

«Industrial policy 3.0»

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Superior knowledge

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In short about me

- Studied economics and business management in 4 universities: Stockholm School of Economics in Riga, University of Southern Denmark, University of Latvia, Riga Technical University.
- Managing director of Accounting & Consulting Institute (www.aci.lv).

In short about me

- Have worked for European Commission, SEB banka, Latvijas Banka, Ministry of Economics, newspaper Diena, have lead own businesses.
- Board member of Latvian Young Scientist Association (www.ljza.lv), chairman of economics workgroup, ex-president.
- President of Riga Ridzene Rotary club.

In short about me

- Have initiated founding and managed a AEGEE Riga, ESN Riga, etc.
- Co-founder of Internation Insitute of Business Analysis Latvia chapter, member of Latvian Economists Association, European Movement, and many other associations.
- Auditor of Alumni Association of Stockholm School of Economics in Riga.

What is in essence industrial policy?

- Industrial policy is the stimulation of industrial development in a region.
- However, of course, it can be flawed.
- Necessary, as often the lack of long term interests and incentives can deplete an industry in a country.

What is the history?

- After the first technological paradigm shift – agriculture, economic development for centuries/millenia was very slow, 0,05% yoy.
- It started to increase faster in the 19th century, but only in some countries, that almost had the monopoly in produced goods.
- Asia, Europe, North america developed and caught up, but Afraica and South America are dubious as success sotries.

What is the history?

- Import tariffs used to be high, then lowered in the beginning of the 20th century, then increased during Great Depression, then with GATT and WTO have been very substantially decreased.
- Countries have historically tried to develop and protect their industries.

Is a concrete set of prescriptions possible?

- It might be possible, however, this far it has not been observed.
- Not everything can be 100% right for everything, but some best practice can be observed.

Cons in short

- Costly for government initially and high risk of money flowing to well connected business owners.
- Government has often been bad in forecasting and management.

Pros in short

- Often there is little alternative for economic growth other than industrial development.
- Industry needs time to grow – it has to be nurtured.
- Many of the now successful countries have previously been strong in industrial policy.

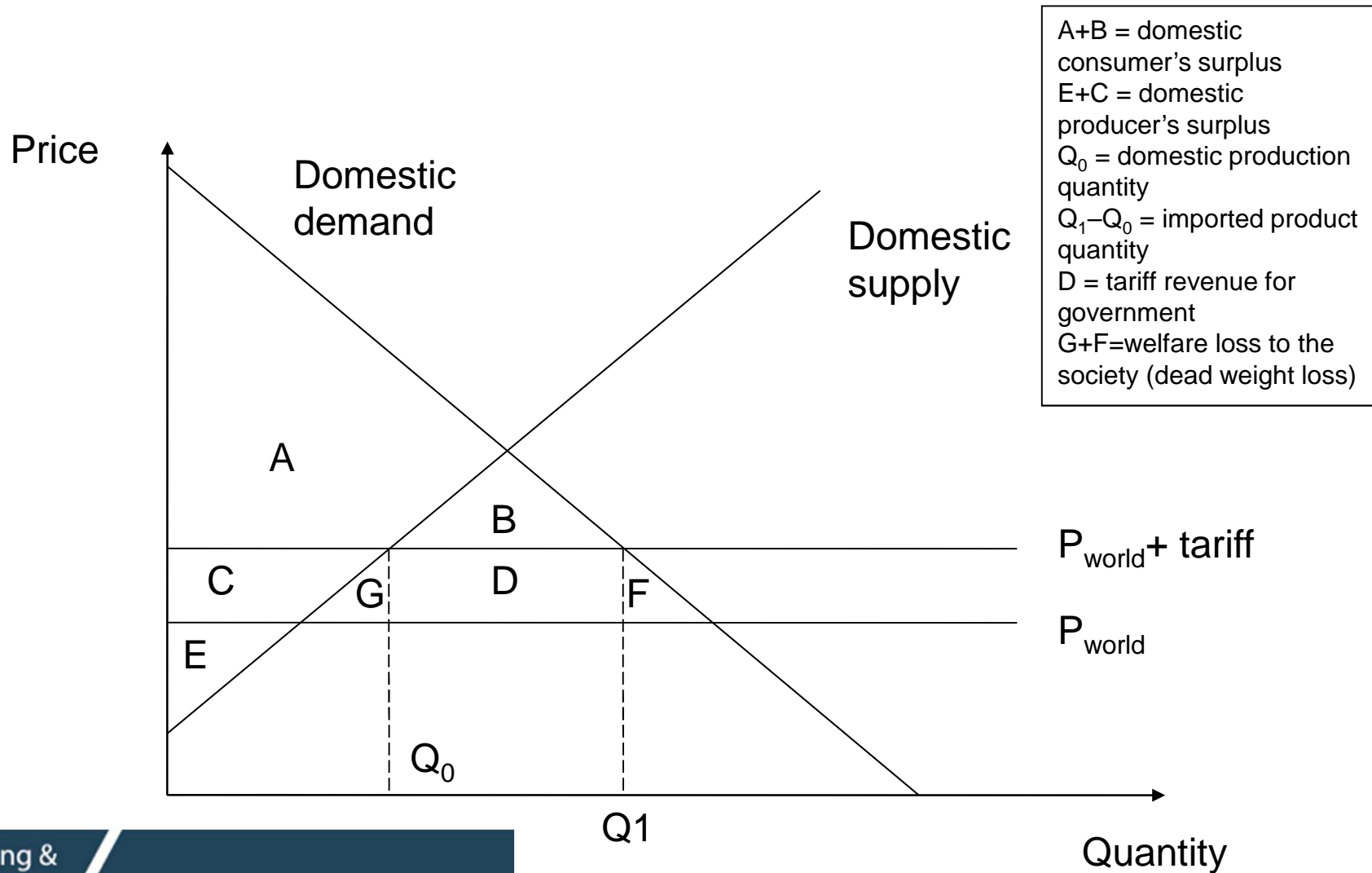
Pros in short

- We have to admit that also poor countries need industry to be wealthier, although fear of competition by the big producers is inescapable.

What is the bad practice

- Government providing large direct cash subsidies to some companies and industries that have lost their historical competitiveness (often mentioned – UK and shipbuilding yards, metallurgical plants, etc.).
- High import tariffs, decreasing the wealth of a country.

Justification to open borders



What is the good practice

- Countries like: Japan, Taiwan, Finland, etc.
- Importance of excellent education, tied with industry.
- Stimulation without direct cash subsidies.
- Foresight exercise.
- Focus on electronics and other growing markets, future industries, industries that do not yet exist.

What is the good practice

- Japan in the 60s-80s: very influential Ministry of Trade and Industry subordinating other tasks under export development.
- Taiwan – common foreign marketing of taiwanese brands abroad for state money.
- Finland – SITRA (www.sitra.fi), Estonia – Arengufond (www.arengufond.ee), doing foresight and seed/venture investment.

Good practice in short

- Education policy is very important and its connection with industry.
- Promotion of sophisticated industries and production of goods and tradeable services.
- Direct cash subsidies without specifying purpose not effective, more catalisation.
- Promotion of knowledge and information society – helps all sophisticated industries.

Triple Helix approach

- The triple helix system was introduced by Henry Etzkowitz.
- In essence – cooperation of university, industry and government.
- Its ideas are simple, but he formulated them and gave it a name.
- It improves the competitiveness of a university and business environment and allows the creation of entrepreneurial universities.

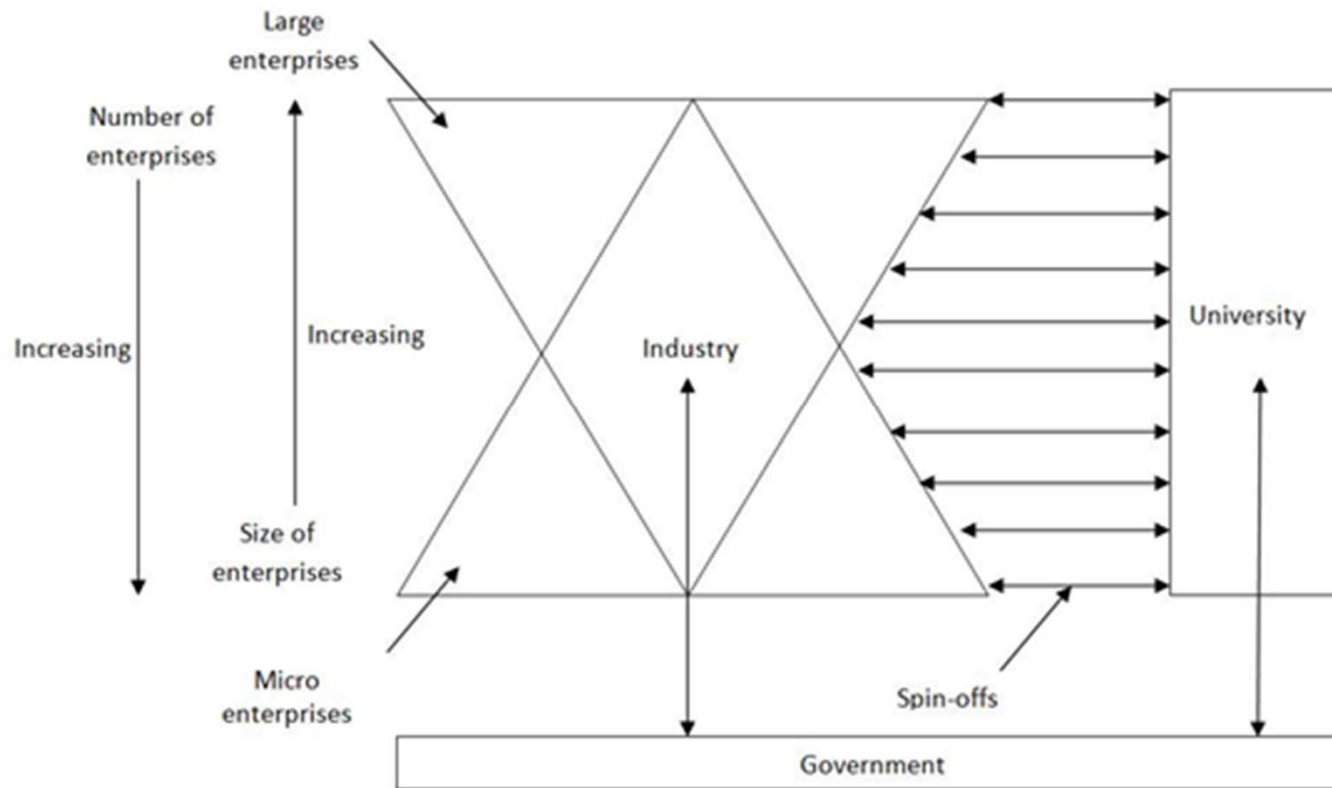
Triple Helix approach

- This strategy requires great science and technology policy capacity of the state, industry and universities, since the judgements of the level and type of intervention in particular areas become more critical (Etzkowitz, 1997).
- It is a synergy in knowledge spillovers among universities, industry and the government.

Triple Helix approach

- A graphical representation would be helpful, I had not encountered it before.
- How to depict it graphically?

Triple Helix approach – my original proposal for graphical illustration

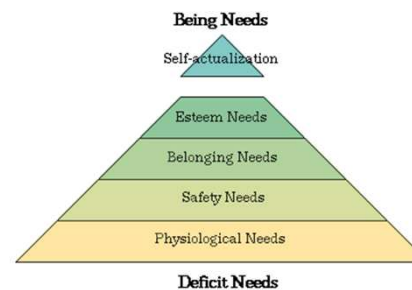
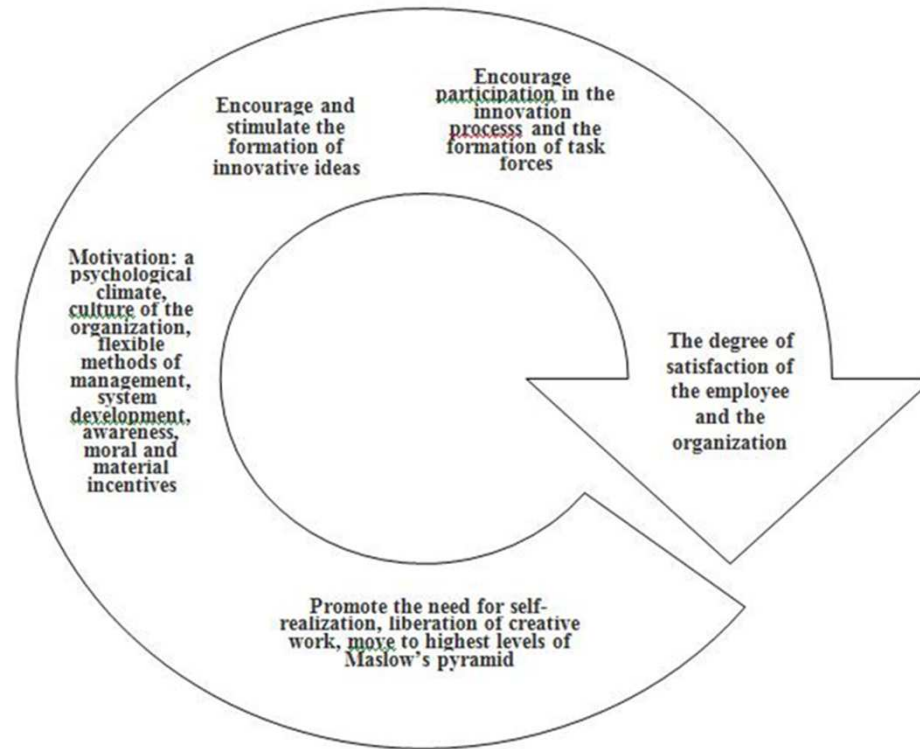


Motivating for innovation – traditions in several countries

Country	Efforts to encourage
Belgium, England, France, Germany	Creating bonus funds for development, development and production of new products, the size of which is associated with an increase in sales of such products, their proportion in the total output
Japan	A total stimulation clearly divided in four main parts: the direct payments (basic and premium), side payments, bonuses, pension payments. Encouragement to innovation is reflected in the implementation of educational and professional development, involvement in production management based on the creation of "quality circles"
USA	Involvement of advice from labor, which develop specific criteria, formulas payment, remuneration based on an appropriate scale peer reviews of new ideas by the degree of effectiveness, novelty, cost of labor innovators
Ukraine	Only one in ten companies is directly related to innovation, creativity and inventiveness in producing virtually no encouraged rampant acquired aging of scientific personnel
Latvia	The high degree of migration of scientific personnel, the lack of a clear system of incentives, which is mainly based on the writing projects that are funded by Euro funds, a mechanism to support innovation within the enterprise is missing.

Source: Turlajs, Riiaschenko (2011)

Innovation process or cycle



Questions and discussion is welcome!

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