



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

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# **Introduction**

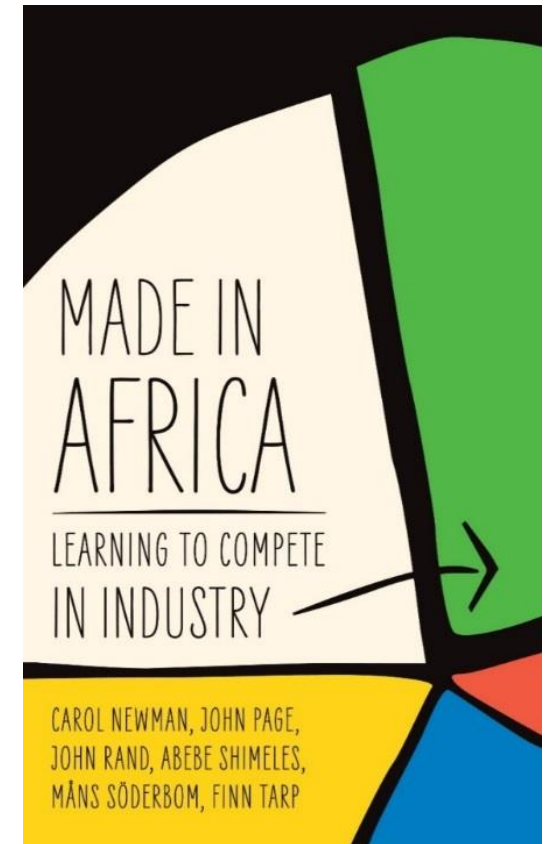
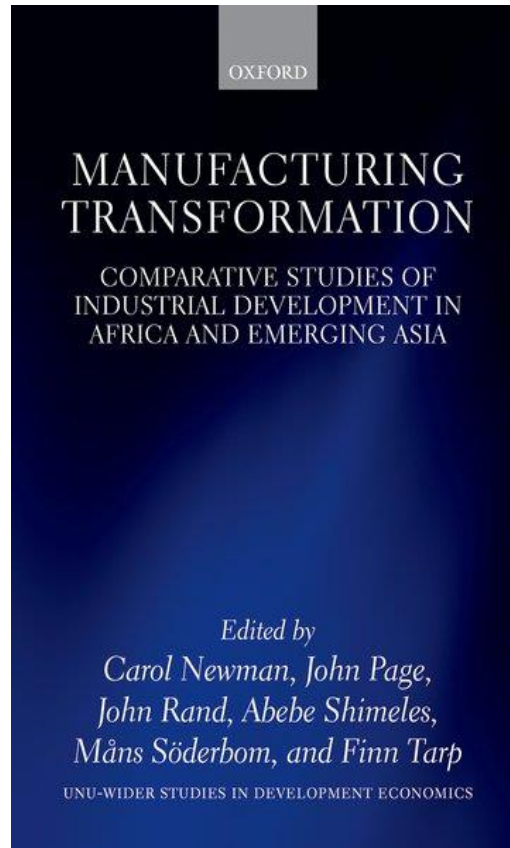
**A Major UNU-WIDER-Brookings Research  
Programme**

# 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

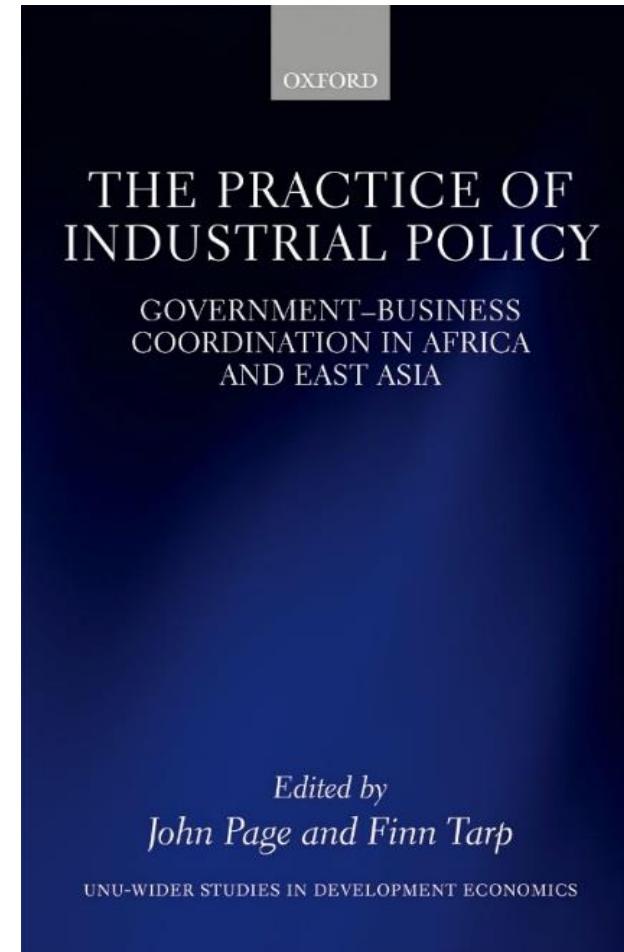
# Learning to Compete

- 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

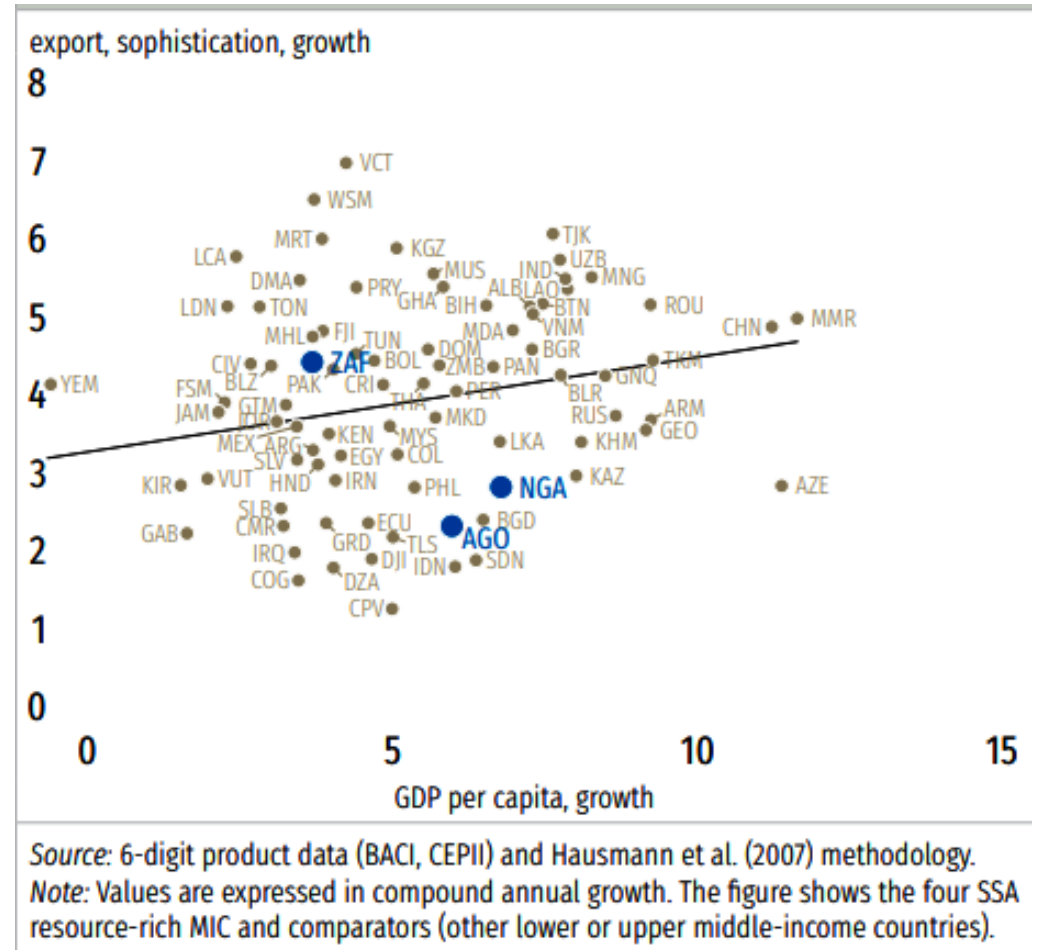
**The Why**

# 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

# 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



**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

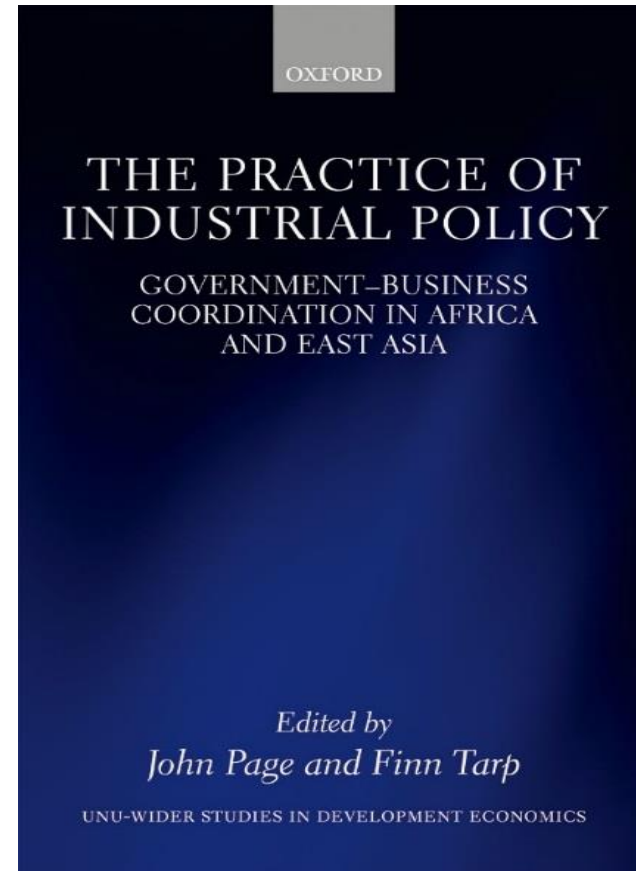
# Strengthening Government-Business Coordination in Africa

- 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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