - (1) EU had conflicts of interests, as member states had firms operating industrial fishing; and
 - (2) other donors saw that local entrepreneurs were taking the rents but not investing in semi-industrial/processing industry, so they shifted focus to artisanal fishing