



Draft – Strictly Not for Quotation

Active Industrial Policy for Accelerated Industrialization

By

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Outline

- Introduction
- Industrial Policy, Economic Growth, & Institutions
- Industrial Policy is Not a “Sin”
- Building a Case for Industrial Policy in Tanzania
- Implications for Policy and Planning
- Conclusion

Introduction

- Economic growth **central** to poverty reduction and overall social development
 - Increases in income of the poor as economic growth is sustained (Rodrik 2007, Page 2006, Ndulu 2007, IMF and World Bank, 2015)
 - Even where growth brings inequality, increase in per capita income has been associated with declining poverty
- But economic growth needs to be **inclusive**
 - interconnect economic and social policy
- The issue at hand is how to transform the economy and achieve sustained growth
 - to raise productivity, create jobs, viable enterprise growth
- Paper aims to revive **policy debate** on industrial policy as a feasible policy option for Tanzania

Industrial Policy, Growth, and Institutions

- Industrial Policy - set of objectively selected interventions by state, focusing on activities capable of generating and sustaining productivity, competitiveness, and growth
- Industrial policy is complimentary rather than distortionary in market allocative function
- Market failures calls for government policy actions beyond traditional roles (regulations, legal credibility, and macroeconomic stability)
 - Imperfections, structural, and institutional weaknesses in LDCs (..... “rational man”)
 - Global production and market systems
- Selective strategic growth policies to address most binding constraints

Industrial Policy, Growth, and Institutions (Ctd)

- Complement and coordinate private sector- innovation, value creation, and appropriation of rents
- Transforming sectors/activities from comparative advantages to competitive advantages
 - Effective management of risks through information, coordination, and technology management
- Must be selective and context specific
- Requires high levels of both **support** and **challenge**
 - To influence behaviors of the private sector
 - Degree, character, & length dependent on different constellations of technology and marketing gaps, and of institutional capacity
- Strong Institutions necessary to mediate industrial policy
 - Non-market institutions to enhance private sector performance
 - formal and informal reinforcements
 - Transformation- to prevent rest seeking, moral hazards
 - Scaling up public goods essential for private sector competitiveness

Industrial Policy is not a “Sin”

- Countries known to embrace free markets have pursued it
- Variety of policy tools and approaches applied in different contexts
- **United States**
 - Prohibitive trade laws, non-tariff barriers, technological differences
 - Federal, State, and Local Authorities grants to new and aging industries
 - Defense department support for high tech ventures and innovation
 - Economic Stimulus Act 2008
- **Industrial Districts in Europe in 1980s**
 - Active govt. support to strengthen local innovative capacity
 - Clusters of firms assisted to adapt new technology, develop new products, and to react speedily to market changes
 - Systems of credit guarantees
 - Human resource development in line with technical and market needs
 - Provision of “real services” –information in standards, testing facility

Industrial Policy is not a “Sin” (Ctd)

- **South Korea**
 - **Market-preserving** state interventions since 1960s
 - Macroeconomic policy in favour of **investment expenditure**
 - Priority sectors given custom designed financial, technical, and administrative support
 - Encouraged efficient scales with **export targets** (tight monitoring, forced or subsidized mergers)
 - Effective use of FDIs to upgrade domestic industries and expand local ownership
 - Innovation – risk taking by appropriating profits to cover high costs of technology import and adoption
 - Strong institutional ability to apply “**Carrot and Stick**” strategy
- **Others**
 - UK’s Enterprise Initiative Programme in the 1980s
 - Spain – design skills in clothing and footwear industry
 - Brazil –intermediary agency to assist small firms in furniture sector
 - Asian Tigers -Licensing arrangements, credit guarantees

Building a Case for Tanzania

- **BIS and ISI from mid 1970s, but short-lived**
 - Reflected “**uncoordinated**” support with **no challenges (or poor monitoring)**
 - Weak linkages to strategic markets
 - Low incentives for innovation
 - Aid & policy bias – expanded capacity with limited utilization
- **Policy reforms essential but not sufficient on their own**
 - Additional policy actions necessary-eg spatial industrial areas, clusters, etc
- **Why is industrial policy necessary?**
 - ★ Market failures –imperfections in factor, products, and financial markets – *errors of mission* will lead to significant delays
 - ★ Major advancements in technology leading global growth
 - ▲ NSI unable to spur innovation –effective subsidy, cluster approach
 - ▲ Need to step up skill intensity (technical and organizational)- HR development strategy

Building a Case for Tanzania (Ctd)

★ Small domestic markets (by size and purchasing power)

★ [Slide 13](#), [Slide 14](#), [Slide 15](#)

- ▲ Support to private sector in identifying and understanding global markets
- ▲ Potentials for intra-regional trade - quality and entry barriers
- ▲ Deeper diagnosis of export growth drivers –sectors and activities

★ Emergence of international commodity chains

- ▲ Producer –user loop important for growth and survival of domestic producers (global value chains)
- ▲ Agriculture becoming knowledge intensive
- ▲ Support need to get into value chains and upgrade –branding, high fixed costs, barriers to entry, credit constraints
- ▲ Diversification into non-traditional commodities

★ Large size of the country, multiple priorities, and limited resources

- ▲ Well informed, selective deployment of available resources –painful tradeoffs

Implications for Policy and Planning

- **Requires consecutive development of sound institutions**
 - Political will and accountable state a key pillar (*meta institution*)
 - Macro economic stability
 - Regulatory and property rights
- High institutional capacity for information gathering, analysis, targeting, and monitoring in the government
 - What constitute new activities, criteria for success and failure, character and duration of support, global market dynamics
 - Civil service reform (capacity enhancement vs downsizing?)
- **Strategic choices in social policy**
 - Integrated Human Resource Development
 - Institutional arrangements to deal with inequality and exclusion

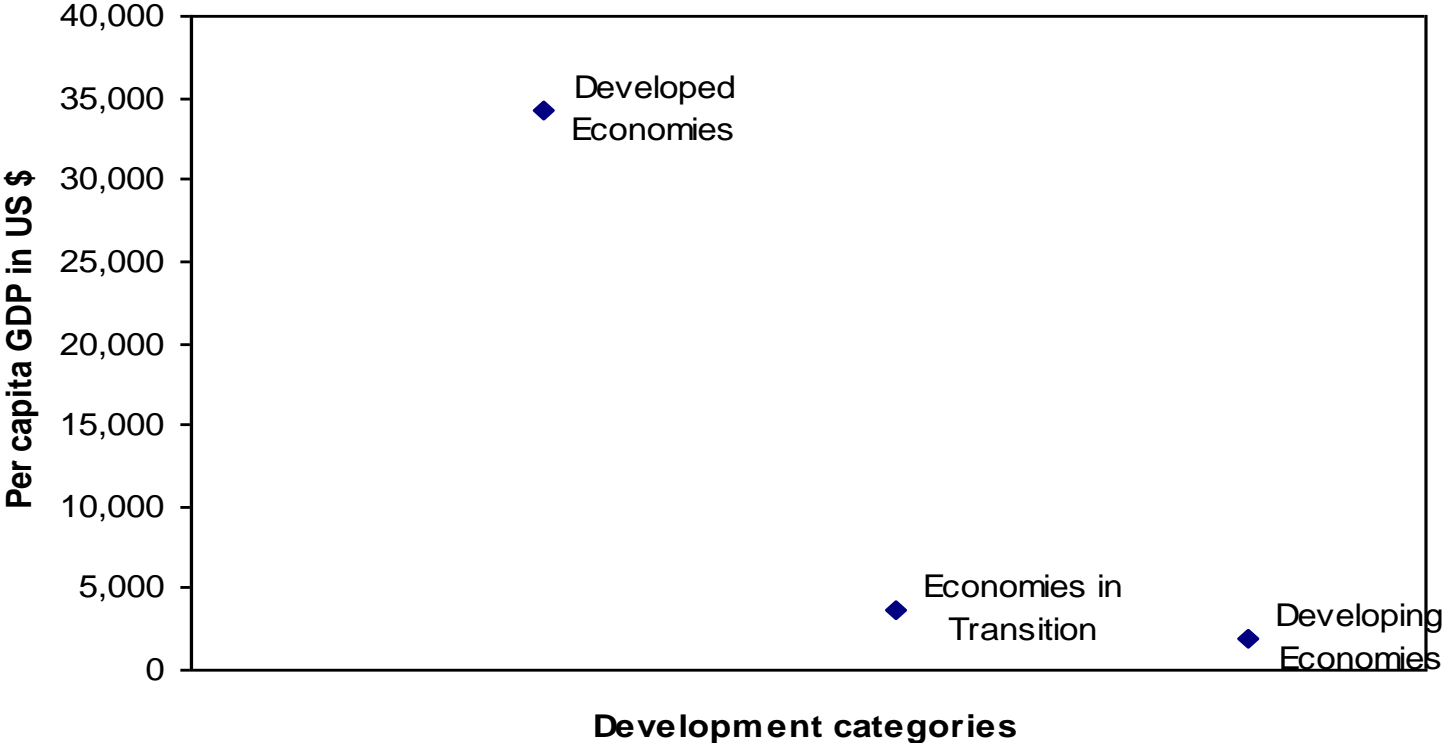
Implications for Policy and Planning (Ctd)

- **Exercise more caution on international trade regimes and negotiation capacity**
 - Even with WTO, EPAs, AGOA, etc, non-tariff and policy barriers remain (eg geography, institutional remoteness)
 - Potential for distortionary replications and retaliation
- **Budgetary implications**
 - Dependency on foreign aid?
 - Domestic revenue enhancement
 - Prudence in spending
- **Rent seeking behaviors**
 - Avoid “political market” or lobbying
 - Avoid interventions that inhibit productive use of resources

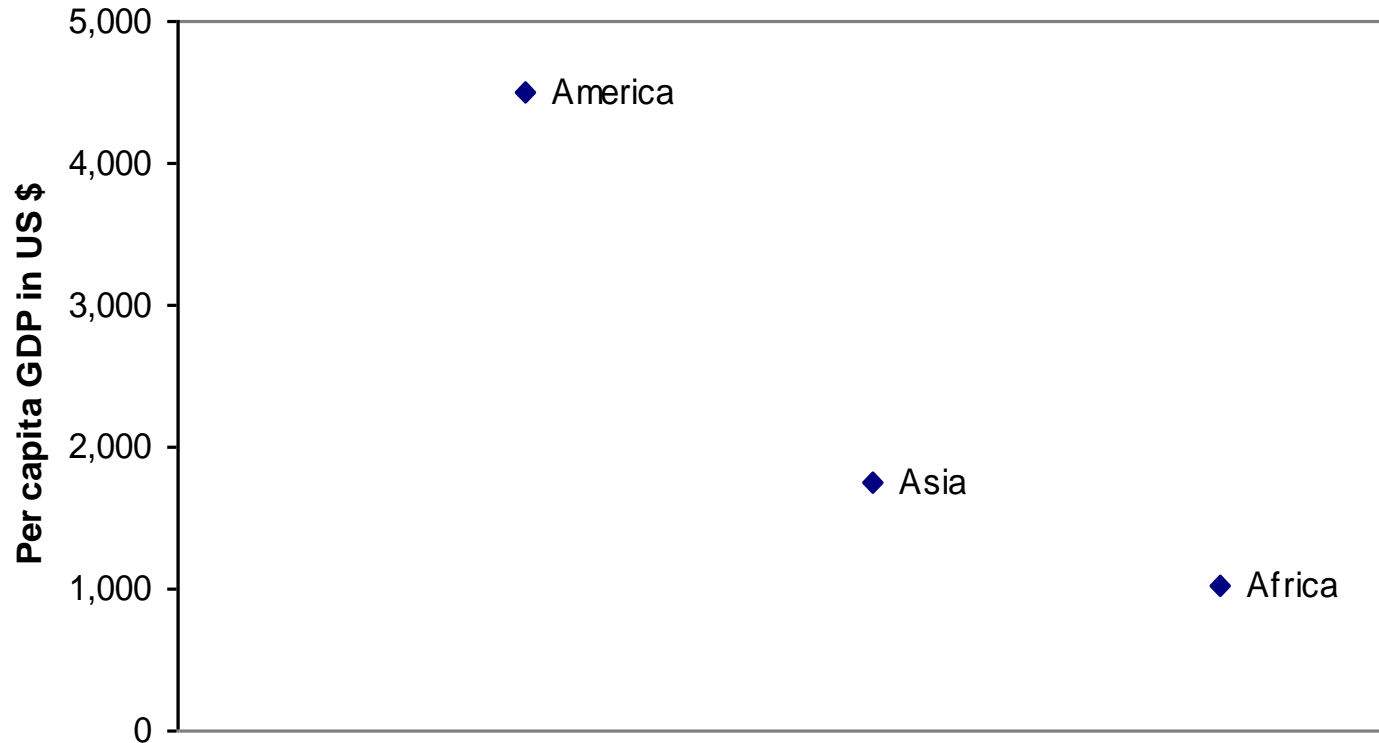
Conclusion

- Aimed to reactivate the debate
- Trends in SSA to deindustrialize in the wake of trade liberalization and reforms
- Active industrial policy is inevitable if aspirations of Vision 2025 are to be achieved
- Nature of industrial policy and institutional foundation will underpin success or failure
- **Research is still needed**
 - To identify promising growth drivers
 - To identify most binding constraints
 - To propose appropriate policy mix and institutional arrangements for successful implementation

Differences in per capita income in three categories of development



Per capita income in developing countries by continent



Developing countries by continent

Per capita income in Africa by region

