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New perspectives on industrial policies of the South

UNCTAD XIII special event

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Summary prepared by the UNCTAD secretariat

1. This event was a panel on the joint work of UNCTAD and the International Labour Organization (ILO) on employment and industrial policy. The panellists were Mr. José Manuel Salazar, Executive Director, ILO; Mr. Richard Kozul-Wright, Director, Unit on Economic Cooperation and Integration among Developing Countries, UNCTAD; H.E. Mr. Dillip Barua, Minister for Industries, Bangladesh; Mr. João Carlos Ferraz, Vice-President of the Brazilian Development Bank; Mr. Robert Wade, Professor, London School of Economics and Political Science; Mr. Manuel Montes, Senior Advisor, Finance and Development, South Centre; and Ms. Jayati Ghosh, Professor, Jawaharlal Nehru University, India.

2. The ILO agenda focused on the promotion of decent employment, which was intrinsically connected to the promotion of sectoral policies, the improvement of working conditions, the internalization of supply chains and, in particular, inclusive growth and the employment content of growth. This was very closely aligned with the UNCTAD agenda. UNCTAD had been committed to the industrialization of developing countries since its creation in 1964. That mandate had been maintained, even as conventional wisdom challenged and dismissed the central role of industrial development in economic development, favouring instead, a conventional view of trade based on given comparative advantages driving development. In contrast, the UNCTAD approach recognized that industrial policies could create comparative advantages.

3. Most panellists agreed that market fundamentalism did not work, and that it was dangerous for developing countries. For example, it was one of the causes of the ongoing global financial crisis; another instance was the World Bank’s obstacles to industrial policy

in Africa. The limitations of fundamentalism implied the need to govern the market. Currently, several countries, including some of the most successful, used development planning tools to support their catching-up strategies. Yet, for 20 to 30 years, industrial policy had been excluded from policymaking because it suggested that government interfered with the price mechanism and entrepreneurial judgement over the profitability of alternative sectors, which was perceived to be negative.

4. Nevertheless, there had recently been a resurgence of interest in industrial policy, which was back on the development policy agenda. Industrial policy referred to selective government support for certain sectors or products over others, provided by means of tax incentives, subsidized credit and so on. It was agreed that industrial policy was basically about building domestic capabilities to meet domestic needs, productive upgrading and rising domestic income. It would always involve deliberately getting prices wrong and connecting sector-specific policies to general goals. With those points in mind, participants discussed the industrial policy of Bangladesh.

5. Participants agreed that the scope for industrial policy was wider than that of the manufacturing sector, as it could include services and agriculture. Its goals included economic diversification, the internalization of global value chains, the challenge posed by middle-income traps and the building up of technological capacities. The panellists concurred that it was impossible to overcome these challenges without strong industrial policies. In this sense, industrial policy should be seen as part of an integrated development package, including a whole range of specific policies, in order to succeed. However, in all cases of industrialization, government had taken an active role; it was generally agreed that this was a necessary but insufficient condition for success and development.

6. Industrial policy was designed to induce changes in production structure and social structure, and to create markets. That implied that it must be both contextual and historically specific; that is, industrial policy required a flexible design and flexible implementation, but it always required strong linkages between economic sectors in order to secure its effectiveness and impact.

7. The session also examined the links between productive transformations and industrial policy, and the mix of productive transformations required for rapid development with social inclusion. A key difficulty lay in how to adapt industrial policy for use in developing countries where market mechanisms were weak and government capacity was low – that is, where there was a greater propensity for market and government failure because of narrow elites, patron–client relationships and so on.

8. Participants examined the conditions for success of industrial policy, concluding that industrial policy was most successful when embedded within the wider macroeconomic goals of government, and horizontal macroeconomic policy instruments were deployed in tandem with vertical tools of industrial policy. In other words, the management of interest rates, exchange rates, tariffs and taxes must be aligned with industrial policy tools, regulatory policies and the like. Importantly, these instruments differed across industries and stages of development, and depended on the international context, relations between countries and the rules governing global trade.

9. The session discussed the guidelines for the use of industrial policy tools and the criteria for the selection of priority sectors. In this context, the panellists examined specific country case studies (especially Bangladesh, Brazil and India, but also the cases of several countries in East Asia), and the conditions explaining the success or otherwise of industrial policy in those countries.