

INDUSTRIAL POLICY 2.0

LESSONS FROM LATVIAN INDUSTRIAL POLICY

Daniels
Pavļuts

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DISCLAIMER

I am a fan of (modern) industrial policy, meaning:

A SET OF SMART PROACTIVE GOVERNMENT INTERVENTIONS >

TO AFFECT STRUCTURAL CHANGES IN ECONOMY >

**TO INCREASE PRODUCTIVITY IN TRADABLE SECTORS AND SHARE OF
GOODS AND SERVICES WITH HIGHER INCOME POTENTIAL**

Fans include Dani Rodrik, Ricardo Hausmann, Justin Yifu Lin and many more

WHAT WE DID

- Analysis of comparative and competitive advantages
- Identification of potential product groups with high added value
- Growth diagnostic (identification of government and market failures)
- Macro + micro (company level) analysis
- Dialogue 2.0 to build consensus across government and industry
- Look beyond dominant industries of today
- Set 2020 targets of productivity growth, share of manufacturing in GDP and R&D investment
- Develop horizontal + sector specific interventions
- Build new policy into 7 year national development planning framework

MAIN PREMISES

- **DEVELOPMENT OF THE NATIONAL ECONOMY WILL BE SUPPORTED BY PRODUCING MORE GOODS WITH HIGHER ADDED VALUE. THE PRODUCERS OF THESE GOODS HAVE TO BE THE MAIN INFORMATION SOURCE ON THE MARKET FAILURES/ GOVERNMENT FAILURES**
- **MODERN INDUSTRIAL POLICY IS A MINDSET, PROCESS AND DIALOGUE, NOT A DOCUMENT**

WHAT WE DID NOT

- No picking winners – no priority industries and sectors
- No more rent-seeking, thus less subsidies, but more targeted incentives
- No (old school) protectionism and infant industry protection
- No government led industries (“chaebol” phenomena is gone)
- No crowding out private investment
- No future for bad policy interventions
- No more overreliance on wholesale policies

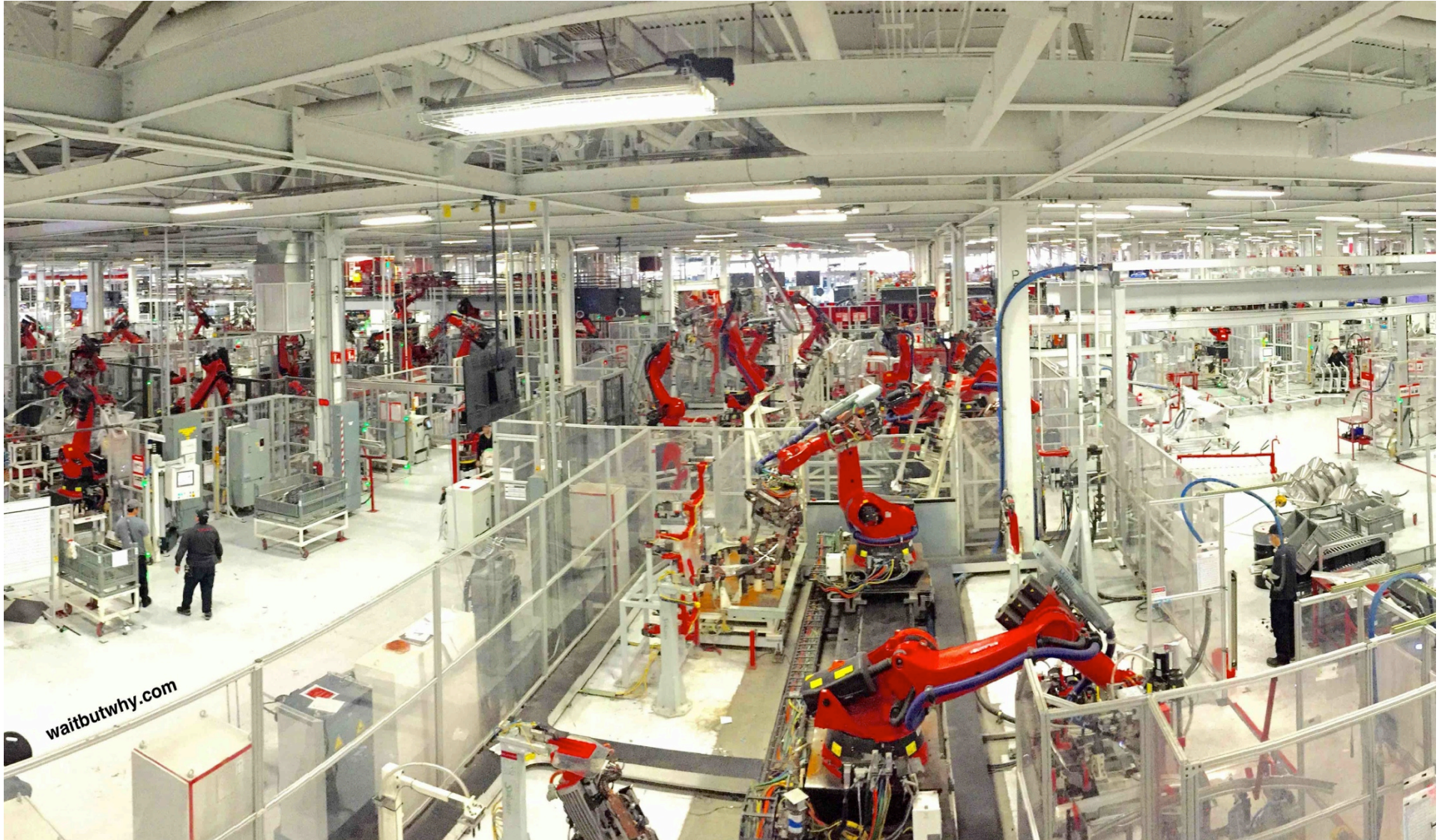
SELECTED LESSONS FOR UKRAINE

- Talk to investors, but talk to your industry even more – continuously
- Start by addressing government failures (lot's of low hanging fruit there) and try not to make new ones
- Look beyond dominant industries of today
- Two tier approach – different policy mix needed for low/medium tech of today and emerging high tech of tomorrow
- Don't focus on the “right” sectors, focus on desired kind of economic activity – make it profitable
- Focus on what private sector is not doing or not doing well enough
- There is no better policy than common sense and healthy national interest

FROM THIS...



TO THIS!



CREDO

**DO NOT CONFUSE AGREEMENT
AMONG ECONOMISTS FOR
CERTAINTY ABOUT HOW THE
WORLD WORKS.**

(Dani Rodrik)

DANIELS PAVĻUTS

DANIELS.PAVLUTS@ZENO.LV

+371 2933 8008

[HTTPS://WWW.LINKEDIN.COM/IN/DANIELSPAVLUTS](https://www.linkedin.com/in/danielspavluts)