

PERSPECTIVES ON GLOBAL DEVELOPMENT 2013



SHIFTING UP A GEAR *INDUSTRIAL POLICIES IN A CHANGING WORLD*



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Outline



- I. The starting point: shifting wealth
- II. The impacts of shifting wealth
- III. The structural challenges and the emerging policy responses
- IV. A renewed interest in industrial policy in developing countries



I. THE STARTING POINT: SHIFTING WEALTH



The "Four Speed World" (PGD 2010)

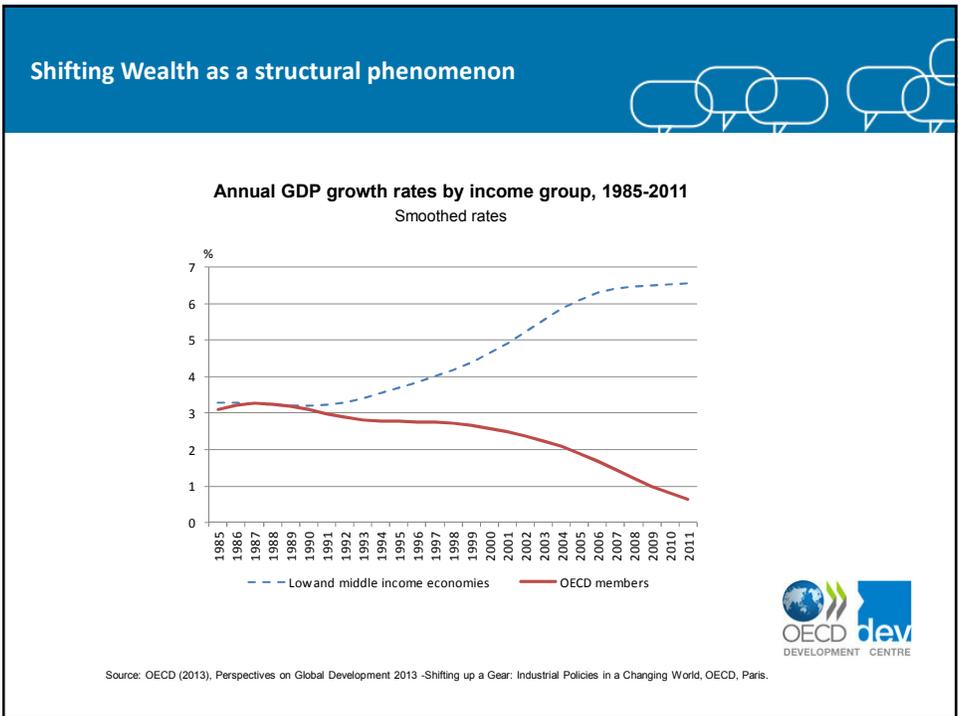
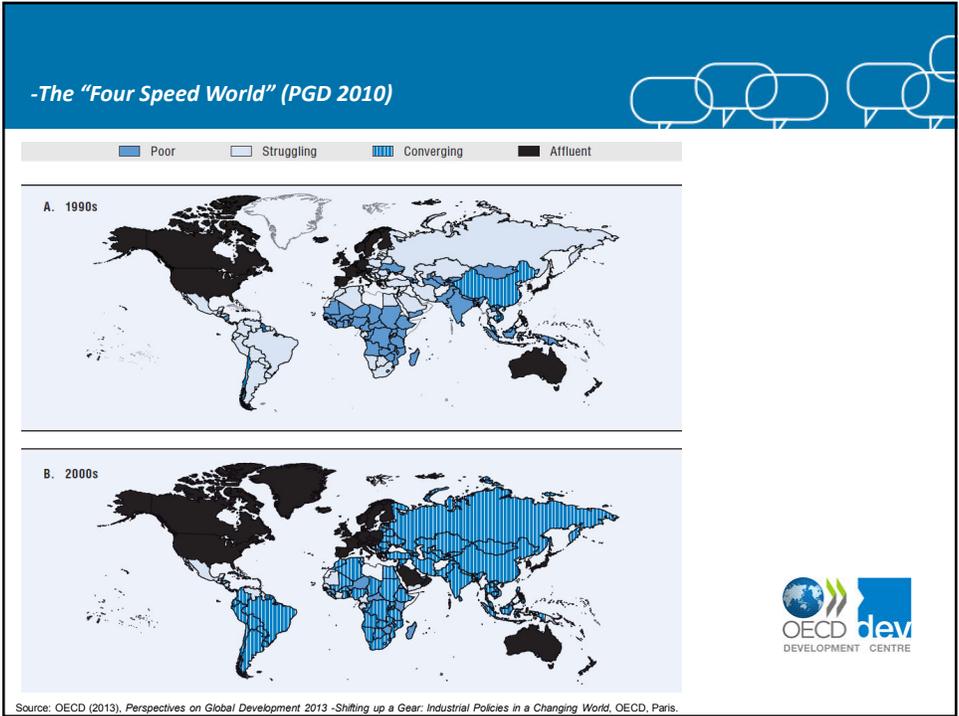
Poor Struggling Converging Affluent

A. 1990s



Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*, OECD, Paris.







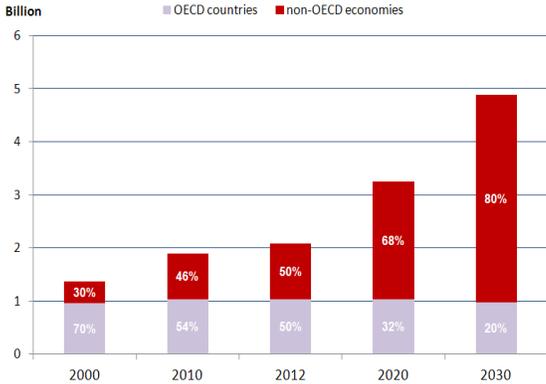
II. THE IMPACTS OF SHIFTING WEALTH



The impacts of Shifting Wealth (1):
 The rise of new “middle classes” and the growing attention towards internal sources of growth opens up new consumers markets.



By 2030, 80% of the world’s middle classes will be living in developing economies



Year	OECD countries (Billion)	non-OECD economies (Billion)	OECD %	non-OECD %
2000	~0.7	~0.3	70%	30%
2010	~0.54	~0.46	54%	46%
2012	~0.6	~0.6	50%	50%
2020	~0.32	~1.38	32%	68%
2030	~0.2	~2.8	20%	80%

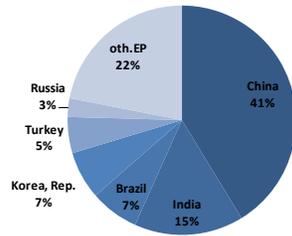
Note: « Middle classes »: People living between 10 and 100 USD PPP a day.
 Source: OECD Development Centre based on Kharas (2010).



The impacts of Shifting Wealth (2):
China's growing integration into world trade and investment
 is opening up potential opportunities for developing countries

Africa's emerging trading partners
 (average 2009-11)

% of the Total Trade, Billion USD



Top 15 destinations of Chinese FDI, 2003-12

Number of jobs created by Chinese FDI projects in the recipient country



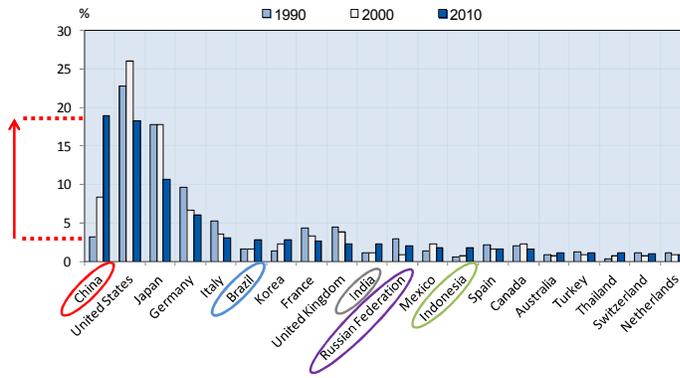
Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.
 Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*, OECD, Paris.
 OECD (2013), *African Economic Outlook 2013*, OECD, Paris.

The impacts of Shifting Wealth (3):
Changing the global geography of production

China is the main driver, but other countries are also contributing

World top 20 manufacturers, 2010

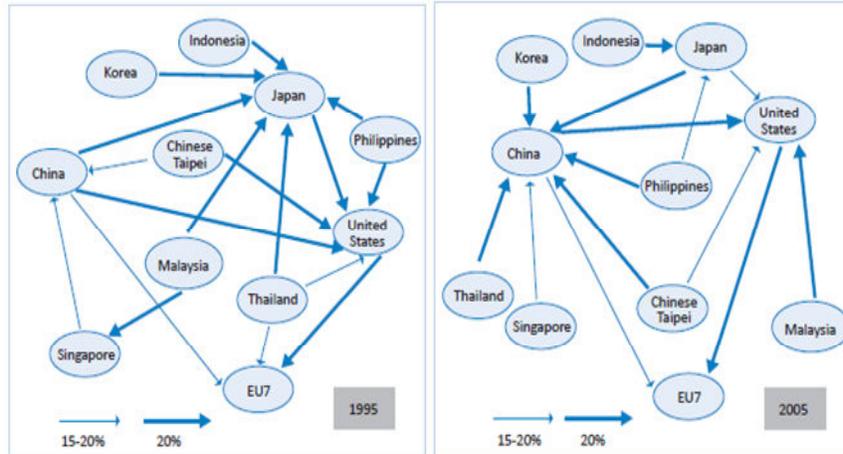
Country share in total world manufacturing value added



Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*, OECD, Paris.

Partners for intermediate exports of goods and services 1995 vs. 2005

Asian economies are increasingly integrated with China through supply chains



Source: OECD (2010a), Southeast Asian Economic Outlook 2010, OECD Publishing, Paris.

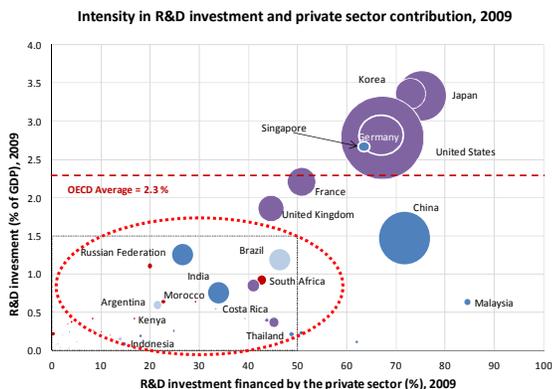
III. THE STRUCTURAL CHALLENGES AND THE EMERGING POLICY RESPONSES



...but “all that glitter is not gold”.
 Developing countries still face big challenges.
 However, some are implementing targeted policies
 to address them.



Although developing countries are increasing their production and innovation capabilities, they are still far from the OECD average



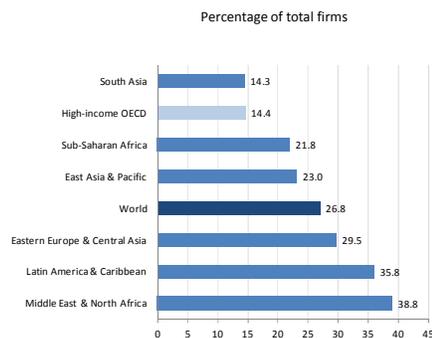
- Targeting resources to specific scientific and technological areas (new materials, biotechnology and clean energy vehicles; healthcare, etc.).
- Public procurement for innovation (e.g. Brazil, China, India and South Africa)
- Attracting more knowledge-intensive FDI (e.g. Brazil, Costa Rica, Malaysia, Morocco)
- Promoting start-ups (Brazil, Colombia, Peru)
- Promoting cluster development (e.g. Brazil, Chile, India)

Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*. OECD, Paris.

Many developing countries still suffer from shortage of skills,
 and most are affected by skills mismatches



Firms identifying an inadequately skilled workforce as major constraint, 2010



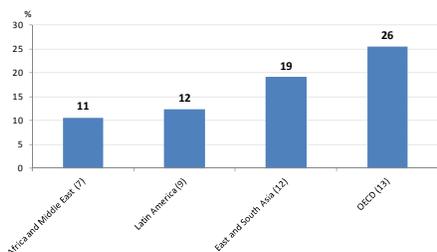
- Early reactive interventions (e.g. on the job training, public/private partnerships; Costa Rica and Morocco partnerships between MNCs and local training institutes/universities)
- Ongoing proactive interventions (e.g. technical education/university training; Brazil National Service for Industrial Learning, SENAI; Brazilian Support Services to Micro and Small Firms, SEBRAE)
- Future-oriented interventions (e.g. education system; international skills mobility initiatives in Africa: Ghana and South Africa, in Asia: Malaysia and Thailand)

Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*. OECD, Paris.



Companies in developing countries face difficulties in gaining access to long term credit. SMEs are particularly affected

Credit to SMEs as percentage of total credit, 2010



- Development banks are helping to reduce the SMEs financial gap in developing economies
- Credit guarantee schemes have grown significantly (India, Indonesia, Chile)
- International Financial Institutions are increasingly supporting SMEs financing
- Emerging priorities in SMEs financing in developing countries: innovation funds and micro-credit

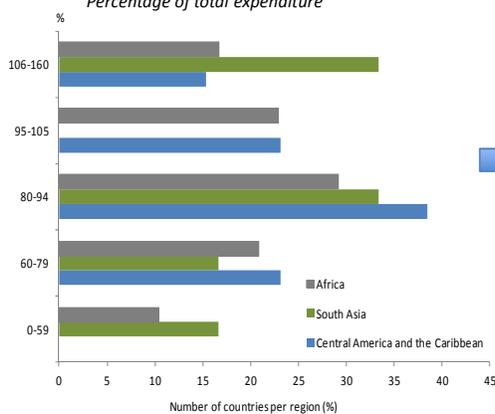
Note: The number in parenthesis indicates the number of countries for which data is available.
 Source: OECD (2013), *Perspectives on Global Development 2013 - Shifting up a Gear: Industrial Policies in a Changing World*, OECD, Paris.



Hard and soft infrastructures are still a major bottle neck in most developing economies

Poor execution of the national budget is a major constraint

Rate of execution in capital expenditures by region
Percentage of total expenditure



- According to our survey of policy-makers, low technical capabilities for project design and the lack of a framework for policy implementation are major barriers in infrastructure policy in developing economies.
- Reinforcing public-private partnerships and increasing private-sector participation is needed.
- Sequencing matters. (Some reforms must be undertaken prior to promoting private participation)





IV. A RENEWED INTEREST IN INDUSTRIAL POLICY IN DEVELOPING COUNTRIES (AND ITS POLITICAL ECONOMY CHALLENGES)



To address these structural challenges and sustain growth, some developing economies are implementing production transformation strategies. Their industrial policies exhibit some common trends, and some differences.



Key features of industrial policies					
GOVERNANCE	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">TOP-DOWN (Low margin of maneuver of regional/local governments); ex. Chile.</td> </tr> <tr> <td style="padding: 2px;">MIXED (Coexistence of national and regional/local initiatives); ex. China, Brazil.</td> </tr> <tr> <td style="padding: 2px;">BOTTOM-UP (High margin of maneuver and responsibilities of regional/local governments); ex. India.</td> </tr> </table>	TOP-DOWN (Low margin of maneuver of regional/local governments); ex. Chile.	MIXED (Coexistence of national and regional/local initiatives); ex. China, Brazil.	BOTTOM-UP (High margin of maneuver and responsibilities of regional/local governments); ex. India.	
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PRIORITIES	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px; text-align: center;">TRADITIONAL</td> <td style="padding: 2px;"> Growth Job creation International competitiveness </td> </tr> <tr> <td style="padding: 2px; text-align: center;">EMERGING</td> <td style="padding: 2px;"> Territorial inclusion and competitiveness Social cohesion Sustainable development </td> </tr> </table>	TRADITIONAL	Growth Job creation International competitiveness	EMERGING	Territorial inclusion and competitiveness Social cohesion Sustainable development
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OBJECTIVES	<p>Diversification (i.e. entry in new sectors/types of activities)</p> <p>Specialisation and upgrading (i.e. scaling up in local and/or global value chains)</p> <p>Increasing the density of the production system (i.e. entrepreneurship, linkages, networks)</p>				
POLICY MIX	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;"> Industrial policy tools (i.e. direct and indirect incentives to firms) Trade policy and FDI Support to science and technology Skills development </td> <td style="padding: 2px;"> Infrastructure building and upgrading Financing (i.e. development banks) Macroeconomic policy (i.e. exchange and interest rate management) Competition policy </td> </tr> </table>	Industrial policy tools (i.e. direct and indirect incentives to firms) Trade policy and FDI Support to science and technology Skills development	Infrastructure building and upgrading Financing (i.e. development banks) Macroeconomic policy (i.e. exchange and interest rate management) Competition policy		
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From the experience of developing economies we are observing three emerging issues in their industrial policies



- i) Empowering territories as agents of change
- ii) Capturing the potential of a sustainable economy
- iii) Implementing monitoring systems for policy follow up and evaluation



What have we learned in terms of good lessons?
There are no blue printsbut the experience of OECD and non-OECD countries in industrial policies shows that there are pitfalls that should be avoided:



- Indiscriminate subsidies
- Never-ending support
- “Cathedrals in the desert”
- Preventing competition
- Closed-door bureaucracy-led prioritisation
- Capture by incumbents
- Low critical mass for investments
- Short-term horizon and annual budgeting
- Lack of monitoring and evaluation mechanisms



The political economy dimension:
From strategy setting to policy implementation



Development strategies centred on production transformation

- The role of political leadership
- The need for public-private alliances
- Opening political room for the emergence of the “new”

Policy implementation

- Alignment in public agenda
- Long and stable financing
- Institutional capabilities



Looking at structural challenges for development in the context of
shifting wealth - Past, ongoing and future work of DEV



Regional Outlooks

Thematic country studies

Policy Dialogues