

The Era of New Industrial Policies in Latin America

Robert Devlin

Johns Hopkins SAIS

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

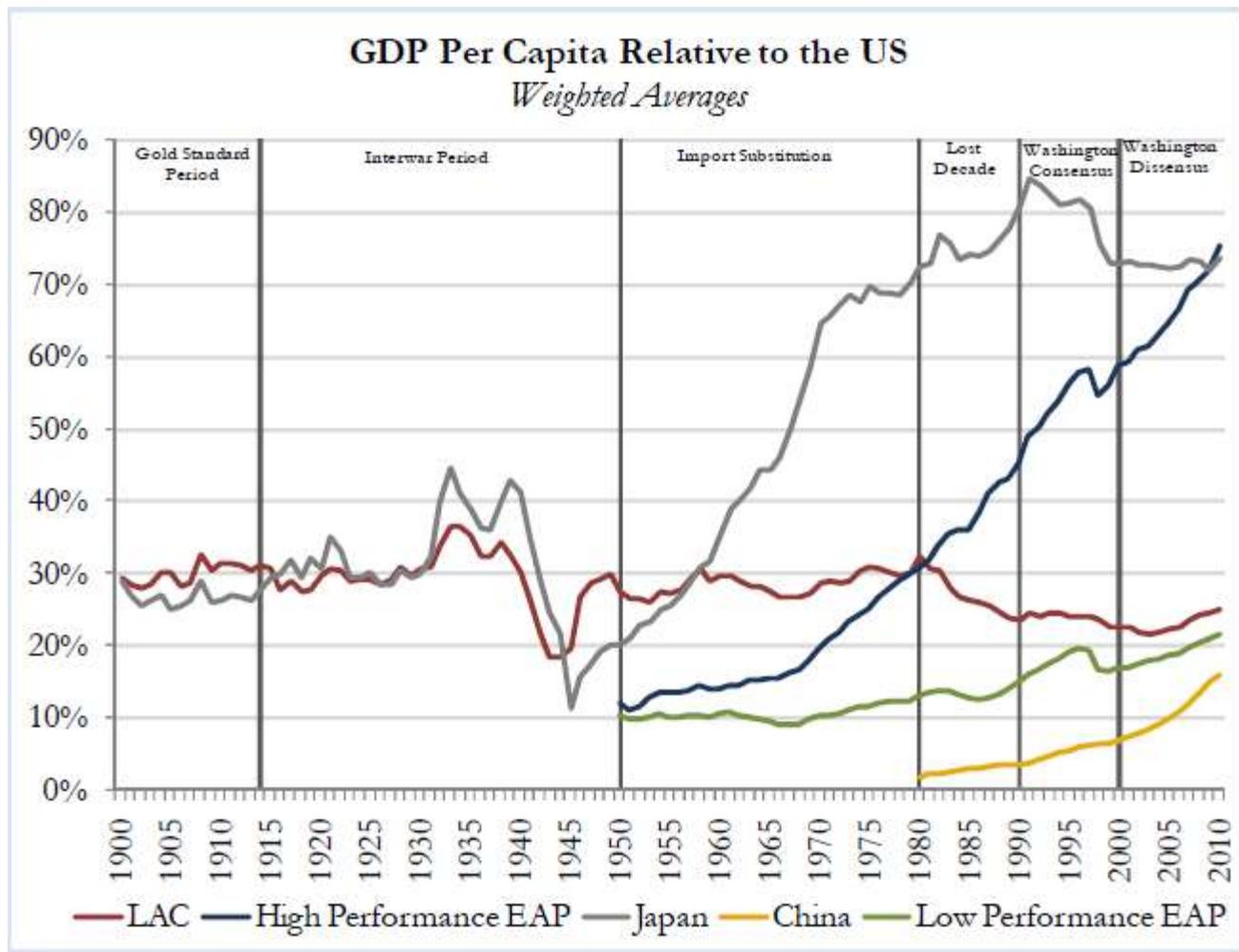
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Motivation

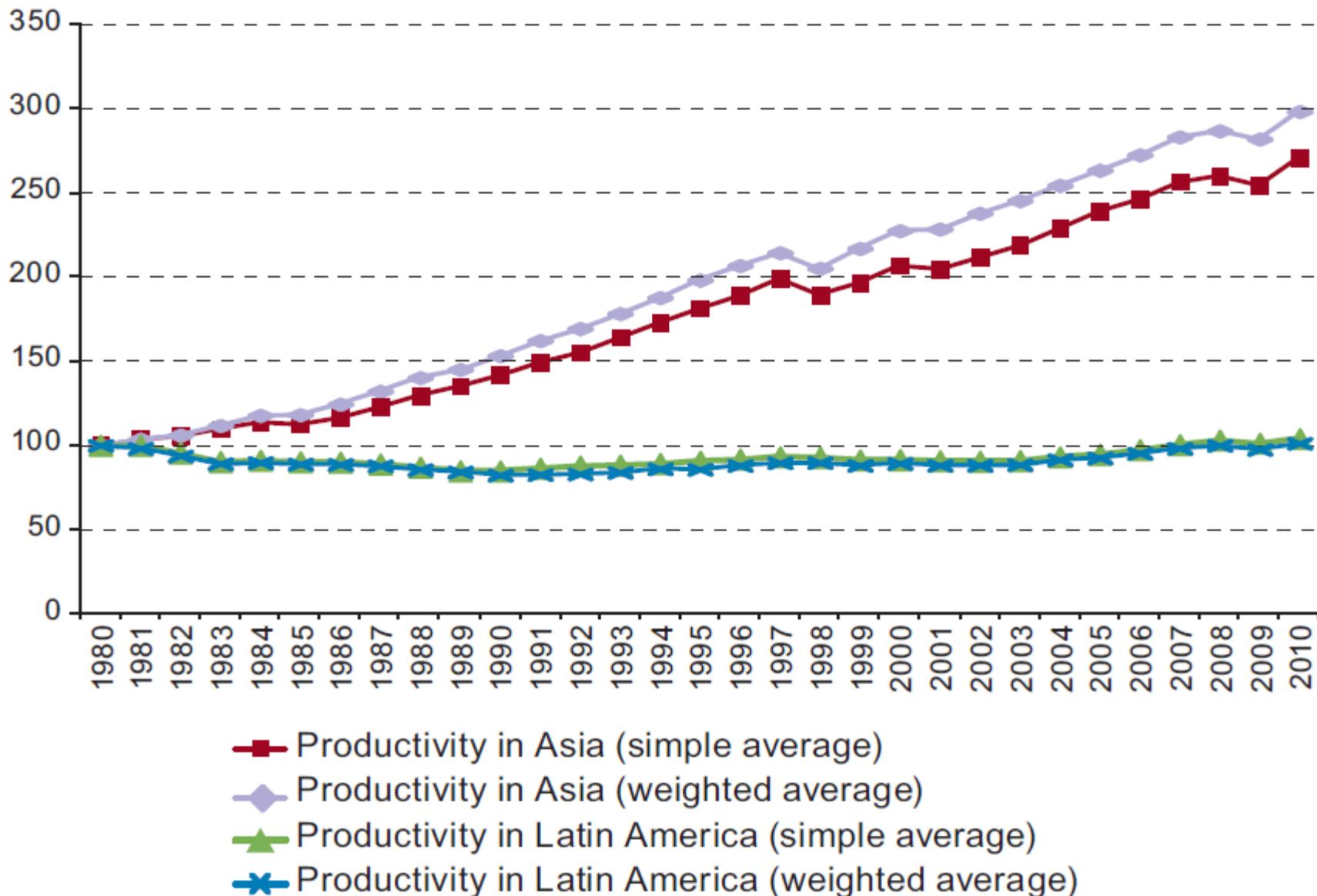
Latin America has been a Laggard in Economic Catch- Up



Source: World Bank 2011

LATIN AMERICA AND ASIA: PRODUCTIVITY GROWTH, 1980-2010

(Index 1980=100)



Source: ECLAC (2012)

The Region's Best Growth Performance in 40 years is Comparatively Mediocre

GDP Growth (%)

	2000-2009	2010	2011	2012
East Asia and the Pacific	9.4	9.7	8.2	7.8
China	10.9	8.5	9.1	8.4
Europe and Central Asia	5.8	5.2	5.3	4.0
Turkey	4.9	9.0	8.2	2.9
Latin America and the Caribbean	3.8	6.0	4.2	3.6
Brazil	3.6	7.5	2.9	3.4
Colombia	4.5	4.3	5.6	4.4
Mexico	2.2	5.5	4.0	3.2
Argentina	5.4	9.2	7.5	3.4
Middle East and N. Africa	4.7	3.6	1.7	2.3
South Asia	7.3	9.1	6.6	5.8
India	7.9	8.7	6.5	6.5
Sub-Saharan Africa	5.1	4.8	4.9	5.3

Source: World Bank, World Development Indicators (2011) and Global Economic Prospects(2012)

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 straight forward: public policies 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 20th 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 !!”



"Stop! Wait! Government's no longer the problem—it's the solution!"

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 (Hausman’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

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

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”

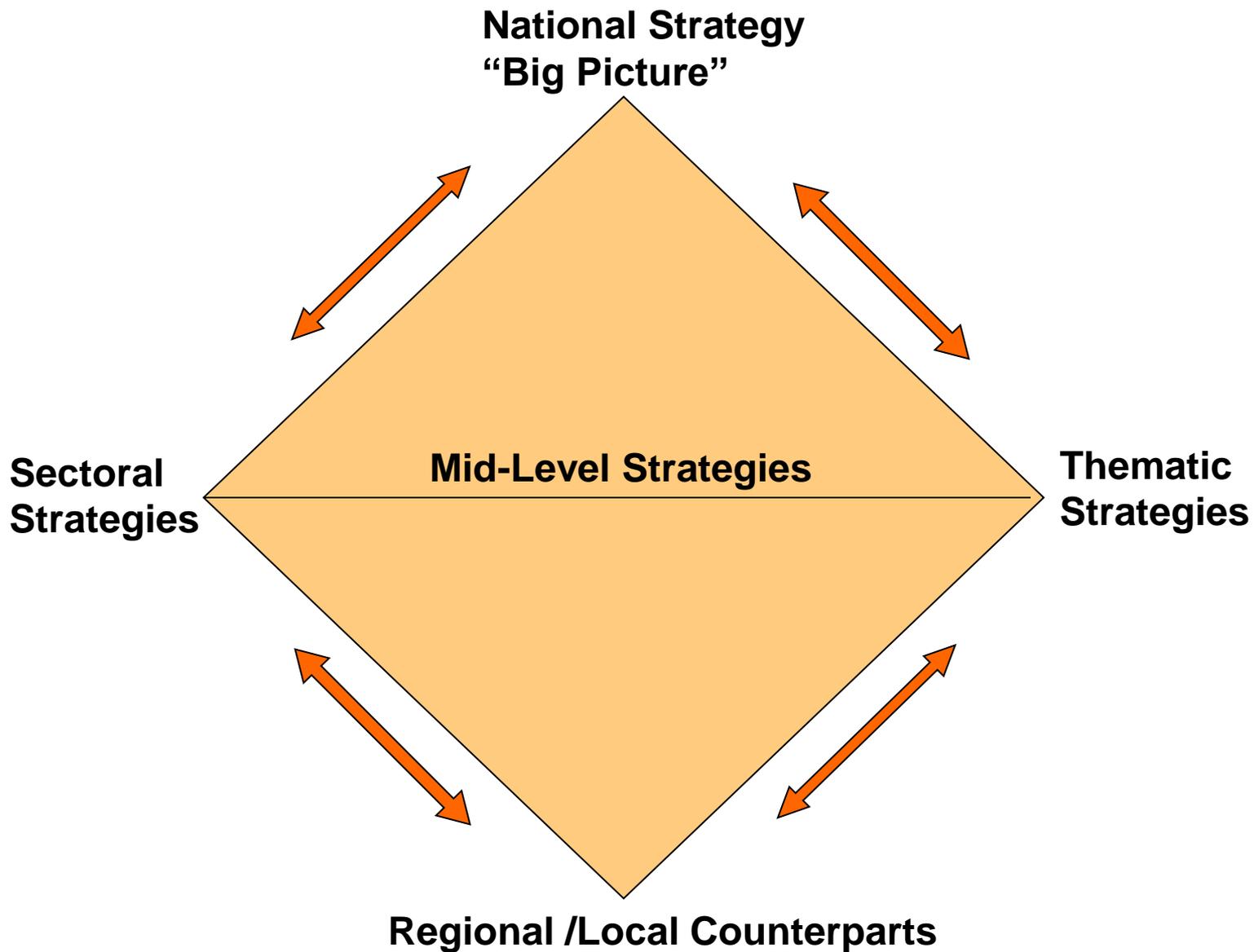
The Alliance is Necessary Because “All Views Partial”:

- The private sector (broadly defined) has valuable contextual information on:
 - “Government failures”
 - MarketsBut 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



THE PLAYING FIELD FOR PUBLIC-PRIVATE ALLIANCES

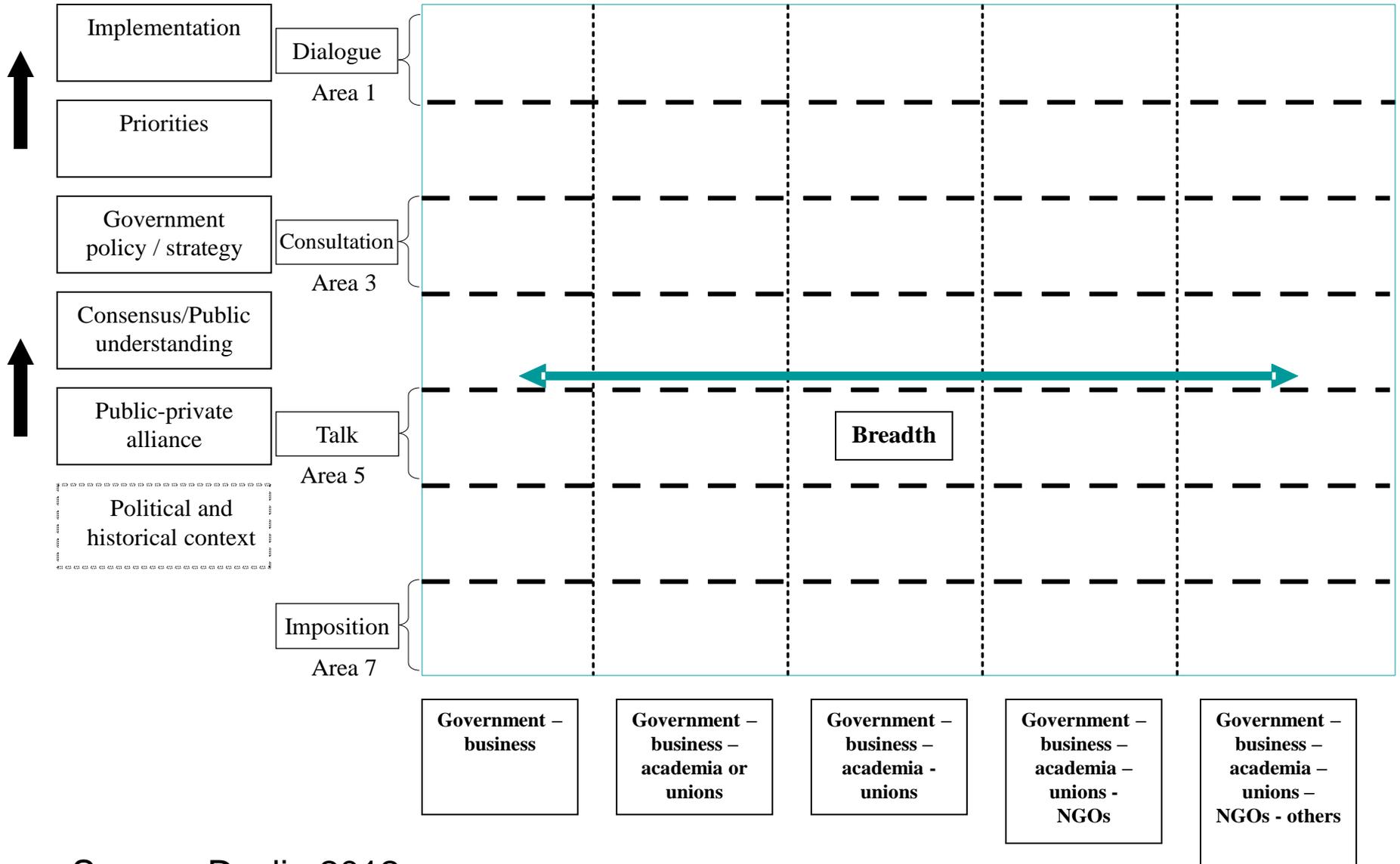


Illustration of Private-Public Alliance Councils in Latin America (I)

Field/country	Alliance	Type of Alliance	Structure
Brazil			
National	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
Sectoral	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 <i>ad hoc</i> but in the process of being structured	Sectoral and thematic business associations and representatives of sectoral and thematic public agencies
Chile			
Sectoral	Productive Development Forum – Council for productive development (1994–99)	Formal, structured	Tripartite partnership: Government-unions-business 24 council members chaired by the Minister of Economy
National	Various alliance forums set up at different times on different issues	Formal <i>ad hoc</i>	
	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)
Colombia			
National	National Planning Council Consensus building on the National Development Plan	Formal, structured	Composed of representatives of the various civil society groups
National	National Competitiveness Commission Implementation of the strategy for productivity and competitiveness	Formal, structured	Chaired by the President with the participation of businesses, academia and unions, public agencies, private organizations, and regional competitiveness commissions
El Salvador			
National	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)

Illustration of Public-Private Policy Alliance Councils in Latin America(II)

Mexico			
National	Consultations by the Presidency	Formal <i>ad hoc</i>	Private sector participation through consultations and negotiations with business associations, unions, other members of civil society.
Panama			
National	National Concertation for Development Preparation of national development strategy	Formal, structured	Council with 58 representatives of business, unions, the Church, social sectors, indigenous groups political parties and the government at the central and local levels
	Center for National Competitiveness	Formal ,structured	Private sector prepares annual action plan for dialogue with government
Peru			
National	National Accord Advice to the Executive	Formal Structured	40 members made up of Prime Minister, ministries, business, labor, political parties, farmers, universities, churches, regional representatives and activists
	National Competitiveness Council Design and Implementation of a strategy	Forma Structured	Prime Minister, ministers, business, labor and INDECOPI (NGO that monitors competition policy)
Dominican Republic			
National	National Competitiveness Council Design and implementation of a strategy	Formal Structured	President, Ministry of Economy, Planning and Desarrollo, 8 representatives from ministries or sectoral associations and 8 private sector individuals.
Uruguay			
National	Sectorial Tripartite Councils	Formal Structured	Sectorial Ministries, Cámaras empresariales sectoriales , representantes de trabajadores del sector, en algunos casos representantes de ANNI

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 s, stronger government capabilities *cum* ambition.

Thank You!!!

Roberttdevlin@aol.com

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