

PART THREE

National Policies to Develop Productive Capacities and Promote Tradeables

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**UN-DESA CDP Capacity-building Workshop on Productive Capacity and the
Use of Trade-Related International Support Measures (ISMs) for LDC
Graduation**

**November 3-4, 2015
Palais des Nations, Geneva**

VISION:

WHY

WHAT

HOW

STRATEGY:

TACTICS:

The Two Sessions this Morning

- Provide a general overview of some policy and institutional issues in developing productive capacities and tradeables (this PPT). HOW...
- Describes the Growth Identification and Facilitation Framework (GIFF) as a methodology to identify and facilitate development in emerging tradeable sectors and applies the methodology for Uganda. WHAT and HOW...
- Presents two country case studies of policies to develop productive capacities and tradeables – Ethiopia and Solomon Islands. HOW...
- Present findings of UNCTAD's on-going study of best practices for fisheries development in LDCs. HOW...

This PPT: A General Overview.

- Discusses the role of the state in developing productive capacities, including the idea of industrial policy. HOW
- Discusses applications of these ideas in an LDC context, focusing especially on the need for private sector development to address the missing middle. HOW
- Introduces institutional issues in the trade policy making process, in particular the need for inter-ministerial coordination. HOW

The Role of the State is Critical in Developing Productive Capacities

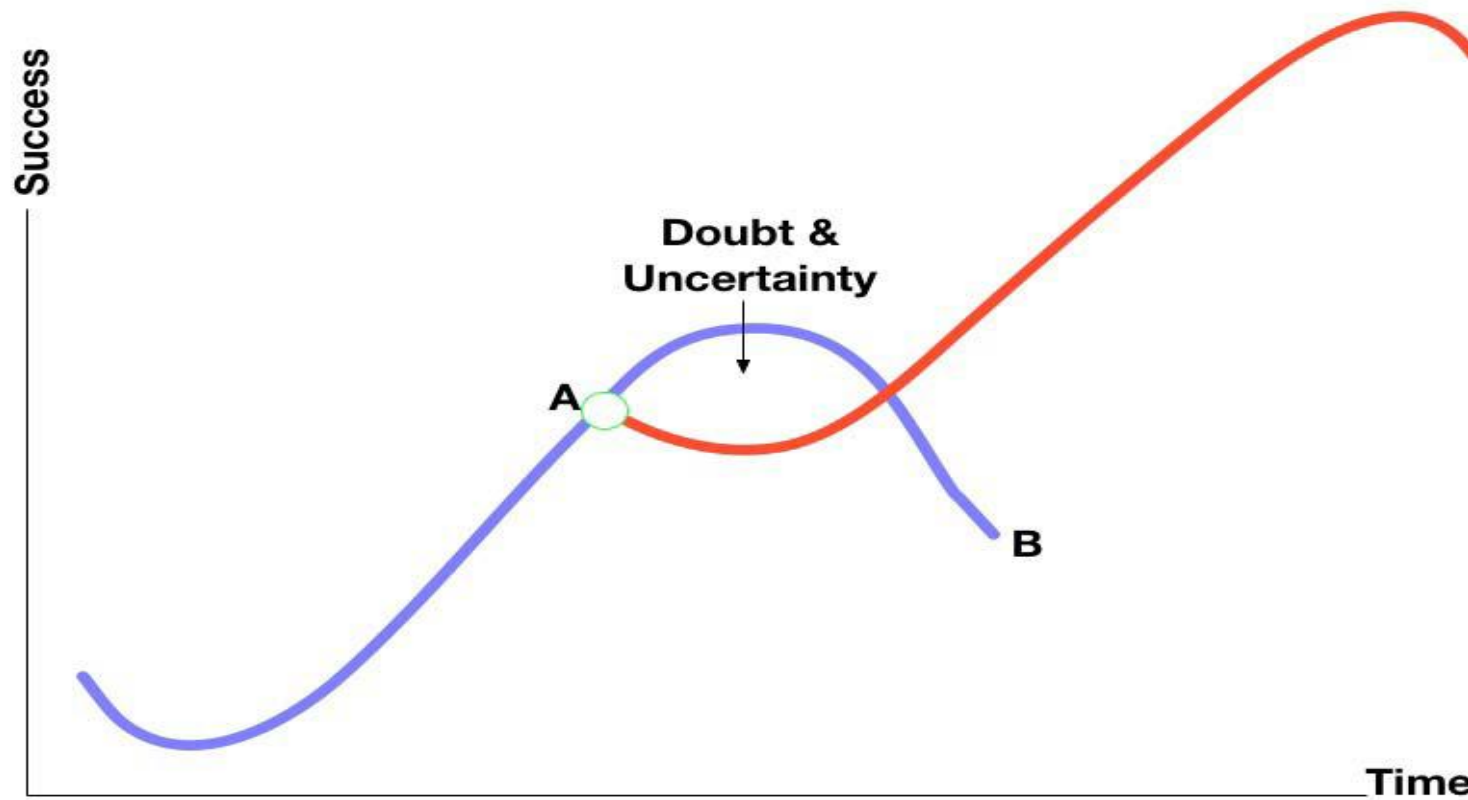
- Not a return to old-style development planning but the introduction of development governance
- ‘Development governance is about creating a better future for members of a society by using the authority of the State to promote economic development, and in particular to catalyze structural transformation, create productive opportunities and raise living standards for present and future generations’ (LDCR 2009)
- This is different from the current “good governance” agenda as good governance is concerned with processes rather than outcomes. Good development governance is concerned to get the processes right but to achieve specific developmental outcome.

Features of Successful Developmental Governance in the Past

- Committed political leadership
- Mixed economy model in which the State does not replace the private sector but designs policies and institutions that harness private ownership, and the drive for profits for national development objectives
- Sectoral agricultural development policies and industrial development policies within a growth-oriented macro-economic policy
- Pro-active trade policy which seeks to exploit current comparative advantage and also identify new opportunities for tradeable development
- Close coordination between government and private sector stakeholders in policy formulation and policy implementation

A shift from ideology to pragmatism (“it does not matter if the cat is black or white as long as it catches the mice”)

The Life-Cycle of Trade Development: The Sigmoid Curve



I first came across this in Charles Handy's "The Empty Raincoat"

Past Thinking on Industrial Policy

- In the past there was a strong critique of the effectiveness of sectorally-selective industrial policy. It was associated with “picking winners”, “government failure”, “crony capitalism”.
- This led to a focus on “horizontal” industrial policy. This is concerned with getting the framework conditions right for the economy as a whole.
- Improving the environment for Doing Business as measured by the World Bank is the best example

Recent Thinking on Industrial Policy

- Now the “The emerging consensus is that the risks associated with selective strategic industrial policy can be minimised through a ‘soft’ form of industrial policy, based on a more facilitative, coordinating role for government” Warwick 2013.
- Government and industry should work together to set strategic priorities, deal with coordination problems, allow for experimentation, avoid capture by vested interests and develop productive capacities.
- A major aim of this in developing countries which are catching up is to develop competitive advantage in tradeable sectors with latent or incipient comparative advantage

The government is steering not rowing

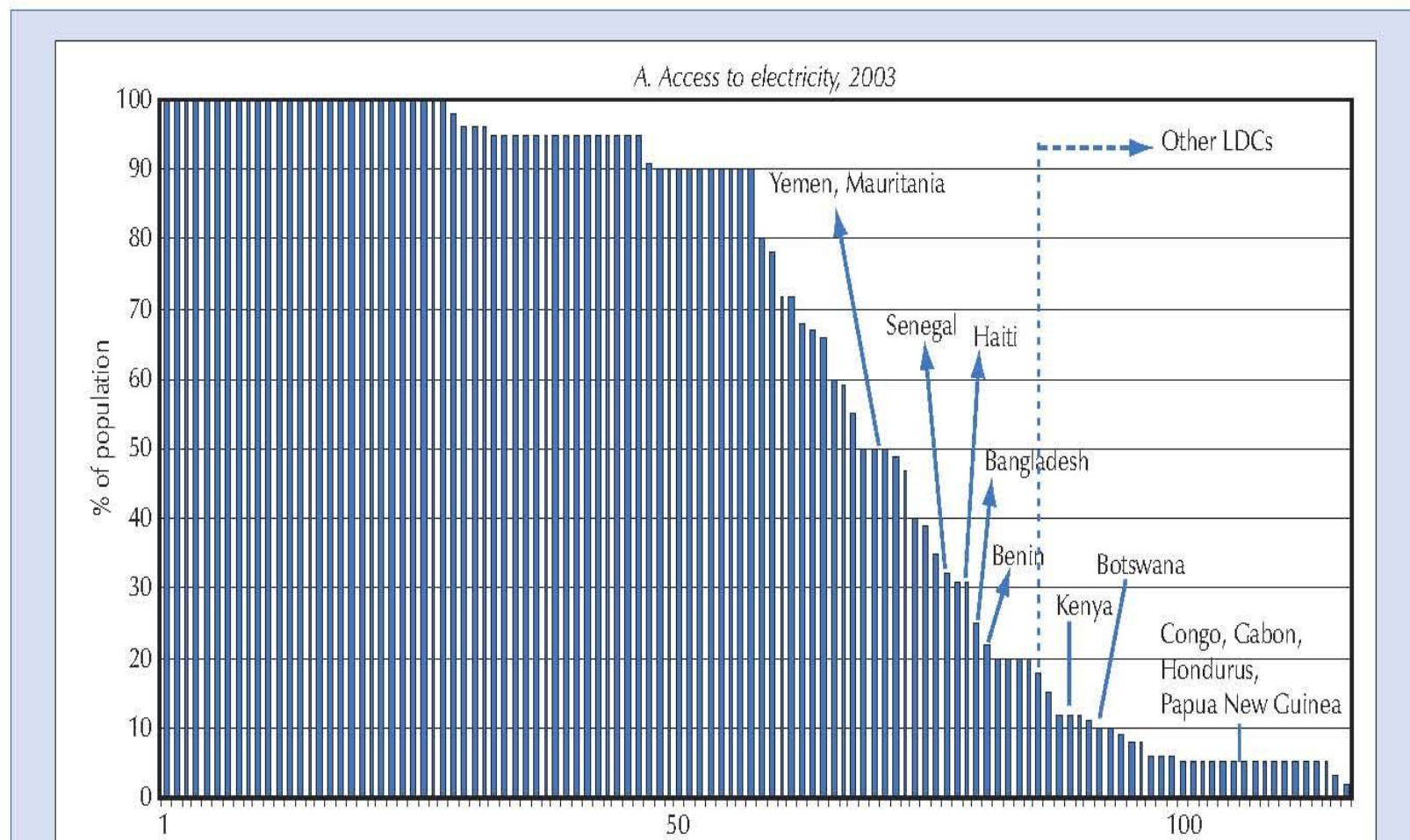


For Applications in LDC Context

- UNCTAD Least Developed Countries Report 2009
 - UNCTAD Least Developed Countries Report 2015
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- Both these Reports is that both horizontal and selective industrial policy matter and they set out the types of policy which are appropriate in LDCs
 - An important feature of both these Reports is that “industrial policy” is equivalent to sectorally-specific policy. It can encompass agricultural development policies and service development policies.
 - Both Reports emphasize the importance of agricultural and rural development as the foundation of the whole process. Efforts to increase agricultural productivity and incomes are essential as well as development of rural non-farm activities.
 - Both Reports also discuss the importance of mobilizing resources to finance the development of productive capacities.

Physical Infrastructure is a major problem

CHART 39. RANKING OF DEVELOPING COUNTRIES^a ACCORDING TO THEIR INFRASTRUCTURE PROVISIONS



The "Missing Middle" (MM) is a Major Problem in Many LDCs

- MM refers to the weak development of formal sector SMEs, particularly medium-sized domestic enterprises
- Typically informal sector enterprises do not develop into formal sector firms and small firms do not grow into large firms.
- Investment climate reforms (to reduce red tape and costs of doing business) are not enough to release the private sector in if it is very weak
- Need to foster the development of domestic medium-sized firms. «A shift of employees from small firms to mid-sized and larger companies is an essential part of structural transformation»

Evidence from Enterprise Map Surveys in Africa

- Ethiopia
 - 78% of exports in six industries - coffee, oil seeds, live animals, chat and gold
 - 31 firms account for half of total exports
- Ghana
 - 83% of exports in gold, cocoa and bauxite
 - 27 firms account for 62% of total exports
- Mozambique
 - 63% of exports come from aluminium, electricity, ores and gas.
 - In each of these industries, one firm accounts for half of exports
 - 13 firms account for 75% of export earnings
- Tanzania
 - Gold, cashews and fish processing account for 42% of export earnings; coffee, tobacco, tea, flour, steel, palm oil and cut flours for 25%.
 - 22 firms account for 80% of total export earnings
- Zambia
 - 75% of exports from copper
 - 6 firms responsible for copper exports
 - 15 firms account for 80% of total exports

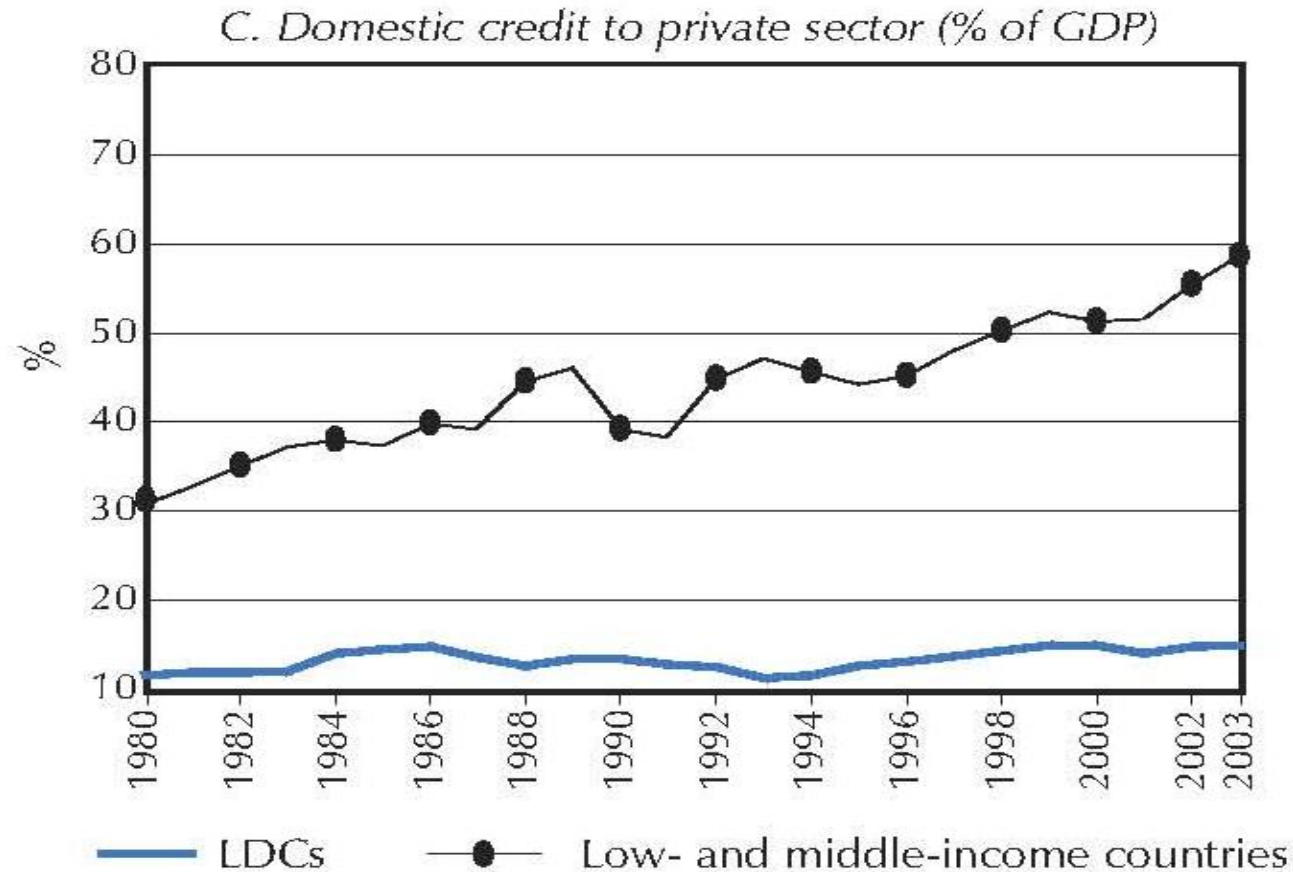
What are the Key Industrial Capabilities of these Firms and Where Do these Capabilities Come From?

- Exporters are mid-sized firms with 30 - 60 employees. These have different capabilities than small enterprises.
- Key Capabilities. “At the level of manufacturing technology involved in many of the industries surveyed here, the level of required know-how is easily bought in by hiring a number of experienced engineers and technical experts. What is more elusive, as far as the fledgling manufacturer is concerned, is knowing what to produce, how to sell it, and how to shape and manage a mid-size enterprise that will function effectively».
- Where Do These Capabilities Come From? Half originate as domestic private enterprises(often originally import-export trading companies), quarter from foreign investment, quarter from public enterprises

Addressing private sector institutional weaknesses

- Promote the formation and growth of domestic firms to address the missing middle in the enterprise structure
- Improve domestic financial systems. Need to end the permanent credit crunch; development banks have a role.
- Improve domestic knowledge systems
 - Education, skills and training
 - Firm- and farm-level technological capabilities – agricultural and industrial extension
 - Links between modern and traditional knowledge systems
 - Links between universities + public research institutions and private enterprise
 - Ability to search for, acquire and use knowledge and technologies from abroad
 - Link traditional and modern knowledge systems
- Promote FDI beyond the primary sector and linkages between FDI and domestic enterprises

Improving domestic financial systems is a key policy lever for enterprise development



estimates based on World Bank, *World Development Indicators*, online data,

Human Capabilities also Need Reinforcing

TABLE 28. INDICATORS OF EDUCATIONAL ENROLMENT IN TECHNICAL SUBJECTS IN LDCs, OTHER DEVELOPING COUNTRIES AND OECD COUNTRIES, RECENT YEARS^a
(Percentage)

	LDCs	Other developing countries	OECD countries
Enrolment in technical and vocational education as % of secondary school enrolment	2.6	10.4 ^b	24.8 ^c
Percentage of population aged below 20 -24 enrolled in tertiary education	5.9	23.2	56.9
Of which:			
Science	10.0	10.5	10.8
Engineering	7.5	13.2	14.3
Agriculture	4.0	2.5	1.9

Source: King and Palmer (2005) and Knell (2006).

a Data on enrolment in technical vocational education are for 2001; data on tertiary education are averages for the school years between 1998/1999 and 2002/2003.

b All developing countries.

c OECD countries excluding Ireland, Poland, New Zealand and United States, for which data are not available.

Institutional Issues in Trade Policy-Making

Features of an efficient trade policy-making process:

- a) The country's trade interests are clearly identified within an overall development strategy**
- b) These interests are translated into policies and negotiating goals**
- c) Roles are distributed and resources allocated to implement these policies and to promote these interests.**

This requires:

- Good inter-ministerial coordination (IMC)**
- Aid management policies**

The Policy-making Process in PRSPs

- A major problem with the way in which trade was integrated into PRSPs was the low country ownership of the macro-economic framework
- There was also weak relationships between finance, trade and sectoral ministries.

	BASED ON SANER (2010)	Trade Policy Governance	Through IMC
	Policy Direction	Policy Formulation	Policy Implementation
MALAWI	President's Office (No independent statutory body to review or advise the Government on economic and trade policies.	Ministry of Industry, Trade and Private Sector Development Ministry of Agriculture and Food	Ministry of Industry, Trade and Private Sector Development Ministry of Finance Malawi Revenue Authority Reserve Bank of Malawi, Malawi Bureau of Standards Malawi
	Most economic policy advice to the Government comes from the Reserve Bank, the Ministries of Finance and Economic Planning, and Industry and Trade)	Security Ministry of Economic Planning Ministry of Finance	Malawi Revenue Authority Reserve Bank of Malawi, Malawi Bureau of Standards Malawi Investment Promotion Agency Malawi Export Promotion Council (MEPC) Other Line Ministries
		Ministry of Industry, Trade and Marketing (MITM)	Ministry of Industry, Trade and Marketing (MITM)
	President's Office Ministry of Industry, Trade and Marketing (MITM)	Ministry of Foreign Affairs & International Cooperation Ministry of Finance Ministry of Agriculture & Cooperatives	Tanzania Revenue Authority Board of External Trade Other Specialised Government Agencies Other Line Ministries and Agencies
UGANDA	President Cabinet Presidential Economic Policy Forum	Ministry of Tourism, Trade and Industry (MTTI) Ministry of Agriculture, Animal Industry and Fisheries	Ministry of Tourism, Trade and Industry (MTTI) Ministry of Justice and Constitutional Affairs (MOJCA) Ministry of Local Government (MOLG) Uganda Export Promotion Board (UEPB) Uganda Revenue Authority (URA) Other Line Ministries and Agencies
	Ministry of Finance, Planning & Economic Development	Ministry of Foreign Affairs	

Aid Management Policies in Recipient Countries

- Aid management policies in recipient countries are a powerful institution for improving aid effectiveness
- Aid management policies include an information system, peer review and locally-driven quality frameworks
- In 2010, only 4 out of 76 developing countries surveyed for the UN Development Cooperation Forum had:
 - A detailed aid policy
 - Locally driven quality frameworks including targets for individual aid providers
 - Annual high-level discussion

Thank You