Catch-up growth and productive capacities: A new development paradigm?

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Understanding the moment: Three transitions

• Geo-economic/geo-political shift: New geography of growth:
  – 4-5% rate of growth differential between N and S.
  – S increased from 30% of world GDP in 1980 to 50% in 2010
  – S-S trade grew 50% faster than N-N trade

• Shift in dev. thinking away from conventional thinking.
  – Limitations of one-size-fits-all thinking
  – Limitations of growth as a measure of success
  – Now is the moment to intellectually and analytically rebalance policy thinking

• Increasing self-assurance in the South to define policies:
  – Where to look for relevant knowledge, experience, lessons?
I. Two key issues of concern for the ILO:

- How to promote Social Justice and Fair Globalization and respond to the trend towards rising inequality?

- How to promote job-rich growth, growth with decent work, and improve the growth-employment-productivity-equity nexus?

II. Catch up growth and productive capacities: A new paradigm for development?
Rising tide… but trend towards Inequality: Unfair Globalization

• Developed Economies – the affluent:
  – Not everyone is in the same boat

• Emerging Economies – the converging:
  – Uneven development: oasis of modern productivity explosions coexist with deserts of low productivity, informal activities.

• The Struggling and Poor countries:
  – No rising tide at all or focused on natural resource or commodity exporting wealth!
  – How to promote productive diversification and upgrading into higher quality activities? Catch up?
  – Quality of development governance

• ILO Declaration on Social Justice for a Fair Globalization
  – Decent work agenda
Emergence of new global players: Some key labour market impacts and issues

- Labour Market impacts in Developed Countries – the affluent

- LM impacts/challenges in Least Developed Countries – the struggling and the poor.
Labour Market impacts in Developed Countries – the affluent:

• The challenge is not only the low-skills/low wages competition, but the high skills/low wages competition that threatens jobs and incomes for the educated and therefore the middle class dream.

• What are the main growth, education, competitiveness and labour market policies and institutions to meet these challenges?

• What does return to full employment mean in Developed Countries, and how it can be achieved in the light of trends?
Labour Market impacts/challenges in LDCs – the struggling, the poor.

- Depends on interpretation of impacts of increased S-S linkage through: trade, FDI, migration, aid.
- Trade:
  - Resource exporters benefit, but not much in terms of jobs
  - Food and agricultural exporters benefit with likely better employment outcomes than in extractive industries
  - Is the strategy of developing labour-intensive manufactures (LIM) still open for countries in early stages of development?
    - Evidence of negative impact in LIM in some sectors…but...
    - S-S demand opens more export opportunities for the poor countries (less technologically sophisticated, undifferentiated goods)
    - As emerging countries become advanced, labour becomes «expensive», and middle classes expand, they will increasingly be net importers of L-intensive goods, opening competitive opportunities for L-intensive manufactures in poorer countries.
  - China’s rise may hurt in short run, but improve prospects in long-run
II. Catch up growth and productive capacities: frameworks/paradigms

- Neo-classical Economics
- Growth Theory
- Institutional Economics
- Evolutionary Economics
Catch up growth and productive capacities: Frameworks

**Neo-classical Economics**

**ANALYSIS:**
- **Market Failures**
  - Externalities (pervasive in Dg Cs)
  - Increasing returns (the core of catching-up)
  - Incomplete information (pervasive in real world)

  **Gov Intervention**

- **Government Failures**
  - Myopic bureaucrats
  - Corruption
  - Rent-seeking
  - Capture by private sector

**POLICY:**
- Governments not good at picking winners.
- Efficient, corruption-free public sectors.
- Pigouvian taxes and subsidies ok.
- Good governance: property rights, enabling environment, reduced uncertainly.

**GUIDING PRINCIPLE:**
- “Get prices right”
- “Get the government out of the way”

**Growth Theory**

**ANALYSIS**
- **Factor accumulation:**
  - Physical Capital
  - Human capital (automatic result of investment in Education and Training)
  - Productivity of factors (Technology, education, skills).

- **Modern growth theory:**
  - Also recognizes institutions, governance and capabilities...
  - But not analysed, therefore no policy advise on how to develop capabilities
  - “Spillovers” of knowledge and technology
  - Learning = automatic scale economies over time.

**POLICY:**
- Key ingredients for growth can be identified/listed
- But not how to combine them
- Refrains from providing a positive policy agenda
- Recommends Competition policy, open trade and what not to do.
- But learning not addressed

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*Washington Consensus*  
*Commission on Growth and Development*
## Catch up growth and productive capacities: Frameworks

### Institutional Economics

**ANALYSIS:**
- Dev = Industrialization / structural change.
- Diversification into higher-quality / higher-productivity activities
- Catching-up = degree of diversification, sophistication of production EXPORTS in product space
- Export structures = capabilities
- "Sustained growth accelerations"

**POLICY:**
- Self-discovery through strategic collaboration, carrots and sticks
- Protect policy against abuse and capture
- Each country must experiment with institutions and policies
- But learning not well addressed

**GUIDING PRINCIPLE**
- "Get the policy process and institutions right"

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### Evolutionary Economics

**ANALYSIS:**
- Focus on the accumulation of domestic capabilities
- Development = virtuous circles & collective learning at 3 levels: Individual, Organizational, Societal.
- Evolution = Complex, incremental, non-linear, path-dependent.
- Learning co-evolves with productive structures
- Copy, imitate, adapt, innovate.

**POLICY:**
- **Role of State** = create the conditions for learning; articulate or network the learning components (educ, R&D, enterprise development, labour training).
- Establish coordination forums for public-private interactions.
- Compulsions to learn, growth coalitions.
- Organize capabilities for «productivity explosions»
- **Good governance** = «developmental governance»

**GUIDING PRINCIPLE:**
- «Get the economic activities right» Reinert; Lin.
- «Get the learning process right»

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*Rodrik, Haussman, et al.*

*Cimoli, et al. (2009); Chang (2009); Reinert (2007); UNCTAD (various); Justin Lin (various); Nubler (forthcoming).*
CONCLUSIONS:

• Catch up paradigm: be eclectic, experimental, flexible.
• Good institutions & good policies: both required and mutually reinforcing.
• Both horizontal and vertical/sectoral policies are important.
• Policy should focus on learning processes but also in protecting incentives from capture and abuse.
• Rents need to be created, they create learning space, but rents should be put to good use (carrots, sticks, reinvestment).

• Focus on governance is good, but with emphasis on «development governance» (UNCTAD, 2009).
• Not one trade policy is optimal: trade policy choices depend critically on level of development, size of market. Sequencing and timing are key.
• Catch up paradigm is a production paradigm but it must also incorporate employment, labour market and social dimension.
The industrial policy / catching up tool box:

• Enabling environment for business/investment:
  – Macroeconomic policies, exchange rate, regulations…
  – Public goods: good quality infrastructure
• Education-skills - workforce development
• Fiscal and investment incentives:
  – Subsidies, grants, tax exemptions
• Sectoral – value chain upgrading policies:
  – Agriculture, industry, services.
• Trade policy tools: (good and bad protectionism?)
  – Tariffs, non-tariff barriers, EPZs, performance requirements
  – Targeted export promotion, investment attraction
  – Trade agreements, regional integration
• Financial institutions/infrastructure
• Intellectual property.
Growth Identification and Facilitation Approach  
Six step process to guide successful industrial upgrading/ economic diversification

1. List of potential opportunities: Identify list of tradable goods and services that have been produced for 20 years in growing economies with similar endowments but with per capita income about 100% higher («compass economies»)

2. From this list, give priority to the industries/value chains in which domestic private firms have already entered spontaneously, and remove obstacles.

3. Promote FDI, and incubate domestic firms in those industries

4. Pay close attention to successful self-discoveries and support them to scale them up/upgrade

5. In countries with poor infrastructure, unfriendly business environment, use industrial parks, EPZs, as a transition strategy.

6. Provide limited incentives (time bound, sunset clauses, etc) to domestic pioneer firms or foreign investors in «opportunity list»