

# WHAT NEXT AFTER EXPORT- ORIENTED INDUSTRIALIZATION?

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# Introduction

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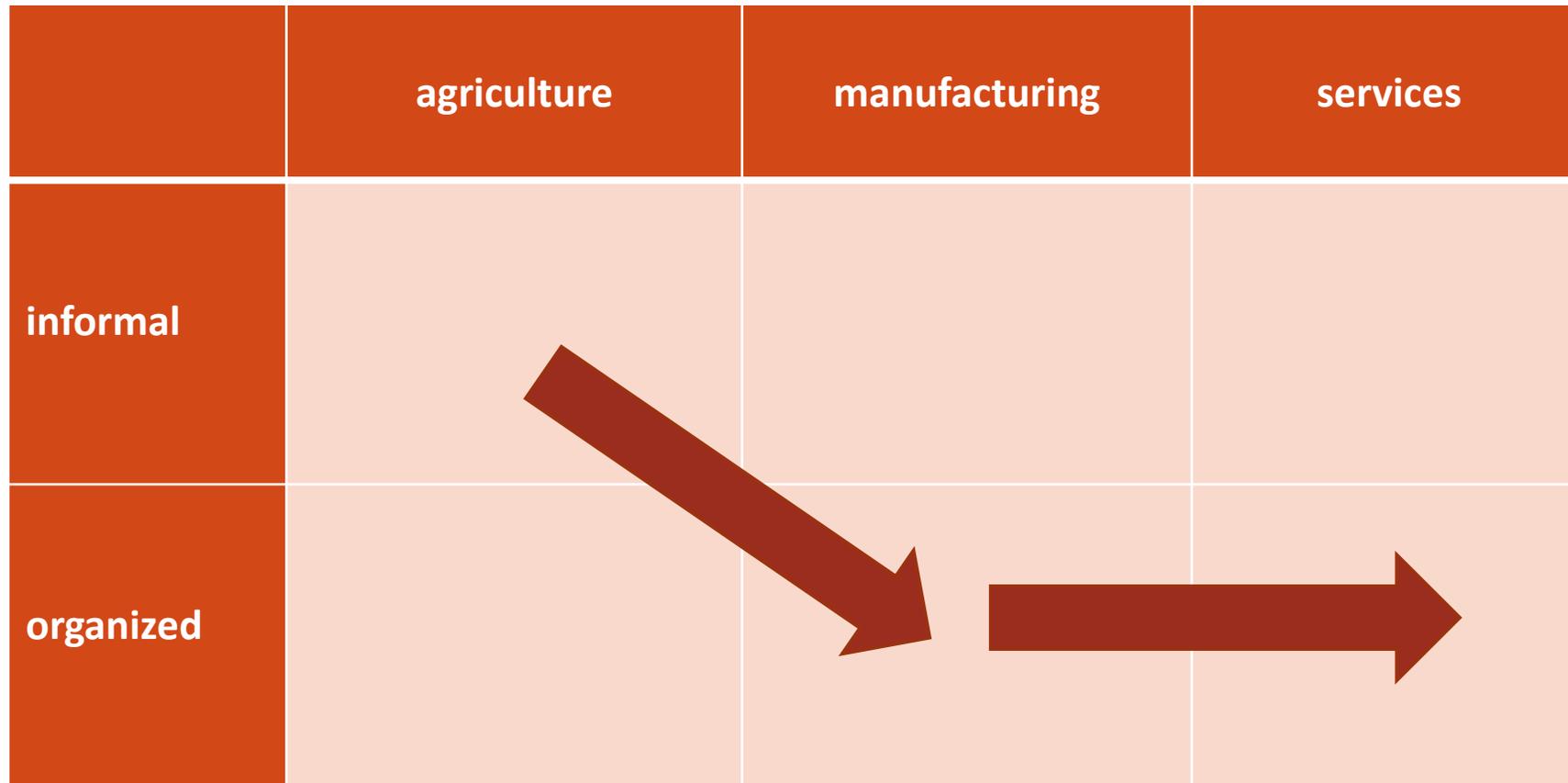
## Development strategy versus development policy

- classical development economics vs. contemporary development economics
  - balanced versus unbalanced growth
  - basic needs/human development versus economic growth
  - ISI versus EOI

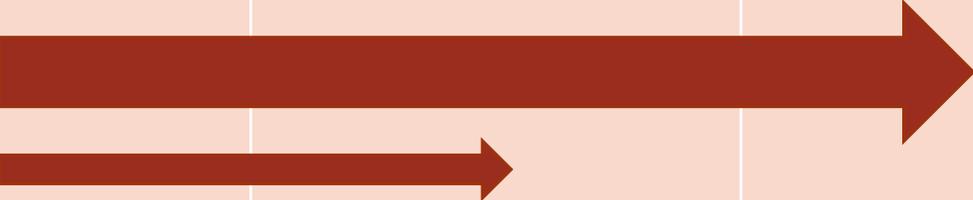
## The central problem of “economic development”: the challenge of structural transformation

- how to overcome productive dualism in an inclusive manner

# Traditional development model

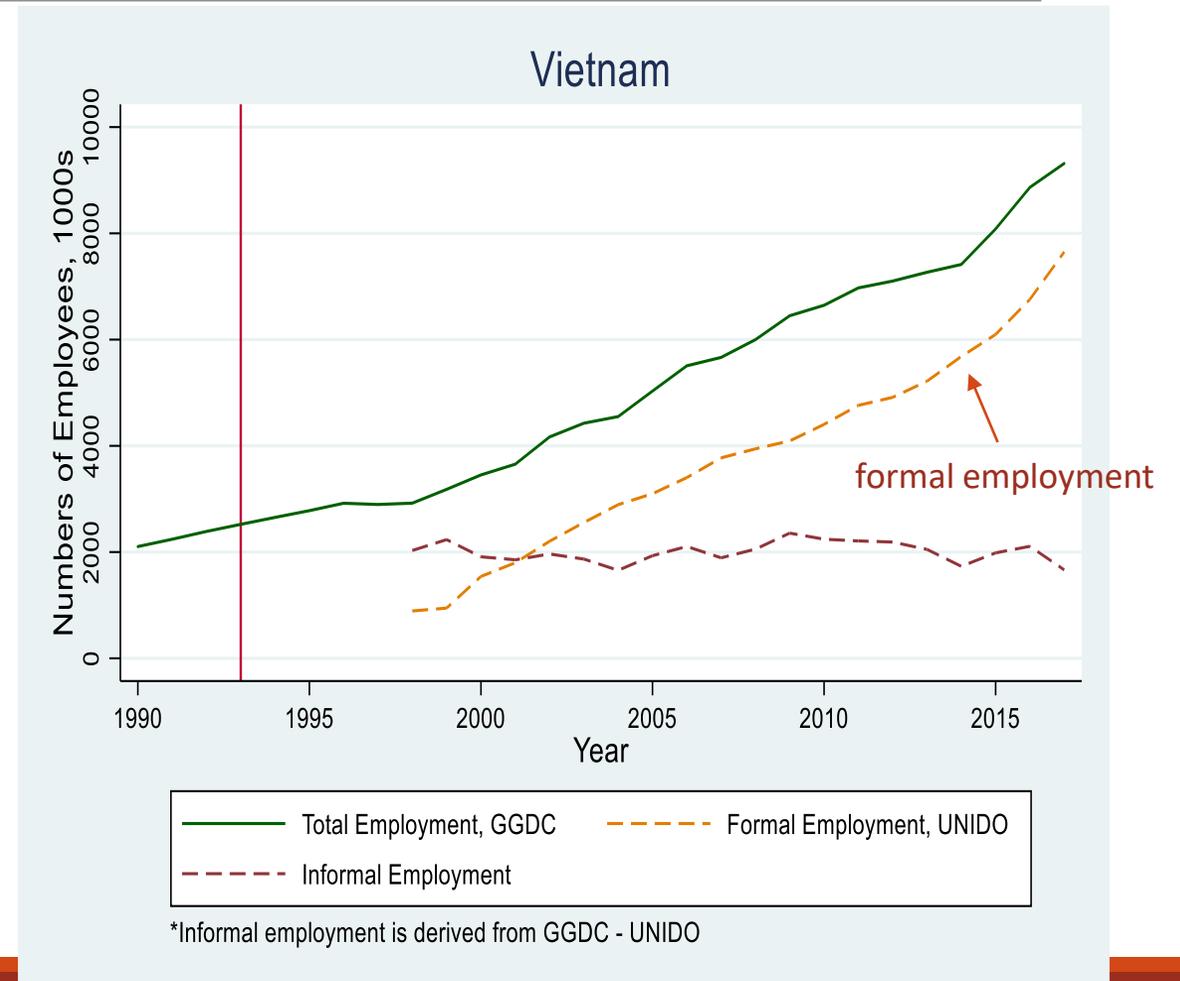
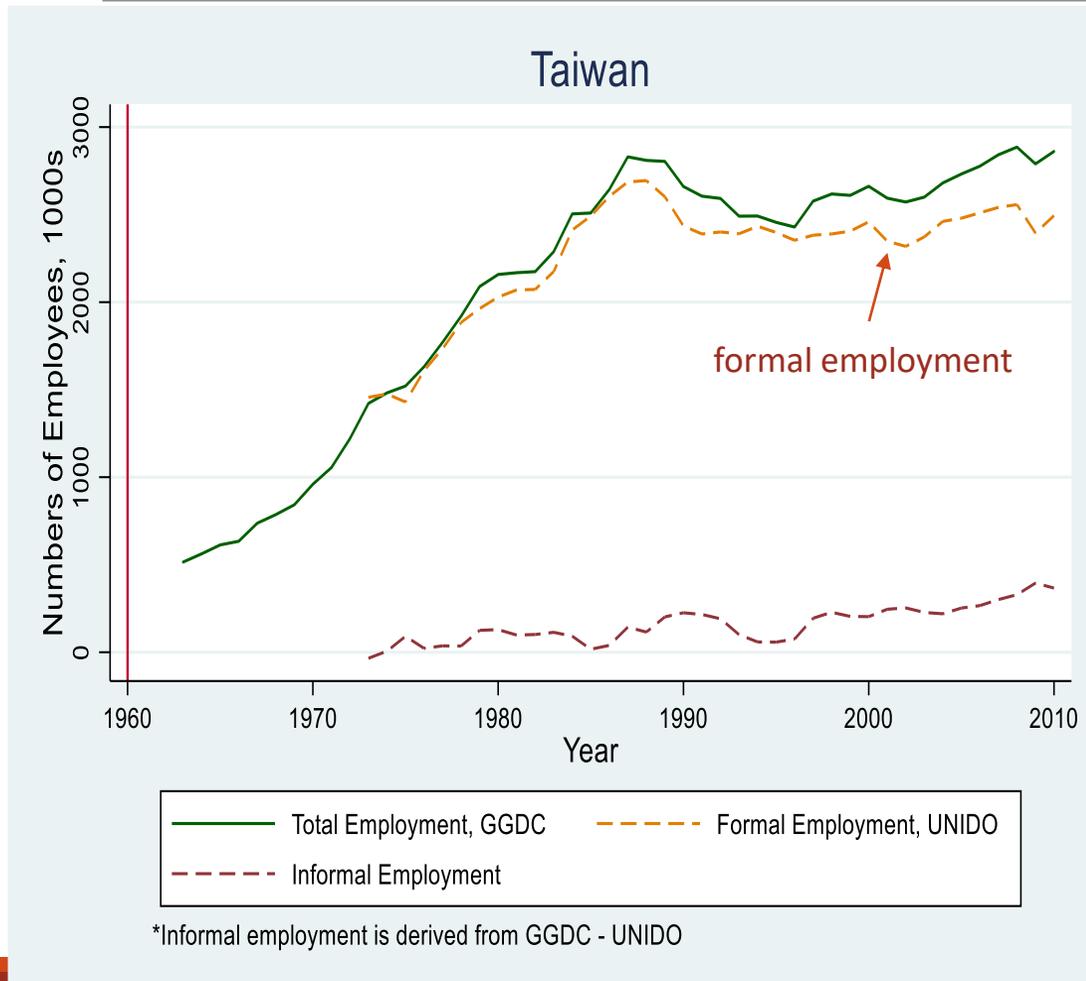


# Most developing countries today

	agriculture	manufacturing	services
informal			
organized			<ul style="list-style-type: none"><li>• “premature deindustrialization”</li><li>• dominance of informality within manufacturing</li></ul>

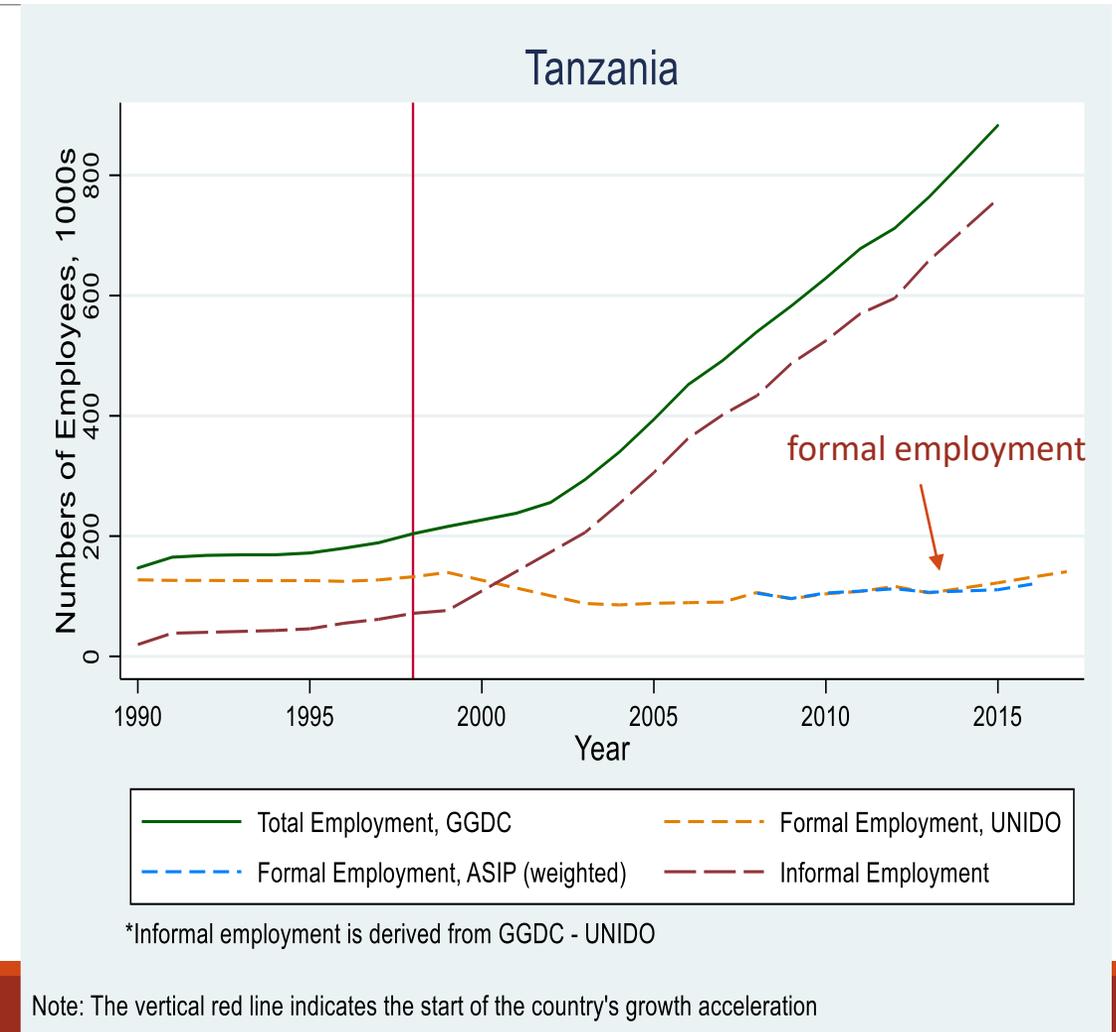
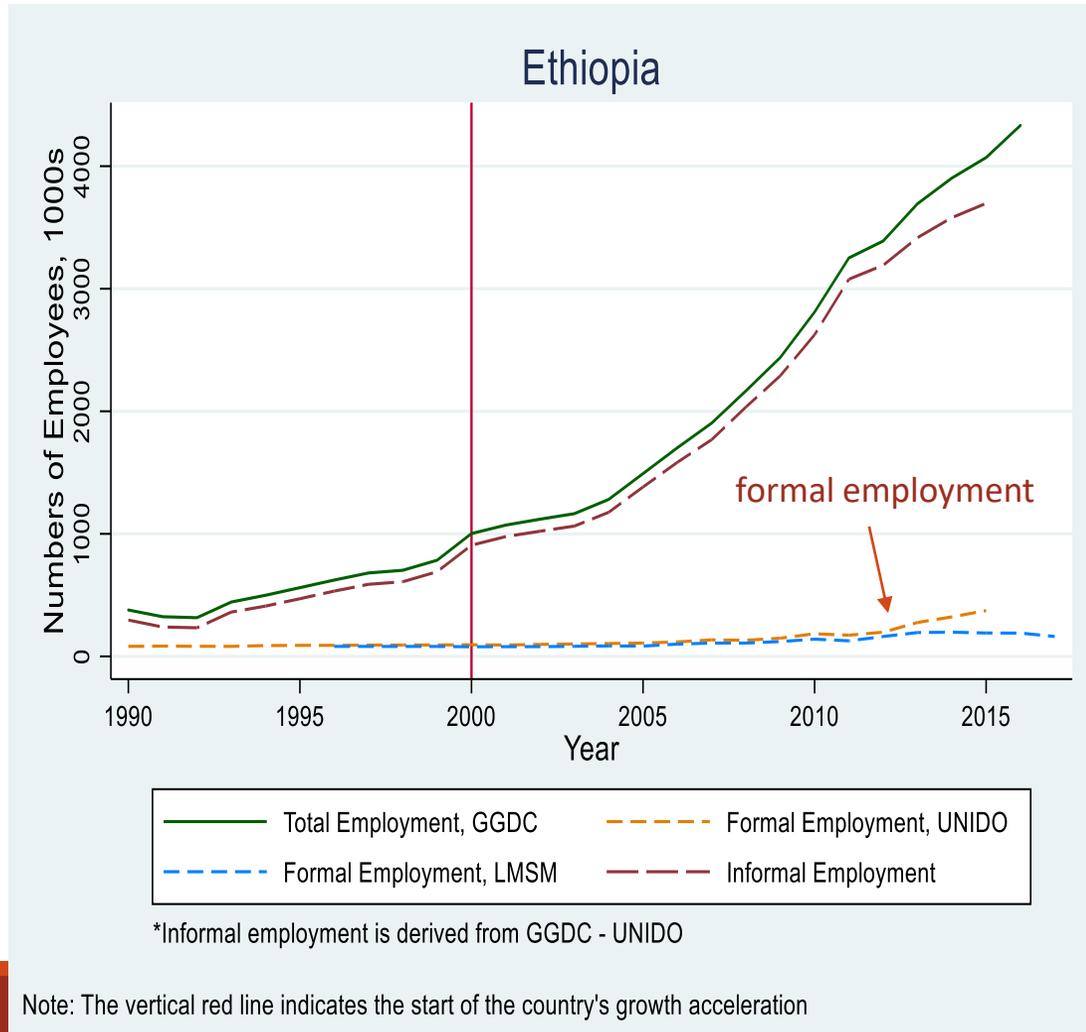
# Traditional, manufacturing-led growth

## Manufacturing employment



# ... versus African model

## Manufacturing employment



# Increasing dualism within manufacturing in ETH and TZA

(from Diao et al., 2021)

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Ethiopia: modest labor productivity and employment growth in formal manufacturing firms; no productivity growth in firms with less than 10 employees but rapid employment growth

Tanzania: rapid labor productivity growth in large and exporting firms but no employment growth in these firms; employment growth restricted to small firms where there is no labor productivity growth

In short: large firms have good productivity performance, but little employment growth; small firms show rapid employment growth, but poor productivity performance

# Conventional hypotheses on productive dualism in manufacturing

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Small firms are subject to market/govt failures that prevent expansion

- but small firms are not more productive than large firms
- no evidence of “missing middle” or bimodal distribution of firms

High labor costs

- but payroll shares extremely low

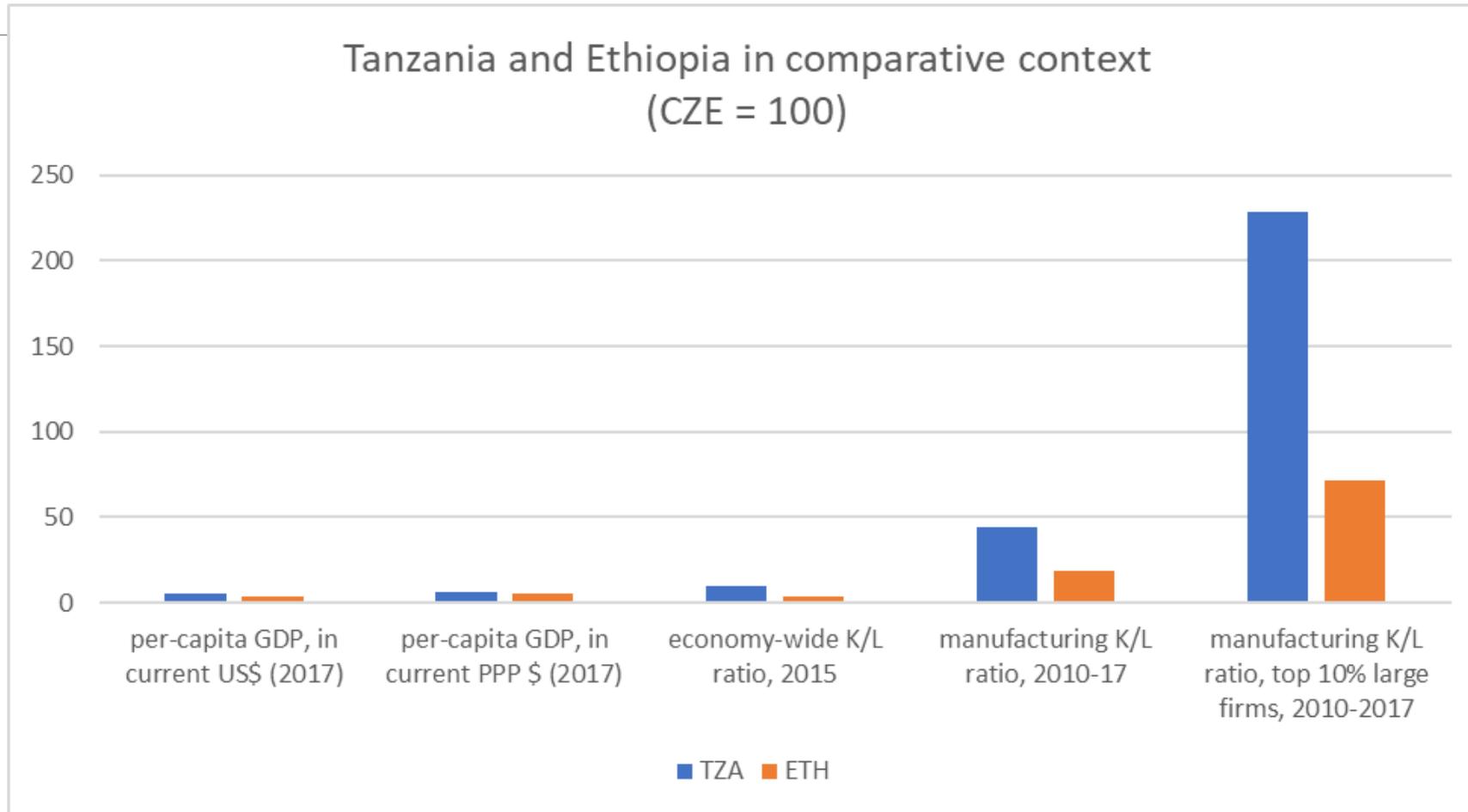
Poor business dynamism or high costs of entry

- entry/exit rates are high during growth booms (comparable to VNM)

High corruption/poor business environment

- but why do effects show up in employment and not productivity?

# Excessive capital-intensity in TZA and ETH manufacturing



## Excessive capital intensity: key points

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While K/L ratios in TZA and ETH manufacturing are lower than in much richer comparator nations, these ratios are still much higher than would be expected based on their relative labor abundance and low per-capita income levels

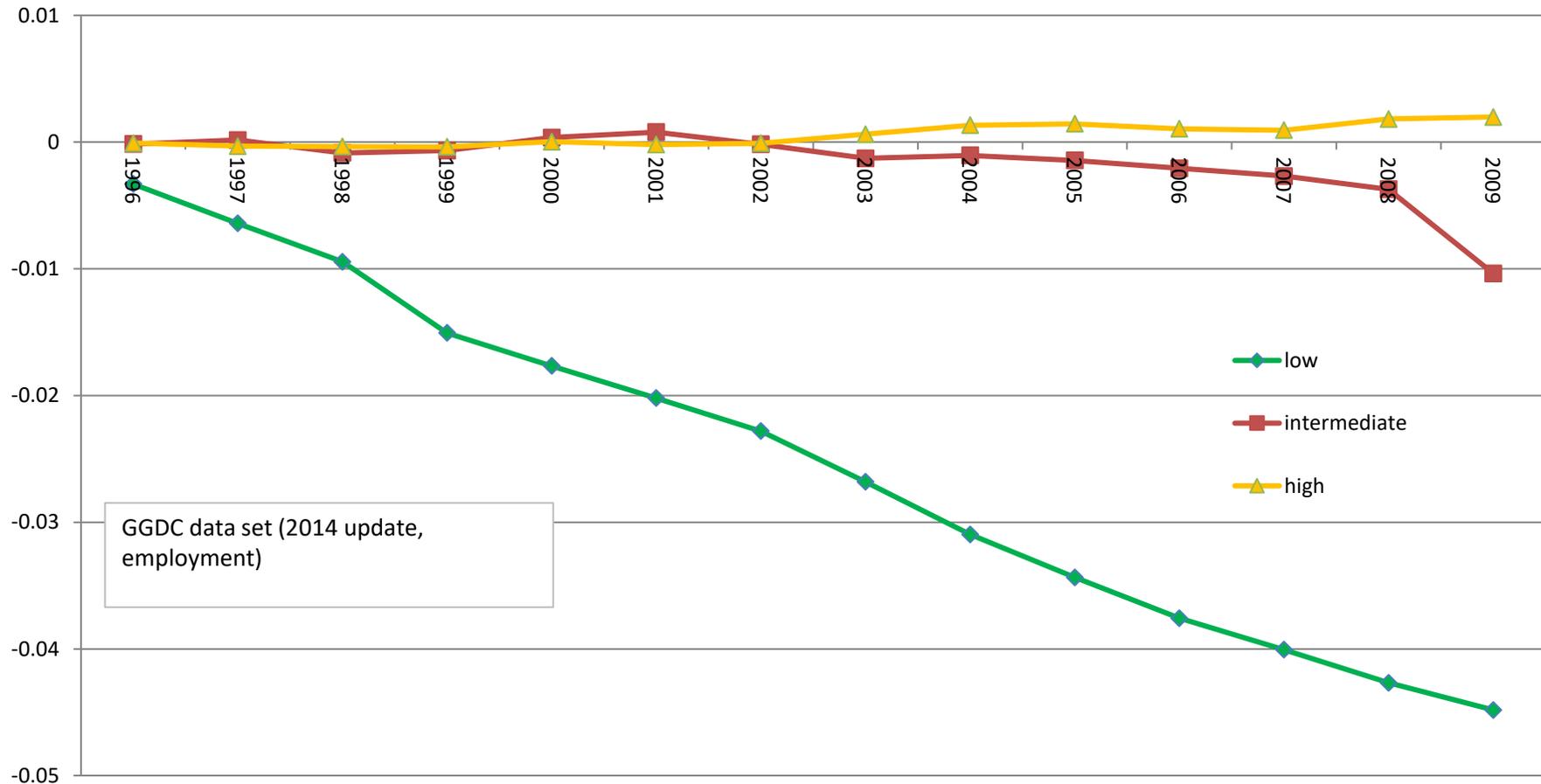
Focusing on the largest firms, K/L ratios in TZA and ETH are actually comparable to those in much richer OECD countries

Exporting firms or the traditionally labor-intensive textiles and clothing firms do not exhibit lower K/L ratios than other manufacturing firms on average

K/L ratios have increased much more rapidly in TZA and ETH manufacturing than in the economy as a whole

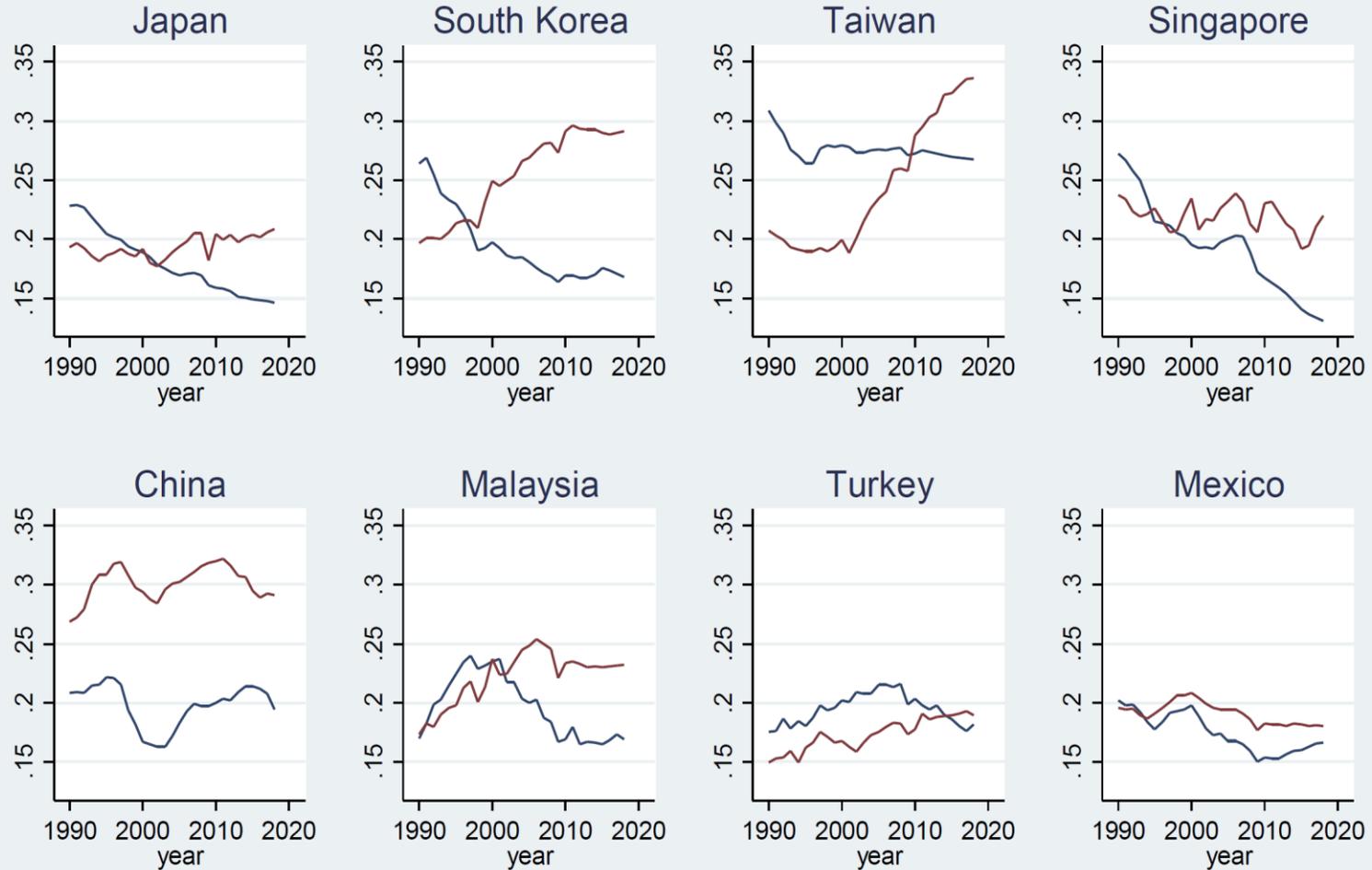
# Global technological change and low-skill labor

Estimated year dummies, by labor skill type



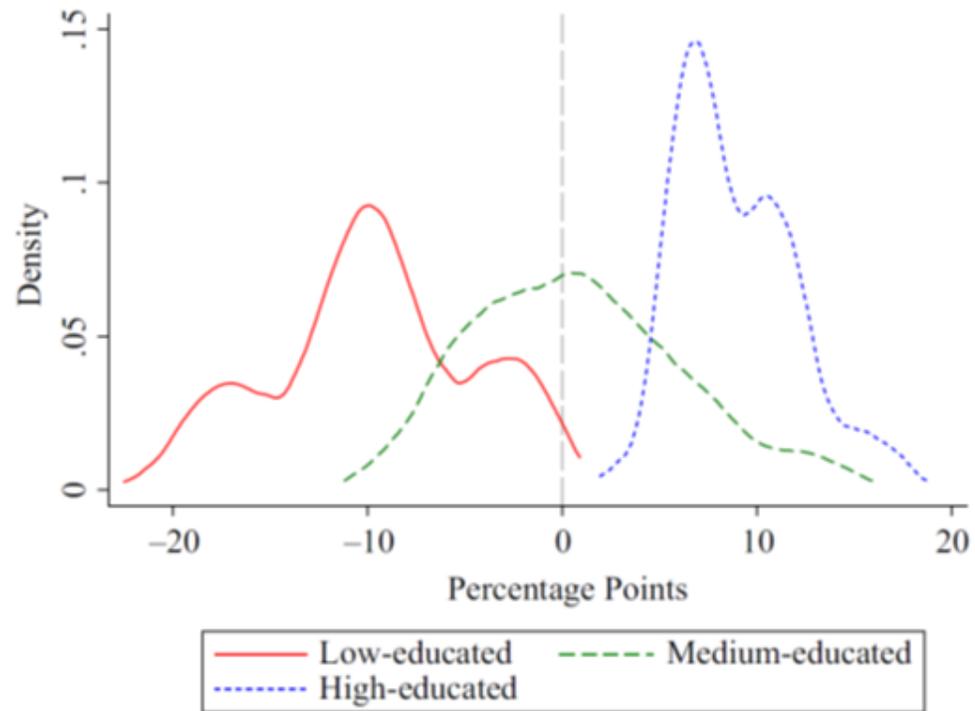
# Manufacturing Trends in Various Countries

blue line = manufacturing employment share; red line=MVA share in GDP at constant 2015 prices



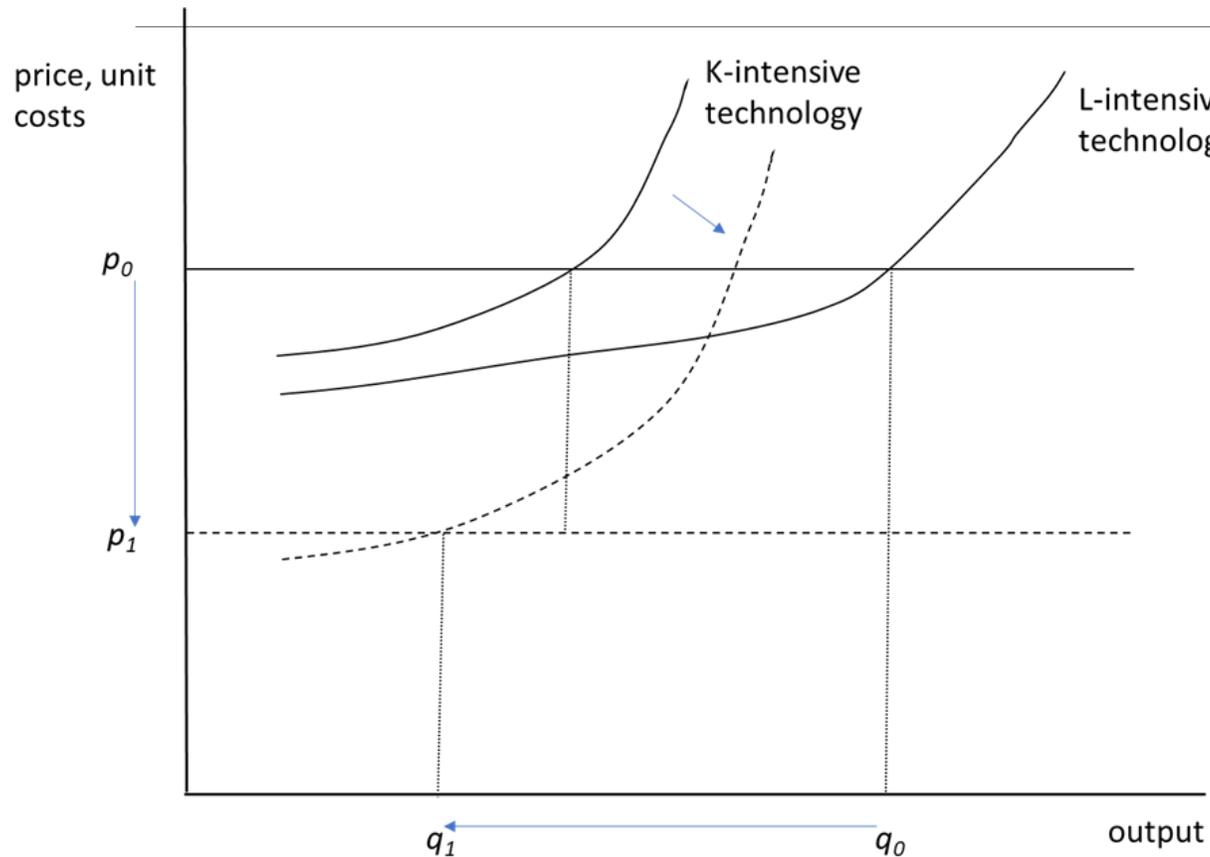
Source: De Vries et al. (2021), "The Economic Transformation Database."

# Changes in labor demand, by type of workers, in global value chains



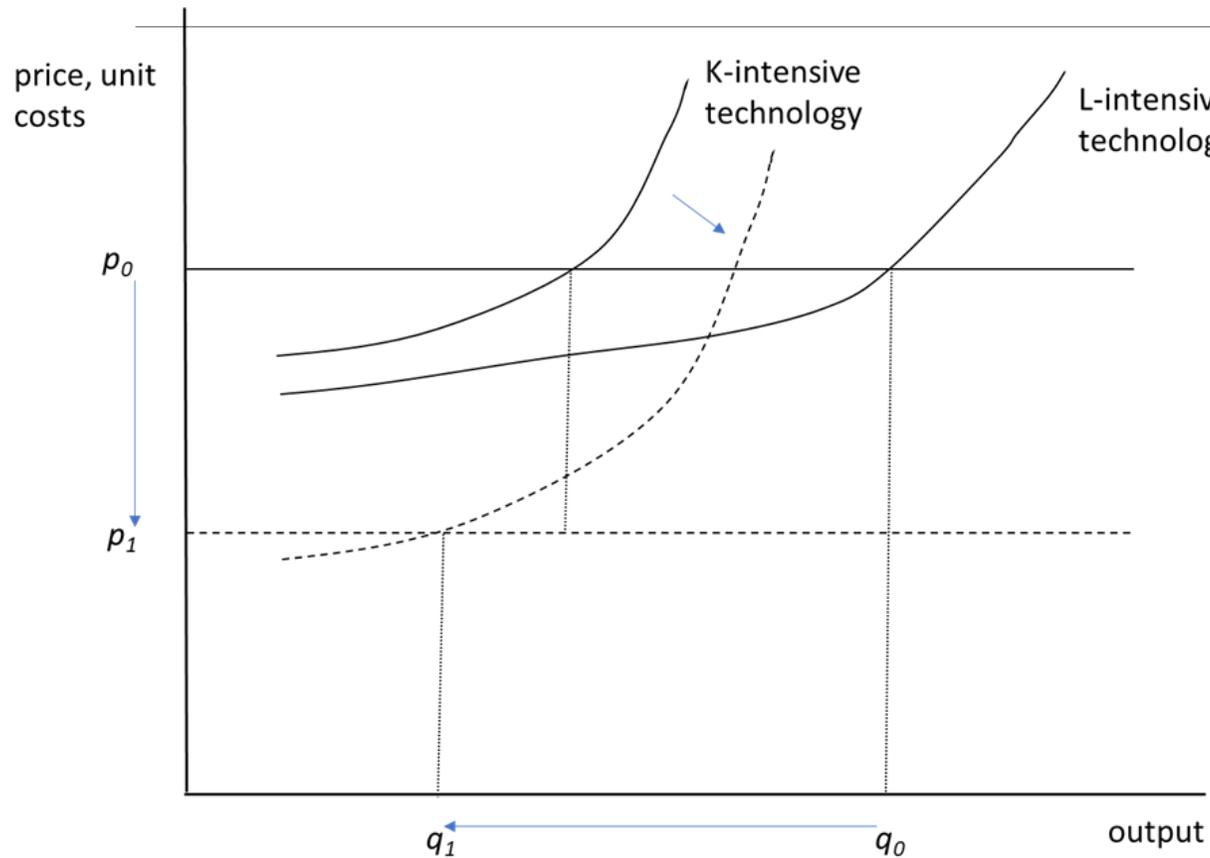
**FIGURE 2** Changes in wage bill shares in GVCs of manufacturing goods, 1995–2007. Notes: Kernel density of change in labour cost shares for low-, middle- and high-educated workers. Change over the period 1995–2007 (in percentage points)

# Analytcs of technology choice in a world with skill/capital intensive technical change



- Firms have access to two technologies, one L-intensive and the other K-intensive
- LDC firms choose the former to produce  $q_0$  at world prices  $p_0$
- Global technological innovation pushes costs down for K-intensive technology
- This induces global prices to fall to  $p_1$
- But downward shift in costs for K-intensive technology in LDCs is less than the shift in prices (either because of higher capital costs or tech transfer frictions)
- Nevertheless, L-intensive technology is no longer competitive and firms have to shift to K-intensive technology
- Output falls to  $q_1$

# Analytics of technology choice in a world with skill/capital intensive technical change



## Triple whammy on employment

- Direct employment loss due to reduction in output (due to reduction in comparative advantage)
- Additional employment loss due to shift in technique
- Reduction in employment elasticity to positive profitability shocks (steeper cost curve) due to scarcity of capital and complements to capital (e.g. skills)

# Are there alternatives to industrialization-driven growth?

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Need to understand why manufacturing is/was special:

1. productivity dynamics
  - unconditional convergence
2. labor absorption capacity
  - intensive in low-skill labor (traditionally)
3. tradability
  - can expand without turning terms of trade against itself

# What is different now?

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Need to understand why manufacturing is/was special:

1. productivity dynamics
  - unconditional convergence
- ~~2. labor absorption capacity~~
  - intensive in low-skill labor (traditionally)
3. tradability
  - can expand without turning terms of trade against itself

# Alternatives: agriculture and services

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## Agriculture

- significant productivity gains possible in traditional agriculture
- possibilities in non-traditional agriculture
- but hard to imagine agriculture will absorb employment
  - where will labor go?

## Services: two types

- high-productivity (tradable) segments of services cannot absorb as much labor
  - since they are typically skill-intensive
  - IT, FIRE, business services (IND, PHL)
- low productivity (non-tradable) services cannot act as growth poles
  - since they cannot expand without turning their terms of trade against themselves
  - continued expansion in one segment relies on expansion on others
  - limited gains from sectoral “winners”

# Key question facing development strategy: where will the good jobs come from?

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Good jobs = productive jobs

- traditionally spearheaded by manufacturing

Much greater role will have to be played in the future in creating good jobs by (mostly domestic) services

Growth policy and social policy increasingly become one and the same

- cannot have growth without creating productive jobs and expanding middle class; cannot address structural factors behind poverty and inequality without creating good jobs for relatively low-skilled workers

Good jobs require good firms

Hence the need for a mixture of interventions on both supply- and demand-sides of labor market

- education & training important but not adequate if good firms are not there
- new kind of “industrial policy”

# Reconsidering development policy

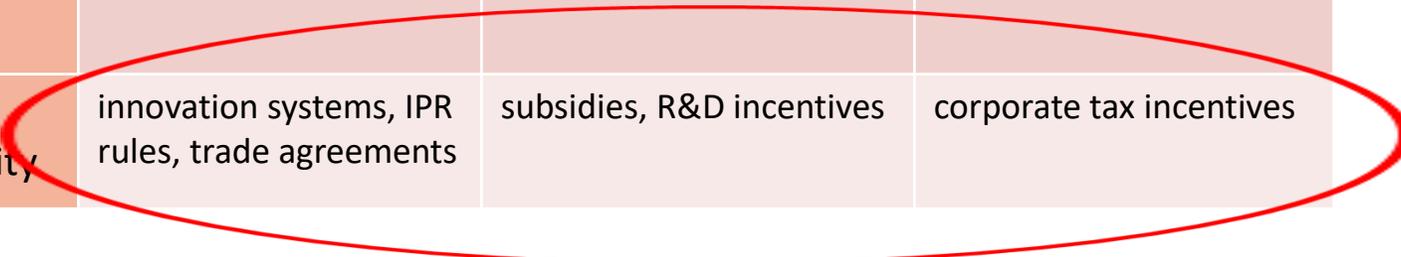
		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity			
	high productivity			

# Traditional poverty-reduction & social protection model

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity	investments in education and training		cash transfers; full-employment macro policies
	middle productivity			safety nets
	high productivity			

# Traditional industrial & growth policies

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity			
	high productivity	innovation systems, IPR rules, trade agreements	subsidies, R&D incentives	corporate tax incentives



# The good-jobs development model

		At what stage of the economy does policy intervene?		
		pre-production	production	post-production
Which segment of the economy do we care about?	low productivity			
	middle productivity		promotion of higher-quality jobs in SMEs through: employer-linked training policies; customized business incentives & services	
	high productivity			

# New type of “industrial policies”

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Collaborative and iterative relationship with firms

- instead of top-down, arms'-length, ex-ante rules

Customized assistance to firms with soft conditionality on job creation

- instead of subsidies and tax incentives

Focused on smaller and mid-sized, mostly services firms

- instead of export champions and most productive segments of the economy

Based on quid-pro-quo:

- firms need access to stable, skilled workforce, reliable horizontal and vertical networks (w/out holdup, informational problems), technology, contractual and property rights enforcement
- governments need firms to internalize “good jobs” externalities in employment, training, investment, and technological choices
- deep uncertainty precludes simple remedies (such as Pigovian employment subsidies)

# Advantages of the “good jobs” agenda

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## Structuralist approach

- shaping production, innovation, employment incentives and relationships in situ, rather than taking them as given
- from “welfare state” to “productivist/innovation state”

## Breaks through institutional fetishism

- traditional conceptions/distinctions of “markets” and “state,” and “regulation” no longer apply
- collaborative, iterative rule making under extreme, multi-dimensional uncertainty

## Merging of equality/inclusion and economic growth agendas

- growth possibly only through dissemination of advanced methods throughout rest of economy

## Opens up of a path of radical institutional reform from gradualist beginnings

- avoids reform/revolution dilemma