



## LOAF II

December 10-11, Luang Prabang, Laos 2012

**Industrial policy: stimulating the  
dynamic forces of markets.  
Linking organics agriculture and  
tourism in Laos.**

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# National policy goals Laos ...(1)

- 1. Increase productivity and revenues in the clean agriculture - organic sector.
- 2. Increase productivity and revenues in tourism sector – investment in new assets; increase arrival numbers; increase revenues per arrival.
- 3. Increase demand for organics in tourism – 1 & 2 of above PLUS usual issues of “linkages not leakages” PLUS special features of ORGANICS.





## National policy goals ...(2)

- Economic transformation, structural change, diversification
- Build resilience – BOP stability, reduce reliance costly inputs, formalise the `green economy`.
- Job creation, decent work, value-added...
- Sustainable and inclusive growth
- Build on natural comparative advantages
- Target dynamic new market opportunities – tourism and organics
- Needs engaged State and enabled Private Sector





# Industrial policy reappraised

- After WWII, many countries adopted policies aimed at:
  - Promoting new (infant) industries, Protecting traditional industries from international competition
- Since early 1980s, growing scepticism, arguing that
  - Governments are unsuccessful in ‘picking winners’
  - Such policies invite corruption and rent seeking
- Washington Consensus: improve investment climate through liberalization, macro stabilization, strong legal framework foster private economic activities
- Today, agreement that rapidly growing DCs did not followed “Washington ” but pursued industrial policy
- **Key question not whether but how to pursue industrial policy**



## National policy challenges ... generic

- Targeted at loosely-defined market imperfections
- Implemented with little capacity to identify where imperfections are or their size
- Potential for corruption and rent-seeking by powerful lobby groups
- Policy space is constrained (national & intn'l)
- And yet ... industry unlikely to take off without developmental state interventions

### 3. Tourism trends, Implications for Laos

- Global growth predictions (=ve) but slower; fastest in SE Asia.
- Tourism currently 69% share of exports of services; 19% share of exports goods & services.
- Similar to some G20 economies (Australia, Mexico, South Africa, Turkey) and many LDCs.
- Slowdown in global trade volumes as world economy d-coupling is volatile.
- New centres of gravity, multi-polar world.
- Competition for investment and for markets.

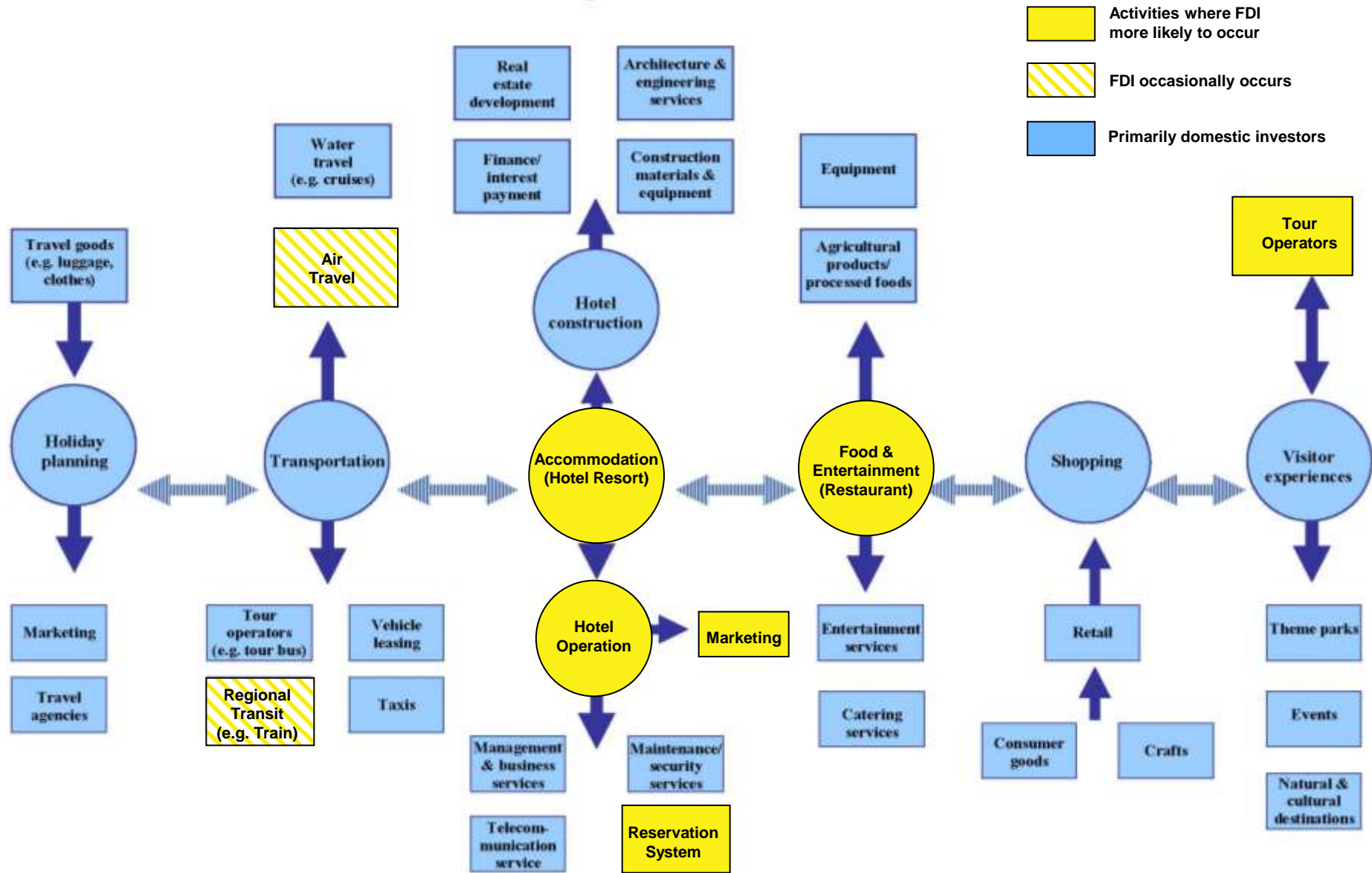


## 4. The goal:

- Identify **selective** intervention or policy that attempts to **alter the sectoral structure** of production towards sectors that are expected to offer **better prospects for economic growth – organics and tourism...**
  - Selective intervention
  - to create new production capacity and new comparative advantage
  - enabling an economy to move upwards in the international division of labour



Box figure 1. Tourism value chain





## 4. Lessons from other countries...

### (1)

- Strategic policies to strengthen the linkages between (domestic and international) tourism enterprises and domestic economy (organics).
- Financial measures (WTO examples)
- Fill gaps credit market, reduce costs innovation
- Coherent policies -Tax and fiscal policies, VAT
- Incubators, procurement etc
- Human Resources (training, FT support (IFC))
- "joined up ' PPP projects - Berimbau



## 4. Lessons from other countries . .2

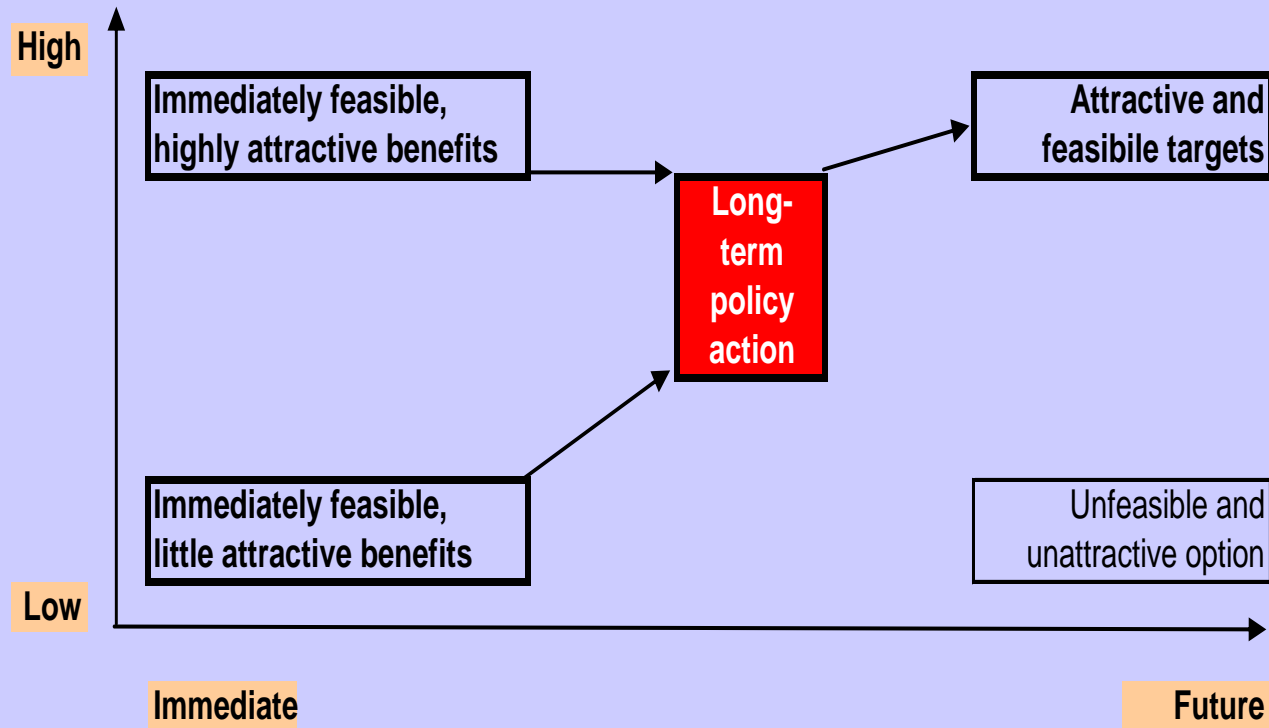
- Investment: Southern investors are “different”; Investors in LDCs are “different”
- Incentives are less important than everything else in the long run. Excessive incentives (-ve)
- Linkages:
- Local investors don't create more linkages than foreign. What matters more – company “offer”, authenticity vs price competition; what's available
- Infrastructure – wholesalers, cold chain, quality regulation - Length of time
- Marriage brokers – full time extension services





# The attractiveness and feasibility of tourism and organic sector activities

Attractiveness of activity	
<b>Growth dimension</b>	<ul style="list-style-type: none"> <li>- income elasticity of demand (+)</li> <li>- market potential (+)</li> <li>- technology-upgrading potential (+)</li> <li>- number of potential competitors (-)</li> </ul>
<b>Employment dimension</b>	<ul style="list-style-type: none"> <li>- industry-specific employment creation</li> <li>- linkages</li> </ul>
<b>Environmental dimension</b>	<ul style="list-style-type: none"> <li>- Green-economy potential (+)</li> <li>- CO2-emissions (-)</li> </ul>



Feasibility of activity	
<b>Country-specific factor endowment</b>	(fixed and human capital, natural resources, population size)
<b>Sector-specific technology requirements</b>	



## 4. c) Theoretical justification ...(1)

- Marshallian externalities: dynamic scale economies giving rise to increasing returns of scale at the firm level (much of productivity growth results from investment and learning by doing)
- Complementarities in investment, production and consumption that, if unchecked, result in coordination failures (importance of linkages)
- Information externalities associated with investment in new goods or new technologies (profitability of innovative investment and speed of imitative entry)



## 4. c) Theoretical justification ...(2).

- Supply side: strong potential for productivity growth and technological upgrading; climate change.
- Demand side: high income elasticity of demand and favourable global market and price conditions
- Balance-of-payments constraint: Per capita income growth implies rising domestic demand for imports; reliance petrochemical





# HOW? The pattern of industrial policy in an open economy (1)

- Strategic trade integration, which
  - Represents a mix between
    - Import substitution through temporary protection and
    - Export promotion through temporary subsidies
  - Embeds industrial policy in a wider outward-oriented industrialization strategy
  - Involves change in product categories that receive public policy support, with their skill, technology and value-added content gradually increasing




## HOW (2)...Long-term policy strategy needs to identify comparators


- Country role models
  - Not necessarily the most successful economies
  - Look at similar, but more advanced economies
- Sector-specific benchmarks
  - Advanced, yet technologically similar
  - Impact of trade preferences etc.
- Additional factors
  - Change in global demand structure (new growth poles)
  - In large economies, changes in domestic demand (structure) can play important role



## HOW ... (3). Support policies may follow latent comparative advantage: growth identification and facilitation (Lin)


- Step 1:
    - Identify rapidly growing tradable sectors in fast growing countries with a similar endowment structure but 100% higher per capita income
    - Scale-up successful private domestic innovation in new industries
  - Step 2:
    - Identify private domestic firms already in those industries and remove constraints to quality upgrading and further firm entry
    - If there are no domestic firms in those sectors, seek FDI from countries in step 1
- 





# HOW.... (4). Problematic aspects in growth-identification-and-facilitation strategy

- Risk of fallacy of composition as:
    - Many countries may get into the same sectors
    - Global demand structure may have changed significantly through move towards multiple growth poles (past no guide to future)
  - Risk of undue reliance on low wages in developing export activities
  - Ignores demand potential on domestic market
- 



## HOW ... (5) Support policies target more advanced, yet technologically similar sectors: economies evolve across the product space (Hausmann)

- Step 1: Locate economy in product space where proximity between products is defined by probability of a country having a comparative advantage in one product given it has a comparative advantage in the other product
  - Step 2: Facilitate private companies' moving across the product space in larger jumps than they would on their own
- 



# Value added raw commodity





# Value added consumption good





# Value added consumer experience





## **5. Problematic aspects in moving-across-product-space**

- Product space evolves over time: emergence of new technologies which may imply changes in the match between capabilities and technologies
- Ignores services whose availability may be as important as skills in moving across product space
- But overall, preserves significant flexibility to incorporate country-specific circumstances, as well as changes in global demand structure





## 5. Overcoming practical difficulties (2)

- Main objection 1: governments cannot pick winners, because they cannot identify with any degree and certainty the relevant firms, sectors, or markets that are subject to market imperfections
- However, objective is not to pick winners but to identify and sanction losers
- If there are no losers, the process of industrial policy making is too restrictive





## 5. Overcoming practical difficulties (3)

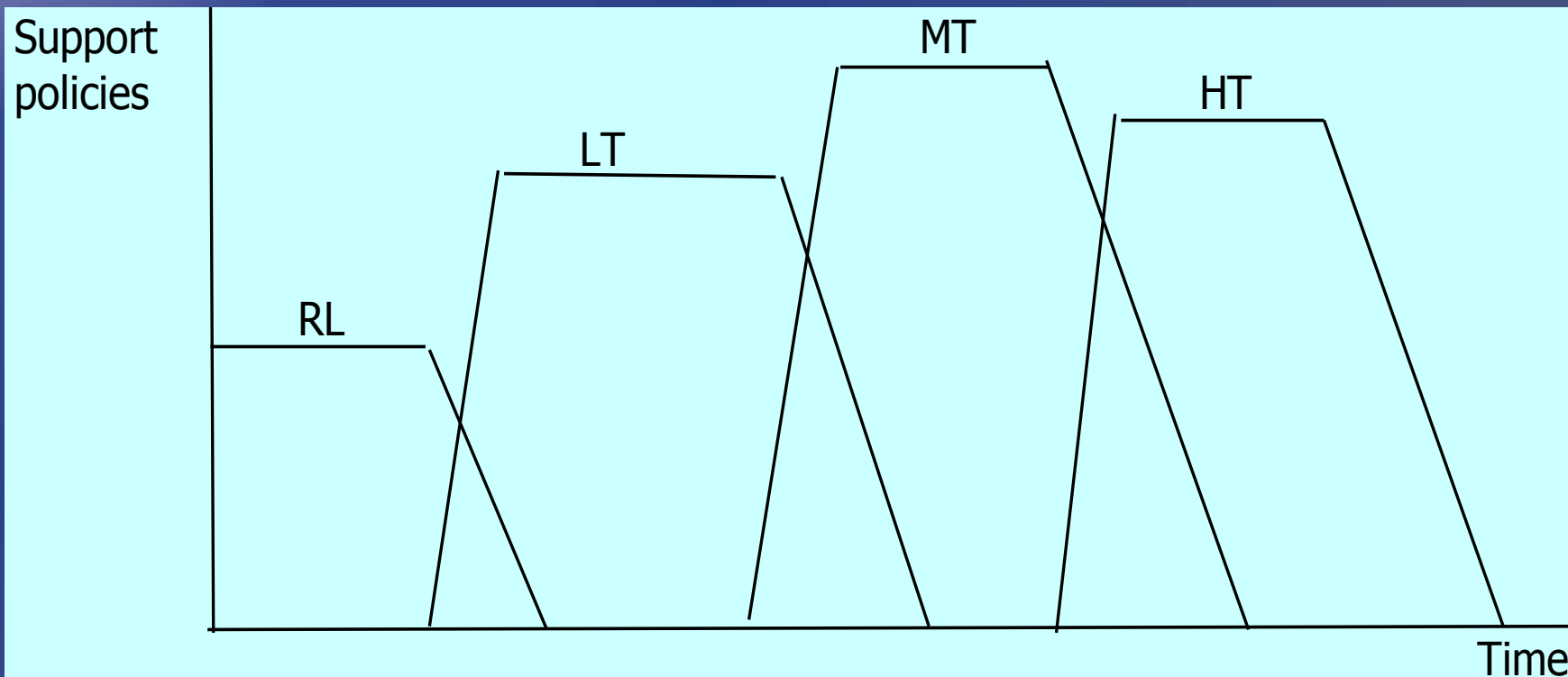
- Main objection 2: industrial policy invites corruption and rent-seeking
- Support must be
  - temporary (not open-ended)
  - based on clearly established operational and achievable goals
  - monitored on basis of observable criteria (e.g. exports)
- Key design features are embeddedness, carrots and sticks, and accountability







# 6. Stylized representation of open-economy support polices



- RL: Resource-based and labor-intensive manufactures
- LT: Low technology-intensive manufactures
- MT: Medium technology-intensive manufactures
- HT: High technology-intensive manufactures



- **Many countries have policies to attract tourism investment. It is one of the least restricted sectors.**
- **But, fewer have policies to benefit fully from it – especially with regard to linkages.**
- **Domestic investment is equally important, but seldom emphasised,, often neglected.**
- **Integrate tourism investment policies within the overall policy framework.**
- **Sustainable – green – organic – highly linked - tourism does not necessarily mean ‘doing’ a different kind of tourism, but rather ‘doing tourism differently’.**