Industrial Policy and Sustainable Development

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Industrial Development can be driven by policies in countries of origin, countries of destination, corporations own initiatives and by international institutions. In this note we focus on the role of industrial agencies and policy within nations. The latter, particularly if implemented widely across nations, is the most direct pathway to sustainable industrial development.

Investment Promotion

The current focus of industrial agencies and policies is primarily to attract new investment into their industrial zones. (See details of active agencies across the globe outlined by the World Association of Investment Promotion Agencies, www.waipa.org/members.htm).

Most countries provide investment incentives in terms of tax breaks, licenses, capital grants, access to infrastructure, access to natural and human resources, and provide personal security to name a few. In general the government is underwriting the risks associated with the investment. The aim is to create an attractive investment climate for indigenous and foreign investment.

Investment Criteria That Reflects a Post-2015 Sustainable Development Agenda

Some countries have developed robust investment criteria for allocating support to selected companies. Hirschman's (1958) recommendations on investment criteria would require that companies need to demonstrate broader economic benefits including tax revenues, forward and backward linkages to existing businesses (see Walsh and Whelan (2010) for the impact of Hirschman's (1958) investment criteria on Irish industrial policy).

These criteria could be extended to include social and environmental dimensions (see O'Connor and Kjollerstrom (2008)). One can require social security contributions, health insurance for the local work force; impose employment structures that create opportunities for women and young workers; promote natural resources conservation, energy efficiency and reduction of pollutants. Industrial agencies can help shape a structural transformation of the economic growth that is inclusive and sustainable. This is done by requiring the inflow of investment by indigenous and foreign investment to meet investment criteria that have economic, social and environmental benchmarks. Ireland's White Paper, Irish Aid (2013) illustrate a few examples of operating principles that could guide investment criteria in the selection of companies for state supports (See Murphy and Walsh (2013) for an analysis of the approach with regard to FDI in East Africa by Irish Companies)

"Advance economic growth which benefits poor people and is environmentally sustainable while supporting efforts that respond effectively to climate change" (DFAT, One World: 12).
"This growth must address inequalities, including gender inequality; advance human rights; and ensure that the most vulnerable members of a population benefit from this strategy" (DFAT One World: 21).

Incumbents And Sustainable Development

Most countries have not undertaken an industrial mapping of their own country. One might get a 2-digit view of industrial structure of a nation, for example UNTAD (2011), but this is not micro enough to understand the full economic, social and environmental impacts of a company. One exception to this is the work of Sutton (2009) Enterprise Map Series (EMS) that provides a detailed profile of industries and of leading industrial companies in Ethiopia, Ghana, Tanzania, and Zambia.

Industrial agencies should undertake a detailed mapping of companies to understand their current position in terms of their broader social, economic, and environmental impacts. They should consider incentives to induce companies to improve the green and social dimensions of their activities. Incumbent companies should be given a set of incentives and criteria that lead to transformations required in the post-2015 sustainable development agenda.

Expanding the role of industrial policy

Our recommendation would expand the remit of industrial agencies. They would need capacities (human capital and data) to monitor social and environmental impacts. Yet, the burden of proof and the collection of data can be a requirement for access to state aid. The investors have the idiosyncratic knowledge and hence ability to innovate, see Murphy and Walsh (2014). The regulatory approach can be seen as a form of PPP where responsibility for data collection, financing and innovation falls on the private sector. Targets, incentives and monitoring remain with the Industrial agency.

The role of broader economic, social and environmental policies

Countries that follow good practice in terms of worker's rights will find it easier to mandate social dimensions in investment criteria. Formal social security laws and laws against discrimination should create a social impact of investment that does not have to be enforced by an industrial agency. If planning and revenue departments (via tax revenue and linkages) and the environmental protection agency (via conservation of natural resources and footprints) are active, it becomes easier for the industrial agency to make sure investments are in line with green and inclusive economic growth. Competition and regulatory authorities can also ensure that companies face competitive pressure leading to lower prices. These can incentivize less waste in production and supply of local markets. (see O'Connor and Kjollerstrom (2008) for the benefits of various macroeconomic policies).

In conclusion, industrial agencies and policies can play a big part in the road to inclusive and sustainable economic growth. They can be reformed to augment investment inflows and facilitate transformational change in the industrial base that creates pathways to sustainable industrial development. Finally, coherent policies in other agencies can help industrial agencies scale up their impact on economic, social and environmental development.

References

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