The Era of New Industrial Policies in Latin America

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Johns Hopkins SAIS

Boosting Economic Dynamics and Job Growth: The Potential of Industrial Policies

ILO and Friedrich Ebert Stiftung
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Motivation
Latin America has been a Laggard in Economic Catch-Up

Source: World Bank 2011
The Region’s Best Growth Performance in 40 years is Comparatively Mediocre

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<td>Argentina</td>
<td>5.4</td>
<td>9.2</td>
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<tr>
<td>Middle East and N. Africa</td>
<td>4.7</td>
<td>3.6</td>
<td>1.7</td>
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<tr>
<td>South Asia</td>
<td>7.3</td>
<td>9.1</td>
<td>6.6</td>
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<tr>
<td>India</td>
<td>7.9</td>
<td>8.7</td>
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<td>6.5</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>5.1</td>
<td>4.8</td>
<td>4.9</td>
<td>5.3</td>
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Industrial Policies Have Been Fundamental for Economic Catch-Up

- Historically, few countries have closed the income gap with rich countries without industrial policies (IP) (Chang; Lin; Devlin and Moguillansky, others).

- The scope for IP the “WHAT” is pretty straightforward: public polices and programs *with* familiar tool box promoting competitiveness, discovery, learning, coordination and new capabilities in the private sector.

- The big challenge is “HOW” to do it right?
  - Manifest in practically all Post-War successful cases of catch-up
  - But Post-war failures there are too.
Industrial Policies Have Been Fundamental for Economic Catch-Up

• Industrial Policy is not new to Latin America
  – Early 20\textsuperscript{th} century emergence of some SOEs
  – Inter-war period: world crisis drove major state interventions in markets.
  – Era of state-led industrialization 1950—1980 (Ocampo)
• Results of era of state-led industrialization: mixed and volatile. Advances and modernization, however
  – Flawed concepts and implementation
  – Political instability
  – Balance of payments disequilibria and great debt crisis 1980s
• Reforms and Washington Consensus 1980s-90s: pushed forward free action of markets and pushed back market interventions of the state.

BUT NOW......
“Proactive Government and Industrial Policy is Back !!”

Source: The New Yorker
Why Industrial Policy is Necessary for Latin America
What IP Can Address in Latin America

• Exit middle income trap
  – Move up international hierarchy of production and employment
  – Defend against competition from emerging lower wage regions
  – Put more meat in regional integration initiatives

• Mexico-Central America-Dominican Republic
  – Advantage of free trade access to US and E.U.
    • Growth and diversification of exports
    • Low, medium and hi-tech exports
    • Employment
  – But...
    • “Maquila” with low value-added
    • Specialization in low skilled jobs
    • Little X geographical diversification
    • Export concentration in undynamic products (Caribbean Basin exceptions Costa Rica and Mexico)
    • Mexico betting on rising real wages in China for its competitiveness?
What IP Can Address in Latin America

• South America
  – Bonanza of commodity prices... But....
    • Colombia and Peru must upgrade to exploit U.S. FTA.
    • Resource-based manufactures have low engineering content even compared to AUSTRALIA and NEW ZEALAND
  • Export concentration in undynamic sectors
  • “Deindustrialization”
  • Dependence on commodities prices= historical vulnerability
  • Competition from China in domestic markets
What IP Can Address to Raise Productivity in Latin America

• Upgrade human capital and skill levels
• Upgrade physical infrastructure
• Upgrade SMEs with potential for entering or climbing up international value chains.
• Engage large domestic business groups (Devlin and Moguillansky)
  – Incentives for more innovation and expenditure on R&D.
  – Incentives for more linkages with the domestic economy and SMEs.
  – Apply competition policy when they are asphyxiating local enterprise development.
• The major challenge and opportunity of climate change
• Give a strategic thrust to FDI attraction
Some Stylized Characteristics of the New Industrial Policy in Latin America
The New Industrial Policy

• New better context for applying IP
  – Democratic politics
  – Private sector is the lead agent of economic transformation; government is Evan’s “handmaiden”
  – Contribution of Washington Consensus: macroeconomic stability, proactive engagement with the world economy and institutional reforms
  – Exports and diversification seen as tool for productive transformation.
Government IP is “Walking Before Running”.

• Most IP focused on enhancing competitiveness of existing goods and services (Haussman’s “IP in the small”).
  • Pressure of North-South FTAs
  • China and Asian competition
  • Exchange rate pressure in S.A.
– IP “in the large” is mostly “light”
  • Not heroic bets distant from existing comparative advantage or learning capabilities.
## Selection of New Industrial Policies In Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Program</th>
<th>In the Small</th>
<th>In the Large</th>
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<tbody>
<tr>
<td>Brazil</td>
<td>PITCE</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>Productive Development Policy (PDP)</td>
<td>X</td>
<td>X</td>
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<td>Plano Brasil Maior 2011-2014</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Colombia</td>
<td>Vision Colombia 2019 and 2032</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>National Competitiveness Policy</td>
<td>X</td>
<td></td>
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<tr>
<td></td>
<td>National Development Plan 2010-2014</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>Program to Promote World Class Sectors</td>
<td>X</td>
<td></td>
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<td></td>
<td>(included in PND)</td>
<td></td>
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<tr>
<td>Chile</td>
<td>2007 and 2008 National Strategy for Innovation</td>
<td>X</td>
<td>X</td>
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<tr>
<td></td>
<td>Competitiveness Agenda 2010-2020*</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Dominican Republic</td>
<td>National Plan for Systemic Competitiveness</td>
<td>X</td>
<td></td>
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<td></td>
<td>30 Year National Development Strategy</td>
<td>X</td>
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<tr>
<td>El Salvador</td>
<td>Five-Year Development Plan 2010-2014</td>
<td>X</td>
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<tr>
<td>Mexico</td>
<td>Vision 2030</td>
<td>X</td>
<td>X</td>
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<td>National Plan 2007-2012</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Panama</td>
<td>National Concertation</td>
<td>X</td>
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<tr>
<td>Peru</td>
<td>National Competitiveness Plan (2003-2010)</td>
<td>X</td>
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<tr>
<td></td>
<td>National Competitiveness Agenda</td>
<td>X</td>
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<tr>
<td>Uruguay</td>
<td>Industrial Development Strategy (2008)</td>
<td>X</td>
<td>X</td>
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<td></td>
<td>Sectoral Industrial Plans (2011)</td>
<td>X</td>
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Source: Devlin and Moguillansky (2012)

* Discontinued by current government
The New Industrial Policy

• Innovation is emerging as a component of IP (better late than never): Brazil, Colombia, Mexico, Uruguay, Chile.

• Many IP strategies have serious financial commitments.
  – Especially robust in Brazil (BNDES) and Panama (Canal revenues)
  – Chile and Colombia earmark mining royalties
  – Some rely too heavily on donors and IFIs (Peru, DR).
The New Industrial Policy

• More attention to coordination and monitoring
• IP linked to Public-Private Alliance Councils
  – Less “top down”
  – Aiming at Rodrik’s (2006) “social process=IP strategic policy outcomes”
The Alliance is Necessary Because “All Views Partial”:

- The private sector (broadly defined) has valuable contextual information on:
  - “Government failures”
  - Markets
  But it is incomplete.
  - Market failure: information, coordination, technology, appropriation, etc.
  - Other failures: capacities, miopia, status quo bias, etc.

- Even though the public sector suffers from flaws and incomplete information, it can:
  - Motivate exploration of opportunities, threats and obstacles
  - Encourage and lead a strategic M/L term strategic national vision.
  - Support private sector coordination, access to information, identify aggregate tendencies, support new capacities, provide incentives, public goods, etc.
Where Alliances Operate

• Levels:
  – National, Department, Municipality, Region
  - Sector, multi-sector, thematic

• Objectives:
  – Strategic Industrial policies (our focus)
  – Reforms
  – Business environment
  – Co-investment
PPA Should Have Channels of Communication

National Strategy
“Big Picture”

Mid-Level Strategies

Sectoral Strategies

Thematic Strategies

Regional /Local Counterparts

Source: Devlin, 2012
THE PLAYING FIELD FOR PUBLIC-PRIVATE ALLIANCES

Source: Devlin 2012
<table>
<thead>
<tr>
<th>Field/country</th>
<th>Alliance</th>
<th>Type of Alliance</th>
<th>Structure</th>
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</table>
| Brazil        | Economic and Social Development Council (CDES)  
Advisory body to the president on state reform and on medium/long-term issues | Formal, structured | Representatives of workers, businesses, social movements and the government organized in thematic groups. More than 100 council members chosen by the President |
| National      | National Industrial Development Council (CNDI)  
Supervises industrial development policies | Formal, structured | 23 ministries, 14 representatives of industry and the President of the BNDES |
| Sectoral      | Sectoral and state-level councils and forums for public-private alliance dialogue on the implementation of the PDP | Formal \textit{ad hoc} but in the process of being structured | Sectoral and thematic business associations and representatives of sectoral and thematic public agencies |
| Chile         | Productive Development Forum – Council for productive development (1994–99)  
Various alliance forums set up at different times on different issues | Formal, structured | Tripartite partnership: Government-unions-business  
24 council members chaired by the Minister of Economy |
| Sectoral      | National Innovation Council for Competitiveness  
Defines the innovation strategy and advises the presidency on innovation policies | Formal, structured | A president, 5 ministers, and 11 representatives of business, science, and academia. The alliance operates on different levels: at the executive and grassroots levels, among the leaders of the clusters and through participation in the Regional Productive Development Agencies (ARDP) |
| National      | National Planning Council  
Consensus building on the National Development Plan  
National Competitiveness Commission  
Implementation of the strategy for productivity and competitiveness | Formal, structured | Composed of representatives of the various civil society groups |
| El Salvador   | Economic and Social Council  
Presidential Advisory body | Formal, structured | 24 business associations, 24 representatives of social groups, 5 government representatives |

Source: Devlin and Moguillansky (2012)
<table>
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<tr>
<th>Country</th>
<th>Policy Council Type</th>
<th>Structure</th>
<th>Description</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>National Consultations by the Presidency</td>
<td>Formal ad hoc</td>
<td>Private sector participation through consultations and negotiations with business associations, unions, other members of civil society.</td>
</tr>
<tr>
<td>Panama</td>
<td>National Concertation for Development</td>
<td>Formal, structured</td>
<td>Council with 58 representatives of business, unions, the Church, social sectors, indigenous groups political parties and the government at the central and local levels</td>
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<tr>
<td></td>
<td>Preparation of national development strategy</td>
<td></td>
<td>Private sector prepares annual action plan for dialogue with government</td>
</tr>
<tr>
<td>Peru</td>
<td>National Accord</td>
<td>Formal Structured</td>
<td>40 members made up of Prime Minister, ministries, business, labor, political parties, farmers, universities, churches, regional representatives and activists</td>
</tr>
<tr>
<td></td>
<td>Advice to the Executive</td>
<td>Forma Structured</td>
<td>Prime Minister, ministers, business, labor and INDECOPI (NGO that monitors competition policy)</td>
</tr>
<tr>
<td>Dominican</td>
<td>National Competitiveness Council</td>
<td>Formal Structured</td>
<td>President, Ministry of Economy, Planning and Desarrollo, 8 representatives from ministries or sectoral associations and 8 private sector individuals.</td>
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<tr>
<td>Republic</td>
<td>Design and implementation of a strategy</td>
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<tr>
<td>Uruguay</td>
<td>National Competitiveness Council</td>
<td>Formal Structured</td>
<td>Sectorial Ministries, Cámaras empresariales sectoriales, representantes de trabajadores del sector, en algunos casos representantes de ANNI</td>
</tr>
</tbody>
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Alliance Councils Are Still A Work in Progress: Some Governance Problems (I)

- Often councils of government more than councils of state
- Engagement of government sometimes weak
- Representation that is not always fully representative; labor generally minor or non-existent player.
- Participation of important hosted MNCs is rare.
- Plenaries can have too many participants for effective dialogue and problem solving.
- Lack of engagement of minister of finance can dilute access to budget.
- Protracted inactivity of Councils erodes credibility.
- Major players not discouraged in their efforts to bypass Council via bilateral lobbying.
Alliance Councils Are Still A Work in Progress: Governance Problems (II)

- Councils often do not have well-financed, capable and independent admin/technical secretariats.
- Governance structure and methodologies of dialogue do not always overcome mistrust or indifference between government and business.
- Low transparency
- Poor communications between national and regional councils
- Regional/ local counterpart councils have low technical capacities.
- No independent evaluations of governance.
Some Frequent Remnants of the “Old” IP

– Lack of a professional civil service- *the Achilles’ heel of ambitious IP*
– Lack of semi-independent and technically capable statutory public executing agencies
– Low fiscal space for the public sector action(“taxes”)
– “Refounding syndrome” persists
– Fragmentation and duplication of support programs
– Little or no evaluation of the impact of policies and support programs
– Weak regional/sectoral local counterparts for implementation
– Still often middling enthusiasm of the private sector
Conclusions

• Latin America needs IP to accelerate lagging growth and transformation.
• The “new” industrial policy exhibits encouraging characteristics compared to the “old” industrial policies of 1950-1980.
• PPAs are an enormous advance but their serious governance problems must be addressed.
• There are remnants of the characteristics of the “old” IP that hinder the effectiveness of IP, highlighting:
  – The lack of a very professional, capable and well-paid civil service could be the Achilles' heel of the new IP.
    • Professionalization should be endogenous goal of IP.
  – Tax pressure issue
• The New IP is still a “work in progress”. Considerable room for improvement, stronger government capabilities cum ambition.
Thank You!!!

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