

## Industrial Policy for Productive Transformation

ENGLISH

### The Challenge

Development experience shows that a group of countries have been high performers not only in having grown at a high and sustained rate for a long period of time, but with a pattern of growth that has led to productive diversification, a high rate of technological change and productivity growth, as well as relatively rapid job creation, growth of wages and incomes, and therefore rapid poverty reduction. In short, a group of countries that have relatively rapidly caught-up with developed countries in terms of standards of living. Development experience also shows that some kinds of growth reduce poverty more effectively than others, that some kinds of growth lead to faster productive transformation, faster learning, structural change and diversification and faster decent work creation than others.

The interpretation about what factors and policies separate such high economic and social performers from others has been a matter of strong debate, but as the Commission on Growth and Development recognized in its report, if an economy is failing to diversify its production structure and exports or generate productive jobs in new industries, governments should look for ways to jump-start the process. Such efforts to accelerate the process of learning and structural transformation are widely used in developed and developing countries and are known by various names: competitiveness policies, innovation, technology and economic diversification policies, or policies to promote clusters or value chains. These are all variants of productive transformation and industrial policies. At their core, they all have one aspect in common: mechanisms, measures and incentives to promote strategic collaboration between the private sector, workers and the government with the objective of removing obstacles to growth, promote technological upgrading and diversification and accelerate processes of learning and productivity growth.

The instruments to promote productive transformation/industrial policies have changed over time partly as a result of better understanding of what works, and partly because trade agreements have reduced the space for the use of some of the instruments that were widely used in the past. However, there remains ample space, beyond the cross cutting measures to improve the enabling environment for sustainable enterprises, to also use institutional, incentive and partnership measures to promote productive transformation and diversification in sectors with high growth and job creation potential.

The recent economic crisis has renewed interest in industrial policies and many Governments are formulating industrial policies to support recovery and to foster development and productive employment through rapid economic transformation, adoption of new technologies, and diversification into higher value added goods and services.

Many lessons have also been learned to design these policies in ways that avoid the problems of industrial policies in the past, such as excessive incentives, lack of transparency and accountability, and getting the process right.



## The ILO Response

The Resolution concerning the Recurrent Discussion on Employment adopted at the International Labour Conference of 2010 mandates the ILO to strengthening its industrial policy expertise with a view to evaluating the employment and decent work impact of such policies. The Resolution calls upon the ILO to increase its capacity to undertake research and analysis with the aim of informing policy advice.

As a first step in meeting these challenges, the ILO has developed a research programme to fill knowledge gaps and to improve understanding of the link between industrial policies, productive transformation, employment and decent work. This policy oriented research addresses both conceptual and empirical research.

The role of productive transformation and industrial policies can be seen as facilitating the process of productive transformation and learning at all levels. This process embraces agriculture, industries and services sectors, urban and rural areas and the design of industrial policies in the light of national development goals and aspirations, National Employment Policies and National Development Strategies.

Recent ILO research provides two important policy lessons. First, manufacturing has a high potential to drive the catching up process as it provides wide potential for increasing returns, and broad learning opportunities in an increasing variety of technologies and occupations. Tradable services can play a similar role in particular country context. Second, education policies play a central role in shaping the dynamics of productive transformation and pro-employment growth by transforming the education structure in the labour force. There is strong empirical support that educational transformation needs to precede economic transformation.

The ILO is currently undertaking empirical research and country studies with a view to providing lessons on good practices for the design of productive transformation and industrial policy interventions and instruments in specific country contexts. The objective is that this improved understanding will provide the basis for developing ILO capacity and technical expertise to provide practical guidance to constituents, as mandated by the Recurrent Discussion on Employment. The ILO is also preparing policy guidelines on industrial policies for productive employment and decent work. Furthermore, the ILO is currently actively engaged in international policy debates on industrial policy and employment and collaboration on this issue has started with the UN Conference on Trade and Development and the UN Industrial Development Organisation.

## Key Tools and Resources

Rodrik, D. 2007. "Industrial policy for the twenty-first century", in *One economics, many recipes* (Princeton University Press).

Commission on Growth and Development. 2008. *The Growth Report. Strategies for sustained growth and inclusive development* (Washington D.C, World Bank).

International Labour Office (ILO). 2011. *Growth, employment and decent work in the least developed countries: Report of the International Labour Office for the Fourth UN Conference on the Least Developed Countries, Istanbul, 9-13 May 2011* (Geneva, ILO).

Nübler, I. 2011. *Industrial policies and capabilities for catching up: Frameworks and paradigms* (Employment Working Paper No. 77, Geneva, ILO).

Ronnas, Per. 2011. *Challenges for achieving job-rich and inclusive growth in Mongolia* (Employment Working Paper No. 94, Geneva, ILO).

Salazar-Xirinachs, J.-M.; Kozul-Wright, R. (eds.). Forthcoming. *After the money's gone: Why industrial policy matters for inclusive growth and job creation* (Geneva, ILO and UNCTAD).

Nübler, I. Forthcoming. *Capabilities for productive transformation and employment* (Geneva, ILO).



**Irmgard Nübler**  
Coordinator, Industrial Policy for Productive Transformation Programme

Contact us:  
Economic and Labour Market  
Analysis Department  
Employment Sector  
International Labour Office  
Route des Morillons 4  
CH-1211 Geneva 22 / Switzerland  
Tel: +41 22 799 6111  
Email: empelm@ilo.org  
[www.ilo.org/empelm/](http://www.ilo.org/empelm/)