INDUSTRIAL POLICY

THE UNTOLD STORY OF GLOBAL INDUSTRIALISATION

BY NIMROD ZALK

DEPARTMENT OF TRADE AND INDUSTRY

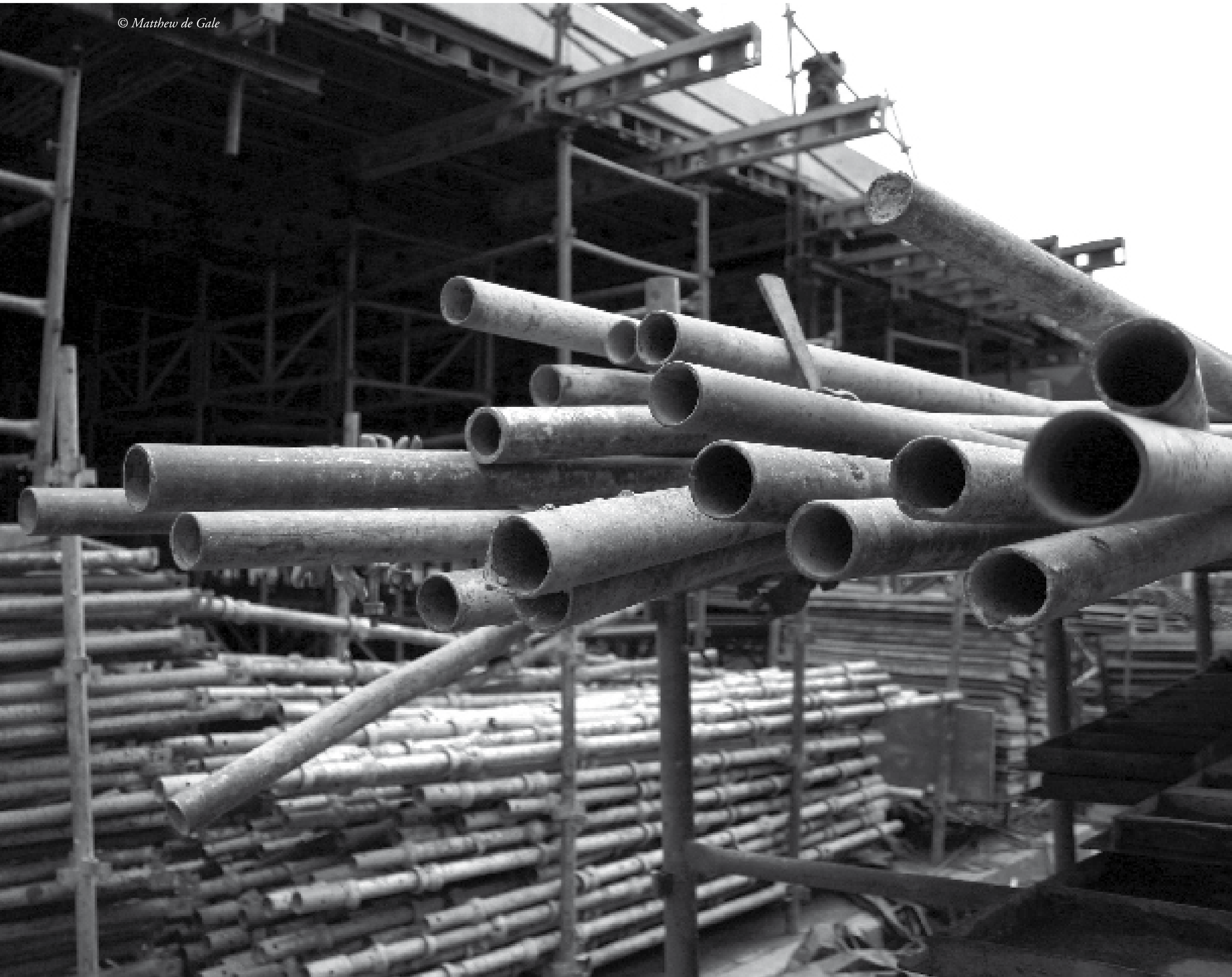
This article first appeared in the *Business Day*, 14 March 2006.

1. Introduction

DURING THE EARLY 1960S a fierce debate raged in Japan about whether to continue supporting its automotive industry because Japan's first foray into exporting cars into the US market had proved spectacularly unsuccessful. Rather, Japanese free-trade economists argued, Japan should specialise in what it was best at – exporting silk – and abandon attempts to develop more advanced industries. If Japan had followed this advice it would not now be one of the richest countries in the world in per capita terms.

The story of Japan's rapid industrialisation through industrial policy and that of other east Asian tigers is relatively well known. Although there have been numerous examples of industrial policy failures, what is less well known is that there are almost no historical examples of countries that have industrialised without an active industrial and trade policy.

Industrial policy does not happen automatically – it is essentially a process of learning to produce which is costly, risky and takes time. Inherent in the design and implementation of industrial policy is the risk of choosing the wrong activity to support.



Professor Ha-Joon Chang in his book *Kicking Away the Ladder* demonstrates that the now-developed economies all industrialised behind substantial tariff barriers and various other forms of support for industry and technological development. Britain, the first industrialiser, invoked a range of support measures before and during its industrial revolution. Not least of which were high import tariffs until the 1820s, and colonial conquest. As the world's pre-eminent industrial power, it then dropped its tariffs and argued that others – particularly the US – do the same.

However, from 1931 it raised tariffs again as it fell behind other industrial countries. The US, far from being a paragon of free trade, had average tariffs on manufacturing between 1820 and 1945 in excess of 40 percent as it sought to catch up with – and ultimately surpassed – Britain as an industrial power. A similar pattern of development occurred in other major now-developed economies, including Germany, France, Sweden, the Benelux countries and Switzerland.

Professor Alice Amsden in her book *The Rise of the Rest* shows that it was only after the Second World War, when a group of developing countries obtained autonomy over policy instruments such as tariffs, that they achieved higher rates of economic growth than ever before.

While there are important differences between regions and amongst countries, growth rates were higher in Latin America and Sub-Saharan Africa during this post-war period than the period of general liberalisation – the 1980s and 1990s. East and south east Asia have recorded high growth rates since 1990 due to the overwhelming influence of China and India respectively. Both of these economies have adopted industrial policies and strategically phased liberalisation of their economies.

With the possible exception of Hong Kong, there are virtually no significant industrial economies that have achieved industrialisation without robust industrial and trade policies. Having ascended the rungs of economic development, and with an inadequate grasp of their own economic history, developed countries now seek to 'kick away the ladder' through which developing countries may achieve their own development process.

This occurs in two major ways. First, the manner in which global trade and investment rules are constructed increasingly restricts the policy instruments available to developing countries. Second, failure to acknowledge the role of industrial policy in economic history and theory restricts the scope of policy options that are perceived to be possible and appropriate for industrial development.

In the light of this historical precedent, an industrial policy is not an ideological choice, it is a pragmatic one. This is not to argue that uncritical support of industry will automatically result in economic development. South Africa has enough examples of this. For instance it has historically provided subsidies to large, upstream, resource-based firms, without requiring competitive pricing in return.

Inherent in the design and implementation of industrial policy is the risk of choosing the wrong activity to support. However, a substantial body of knowledge has emerged on minimising the risks and maximising the chances of success. Much of this arises from the experience of the east Asian tigers who industrialised many times faster than their developed counterparts, as well as other success stories, such as the Brazilian aerospace industry.

From this experience arises some 'rules of thumb' about best practice in the design and implementation of industrial policy. Industrial development does not happen automatically. This is because it is essentially a process of learning to produce that is costly, risky and takes time. Well-designed industrial policies facilitate this process by mitigating risk in relation to market failures and the establishment of new activities.

Close interaction between the state and the private sector is necessary in order to jointly establish the constraints to growth, with care being taken by the state not to be captured by special interests. State support must be based on reciprocal behaviour by the private sector, such as increasing employment or adoption of technology.

Modern industrial policy needs to take into account and use current instruments and institutions. For instance, tariffs are not as important an instrument as they used to be, due to trade agreement commitments.

Finally, industrial policy is most successful when it is co-ordinated with other major policies – macroeconomic, skills and technology policies.

Public Expenditure and Service Delivery in

Expenditure Management to Improve Access and Quality

United Nations
Economic Commission for Africa

9-11 october 2006 lusaka, zambia

To attain the Millennium Development Goals (MDGs), African countries must, in addition to a massive scaling up of public investments, build capacity and mobilise domestic and external resources, make public expenditure more effective and deliver services more efficiently, especially to the poor.

Furthermore, they must also determine how to maintain a larger and more sustainable stock of investment in infrastructure that can be ultimately financed with domestic resources. Although governance is improving across Africa, public sector performance and outcomes in providing key services at the national and sub-national levels remain unsatisfactory in many countries. Understanding the institutional, political, economic and social conditions for improved public expenditure management and service delivery is, therefore, vital to helping the poor and non-poor obtain better performance from their governments.

To this end, ECA is organising a workshop to provide a forum for experts and policy-makers to deliberate on the critical issues relating to effective public expenditure and efficient service delivery in African countries as well as on their policy implications. The central question is how African countries can improve public expenditure management to enhance access and improve the quality of the delivery of public services.

The workshop will explore a variety of issues, including public expenditure management, allocative efficiency of public expenditure, intergovernmental relationships and accountability, as well as the political economy of public expenditure and service delivery, including corruption. In a principal-agent framework, which takes into account the presence of asymmetric information, appropriate policy interventions needed to deliver public services more effectively to the poor can be identified. The workshop will focus on a broad range of public services which are relevant to spur growth and achieve the MDGs in Africa, including education, health, public safety and infrastructure.

The workshop aims at facilitating discussions among researchers and policy-makers on key issues and problems associated with the efficient use of public funds to deliver services to the population, as well as policy options for improving the situation. In so doing, the workshop will provide a platform for assessing public sector performance in delivering key services and for deliberating on how to improve the efficiency and effectiveness of public expenditure in the delivery of public services that is consistent with sustained growth and the attainment of the MDGs in Africa.

Proposed topics for papers include:

- Decentralisation / service delivery at sub-national levels
- Allocative efficiency of public expenditure
- Institutions and public expenditure management
- Leakage of funds / corruption
- Pro-poor service delivery, MDGs
- Financial management
- Public expenditure tracking
- Accountability of policy makers and service providers
- Overcoming reform obstacles
- Bottlenecks in expanding services
- Private sector participation / public-private partnership
- Countries in conflict / post-conflict

Full papers are due 15 September 2006. Contributions from government organisations, private sector and civil society are particularly encouraged.

Funding

There is no conference fee. Travel and accommodation costs will be covered for selected conference participants subject to UN procedures. Preference will be given to funding participants from African countries.

Language

The conference will be held in English and French.

For updates and more information, please visit

http://www.uneca.org/eca_programmes/policy_analysis/default.htm