

Transition Report 2024-25

Navigating industrial policy



Outline

An introduction to industrial policy:

Evolving objectives

Promoting structural change:

Services-led growth

Regional inequality and
special economic zones

Industrial policies supporting firms

Structural reform



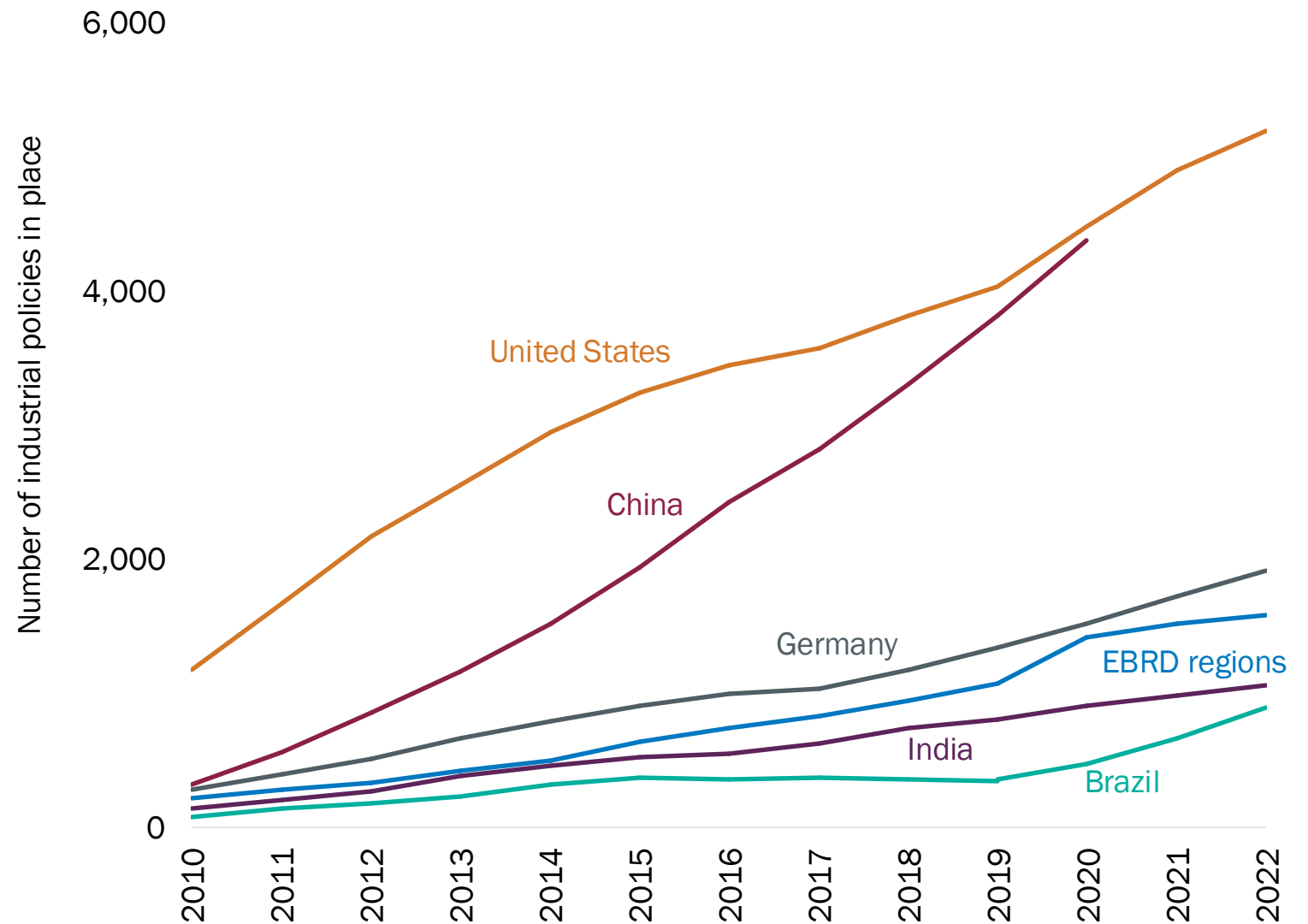
An introduction to industrial policy



What are industrial policies?

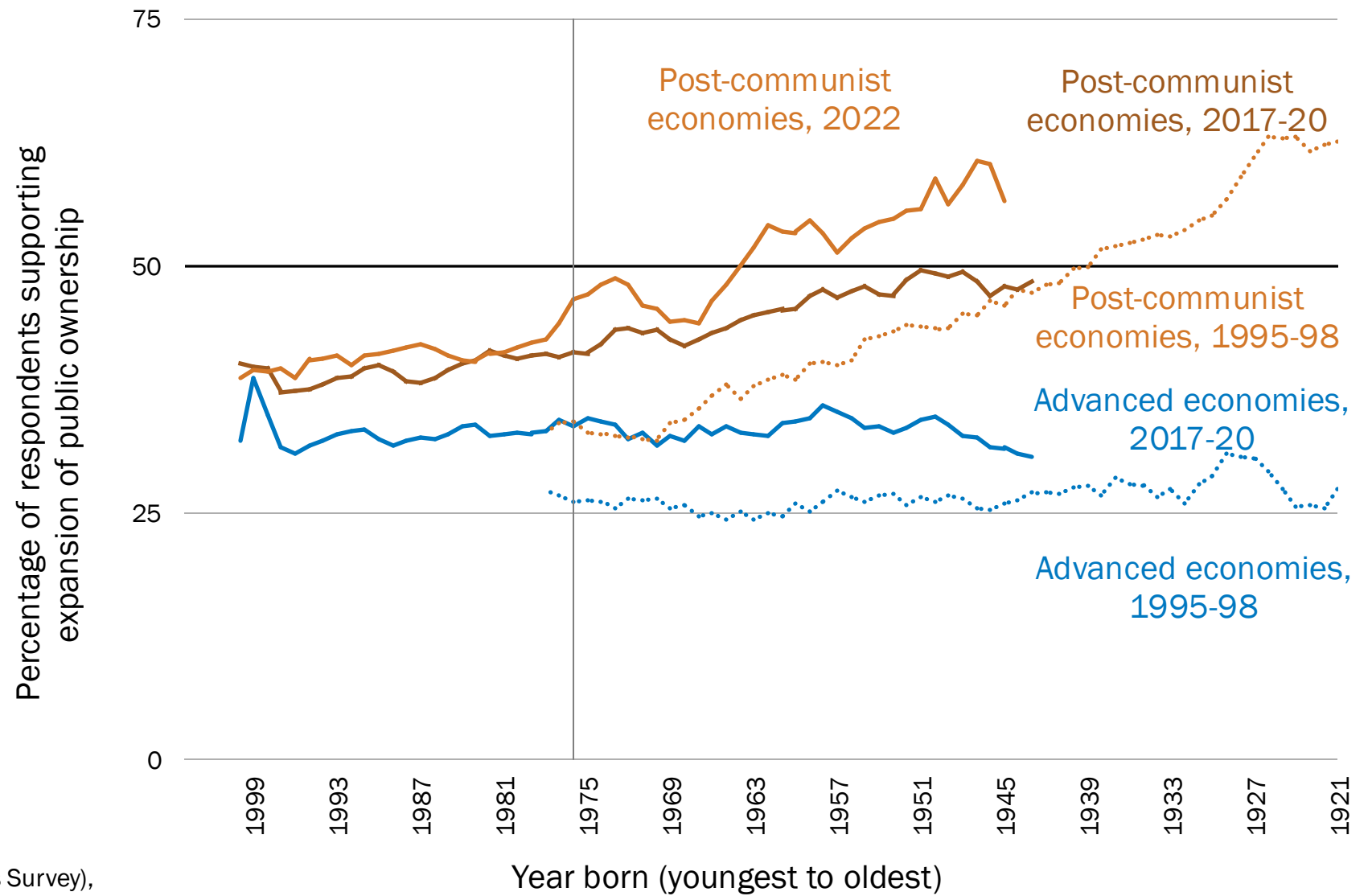
- interventions aimed at **changing the sectoral composition** of an economy
- seek to address **market failures** and **externalities** – for example, environmental degradation
- or **coordination failures** – for example, in innovation and transfer of knowledge
- government intervention is warranted as **markets may not deliver an efficient outcome**

Industrial policies have surged in recent years



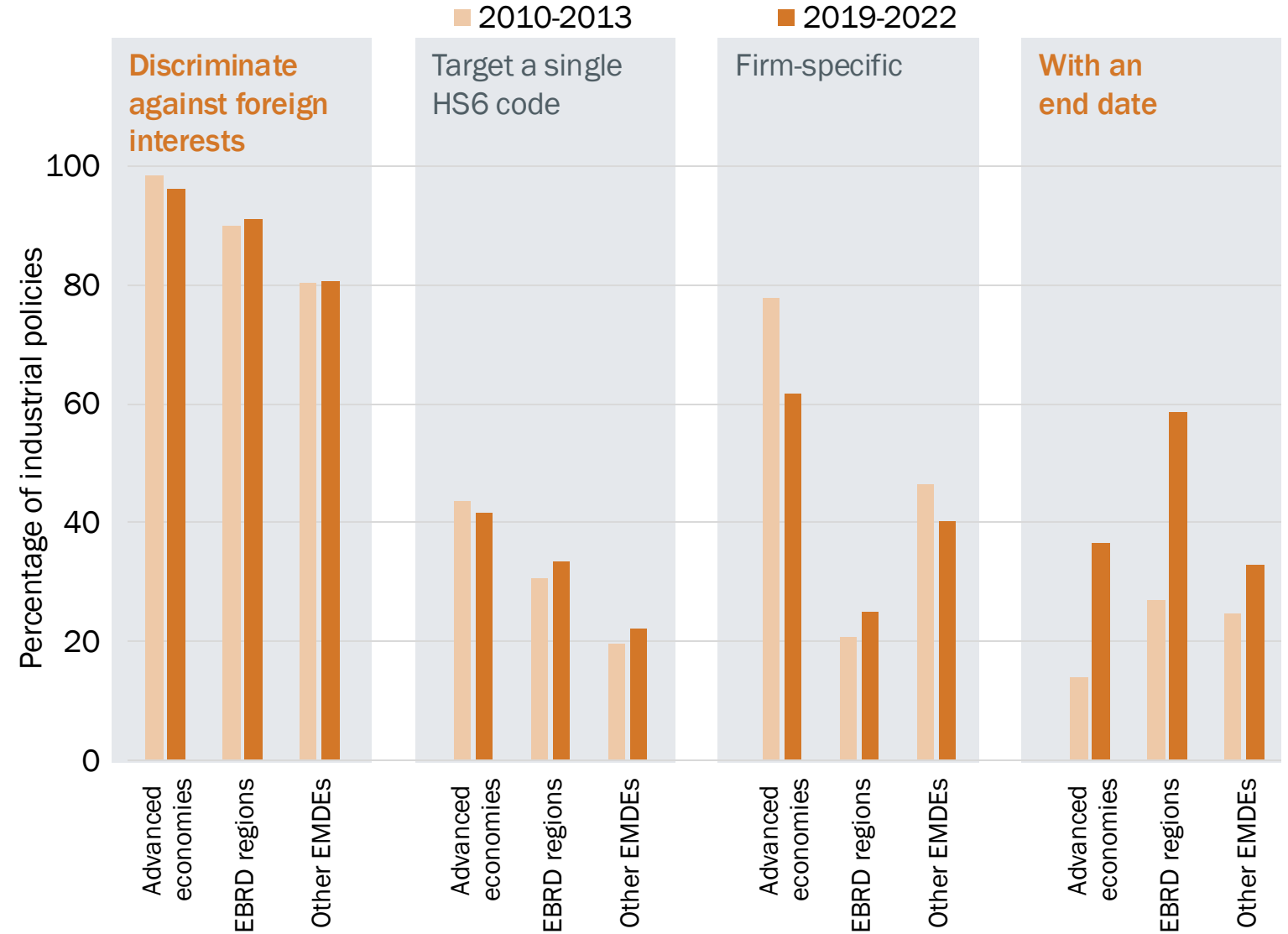
Source: GTA, Kóczán et al. (2024), Juhász et al. (2023a) and authors' calculations.

Popularity of industrial policy reflects **public demand for a larger state**



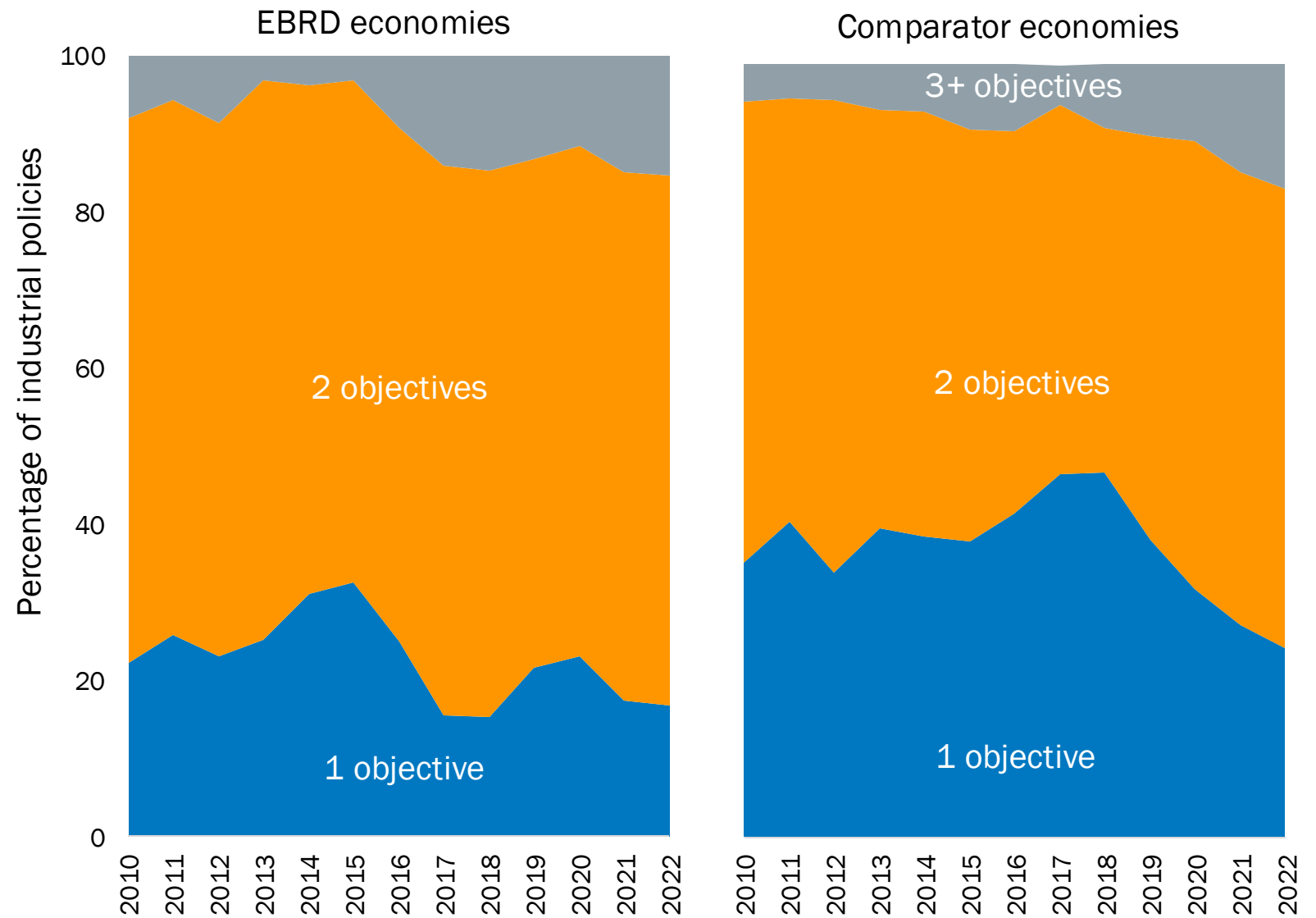
Source: EBRD (2020) (based on World Values Survey), LiTS IV and authors' calculations.

Discrimination against foreign interests is a frequent feature of industrial policies

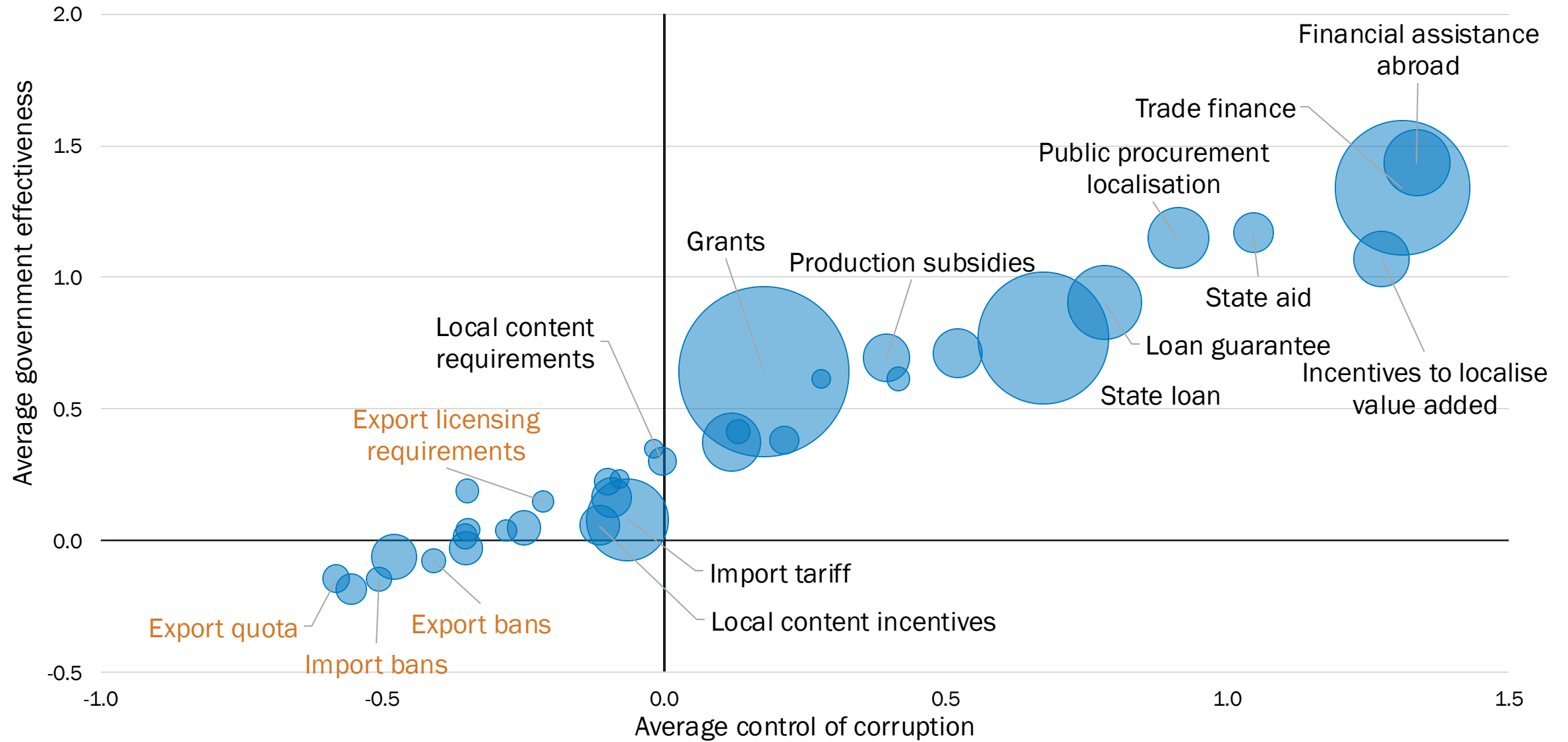


Source: GTA, Kóczán et al. (2024), Juhász et al. (2023a) and authors' calculations.

Industrial policies tend to target **multiple objectives**



Source: Kóczán et al. (2024), Juhász et al. (2023a) and authors' calculations.

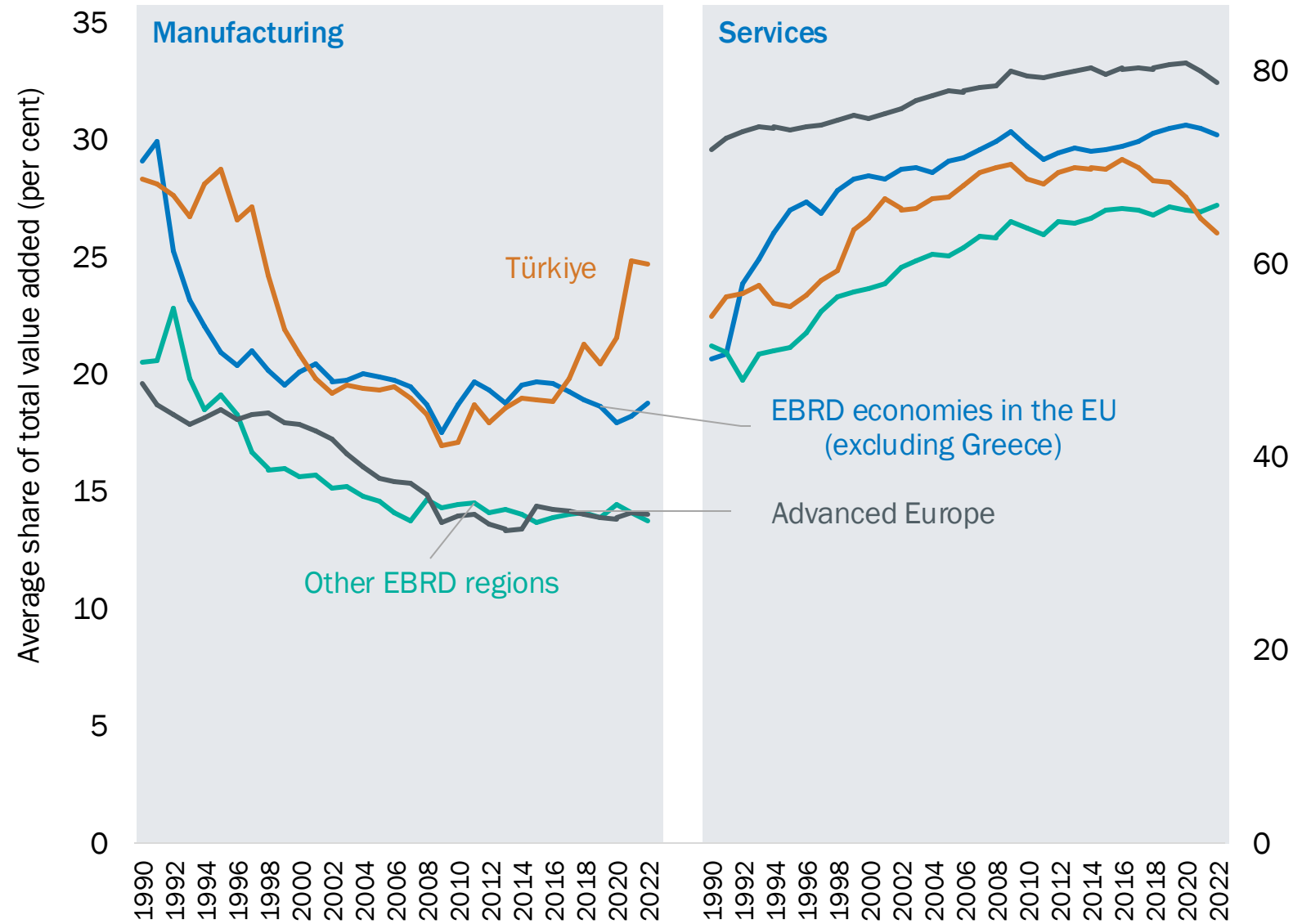




Promoting structural change

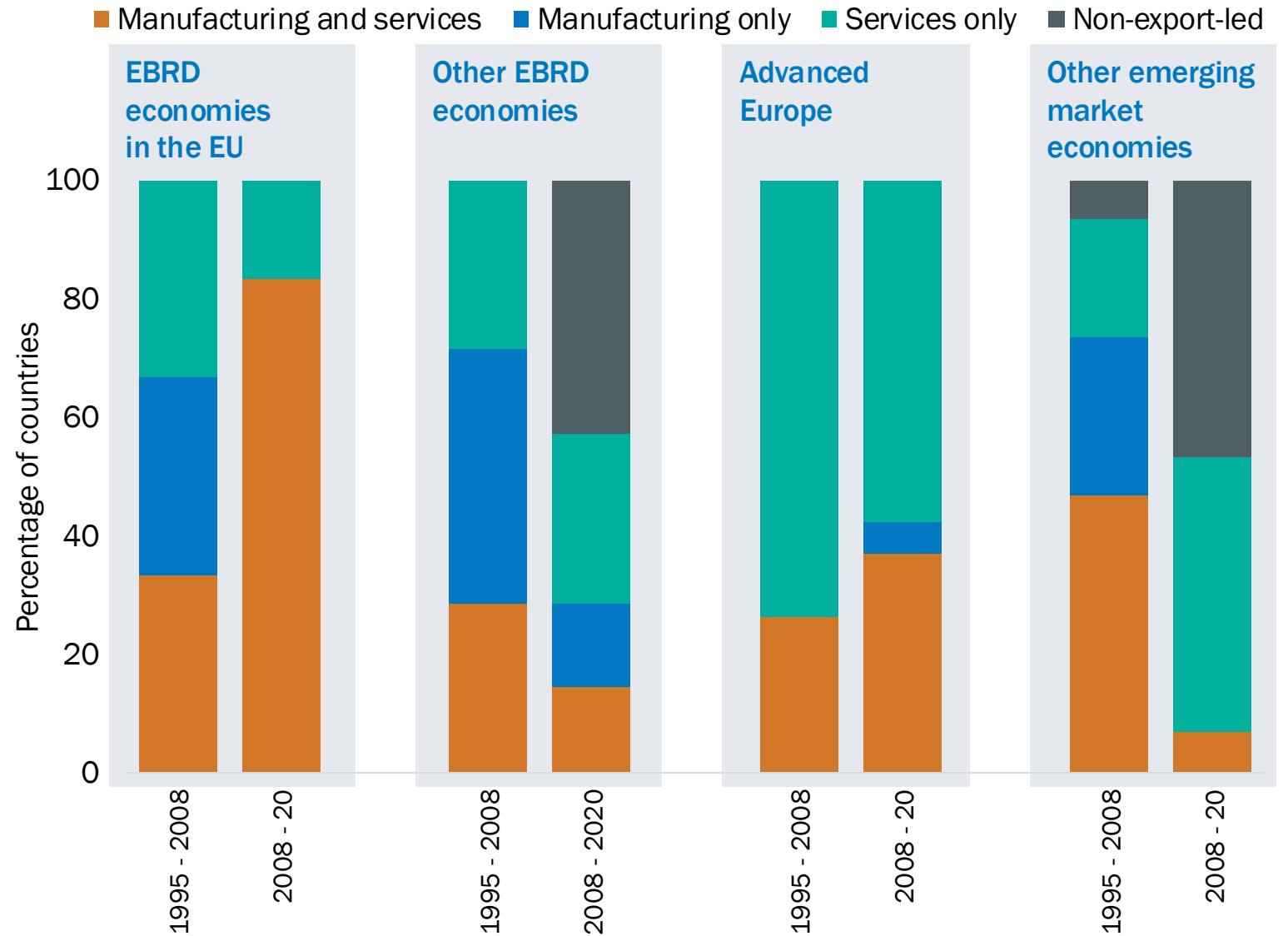


Structural change: the **shift from manufacturing to services**



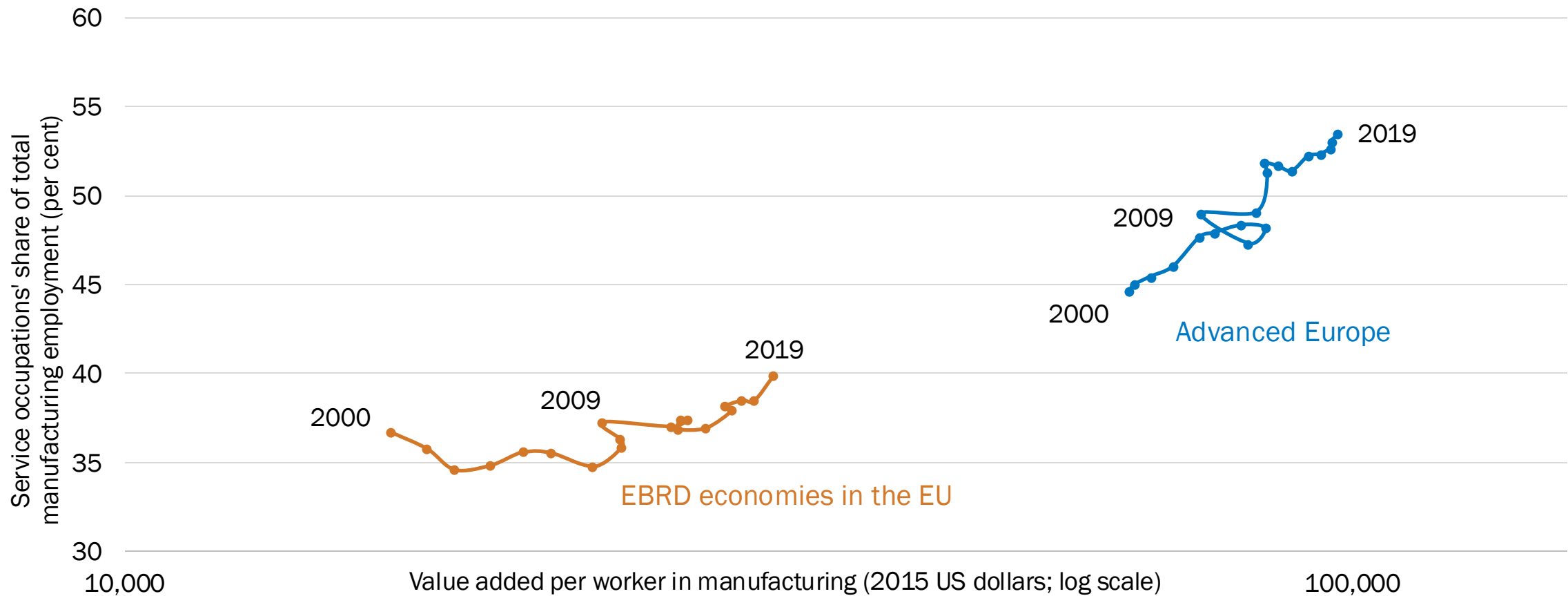
Source: UN Statistical Division, harmonized National Accounts, and authors' calculations.

Pursuing the manufacturing- exports-led growth model has become increasingly challenging

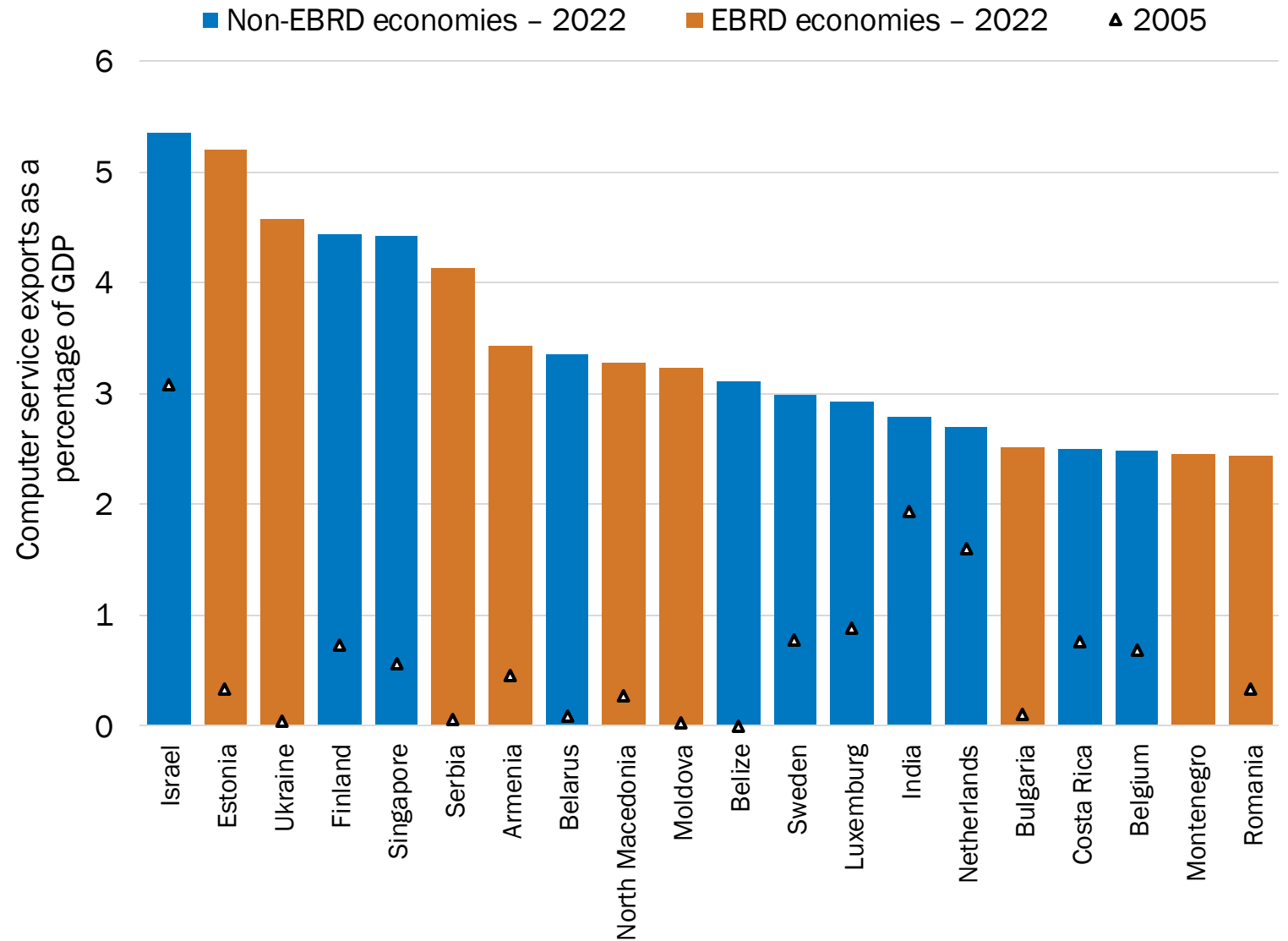


Source: OECD TiVA database and authors' calculations.

With digitalisation, services are easier to trade across borders, while **manufacturing** has become **increasingly reliant on services**

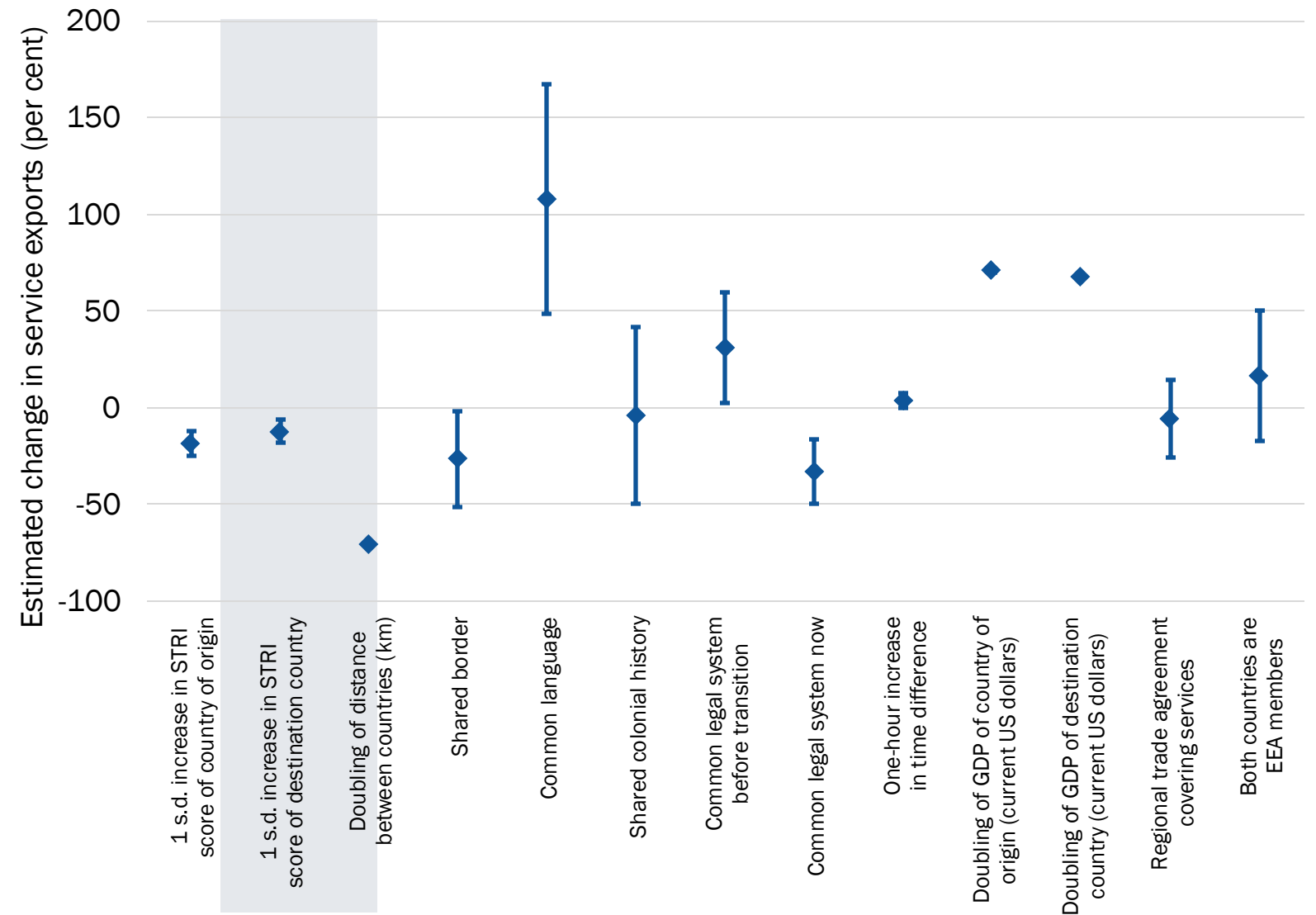


Some economies in the **EBRD regions** are among the top computer services exporters, others need to upgrade infrastructure, skills, institutions to excel at high-value services



Source: WTO TiSMoS dataset, World Bank World Development Indicators (WDIs) and authors' calculations.

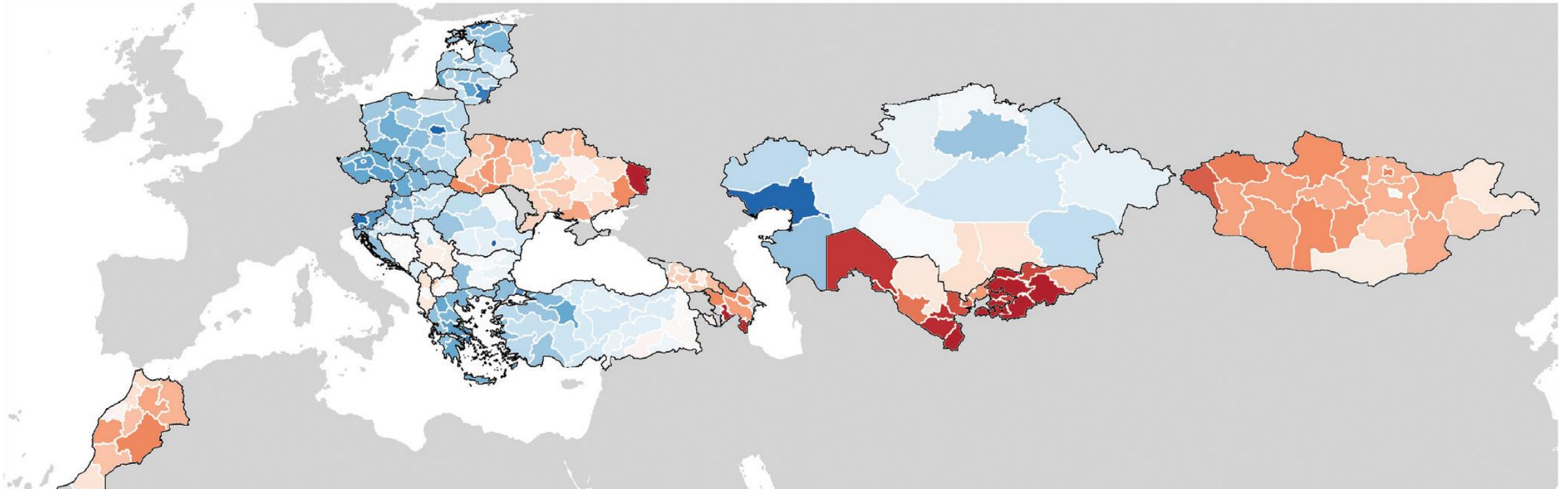
Services trade liberalisation can support the shift towards exports of high-value-added services



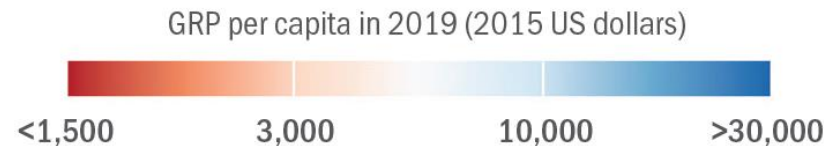
Regional inequality and special economic zones



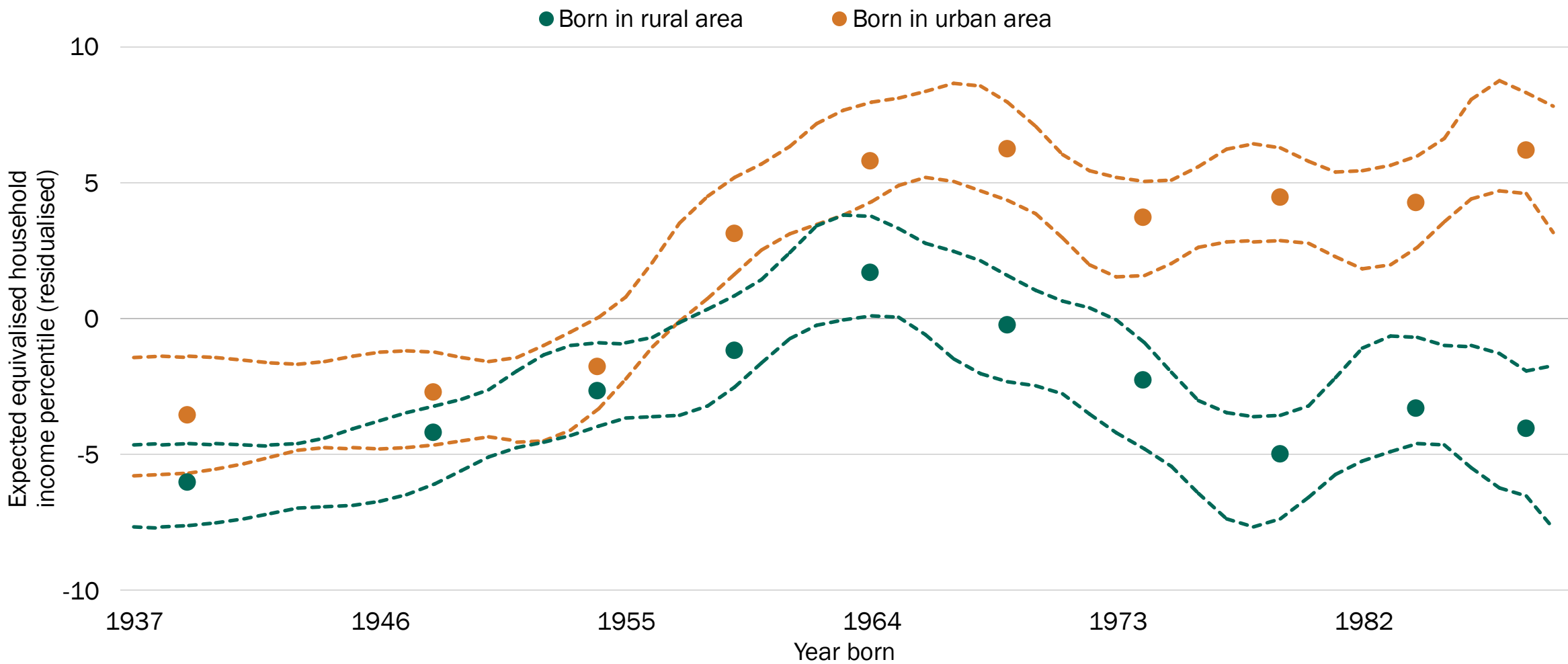
Special economic zones and other place-based policies often seek to address **persistent regional inequality**



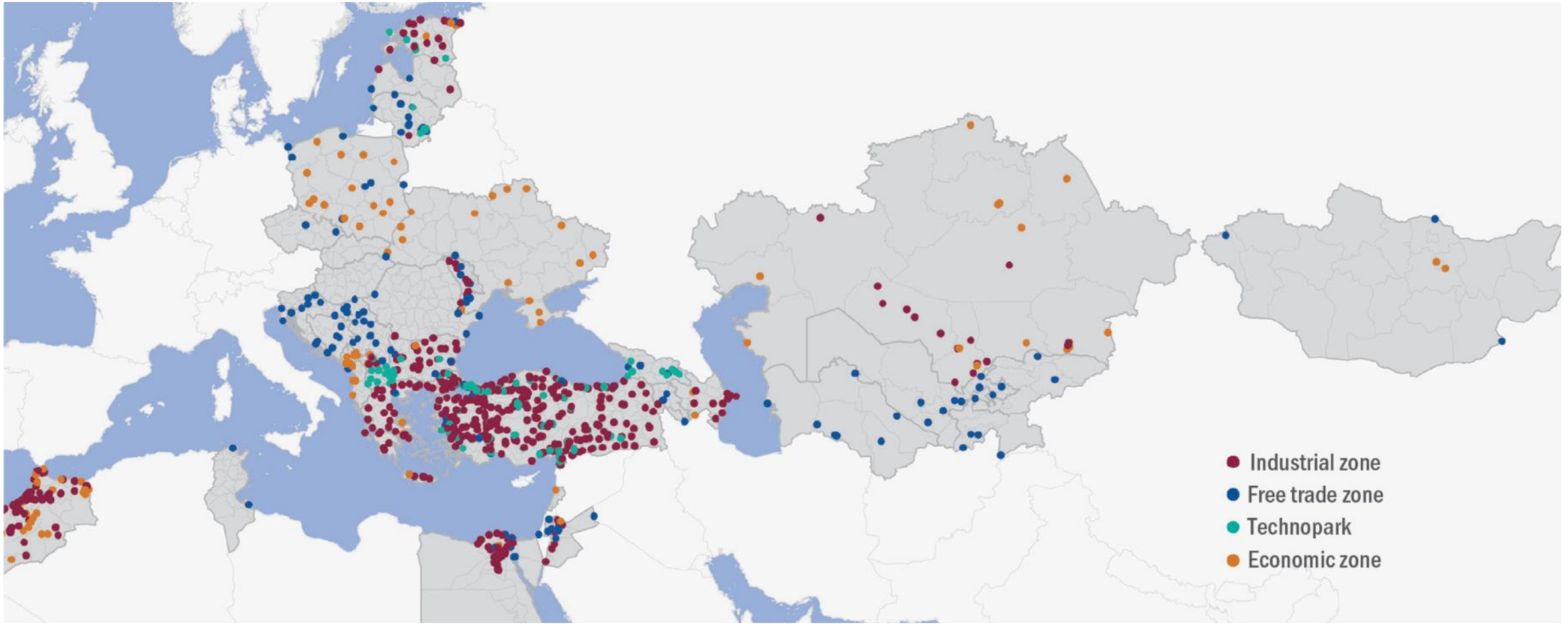
Source: ARDECO database, Wenz et al. (2023), Kazakhstan's Bureau of National Statistics, GISCO, GADM and authors' calculations.



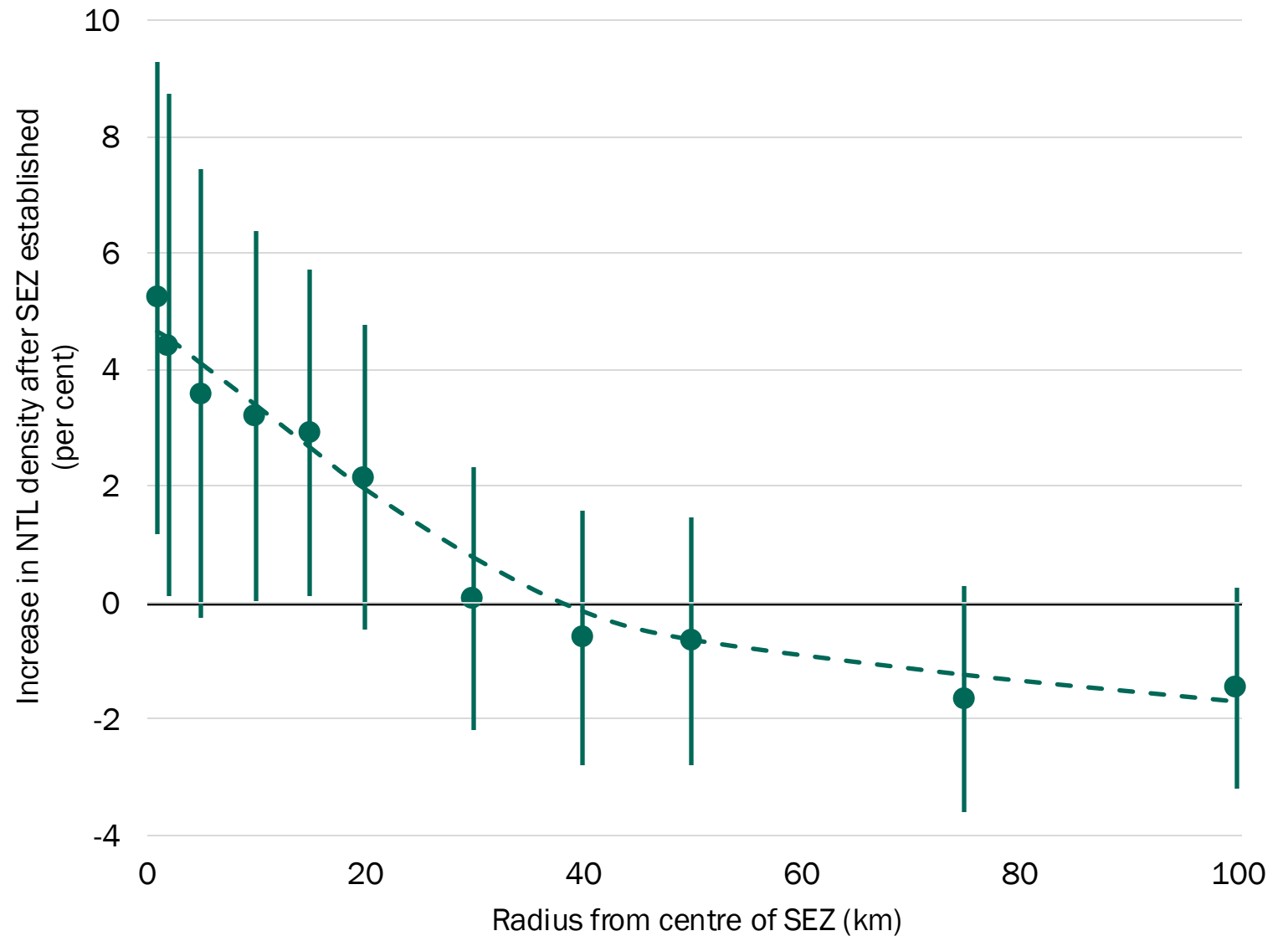
Including persistent, and growing, rural-urban divides



The number of **special economic zones** in the EBRD regions increased from < 100 in 1990 to 1,150+ in 2020



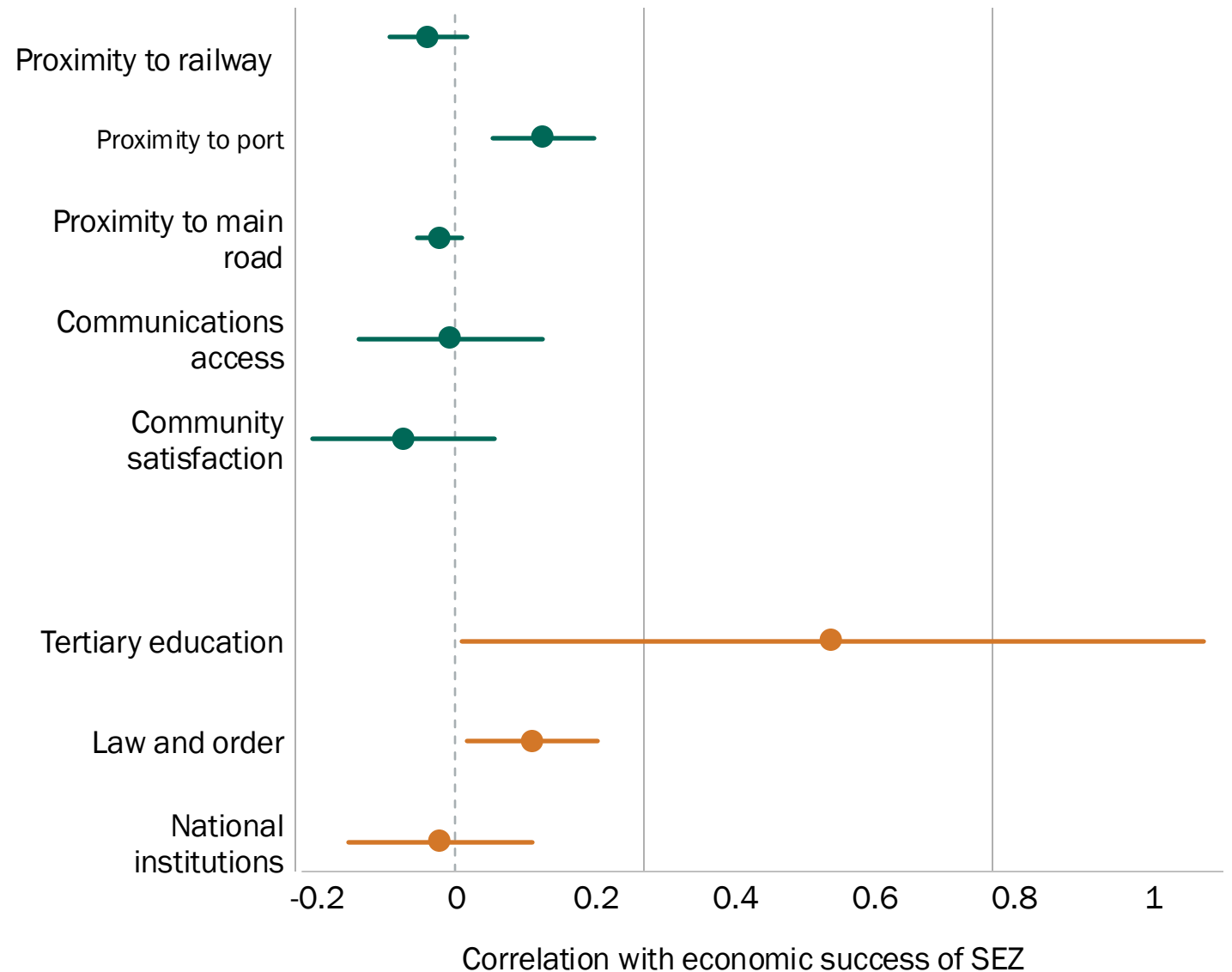
Establishment of
**SEZ associated with
increased economic
activity** over time,
within radius < 20 km



Source: EBRD database of SEZs, Li et al. (2020) and authors' calculations.

Proximity to a **port**,
more workers with
tertiary education,
better **law and order**
are associated with
stronger economic
performance of areas
surrounding SEZs

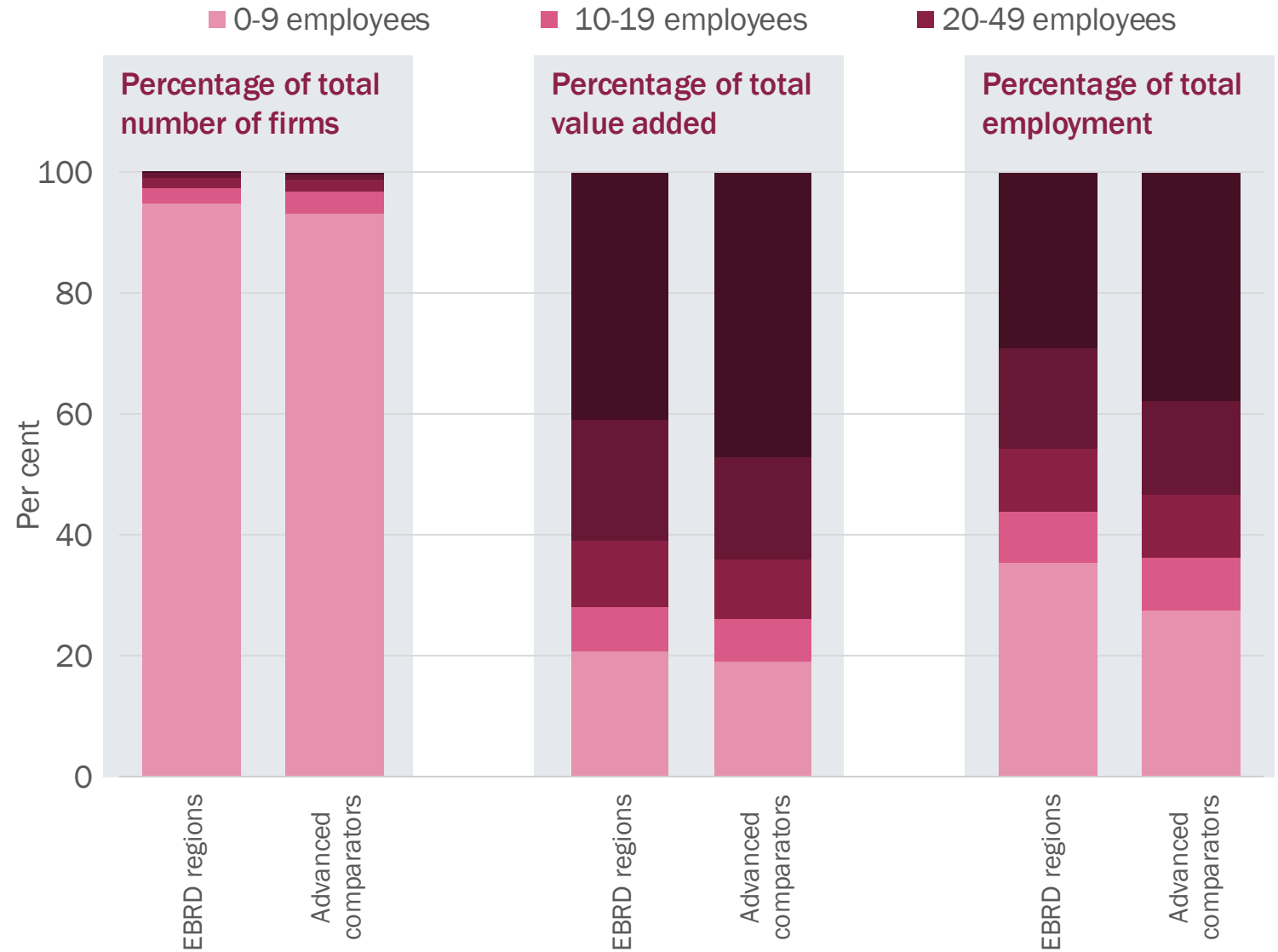
Source: EBRD database of SEZs, Li et al. (2020), US National Geospatial- Intelligence Agency's VMAPO dataset and World Port Index (2010), ITOS's gROADS dataset (version 1), Gallup World Polls 2005-08 and authors' calculations.



Industrial policies supporting firms

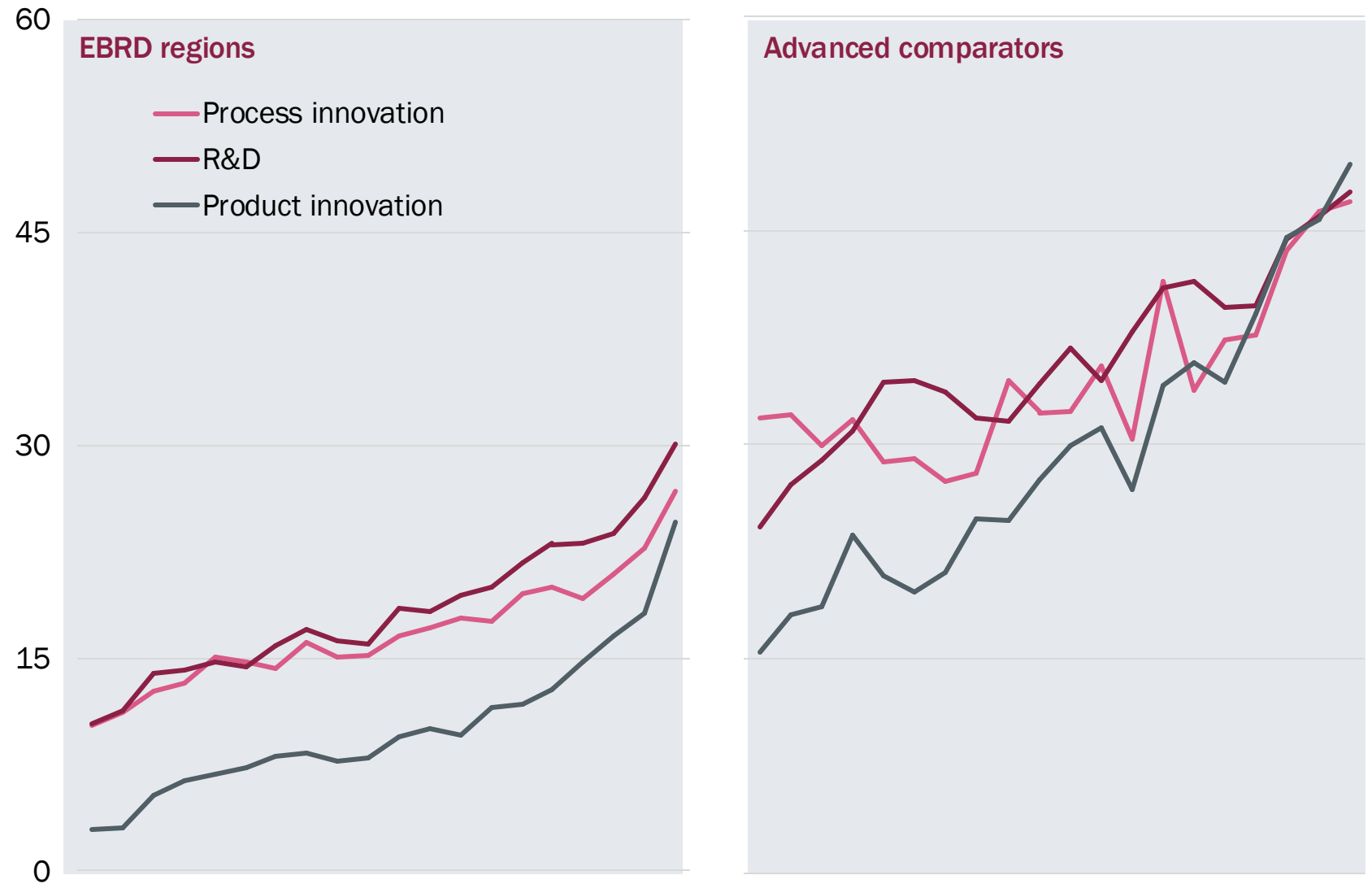


A relatively small number of **large firms** account for a **large share of jobs** in the EBRD regions, owing to economies of scale, higher levels of productivity



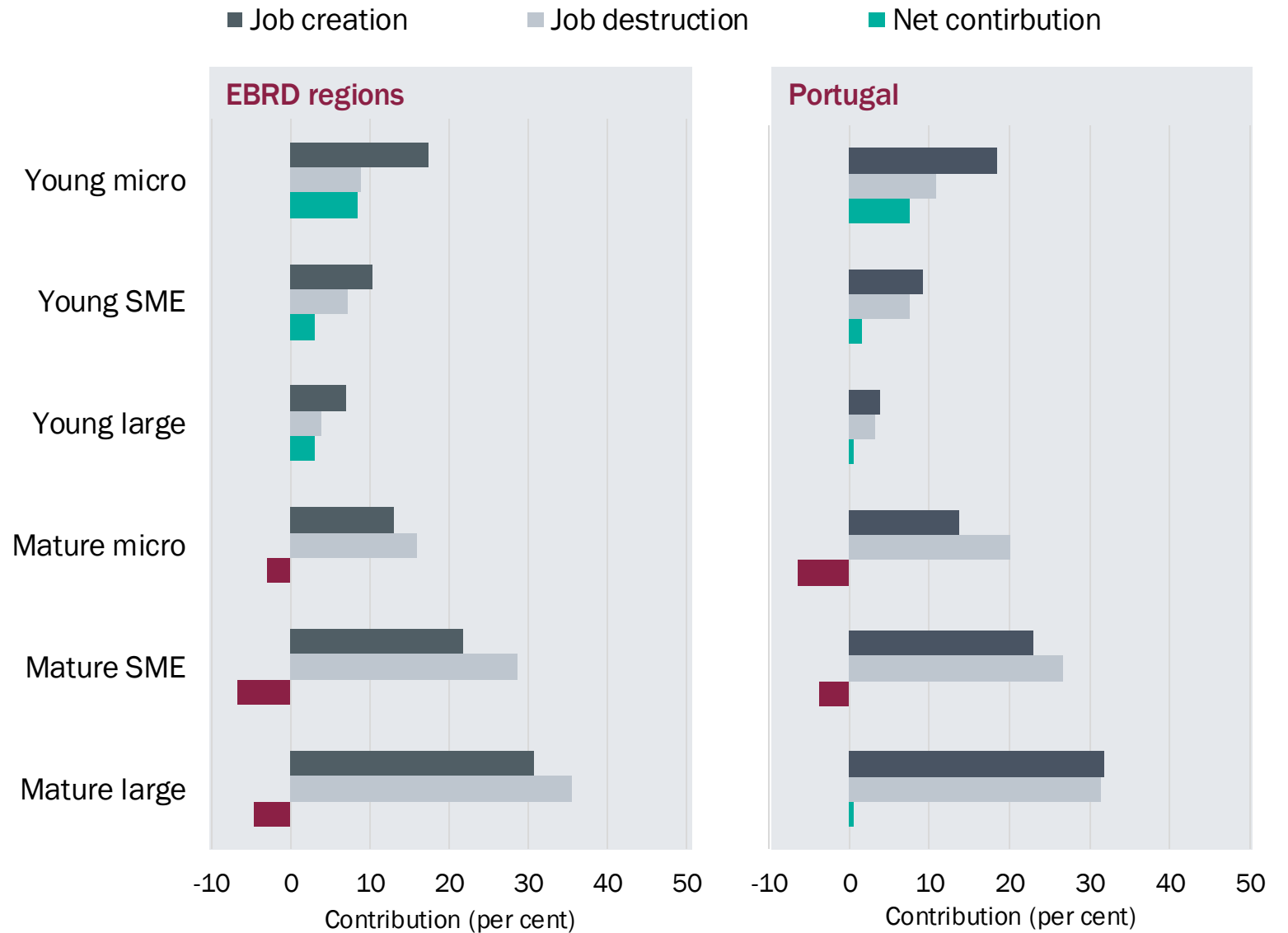
Source: Eurostat's SBS database (2021).

Large firms also innovate more



Source: BEEPS III-VI (unweighted averages).

Among SMEs, **young firms** tend to be characterised by high rates of employment growth and higher return on capital



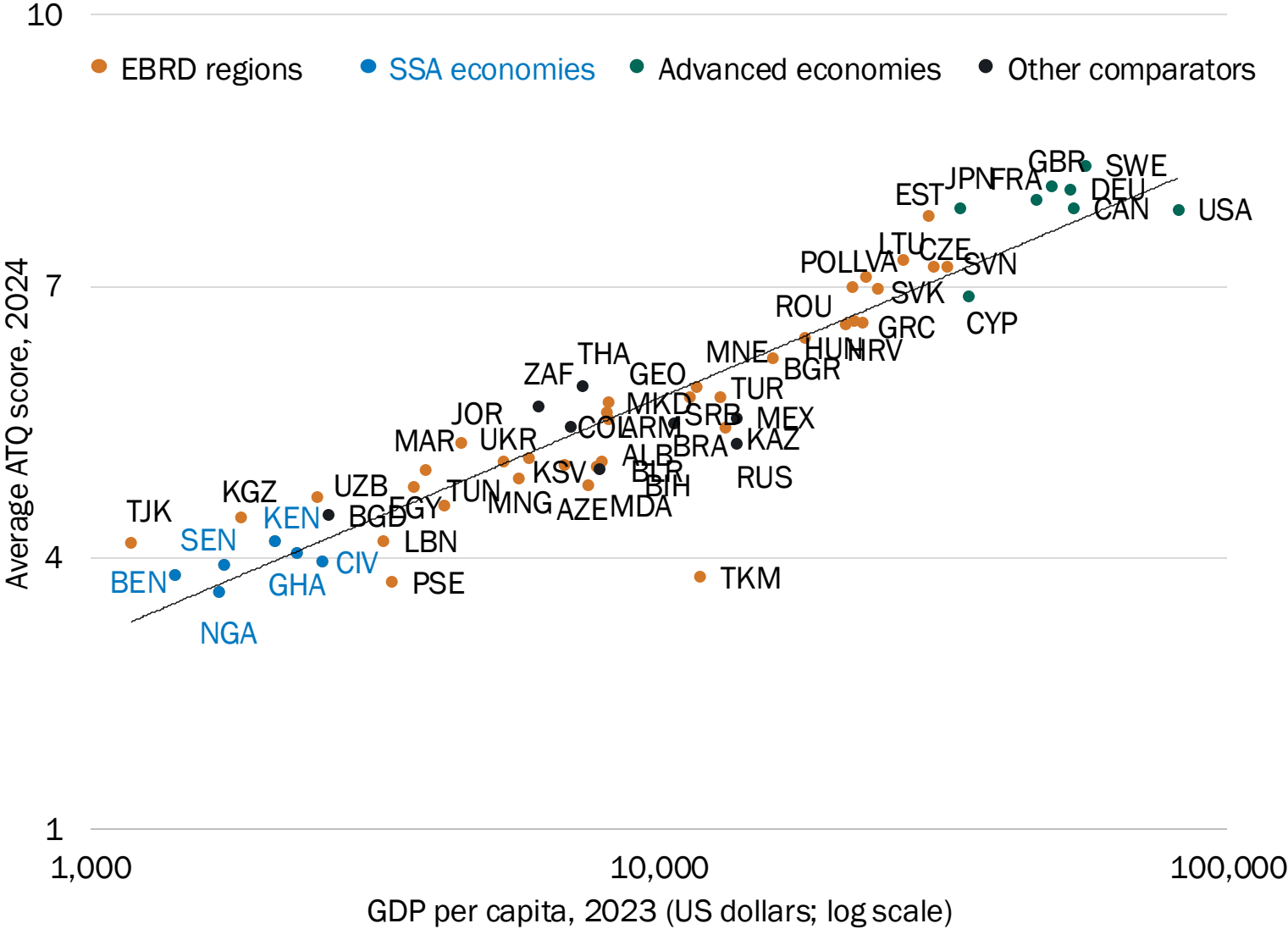
Source: Orbis database (2016-21).

Structural reform



The scores tend to be lower in **SSA6 economies** than in the EBRD regions, in line with their lower levels of income per capita

Source: EBRD, IMF and authors' calculations.



Articulate and prioritise objectives

Build in evaluations and let
"losers" go

Central coordination and
competitive pressures

Choose appropriate instruments

Plan for phasing out

Leverage limited administrative
capacity



Acknowledgements

Prepared by the EBRD Office of the Chief Economist, with contributions from other departments and under the general direction of Beata Javorcik

Editors: Ralph De Haas and Alexander Plekhanov

Chapter 1: Maxim Chupilkin, Zsoka Koczan (team leader), Victoria Marino, Alexander Plekhanov and Xiaoyu Yan

Chapter 2: Pablo García-Guzmán, Anton Grahed, Beata Javorcik and Helena Schweiger (team leader)

Chapter 3: Cevat Giray Aksoy (team leader), Ralph De Haas, Pablo Garcia Guzman, Francesco Loiacono, Andrés Rodríguez-Pose, Ege Öndeş, Muhammed Hasan Yilmaz and Xuanyi Wang

Chapter 4: Cevat Giray Aksoy, Tim Deisemann, Francesco Loiacono (team leader), Federica Mascolo and Niharika Satish

Chapter 5: Alexander Plekhanov and Anna Sali

Design: Blackwood Creative Ltd

Production managers: Cathy Goudie and Dan Kelly

Online country pages and structural reform annex: Edited by Peter Sanfey