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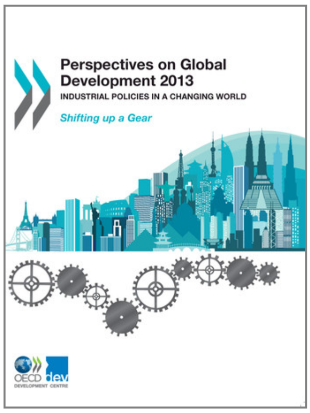
Perspectives on Global Development 2013. Industrial Policies in a Changing World

Summary in English



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- The last two decades have seen a shift in the centre of gravity of the global economy to Asia and the South. Since the mid-1990s, GDP growth in large and populous middle-income countries has substantially outpaced that of OECD countries.
- Despite concerns about the recent slowdown, this shifting wealth is a structural phenomenon that will continue in the future and shape economic development.
- Against this background, most developing countries have improved their macroeconomic management and started to implement industrial policies to address long-term structural issues.

The shift in the global economy poses competitive opportunities and challenges for policy makers in developing countries. New forms of FDI and the delocalisation of high-value-added activities, previously kept in-house in advanced countries, are opening up opportunities for learning, innovation and for entering into new activities and sectors. At the same time, the growth of "middle classes" is opening new consumer markets. Developing products and services tailored to these new consumers, and adapting existing solutions to local needs, could provide incentives to diversify and upgrade domestic production. But competition is intense and growing, encouraging companies to increase rapidly their innovative capabilities in order to capture new customers.

Benefiting from these opportunities and successfully addressing these challenges depends on several factors, including countries' natural endowments, their size, level of integration in world markets and policies approaches. For instance, economies rich in natural resources are benefiting from rising terms of trade, but are also facing difficulties in investing in new activities, fostering production and diversifying exports. Some of these countries are trying to make better use of available revenues to finance industrial and regional development. In addition, small economies integrated into global value chains could take advantage of the new forms of FDI to generate linkages with the local economy, provided that they implement effective infrastructure and skills policies. Finally, large economies are benefiting from growing domestic demand as a source of growth and are also trying to identify new forms of partnership with foreign companies to enhance technology transfer and spillovers to domestic companies.

Since the last decade, many developing countries have showed a renewed interest in industrial policies. They are trying to diversify and enter into new sectors and activities, as well as to upgrade domestic production. The transformation of their production structures is increasingly considered as part of their strategies for achieving sustainable and inclusive growth. Countries like Brazil, China, India and South Africa are using schemes, such as sectoral technology funds and public procurement, to finance and promote innovation and upgrade production in priority areas. These countries are also fostering the creation of new firms, especially start-ups in areas related to information and communication technology. Some countries, such as Brazil, Morocco and India are increasingly using FDI as a tool to foster innovation and industrial upgrading by promoting new forms of linkages between MNCs and local firms and by privileging the attraction of more knowledge-intensive activities that could generate higher spillovers to the domestic economy. Others are exploring new ways of strengthening the competitiveness of existing firms by promoting clusters development and by strengthening backward and forward linkages. Finally, the pursuit of sustainable development creates further opportunities in new technologies and in environmentally friendly business models.

In designing and implementing policies for industrial development, developing countries are facing the challenge to overcome multiple barriers especially in the fields of skills, financing for innovation and SMEs and hard and soft infrastructure. Most of them are devising new strategies that mobilise investments in bundles to address the different constraints and to take advantage of the synergies between public action in different fields. In particular they focus on:

- A skilled workforce is necessary for industry upgrading as it stimulates innovation and helps countries move up global value chains. However, high investment in education does not guarantee that the acquired skills will necessarily correspond to the demands of the prodcution structure , or that human resources will be productively employed.
- Investment in innovation, the creation of new firms and increasing productivity in SMEs are often constrained by lack of financing. Public financial institutions, in particular development banks, are increasing their support on these fronts.
- Infrastructure gaps remain a major bottleneck to increasing competitiveness (about 60% of the world's infrastructure stock is located in high-income countries, 28% in middle-income and 12% in low-income countries). To advance, developing countries are recognising that it is necessary not only to invest more in infrastructure but also to improve decision making in this area.

Addressing production opportunities and challenges is crucial. But industrial policies per se are no guarantee of success. Resources to implement them, long-term commitment, implementation capabilities and monitoring are crucial. Co-ordination of actions in multiple fields and the capacity to reorient actions when goals are not achieved are also important. Many developing countries face strong internal pressures that prevent or delay otherwise desirable changes, in fact when prices are rising for raw materials the incentives to develop new activities tend to be low. In addition, the risk of failure in industrial policies is high: Information asymmetries reduce state planning capacities, governments face obstacles in quickly fine-tuning actions, and withdrawing support is difficult as lobbies will try to prevent change. Empowered institutions and incentive management schemes based on performance can help reduce the risks of capture.

Finally, industrial policy is highly specific to context and time. However, common requirements for designing and implementing industrial policies in developing countries include: i) enhanced capacity to generate and process information to carry out diagnoses and define performance indicators; ii) spaces for dialogue with the private sector to build partnerships and create synergies in investments; and iii) co-ordination capacities to align actions across levels of government and in different fields, including skills, infrastructure and long-term financing. Hence, the design and implementation of industrial policies would benefit from a structured policy dialogue among peers as countries learn to implement policies through trial and error and by sharing knowledge with others.

Chapter 1 of this report presents an overview of the shifting wealth phenomenon so far, while Chapter 2 looks at the different channels through which it is affecting developing economies. Chapter 3 describes the renewed interest in industrial policy in developing economies, while Chapter 4 presents the main challenges they face in implementing such policies. Chapter 5 analyses the skills mismatches within developing countries and the policies to reduce them. Chapter 6 describes the difficulties developing-country SMEs and non-traditional sectors face in obtaining finance and the new policies to address them. Chapter 7 focuses on infrastructure bottlenecks, identifying ways of improving policy cycle management, while Chapter 8 presents the political economy challenges of implementing industrial policies.

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