



Industrial policies to build forward from COVID-19 and address pre-existing crises*

Summary

With respect to the theme of the Economic and Social Council for 2022, the Committee focused on how industrial policies can be used to address the simultaneous challenges faced by Governments as they build forward from the COVID-19 crisis as well as the pre-existing crises of climate change and inequality. Industrial policies should contribute to the development of productive capabilities that can span across sectors and products and ensure productivity growth, with support from the education, skills-training and science and technology systems, and to the development of adequate infrastructure. Industrial policies should also strongly back the integration of micro-, small and medium-sized enterprises into broader productive networks. Post-

pandemic industrial policies will need to take into account new realities, challenges and opportunities, including those associated with the green and blue economies, but they can draw important lessons from past experiences to ensure their effectiveness. Among those are the need to have clear goals, to be integrated in an economy-wide structural transformation strategy, to be time-bound and to incorporate accountability mechanisms as well as transparent and inclusive decision-making processes. Fulfilling the potential of industrial policy requires effective regional and global frameworks, effective institutions and cooperation, including South-South cooperation, oriented pragmatically to help developing countries to overcome constraints in finance, technology and information.

Recommendations

The Committee for Development Policy recommends that the Economic and Social Council encourage Member States to adopt and implement evidence-based industrial policies, defined as policies targeting the development of selected productive capabilities, as a means of building forward from the pandemic-induced crisis, address the pre-existing crises of climate change and severe and growing inequalities, and overcome low- and middle-income traps. Such policies must be time-bound, include accountability mechanisms to avoid capture by special interests, and be subject to regular evaluation. The Committee further recommends that the Council call on the relevant United Nations entities to support developing countries, in particular the least developed countries, in that regard. This includes, in addition to the provision of finance, facilitating the exchange of experiences and

providing information services that support decision-making in the post-pandemic global economic reconfiguration. Those aspects of the multilateral system that are holding countries back from reaching their potential in developing science, technology and innovation capabilities should also be addressed, including issues related to intellectual property rights.

The Committee reiterates its recommendation that the Council call on development and trading partners to place the development of productive capacities at the centre of their support to least developed countries. The Committee also calls on the international community for an orderly workout from the unsustainable debt problems that several countries are facing and which are a major obstacle to their development and the recovery from the coronavirus disease (COVID-19) crisis.

* Excerpt from Committee for Development Policy, Report on the twenty-fourth session, See Official Records of the Economic and Social Council, 2022, Supplement No. 13 (E/2022/33)

Governments worldwide are facing simultaneous challenges, including recovering from an economic crisis of unprecedented scale, addressing deep and growing inequalities, securing the transition to low-carbon and environmentally sustainable economies, adapting to climate change and increasing resilience to shocks. Industrial policies, defined as policies aimed at developing productive capabilities with a view to contributing to productivity growth and other development objectives, can be instrumental in pursuing those simultaneous goals and addressing potential trade-offs, as well as overcoming low- and middle-income traps. The creation of stable and well-paying jobs and the formalization of workers and firms through industrial policies can reduce inequality, including gender inequality.

Industrial policy has been central to the countries that have managed to advance on a path of structural transformation. Future industrial policies will need to be designed to reflect new realities, challenges and priorities such as digitalization, decarbonization, the post-pandemic restructuring of firms and sectors, and the need to build resilience to shocks and adapt to climate change. They will also need to be embedded with strategies to develop the green economy, the blue economy and the care economy. Even considering this new and dynamic context, the experiences of the past provide important lessons for the effectiveness of future industrial policies.

In the past, industrial policy often focused on manufacturing. What was traditionally defined as the manufacturing sector was, and is, embedded in a complex network of services. What gave manufacturing its value as a catalyst of productive development were the capabilities developed and deployed in interaction with that network. Industrial policy should not be thought of only in terms of sectors or specific products. It should also pay attention to developing the productive capabilities that can ensure productivity growth and promote the move to higher value-added activities within and across sectors. Each country must set its priorities in terms of education and training, infrastructure (including digital infrastructure) and the development of science, technology and innovation capabilities.

There is no one-size-fits-all model or single theoretical framework for industrial policies, but experience shows that if they are to be effective, they must have clear

goals, be pragmatic and reflect the resources, capabilities, sociopolitical and environmental contexts so that their implementation is feasible. They must be central in an integrated economy-wide structural transformation strategy, in line with macroeconomic, science and technology, trade, energy, environment and gender policies. Their design must consider potential geographic impacts, including consequences for internal migration and urbanization and opportunities for de-concentrating investments.

Effective industrial policy also requires mechanisms to prevent abuse, including rent-seeking behaviours. While businesses that benefit from industrial policy should not be paralyzed by the risk of failure, as innovation requires risk-taking, they should be held accountable. Enforceable innovation commitments, time-bound support, sunset clauses and regular evaluation of performance can help to ensure that both Governments and businesses are focused on producing results and that ineffective policies are not perpetuated. The relevant decision-making processes must be transparent and inclusive.

Industrial policy must reflect the diverse and dynamic nature of firms and sectors. Production networks that bring capabilities together are moving away from the boundaries of the large corporation or conglomerate towards mosaics of firms, including micro-, small and medium-sized enterprises, cooperating across borders under diverse legal arrangements. Capability-based industrial policy requires a new generation of support services, particularly for micro-, small and medium-sized enterprises, such as providing adequate financing, technological services, business information and support to adopt better practices and export marketing services through public and joint private-public agencies. This would also include training and opportunities for entrepreneurs to share ideas, discuss challenges and address issues through lessons and peer learning from success in other countries.

Better integrating micro-, small and medium-sized enterprises into broader productive networks, which can play a role in reducing inequality, requires building their capabilities, including technological capacity, as well as incentivizing larger firms to develop local supplier networks. It also requires innovative financing solutions to lower the transaction costs that have kept many such enterprises outside the scope of interest of private capital and the opportunities in regional and global supply chains.

In countries where national development banks possess strong governance and risk assessment capabilities, those institutions can play an important role in supporting firms and sectors with potential for productivity growth, as well as financial inclusion, including access of micro-, small and medium-sized enterprises to credit. They, along with multilateral development banks, need to be part of a broader financing framework that is agile, inclusive and meets the needs of diverse firms and sectors. Financing frameworks also need to be able to mobilize private funds in a way that is compatible with a decentralized and fragmented network of firms, most often operating outside the boundaries of a single corporation or traditional conglomerates.

Fulfilling the potential of industrial policy and productive capacity requires effective regional and global frameworks, effective institutions and cooperation, including South-South cooperation, oriented pragmatically to help developing countries overcome constraints in finance, technology and information. The international community should increase the resources being invested in identifying the sector- and capability-specific lessons that can be of most practical use to policymakers.

The pandemic, climate change and other current crises of sustainable development require a revision of intellectual property frameworks that would provide developing countries access to the latest advances in

technology, such as those for COVID-19 vaccines and treatment or clean energy technologies. That would provide opportunities for developing countries to participate in the co-development of technology rather than rely on the largely undelivered promise of technology transfer.

Innovative regional and global platforms should be explored to bring together elements of value chains, taking advantage of advances in technology and clean energy. Innovation in international cooperation on industrial policy starts with open dialogue across trade, climate, environmental and other relevant international arenas.

Of immediate concern for the multilateral system are the implications of industrial policies aimed at advancing a green transition towards low-carbon economies. Many countries are starting their transition, but often pursue this objective in a competitive manner, resorting to protectionist measures. Many developing countries are integrating into emerging value chains by providing natural resources for low-carbon technologies, perpetuating or even increasing their reliance on primary sectors. The green transition should promote rather than hinder the sustainable development of the most vulnerable countries. Commodity-dependent least developed countries in particular require support from the international community to secure diversification and structural transformation in this new and dynamic context.