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# Industrial policy for local economic transformation

## A Synthesis of Literature

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**List of Abbreviations**

| | |
|---|---|
| 1D1F | - One District One Factory |
| AfDB | - African Development Bank |
| BAF | - Business Assistance Fund |
| CSOs | - Civil Society Organisations |
| DIPP | - Department of Industrial Policy and Promotion |
| EPZ | - Export Processing Zone |
| ERP | - Economic Recovery Programme |
| EXIM | - Export and Import |
| FDI | - Foreign Direct Investment |
| GDP | - Gross Domestic Product |
| GHATIG | - Ghana Trade and Investment Gateway |
| GPRS | - Ghana Poverty Reduction Strategy |
| GSGDA | - Ghana Shared Growth and Development Agenda |
| GVCs | - Global Value Chains |
| ICT | - Information and Communications Technology |
| IMF | - International Monetary Fund |
| ISI | - Import Substitution Industry |
| JICA | - Japan International Cooperation Agency |
| LGUs | - Local Government Units |
| MDGs | - Millennium Development Goals |
| MNE | - Multinational Enterprise |
| MoTI | - Ministry of Trade and Industry |
| MSMEs | - Micro-, Small- and Medium-scale Enterprises |
| NGAs | - National Government Agencies |
| NIMZs | - National Investment and Manufacturing Zones |
| NLSF | - National Livelihood Support Fund |
| OECD | - Organisation for Economic Co-operation and Development |
| OTOP | - One Tambon One Product |
| OTOP | - One Towns One Product |
| OVOP | - One Village One Product |
| PEED | - Private Enterprise and Export Development Fund |
| RIPP | - Regional Industrial Promotion Programme |
| SIF | - Strategic Investment Fund |

| | |
|---|---|
| SMEs | - Small- and Medium-scale Enterprises |
| TESDA | - Technical Education and Skills Development Authority |
| TIP | - Trade and Investment Programme |
| VCTF | - Venture Capital Trust Fund |

# Chapter One

# The Case for Industrial Policy

## 1.1 Introduction

Pack and Saggi (2006) define industrial policy as "any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention" (cited in Warwick, 2013: 15:). As a concept, industrial policy has been an issue of contention for a long time. Early political and development economists such as Paul Rosenstein-Rodan, Albert Hirschman, Alexander Gerschenkron, and Raul Prebisch emphasized the importance of government intervention and the ability of a state to mould economic activity in ways that would be most beneficial to society.

In the early 1980s, development policy shifted towards a more market-centred approach, limiting the role of governments to policies that tried to make market outcomes more efficient by increasing competition or providing public goods. This view even led some economists to argue that the best industrial policy is not to have an industrial policy. Kruger, for example, in his 1974 classical work on "unproductive rent-seeking" activities public-private sector interactions demonstrates how "bureaucratic failures" in state-sponsored intervention could be worse than "market failure". Since the last decade or so, however, policy makers are looking for new sources of economic growth and employment creation following the economic and financial crisis of 2008-2010; and, in this context, a revived interest in industrial policy. The increased interest in 'industrial policies' comes at a time when global value chains have become more complex and more important, and when competition from emerging economies is growing, even in activities and markets that were, until recently, considered the core strengths of OECD countries.

By their nature, industrial policies seek to affect the development of the aggregate economy through selective interventions in a few sectors. Understanding the effects of such intervention therefore requires modelling the linkages among sectors in the economy. Moreover, the adoption of such policy instruments as tariffs, quotas, import licensing, foreign exchange rationing, credit concessions by development banks, tax breaks, duty drawbacks on imports, accelerated depreciation on capital equipment and direct subsidies play important roles in the design of industrial policies. Motivated by these facts, this paper seeks to provide evidence from literature on what an industrial policy means, how industrialised and developing countries have used it to transform their economies in terms of specific programmes, how they have translated industrial policies to local programmes and implications to Ghana's local economic transformation and development policies and programmes.

## 1.2 Traditional Industrial Policy

Industrial policies are not only widely adopted in developing countries today, but also played a prominent role in the advancement of many of now developed economies. Schwarzer (2013) alludes to this fact with particular

reference to the United Kingdom, United States and Germany. He points out that during the 19th and early 20th centuries, there were significant targeted interventions in notable sectors such as trade and industry in the initial growth stages of industrial development in these countries. The main policy tools used in these instances were tariffs and trade restrictions, which had the effect of protecting domestic industries from foreign competition.

Latin American and East Asian countries began their industrialization efforts to substitute imports with domestic production from about the middle of the 20th century. Prime historical examples of industrial policies include Japan in the 1950s and 1960s and South Korea and Taiwan in the 1960s and 1970s (Liu, 2017). In all of these cases, the government heavily promoted "strategic" upstream sectors that supplied to many other downstream sectors. A wealth of policy instruments was adopted during these periods, including various forms of tax incentives and subsidized credit, and in the case of Taiwan, direct state involvement in production. In the specific case of South Korea, the explicit industrial movement was termed the **heavy-chemical industry** drive, and for almost a decade firms in selected industries received policy loans with significantly reduced interest rates (Amsden 1989). Liu (ibid), quoting Hernandez (2004), alludes that total policy loans directed towards the targeted sectors accounted for 45% of the total domestic credit of the banking system in 1977. Many of the largest manufacturing conglomerates in Korea today, such as Samsung and Hyundai originated during this era.

## 1.3 Why Industrial Policy?

The argument for the adoption of an industrial policy is largely economic. In principle, market forces should guide the processes determining the optimal productive structure of an economy. However, market failures have usually been the reasons for government intervention in the economy. In the face of perennial terms of trade deterioration for developing countries' agricultural exports, coupled with the differing income elasticities of demand for agricultural and industrial products, industrialization has been seen as the basis for rising per capita incomes. As argued by Shapiro (2007), the political pressures and interests behind economic autonomy following political independence in many developing countries, "export pessimism from both the collapse of commodity prices and world trade in the 1930s, and the post-war protectionism in Europe and elsewhere" made the choice of dependence on raw materials exports "both economically unviable and politically problematic".

In furtherance of arguments promoting government intervention, Shapiro (2007) draws attention to the arguments of many early development economists, such as Paul Rosenstein-Rodan, Albert Hirschman and Raul Prebisch, focused capital, technology and entrepreneurship as factors that cannot be guaranteed in a free market situation. She alludes to the view expressed by Hirschman that different methods are required to elicit these missing elements in the economic growth process. For example, imperfect capital markets can neither generate sufficient savings nor allocate resources efficiently without some form of market intervention. Again, with respect to capital formation, Shapiro discusses Lewis' view point that where low domestic savings rates exist, there is need to harness foreign capital in the form of aid or direct investment.

It is due to the prevalence of these pecuniary externalities that many of the early political/development economists argue that governments need to coordinate investment decisions and promote the **Big Push** approach to development. Shapiro again argues on this basis that, in contrast to the more industrialized nations, developing countries require a leap into the most modern, capital-intensive sectors. However, in the face of the challenges posed by a weak private sector and scarce capital in the developing country circumstances, only the state can have the capacity to mobilize and allocate resources.

Economists, such as Stiglitz (2016) and Schwarzer (2013) posit that markets by themselves may not lead to economic efficiency. In the specific case of industrial policy debate, market forces may not lead to optimal resource allocation among sectors or appropriate technical choices. It is in situations of such market failures that industrial policies come in handy. Appropriately designed government interventions can better lead to better outcomes with regards to their impacts on the economy's sectoral allocation and/or technical choices. Schwarzer (2013) summarizes the economic justification for industrial policy using the following examples to illustrate the most common rationales for government support to industry:

a. **Industrial Clusters and comparative advantage** – the existence of a pool of local firms and/or industries lead to the formation of industry clusters. Industry clusters involve interconnected companies, specialized suppliers, service providers and firms in related industries. The inter-industry connections synergy spillover among firms and other input-output linkages in the form of support for one another through buying, selling and learning relationships, which ultimately lower transaction cost. Such benefits automatically increase with an expansion in the sector; therefore, temporary government support may help the industry or sector to become more competitive.

b. **Credit market imperfections** – given the information asymmetry in the financial sector, there exist risk assessment challenges for otherwise profitable opportunities in the market. In situations like these, Schwarzer argues for government intervention.

c. Again, using the socio-cultural theory of **learning by doing**, Schwarzer (2013) argues that ''an infant industry might become profitable only after some time of operating under protection''. As governments intervene in greenfield activities, full competence and/or understanding of the activity is gained and productivity improvements become a function of the production activity itself.

d. **Externalities in the Environment** – Typical private investors are reluctant to factor environmental effects into their investment activities, unless governments oblige them by regulations. Their decisions usually lead to economically viable but socially undesirable projects. Hence, government insistence on environmental impact assessment in mining and lumbering activities help in "aligning private returns more closely with social returns'' (Schwarzer, 2013).

e. **Coordination failures** – In this case, Schwarzer discusses the need for simultaneous investments for specific projects to be viable. He argues that left to individual private investors and their self-interests, such coordinated actions may not take place. In such circumstances, government intervention is necessary to guarantee optimal equilibrium in the economy.

## 1.4 Arguments against Industrial Policies

Opponents of industrial policy argue that the existence of market or systems failure is not in itself enough justification for government intervention, as 'government failure' can be present in its intervention as well. If government failure is more of a problem than the market or systems failure behind the rationale, then industrial policy can result in lower overall welfare. Governments often lack the information and capability to design effective industrial policies, and hence invite rent-seeking behaviour from economic agents (Rodrik, 2008; Naudé, 2010).

Information constraints make it extremely difficult for governments to know which industries and/or firms merit support. In cases where positive externalities are considered likely, gauging the scale of such spill-overs is extremely problematic. However, knowledge of the magnitude of spill-overs is important in order to decide the scale of any policy response (and to assess the policy's opportunity costs). In the absence of good measurement, risks exist that governments resort to barely quantifiable and conceptually weak selection criteria. Support for 'sunrise industries' and 'national champions' may often be of this sort.

According to Shapiro and Taylor (1990), the debate between earlier development economists and more orthodox theorists still centre on market failure and whether intervention was necessary. The neo-classicals' reactions in the 1980s postulate that state-guided industrialization does not necessarily lead to efficient outcomes. They refer to authors such as Little, Scitovsky and Scott (1970) and Balassa (1982), who argue that industrial policies employing such tools as effective rates of protection and domestic resource costs are inefficient. Their critique, according to Krueger (1984), is bolstered by the success of export-oriented countries, like South Korea and Taiwan, which at the time were thought to be non-interventionist states. Their rapid growth in comparison to economies which followed inward-oriented strategies seemed to provide empirical validation that dynamic gains could be obtained from free trade.

Shapiro and Taylor (1990) discuss various models of the interaction between the state and private actors pointed to the possibility that 'bureaucratic failure' could be worse than 'market failure'. They refer to Krueger's argument in 1974 on how quantitative restrictions on imports led firms to compete for import licenses and their attached rents, in situations that led to squandering resources in unproductive, rent-seeking activities. This approach came to a different explanation for the relatively successful stories of newly industrialized countries of East Asia, where the pressures of international competition mitigated against the worse sort of rent-seeking activities observed mainly in African and Latin American countries practicing more inward-oriented industrialization.

# Chapter Two

# Rising Interest in New Industrial Policy

## 2.1 Introduction

After several decades of divided opinions, industrial policy has once again become popular among policymakers in both the developed and the developing world. In the decade since the global financial crisis, according to UNCTAD (2018), the number of countries adopting national industrial development strategies have increased dramatically. Over the past five years alone, at least 84 countries (out of over 100 surveyed) have issued industrial policy statements or explicit policy frameworks for industrial development. The new generation of industrial policies, however, differs significantly, both in methods and in scope, from earlier interventions. Compared with the relatively heavy-handed industrial policies of the past, which tended to focus on the blunt protection of specific industries, industrial policies today are more agile, interactive, inclusive, flexible, integrative with other policy areas and responsive to broader issues such as sustainable development. Countries at all levels of development are using targeted industrial policies, not only for economic development purposes, but also to respond to myriad contemporary challenges, such as creating jobs and reducing poverty, participating in the technological revolution and in global value chains (GVCs), promoting efficient and clean energy and greening the economy (Salazar et al. 2014), as quoted in UNCTAD (2018). Furthermore, foreign direct investment (FDI) and multinational enterprise (MNE) operations have become an integral part, either explicitly or implicitly, of contemporary industrial policies in many countries.

## 2.2 Reasons for rising interest in new industrial policy

Warwick (2013) outlines a number of reasons for the renewed interest in industrial policy and the search for a new paradigm 'beyond industrial policy' as follows:

1. Recession situations – In periods of recession, where policy makers observe potential long periods of stagnation, they would usually counter such situations with targeted demand stimuli actions and supply-side improvements, such as the provision/expansion of infrastructure to boost growth. In his illustration, Warwick uses the 2008-09 economic and financial crisis of 2008-2009 and the various government policy measures to help firms and sectors that had been particularly adversely affected. In support of this reason, lessons could be drawn from the COVID-19 pandemic, where several governments across the globe have taken various actions in designing stimulus packages of varied nature and quantum to offer support for displaced sectors of their economies to be resuscitated.

2. Critics of the industrial policy argument stress that poorly-designed industrial policies risk having worse outcomes than the market failures they seek to address. To these critics and those who argue for the free interplay of market forces to drive the economy, Warwick questions how the free flow of resources would lead to investment occurring in the preferred sectors to restore harmony to the economy generally.

3. Warwick further argues that industrial policy responses can create demonstration effects and/or demands for assistance to be extended to other sectors. Moreover, industrial policy responses addressing economic challenges are specific and temporary. Once the economy is bolstered, there is a gradual withdrawal of applied resources to achieve the desired results.

4. The effects of 2008-2009 economic and financial crisis were quite devastating: a structural imbalance in many economies, e.g. the fragility of the financial sector, and the need to reduce dependence on it. The crisis led governments to the re-awakening for the adoption of strategies that explicitly targeted improvements to correct the balance between domestic demand and external demand, as well as in the balance between sectors.

5. It is the belief of Warwick that some OECD countries "are responding to the apparently successful policies of fast-growing economies, notably China; and the challenge they may pose to competitiveness, not just in lower value-adding activities but at other points in the global value chain as well" (Warwick, 2013:10).

Indeed, it must be emphasized that the renewed developing countries' interest in industrial policy generally pre-dates the economic and financial crisis of 2008-2009, and that it may be an independent factor driving the search for a new paradigm in OECD countries.

## 2.3 New industrial policy initiatives

Warwick provides further evidence for the widespread resurgence of interest in new industrial policy, citing a number of other works, comments and government initiatives. He points to the following:

a) Rodrik's (2008) work for the World Bank on "normalising" industrial policy and Yusuf's (2012) consideration of the experience of East Asia and its applicability elsewhere.
b) Lessons from Asia studied by the Washington-based Petersen Institute's Noland and Pack (2003, 2005) while in Tokyo, RIETI (2011) have launched a programme of basic research for a new industrial policy.
c) In Brussels, writing for the Bruegel think tank, Aghion, Boulanger and Cohen (2011) have been "rethinking industrial policy", as has UNCTAD in Geneva (Haque, 2007),
d) In the UN system, WIDER has been researching "new challenges for industrial policy" (Naudé, 2010b). The Economist (2010) ran a headline "Industrial Policy is Back in Fashion" and Ciuriak (2011) titled his recent survey the "Return of Industrial Policy".

On the basis of these varied works portraying the resurgence of industrial policy, Warwick (2013) illustrates a number of national initiatives as follows:

1. **France**: its revival of industrial policy dates back to Beffa (2005), who recommended the creation of a new innovation agency and the mobilising of funding for five main areas: energy, transport, environment, health

and information technology. This was followed in 2008 by the establishment of the Strategic Investment Fund, investing in growth businesses and supporting supply chains, and the Grand Loan, a EUR 35 billion loan to support forward-looking strategic investments and help position France strongly after the recession, The focus was on commercial spin-offs from universities and research institutes and support for priority sectors including: digital economy, nano- and bio-technology, renewable energy, low carbon vehicles and innovative SMEs.

2. **Japan**: Outlined a new industrial policy plan (METI, 2010) as contained in Warwick (2013) targeting a deliberate movement away from a 'monopole' structure based on automobiles and electronics to a structure based on five strategic areas: infrastructure-related and infrastructure system exports; environmental/energy problem-solving industries (including green vehicles); culture (fashion, food & tourism); medical and healthcare; and advanced areas traditional to Japan (robotics, space, aerospace).

3. **Korea**: This is a traditional proponent of active industrial policy, which has recently developed sector-specific strategies for those sectors it considers to be its flagship industries: automobiles, shipbuilding, semiconductors, steel, general machines, textiles and parts and materials. In addition, Korea has also set out a number of priority growth engines for the future. Based on an analysis of where it believes its comparative advantage lies, Korea identifies 17 such sectors under three headings: green tech, high-tech convergence technology and value-added services (Ministry of Knowledge Economy, 2011) as quoted by Warwick (2013).

4. **The Netherlands**: Introduced its **Top Sectors** initiative after its 2010 general election. The newly created Ministry of Economic Affairs, Agriculture and Innovation (2011) set out a new enterprise and innovation policy, which introduced a sector approach with a cohesive policy agenda across government policy for nine **top sectors**, namely water, food, horticulture, high tech, life sciences, chemicals, energy, logistics and creative industries. These were identified as sectors in which the Netherland excels and which the Government has set as a priority. Another area in the strategy is the focus on head offices and associated services.

5. **Turkey**: Adopted its Industrial Strategy (2011-14) in 2010 with the aim of boosting the competitiveness and efficiency of Turkish industry, increasing export market share, and focusing more on high-tech products and high value-added production. The strategy was accompanied by sectoral strategies for specific industries, including chemicals; ceramics; iron, steel and non-ferrous metals; electrical and electronics; textiles, garments and leather; pharmaceuticals; and recycling.

6. **The UK**: The United Kingdom's explicit attempts at embracing a formal industrial policy are observed in *New Industry, New Jobs* (BERR, 2009b) and *The Plan for Growth* (BIS and HM Treasury, 2011). Through these, successive governments have set out visions for the economy's recovery which include both horizontal measures and the identification of key sectors where work will be undertaken to address barriers to growth.

The Labour Government, set up a Strategic Investment Fund (SIF) in 2009 to support a range of targeted investments across the UK economy. According to BIS (2009), the SIF is intended to strengthen its capacity for innovation, job creation and growth, including support for low carbon technologies, advanced manufacturing, digital infrastructure and export promotion. Although the SIF was not continued by the Coalition Government, which took office in 2010, the new Secretary of State for Business, Innovation and Skills recently made clear his support for "a proper industrial policy" (Cable, 2012a) and set out his industrial strategy in September 2012 (BIS, 2012; Cable, 2012b).

7. **The US**: United States does not have a formal industrial policy but the recently launched innovation strategy (National Economic Council *et al*, 2011) includes classic horizontal measures such as improving ICT infrastructure, education, and public services together with a number of vertical priorities, in particular: clean energy technologies, biotechnology, nanotechnology, space and advanced manufacturing. In addition, the *American Recovery and Reinvestment Act* of 2009 included support for energy technologies, housing and other sectoral measures in addition to horizontal and demand stimulus measures. Owen (2012) also points to the support given to two of the country's largest car manufacturers as an example of government industrial policy in action.

8. **Brazil**: Launched *Plano Brasil Maior* in 2011 aimed at increasing productivity and countering the decline in the industrial sector's contribution to the economy. The Plan put innovation at the centre of industrial policy and made significant changes to the innovation support framework, including making the National Economic and Social Development Bank (BNDES) responsible for financing innovation and investment. It also includes tax breaks for four labour-intensive industries – clothing, footwear, furniture and software – funded partly through taxes on general business turnover.

9. **China**: The latest phase in industrial policy in China is set out in the country's 12th Five-Year Plan. The Plan for Science and Technology Development, launched in July 2011, targeted 11 essential sectors including ICT equipment, energy technology, genetically modified foods, pollution technology, pharmaceuticals and civilian aerospace. In 2012, the Plan for National Strategic Emerging Industries was published, identifying seven strategic emerging industries and 20 key projects, together with policy measures to facilitate the development of the relevant industries. Under the Plan, the GDP share of the strategic emerging industries is targeted to rise by 8% points by 2015 and by 15% by 2020.

10. **India**: The Department of Industrial Policy and Promotion (DIPP) published a National Manufacturing Policy in November 2011, targeting an increase in the share of manufacturing value added in GDP from the current 16% to 25% by 2022. At its core is the planned creation of national investment and manufacturing zones (NIMZs), which will enjoy planning exemptions and fiscal incentives and be developed as autonomous self-governing townships in partnership with the private sector. The DIPP also aims to make India a location of

choice for foreign direct investment and to increase India's share of global inward FDI from 1.3% in 2007 to 5% in 10 years' time.

Brazil, China and India are not the only non-OECD countries developing national strategies for science, technology and industry as part of their longer-term economic development strategies. Middle income and developing countries such as Argentina, Colombia and Vietnam are developing strategies to diversify their economies and mobilise innovation to improve their competitiveness. Another example of a country focusing on improving the quality of the business environment and moving up the value chain in order to gain competitive advantage is Chile, as typified in its new National Innovation Strategy for Competitiveness, Warwick concludes.

# Chapter Three

# Country Cases

## 3.1 Korea's Catching-up Policy

The OECD (2012) gives account of lessons that can be drawn from Korea's Catching-up policy achieved through an effective government-led export-oriented strategy. Korea is one of the few countries in the world that has managed radically to transform its domestic economy from one based on agriculture to that of a leading world industrial power, with a constant increase in income per capita and a high growth pattern. The government targeted the creation of domestic industrial capacities (through a mix of export promotion and import controls), the development of education and skills, infrastructure building, and actively managed capital markets. Key policy tools have been the Five-Year Economic Development Plans. Industrial policy prioritised industries with increasing knowledge content, trade policies selectively managed import restrictions and export incentives, and exchange rates were managed to favour exports of national products. Policies for human capital prioritised first literacy and later excellence in training and research, accompanying the rising demand for skilled labour by the domestic industry.

The consolidation of democracy, the search for new sources of growth in the aftermath of the Asian financial crisis of 1998, and the shift towards the knowledge economy paradigm determined the upsurge of the "regional development question" in Korea in the mid-1990s. As the democratisation process advanced, reforms were introduced to give more power and responsibilities to sub-national governments. The introduction of elections for the executive councils of local governments and for local council members in 1994 established the institutional basis for a more bottom-up approach in policy making.

In the early phases of the Korean catching up strategy, regions were mainly "locations" where priority industrial complexes were built. Regional governments were managed by governors appointed by the central government and did not have an active role in policy planning or implementation. Since the end of the 1990s, Korea first introduced specific programme targeting activities in selected regions, then extended promotion programmes to all provinces (excluding the Capital Region) by targeting balanced growth. Since 2008, Korea has been prioritising regional competitiveness through local government and private sector initiatives. With this, selected investments in the competitive sector and areas are made. The paradigm shift from balanced growth to competitiveness, required adjustments in governance, in resource allocation, and in the policy mix. During the first phase (1998-2003) regional policy was a "specialised" policy implemented through specific programmes targeting strategic industries in few selected provinces. The Ministry of Commerce, Industry, and Energy introduced the Regional Industrial Promotion Programme (RIPP) to develop industrial clusters.

The Korean institutional framework is highly centralised; but the shift towards increasing the margin of manoeuvre of regional authorities is in progress. Since the mid-1990s the country has implemented a series of reforms to

increase decentralisation in the public sector in line with the objective of balanced growth. However, decentralisation efforts are recent and the potential for improving the policy space for regional development has still fully to be realised. Local governments, which have been elected since 1994, have little autonomy and space for strategic planning; national priorities play a key role over the demands of the local constituency. This is increased by the limited financial autonomy of local governments which are highly dependent on central government transfers for the implementation of policies and service delivery (OECD, 2012). Korea, when compared with other unitary countries, shows an intermediate degree of delegation of powers to local authorities in the fields of industrial and technological development, and the effective empowerment of regional institutions in the fields of industrial and technological development.

The Korean experience reveals the complexity of the relationship between industrialisation and territorial development and it shows the importance of leadership and a high level of commitment to:

i. regional development;
ii. the design of mechanisms to target resources to regions;
iii. the gradual and complementary policy approach in increasing spaces for bottom-up initiatives;
iv. the identification of mechanisms to target functional and economic regions; and
v. the use of monitoring and evaluation as learning tools.

## 3.2 One Village One Product Policy in Japan

The 'One Village, One Product' (OVOP), concept is a unique approach to local development advocated in Japan in 1979, by Dr. Morihinko Hirmatsu, Governor of Oita Prefecture. This development model has been very successful in the Japanese prefecture of Oita and has attracted and continues to attract wide international appeal, particularly in developing countries, because of its potential to reverse local decay and decline (Oita International Exchange Promotion Committee, 2006). The idea behind the concept is that each town/district should have at least one competitive product that is 'distinctively its own' to offer to the market. The essence of OVOP lies in value addition to local products to generate higher incomes for local communities, as well as in transforming local environments to make them attractive to local residents and tourists. There are the three principles of the OVOP model as follows:

a) self-reliance and creativity
b) human resources development, and
c) thinking locally but acting globally – the creation of globally acceptable or competitive products/services using local resources.

The Oita OVOP model was developed from locally-led 'movements' which aimed at "gradual, long-term and intrinsic community revitalisation, to be pursued through the formulation of local leaders" (Fujioka, 2006). Local people take the lead, independent of external prompting and largely on their own creativity and self-reliance, to make unique products from local resources for their own good and to capture markets external to their locality. In

the process they develop their expertise through production of competitive products, their livelihoods improve due to enhanced incomes, and their communities develop closer bonds at the same time.

In terms of administrative structure, OVOP in Oita was coordinated by a section in the Oita prefecture government called the OVOP Promotion Council. This responsibility was transferred to the Oita International Exchange Promotion Committee. OVOP activities are financed by donations from the private sector rather than from the prefecture government.

OVOP in Oita depends a great deal on partnership among government, the community and the private sector. It targets local, national and external markets. At the local level 'Hometown' and 'roadside' stations sell OVOP products within Oita prefecture. Beyond the local level, antenna shops and product fairs have been set up outside Oita prefecture and Tokiwa Department Store has a specific 'OVOP corner'. Emphasis has been placed on using resources within the community for the community benefit, so that there is a direct link between product development and community development. At international level, OVOP products have been marketed through careful analysis of international markets. The OVOP movement encouraged human resource development by establishing a number of training schools, designed for particular needs. These included an Agricultural Training School, a Commerce School, and a Tourism School to educate potential entrepreneurial leaders (Natsuda, Igusa, Wiboonpongse, & Thoburn, 2012).

## 3.3 One Tambon One Product Policy in Thailand

One of the most important policies of the Thai government in 2002 was to initiate One Tambon One Product (OTOP) to bring about economic growth in local communities. In the hope that it would promote jobs with secure and continuous income for the grassroots people who are the majority group in the countryside. In Thailand, a Tambon is a sub-district in the countryside. There are about 58,000 Tambons all over the country. The OTOP programme has been one of the most important and attractive economic policies of the Thai government since the beginning of 2000. Its main objectives are:

1. to create sustainable economic growth and
2. to raise the standard of living of rural inhabitants

Under the OTOP programme, each Tambon should develop and market at least one high economic value commodity. OTOP (like OVOP) has adopted a bottom-up implementation modality that hinges on government-community-private sector partnership. It is formulated and implemented by the Thai central government, with strict guidelines for product development and marketing. The programme is implemented as part of the Thailand's dual track development policy of "fostering the nation's competitiveness, while stimulating domestic consumption and empowerment of grassroots communities" (Fujioka, 2006). OTOP is managed by the Community Development Department (CDD) of Thailand's Interior Ministry. The government allocated an 8.3 billion Thai baht (about US$267 million) budget to the CDD to stimulate community tourism in 3,273 villages across the country between April–

September 2018. Among the program's aims were to develop at least 64,570 new OTOP items with an average annual sales growth of at least 10 percent.

The programme encourages village communities to use local wisdom to improve the economy. Then it selects some superior products from each Tambon to receive branding as a “Starred OTOP product.” To further the promotion of the product, the government also provided a local and international stage. OTOP commodities include handicrafts, cotton and silk garments, pottery, fashion accessory items, and foods. OTOP draws its inspiration from Japan’s successful, One Village One Product (OVOP) of Oita province. The programme consists of marketing, production, management and technology application in production. It concentrates on using local resources to produce goods and services. One Tambon One Product concentrates on support rather than subsidy. The Thai government does not focus on subsidy to local people because they do not want to undermine self– reliance of the communities. So the assistance comes primarily through the government offer of modern techniques to enrich producing products including increase value added. Moreover, the government strongly supports the community advertising and marketing. In OTOP, the Thai government created a brand marketing strategy, which led participants to manufacture more valuable products and eventually enhanced OTOP’s export capacity under the Department of Export Promotion. Since 2003, a logo for OTOP products, E-commerce,12 the OTOP Product Champion (OPC) scheme and OTOP certificates have been introduced. Individual entrepreneurs, CBEs or SMEs that are registered as OTOP manufacturers are entitled to participate in the OPC contest. In this contest, OTOP registered products are graded from 1 star (the lowest) to 5 stars (the highest) certificated products by an independent committee. The assessment criteria emphasise the following requirements:

1. export potential through strong brand capacity;
2. stability and production sustainability and stability of quality
3. level of consumer satisfaction; and
4. the background of the product, particularly the use of locally available resources, knowledge, culture and community links (Fujioka 2008; Kurokawa, 2009).

Administration-wise, unlike in the OVOP case where local government played catalytic role, the central government in Thailand assumes a central role in the OTOP programme (Natsuda, Igusa, Wiboonpongse, & Thoburn, 2012). In principle, local governments were subordinated to the national government in the implementation of projects (Fujioka, 2006). The Thai government established a three-layer OTOP administrative structure at the national, provincial and district levels. At the provincial and district levels, local OTOP subcommittees select locally available products and integrate provincial planning and budget for the development of OTOP in their areas.

## 3.4 One Village One Product in Malawi

Malawi, with cooperation from Japan International Cooperation Agency (JICA), introduced the OVOP approach in 2003. It was the first country to do so in Sub Sahara Africa. As in Thailand, the central government took initiative

to start the OVOP movement and integrated it as a pillar program in the government development plan. It was expected to support economic empowerment of rural communities and contribute to attaining MDGs through helping to add value to local raw materials and promote import substitution wherever it can be achieved efficiently. The government's role is largely limited to technical assistance for planning and managing. A major part of OVOP financing is expected to come from quasi-governmental financial institutions. The approval of OVOP proposals by the government hopefully facilitates producer groups to get access to the institutions such as Micro Financing Association. The National OVOP Secretariat set up under the Ministry of Local Government and Rural Development manages the OVOP policy with the assistance of regional advisors, donor-funded NGOs, and Japan Overseas Cooperation Volunteers. The participation of Cooperatives in OVOP in Malawi seemingly contributes to improving value-adding processes with relatively small financial inputs and benefiting a large number of participants. Kurokawa, Tembo and Velde (2010), in their study of the OVOP project in Malawi observed "clear signs of productivity improvements".

## 3.5 One Town One Product (OTOP) in Philippines

The One Town, One Product (OTOP-Philippines) is a priority programme of the government to promote entrepreneurship and create jobs. Through OTOP, local chief executives of each city and municipality take the lead in identifying, developing, and promoting a specific product or service, which has a competitive advantage. OTOP-Philippines supports micro, small, and medium enterprises (MSMEs) to manufacture, offer, and market distinctive products or services through the use of indigenous raw materials and local skills and talents. The programme offers a comprehensive assistance package through a convergence of services from local government units (LGUs), national government agencies (NGAs), and the private sector. These include:

- Business counselling
- Appropriate technologies
- Skills and entrepreneurial training
- Marketing
- Product designs and development

Local government units (LGUs) play a major role in the success of OTOP Philippines. They are the lead implementers of the programme; and apart from ensuring an environment that is conducive for business, local leaders are expected to motivate their constituents and consolidate their human and natural resources, to produce and sell locally and globally competitive products and services.

OTOP Philippines is supported by the Technical Education and Skills Development Authority (TESDA) through TESDA's Dangal ng Barangay Program which seeks to develop every barangay's product throughout the country, which could eventually graduate to an OTOP Product. OTOP Accredited Products will be given priority in TESDA's training programs related on enterprise development. The National Livelihood Support Fund (NLSF) supports OTOP entrepreneurs by providing a special financing window through its accredited conduits and cooperates with

the Department of Trade and Industry in conducting capability-building interventions for OTOP MSMEs. The National Economic Development Authority supports the programme by providing support for OTOP Agricultural Products for Agribusiness.

## 3.6 Lessons from OVOP and OTOP

As espoused by Kurokawa, Tembo and Velde (2010), the Japan, Thailand and Malawi cases; and also from the case in Philippines, lessons learned include the following:

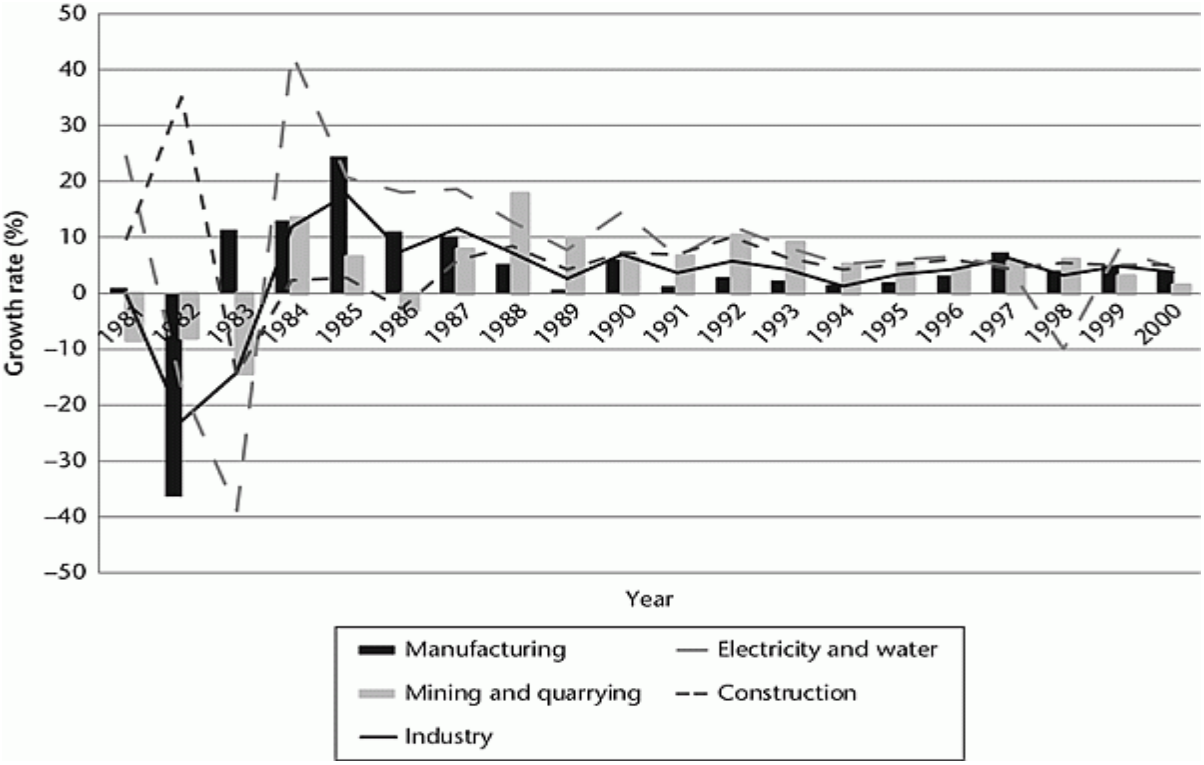
1. The OVOP (and OTOP) were interventions by Government, either local or central. In Oita, they were prefectural and municipal governments while the respective central governments initiated the programmes in Thailand, Malawi and Philippines. Either bottom-up or top-down approaches could work.
2. The basic philosophy of the OVOP (and OTOP) programmes is to mobilize local human and material resources for value-added activities to create marketable goods/services.
3. The OVOPs (and OTOPs) share certain common characteristics in technical assistance they offer to the participants. They are active in helping producer groups to improve their management capability. Japan and Thailand share OVOP assistance to help develop or improve products and production process. In this regard, research institutes belonging to local governments played an important role in Japan while, in Thailand, local research institutes such as Thai Sericulture Institutes and universities helped OTOP groups.
4. With regards to financing, the Thai OTOP connects its programmes with Bank of Agriculture and Agricultural Cooperative credits in addition to low interest loans from government saving banks and direct government subsidies. OVOP groups in Japan mainly rely on private credits offered by local banks and cooperatives. In Malawi, a small amount of credits and subsidies is provided by the government and by donor agencies. More substantial financing is expected to come in the future from Malawi Rural Development Fund.
5. Marketing assistance is an important area of OVOP activities. In Japan, prefectural governors serve as promoters of local products. The local governments sponsor trade fairs, exhibitions, and antenna shops. They also organize championship events and offer prizes to winners. The championship is national in Thailand.

# Chapter 4
# Evolution of Industrial Policies in Ghana

Since independence, Ghana has undergone three major episodes of industrialization namely an inward overprotected import substitution industrialization strategy (1965-83), an outward liberalized industrialization strategy (1984-2000), and since 2001 industrial architecture based on value added processing of Ghana's natural resource endowments through a private sector-led accelerated industrial development strategy (Ackah, Adjasi and Turkson, 2016). Further to this, Friedrich Ebert Stiftung, in a synthesis report following an analysis of existing industrial policies and state implementation in six (6) African countries, also chronicles the evolution of industrial strategies implemented in Ghana since the early 1990s.

The first episode initiative created a state managed ISI strategy through the development of large-scale, state owned capital intensive manufacturing industries. Within the initiative, the gross manufacturing output for state-owned enterprises grew phenomenally between 1962 and 1966; however, over the same period there was a dwindling contribution from the predominantly non-Ghanaian privately owned enterprises to gross manufacturing output. As Ackah et al (2016) opine, this significant decline in privately led manufacturing was a "direct result of the government strategy to take over the domain of many private enterprises". In the view of the World Bank (1985), by its nature the ISI strategy was self-limiting in two ways. Firstly, by discouraging growth of exports and agriculture, the ISI strategy ensured that Ghana's foreign exchange earning capacity could not keep pace with the need to import raw materials and spares for the many import substituting industries that had been set up. Second, the effective protection granted to the industries under the ISI strategy made such import dependent industries inefficient in utilizing domestic resources.

The Economic Recovery Programme (ERP) was initiated as part of the Structural Adjustment Programme (SAP) in 1983 with an intention to arrest the decline in all sectors of the Ghanaian economy, and also to rehabilitate the largely ruined productive infrastructure. The industrial sector (and particularly the manufacturing sector) benefitted from the reforms, as the initial five-year period (1984-88) after the launch, saw industrial sector output grow by 11.2% on the average, coming from a negative growth spell three years prior to the launch of the reform programme. According to Ackah et al, (2016), the recovery of manufacturing and improved performance of the electricity and water sub-sectors were largely responsible for this remarkable performance by the industrial sector, which took place within the context of trade reforms, improved utilization of installed capacity and correction of price distortions that served as a disincentive to industrial production and the initiation of reforms in allied sectors. Growth in the industrial sector, however, slowed down from the late 1980s as indicated in Figure 1.1 below.




**Source: Illustration based on National Accounts, GSS (2002) and State of the Ghana Economy (SGER) (ISSER 1911–2011) data as contained in Ackah et al (2016).**

**Figure 1.1: Growth Rate of Industry and Sub-Sectors, 1981 - 2000**

As a result of sluggish growth over the period 1989–94 (illustrated in Figure 1.1 above), the Government in 1994 set up a Committee to examine the constraints facing the domestic industries resulting from the ERP. The result was an identification of three ways in which the economic reforms had negatively impacted the industrial sector:

- It overexposed protected domestic industries to competition from imported manufactured inputs.
- Financial liberalization and exchange rate reform (which resulted in the rapid depreciation of the cedi and high costs of credit) led to increased production costs and production cuts within the industrial sector.
- The reforms did not allow most industries enough time to adjust and build the necessary restructuring that was needed after a comprehensive reform.

Based upon the Committee's recommendations the government introduced a number of measures to help the distressed, but potentially viable industries to recover from the shock of the economic reforms. This included the setting up of the Business Assistance Fund (BAF), the Private Enterprise and Export Development Fund (PEED), the Trade and Investment Programme (TIP), the Fund for Small and Medium Enterprises Development, the Export Processing Zone (EPZ), and the Ghana Trade and Investment Gateway (GHATIG) project. Although the industrial sector responded positively to the measures, there was only a marginal increase in growth rates.

According to the Friedrich Ebert Stiftung report, the agenda to correct economic imbalances and lay the foundations for economic transformation in the 4th Republic of Ghana has been guided by Ghana Poverty Reduction Strategy I and II (GPRS I & II), and the Ghana Shared Growth and Development Agenda 1 and II (GSGDA I & II). GSGDA II followed two decades of national plan frameworks namely, the Vision 2020 prepared in 1996; which was succeeded by the Ghana Poverty Reduction Strategy (GPRS I) which was in the fashion of the poverty reduction strategy papers recommended by the IMF. The first Ghana Shared Growth and Development Agenda (GSGDA I) which followed these was implemented between 2009 and 2013 sought to consolidate the macro-economic gains that had been made and address the inequalities that were deepening. GPRS I was followed by the Growth and Poverty Reduction Strategy (GPRS II) which run from 2006 to 2009. The Agenda for Jobs: Creating Prosperity and Equal Opportunity for All strategy is currently running.

Efforts to decentralise its key institutions to enhance economic growth has seen very little success especially in the area of linking industries to local institutions (Fenny, 2017). An initial attempt in the 1960s to diversify the economy through import-substitution industries (ISI) was a complete failure because of political patronage and inefficient management (Vondee-Awortwi, 2017). Since then the policy drive towards structural transformation has been weak and inconsistent. First, various political regimes have failed to push for industrialisation from above. Governments have looked at short-term gains and have failed to pursue industrial policies to support promising industrial sectors. The second reason for the absence of industrial policy is the poor organisation of producer associations that is unable to push for transformation from below. With the exception of cocoa farmers, none of the associations of producers has a cohesive bargaining influence to compel ruling elites to support industrial sectors (Oduro et al., 2014). For a long time, Ghana's economy has suffered from the missing middle – manufacturing or from a weak industrial sector. However, recent experiences in Southeast Asia, China, Mauritius and Brazil show that it is rather involvement through industrial policies and, not withdrawal of the state that promotes economic transformation (Mazzucato, 2013; Rodrik, 2008; Chang, 2008).

**Local Economic Transformation – The Case for Ghana**

Ghana's Industrial Policy developed in 2010 was set within the context of the country's long-term strategic vision of achieving middle income status by 2020, through transformation into an industry-driven economy capable of delivering decent jobs with widespread, equitable and sustainable growth and development. The Policy provides clear and transparent guidelines for the implementation of Government's industrial development agenda, with particular respect to the growth, diversification, upgrading and competitiveness of Ghana's manufacturing sector. The key development objectives of the Policy are to:

1. expand productive employment in the manufacturing sector
2. expand technological capacity in the manufacturing sector
3. promote agro-based industrial development
4. promote spatial distribution of industries in order to achieve reduction in poverty and income inequalities

The Industrial Policy represents a critical component of Ghana's strategic effort to alter the industrial structure by developing a competitive manufacturing sector (and other sectors that add value to manufactures) over the medium-term, whilst pursuing economy-wide factor productivity growth over the long-term.

To facilitate the achievement of its goal, the Policy is divided into four broad components, namely:

a) Production and Distribution
b) Technology and Innovation
c) Incentives and Regulatory Regime
d) Cross-cutting Issues

Ultimately, the success of the Industry Policy will be measured by the extent to which it empowers the private sector, predominantly but not limited to Small and Medium Enterprises (SMEs), to expand and create opportunities for employment and reduce poverty and spatial inequalities in Ghana.

Since assuming power in 2017, the NPP government has implemented wide-reaching policies to support local industries within the framework of diversified economy. Central to this industrialization agenda is the mobilization of natural resources to produce high-value products for the export market, while also localizing manufacturing by developing new factories, industrial parks and free zones. Industrialization has become a core of state policy, with local manufactures receiving robust government support and benefits from several public and private initiatives since 2017. In the launch of the 10-point Industrial Transformation Agenda, the Ministry of Trade and Industry (MoTI) seeks to expand the manufacturing sector, reduce employment and accelerate socio-economic development. The programme seeks to drive investment in strategic industries such as automotives, iron and steel, pharmaceuticals, textiles, vegetable oils and fats, and industrial chemicals. The agenda is as follows:

- National industrial revitalization programme (stimulus package)
- One District One Factory (decentralizing industrial development)
- Development of strategic anchor industries (towards diversifying the economy)
- Establishment of industrial parks in all regions
- Development of small and medium-scale enterprises (SMEs)
- Export development programme
- Enhancing domestic retail infrastructure
- Improving the business environment through regulatory reforms
- Industrial sub-contracting exchange
- Improving public-private sector dialogue

Specific programmes and initiatives, notably the One District, One Factory (1D1F), have been implemented as part of the 10-point agenda with a view to decentralizing manufacturing, support the development of local value chains, diversifying the economy and reducing reliance on imports. The agro-processing segment is a major driver of industrial growth, accounting for 56% of projects approved under the 1D1F initiative. The initiative is private sector-led. Government creates the necessary conducive environment for the businesses to access funding from financial institutions and other support services from Government agencies to establish factories. Ghanaian entrepreneurs will thus own the companies, operate them and bear all the risks and rewards of the projects.

The 1D1F initiative is managed by the Ministry of Trade and Industry (MoTI) through a Secretariat. Applicants are required to submit a business plan to the Secretariat for due diligence to be conducted, credit appraised and the project's potential to meet the initiative's objectives evaluated. Once a proposal is successful, the Secretariat facilitates access to private sector funding and support, provide tax incentives and reduce import duties. Through this facilitating process, the Secretariat assists in reducing red tape and fast-tracks administrative matters such as land acquisition and environmental compliance. The programme does not include state financing, nor does it guarantee a source of funding; it is designed to provide support to private sector initiatives that secure private sector funding.

With backing from commercial banks and international lenders, MoTI issues letters in support of successful applicants to investors who, in turn, provide project financing at affordable rates. Notable sources of funding include China's National Building Materials Corporation, which provided a $400m loan to support 22 enterprises under the initiative. In addition, the Ghana Export-Import Bank entered into a cooperation framework agreement with the Export and Import Bank of the US (EXIM Bank), under which the former will secure $300m for Ghanaian SMEs to purchase inputs from US suppliers. Under this arrangement, a $10m facility will be provided for companies to purchase equipment or services from the US, subject to the EXIM Bank's due diligence of the SMEs. Other funding sources include the Venture Capital Trust Fund (VCTF), which is expecting to receive about $47m over the next six years to support start-ups and SMEs operating in transformational sectors.

After three years of operation, the 1D1F initiative, the industrialisation agenda has yielded about 170 factories at different stages and status. According to the 1D1F Secretariat, a total of about 170 factories are currently at various stages of completion such as, operating as new factories, operating as revived or expanded factories, new factories under construction, as well as small scale processing factories under construction. Out of this number, a total of 28 factories have been completed and operating fully as direct 1D1F projects, while 31 factories, under same new 1D1F factories, are under construction. While the 1D1F seeks to build new factories, it also focuses on helping small-scale entrepreneurs to advance their traditional processing of food and other items across the country. In this regard, the government, through the support of the AfDB is constructing 63 small scale processing factories across the country to aid local entrepreneurs in areas such as processing and packaging of gari, soya, palm oil, rice, etc

**Map 1: Locations of 1D1F Projects in 2018**


Against the backdrop of public knowledge that industrial policy has failed in the past, some elements within government, CSOs, and public intellectuals have been sceptical about the government's capacity to deliver what is needed to ensure successful implementation of the programme. At best the sceptics have adopted the 'wait and see attitude'. At the moment, the 1D1F programme is aligned only to the political manifesto of the ruling political party. As Ghana embarks on the new industrialization programme important lessons need to be learned to quickly correct the failures of the past. The government needs support in the design and implementation of the 1D1F industrial policy framework.

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