New Policies for Growth: Roles of the Public and Private Sectors

Presentation by Martin D. Chrisney
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Outline

• Drivers of economic growth
• Role of public institutions and productivity
  – Public Private Dialogue
  – Public Private Partnerships: Cluster Development
  – Productive Development Policies (PDPs)
• Role of the Inter-American Development Bank
Sources of Growth

- Trade
- Capital Flows
- Technology
Decline in Global Trade: 31% drop 2009/08 q1

Source: WTO
Impact of Financial Crisis: Trade Balance

Performance vs. IMF Estimates

Source: IMF
Private Net Capital Flows

Source: IIF
Decline in World Industrial Output
Impact of Financial Crisis: Real GDP, Exports and Imports

### World: Forecast Summary

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>1. Real GDP</td>
<td>-2.9</td>
<td>2.0</td>
<td>3.2</td>
</tr>
<tr>
<td>2. Exports</td>
<td>-9.7</td>
<td>3.8</td>
<td>6.9</td>
</tr>
<tr>
<td>3. Imports</td>
<td>-7.7</td>
<td>4.1</td>
<td>7.2</td>
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### Latin America: Forecast Summary

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
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<th>2011</th>
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<tr>
<td>1. Real GDP</td>
<td>-2.2</td>
<td>2.0</td>
<td>3.3</td>
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<td>2. Exports</td>
<td>-7.7</td>
<td>2.3</td>
<td>5.1</td>
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<tr>
<td>3. Imports</td>
<td>-9.0</td>
<td>2.9</td>
<td>5.9</td>
</tr>
<tr>
<td>4. Current Account (% GDP)</td>
<td>-2.3</td>
<td>-2.1</td>
<td>-1.9</td>
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</tbody>
</table>

Source: World Bank, Global Development Finance 2009

Source: IDB, excluding China
### The Income Gap

#### Summary Statistics for Relative Income per Capita

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Latin America</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Average</td>
<td>24%</td>
<td>25%</td>
<td>26%</td>
<td>27%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Median</td>
<td>20%</td>
<td>20%</td>
<td>21%</td>
<td>23%</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>0.15</td>
<td>0.16</td>
<td>0.16</td>
<td>0.15</td>
<td>0.12</td>
<td>0.14</td>
</tr>
<tr>
<td>Mean 5 Poorest</td>
<td>12%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Mean 5 Richest</td>
<td>49%</td>
<td>50%</td>
<td>51%</td>
<td>50%</td>
<td>37%</td>
<td>41%</td>
</tr>
<tr>
<td>Ratio 5 Richest/5 Poorest</td>
<td>4.0</td>
<td>4.4</td>
<td>4.8</td>
<td>4.5</td>
<td>4.7</td>
<td>5.9</td>
</tr>
<tr>
<td><strong>Europe 15</strong></td>
<td></td>
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</tr>
<tr>
<td>Average</td>
<td>49%</td>
<td>57%</td>
<td>70%</td>
<td>74%</td>
<td>74%</td>
<td>73%</td>
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<tr>
<td><strong>East Asia</strong></td>
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</tr>
<tr>
<td>Average</td>
<td>14%</td>
<td>16%</td>
<td>24%</td>
<td>33%</td>
<td>42%</td>
<td>48%</td>
</tr>
<tr>
<td>South Asia</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Maddison (2003). Figures are arithmetic averages of countries in each group.
New Policies for Growth

• New Paradigm for Growth Policies: Beyond the Washington Consensus
  – Pace of technological change
  – Increase in global competition
  – Competition for scarce capital
• Policies that Affect Firm Level Productivity
  – Innovation
  – Scale of operations
  – Inter-firm linkages
Size of the Largest Firms

Regional Comparison of the Size of Large Companies
(In thousands of US$)

Asset average of the 25 largest firms in the country (thousands of dollars)

Source: IDB based on World Scope and América Economía.
Note: In some countries the database includes less than 25 firms.
Cost of Setting Up a Firm and Competitiveness

\[ y = -0.0003x^2 + 0.075x + 0.4026 \]

\[ R^2 = 0.5649 \]

Source: Prepared by IDB
Credit and Creditor Protection

Coefficient: 89.6
t-statistic: 4.87
R²=0.38

Growth and Informality

R² = 0.5361

Source: Prepared by IDB
Growth Policies

Public Goods

Market Intervention

Productive Development Policies

Horizontal

R&D tax incentives
Grants to firms
Subsidized training
Micro/SME credit

Vertical

Industry Research Institute
Quality Standards
Specialized Infrastructure

Industrial Policies

Horizontal

Roads, Schools
Trade Policy
Competition Rules
Business Climate

Vertical

Industry subsidies
Directed credit

Sector tax holidays
(EPZ)
New Institutional Roles

• Public Private Dialogue
  – Competitiveness Councils

• Public Private Partnerships
  – Case studies
  – Cluster Development Model

• Productive Development Policies
Competitiveness Councils

Consejo Mesoamericano de Competitividad, North American Competitiveness Council

Brazil, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Peru, Panama

Argentina: Mendoza, Brazil: APL, Chile: ARD, Mexico: Chihuahua, Campeche, Peru: CERX
Public Private Dialogue: Competitiveness Councils

President

National Competitiveness Council

Co-leadership/Topic Area

Technical Secretariat

ICT
Industry
Tourism
Business Climate

Strategy-Driven Approach

Public Private Participation

Bottom-Up Approach
Public Private Partnerships

Success Stories

• Taiwan: Venture Capital (Electronics Industry)
• Ireland: Role of IDA (Pharmaceuticals, software)
• Chile: Fundación Chile (Salmon, Wine)

→ Cluster Model
Porter’s Competitive Advantage Model: Clusters

- Input Markets
- Industry Suppliers
- Public Sector
- Competition/Rivalry
- Market Demand
- Chance
Cluster Map

Lead Firms

- Hoteles
- Restaurantes y Servicios de Comida
- Ferias, Guías y Eventos Culturales
- Artesanías y Bazares

Support Firms

- Agencias de Viaje
- Servicios de Transporte
- Industria Alimenticia
- Logística de Distribución
- Industria Construcción
- Recursos Humanos
- Museos y Sitios Culturales
- Servicios Públicos
- Infraestructura Física
- Promoción Pública y Privada

Infrastructure

Lead Firms

Support Firms

Infrastructure
Cluster Programs

Program Interventions

- Public Infrastructure
- Access to Finance
- Technical Support
- Cluster Promotion
- Business Climate

Technology

Textiles

Others
Productive Development Policies for SMEs
Productive Development Policies: Nonfinancial

- Firm Management upgrading
- Business alliances (vertical and horizontal)
- Technology transfer
- Innovation
- Export promotion
- Investment attraction
- Entrepreneurship programs
- Training
## Role of Public Institutions: Layer Cake Model

<table>
<thead>
<tr>
<th>Level</th>
<th>Role</th>
<th>Institución</th>
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</thead>
<tbody>
<tr>
<td>3rd</td>
<td>• Define policies, evaluate impact, promote coordination in the public sector</td>
<td>• Ministry (economy, development trade, sector) (MDIC)</td>
</tr>
<tr>
<td>2nd</td>
<td>• Design PDPs, assign resources</td>
<td>• Agency (SEBRAE, BNDES, CORFO, SSPYME)</td>
</tr>
<tr>
<td>1st</td>
<td>• Administer funds and intermediate resources</td>
<td>• Agents and institutions (public and private)</td>
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</table>
Growth Policies

Public Goods

Market Intervention

**Horizontal**

**Public Private Dialogue:**
National/Regional Agenda
Roads, Schools, Trade Policy
Competition Rules,
Business Climate

**Private Participation in Delivery of PDP, M&E**
R&D tax incentives
Grants to firms
Subsidized training
Micro/SME credit

**Vertical**

**Cluster-Based Model for identifying areas of intervention**
Industry Research Institute
Quality Standards
Specialized Infrastructure

**Sector tax holidays**
(EPZ)
Industry subsidies
Directed credit

IDB
Role of the IDB

- **Lending**: investments with public sector + direct lending and capital to private firms

- **Technical Assistance**: specialized skills and local knowledge for investment projects, policy reform, corporate finance, and project finance

- **Research**: research and analytical capabilities which provide the necessary inputs for policy discussions

- **Policy Dialogue**: convening authority with regional institutions and national level discussions
Concluding Lessons

- Dialogue between the public and private sector with clear, open rules that encourage the participation of various actors.
- Positive externalities are to be targeted (social returns > private returns)
- Risk sharing should be the basis of public interventions, as well as the socialization of the benefits.
- Do not “pick winners”, rather use clear monitoring tools to measure success and support it, use the same criteria to “cut” loses
  - Private sector selects when and how to compete
  - Public sector identifies lessons learned, disseminates results, both positive and negative, and measures impact.