SETTING THE SCENE: NEW INDUSTRIAL POLICIES FOR CATCHING UP

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Workshop:
Boosting economic dynamics and job growth: the potential of industrial policies
**Motivation**

Why have some countries achieved high and sustained catching up and economic development, while many other developing countries were unable to trigger such a process?

Recent debate in development economics: shifting focus
- from economic **growth** to **dynamics** of economic development.
- from analysis of markets to the pro-active role of governments.
CHALLENGE OF MIDDLE INCOME COUNTRIES

- How to best use industrial policies to accelerate catching up, and create a dynamic, sustained and high performing growth process.

- How to sustain economic dynamics for avoiding middle income trap.
A DYNAMIC FRAMEWORK FOR ECONOMIC DEVELOPMENT - PRODUCTIVE TRANSFORMATION

Productive transformation – increase productivity and growth through structural and technological change

- Diversification
- Complexity
- Sectoral structure matters
- Technological upgrading within sectors
A DYNAMIC FRAMEWORK FOR ECONOMIC DEVELOPMENT - CAPABILITIES

- Domestic capabilities – defining the option space and competences for productive transformation

- Social Capabilities – defining the boundaries for structural transformation
A Dynamic Framework of Economic Development - Capabilities

Global product and technology space

Capabilities
Determine the feasible set of new products and services for diversification; technologies it may adopt

Productive Capacities
What a country can produce given its existing production factors, infrastructure, technology
A Dynamic Framework of Economic Development - Capabilities

- Capabilities shape productive transformation through two dimensions:

  - **OPTIONS** (for diversification into new products, activities, technologies)
  - **COMPETENCES** (for high performance in taking advantage of options)

Social Capabilities for productive transformation
A DYNAMIC FRAMEWORK OF ECONOMIC DEVELOPMENT - CAPABILITIES

- The development of social capabilities cannot be left to the market - value of options not reflected in market prices
- Can social capabilities explain the middle income trap?
- Are capabilities for catching up different from capabilities to enter advanced income levels?
A DYNAMIC FRAMEWORK OF ECONOMIC DEVELOPMENT - JOBS

Jobs – outcome and driver of productive transformation

- Jobs have developmental value – they have the potential to contribute to
  - productive employment, wage increase, poverty reduction
  - domestic demand and growth
  - learning and productive transformation

- Jobs differ in their developmental value

- The nature of productive transformation determines the job-content of growth, the nature of jobs generated and employment patterns.
THE CHALLENGES FOR NEW INDUSTRIAL POLICIES

- Develop a vision of productive transformation as part of economic development agenda
- Governments have options and they need to make choices
- Enhance dynamism of private enterprises
  - trade, investment, technology policies and financing of economic and social transformation
- Formulate productive transformation strategies in the light of country-specific social capabilities – no one size fits all
The challenges for new industrial policies

- Coordinate education, training and R&D policies with industrial policies to trigger and sustain dynamic process of social capabilities, productive transformation and creating jobs pattern with high development values.

- Develop «competent» formal and informal institutions to enhance option space and to translate options into productive capacities in the formal and informal economy.

- Governments need to strengthen industrial policy-making capabilities to tackle new challenges and enhance potential scope and effectiveness of industrial policies.
Thank you for your attention

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