



# New Policies for Growth: Roles of the Public and Private Sectors

**Presentation by Martin D. Chrisney**  
**10<sup>th</sup> International Management Congress**  
**July 21, 2009 Porto Alegre**

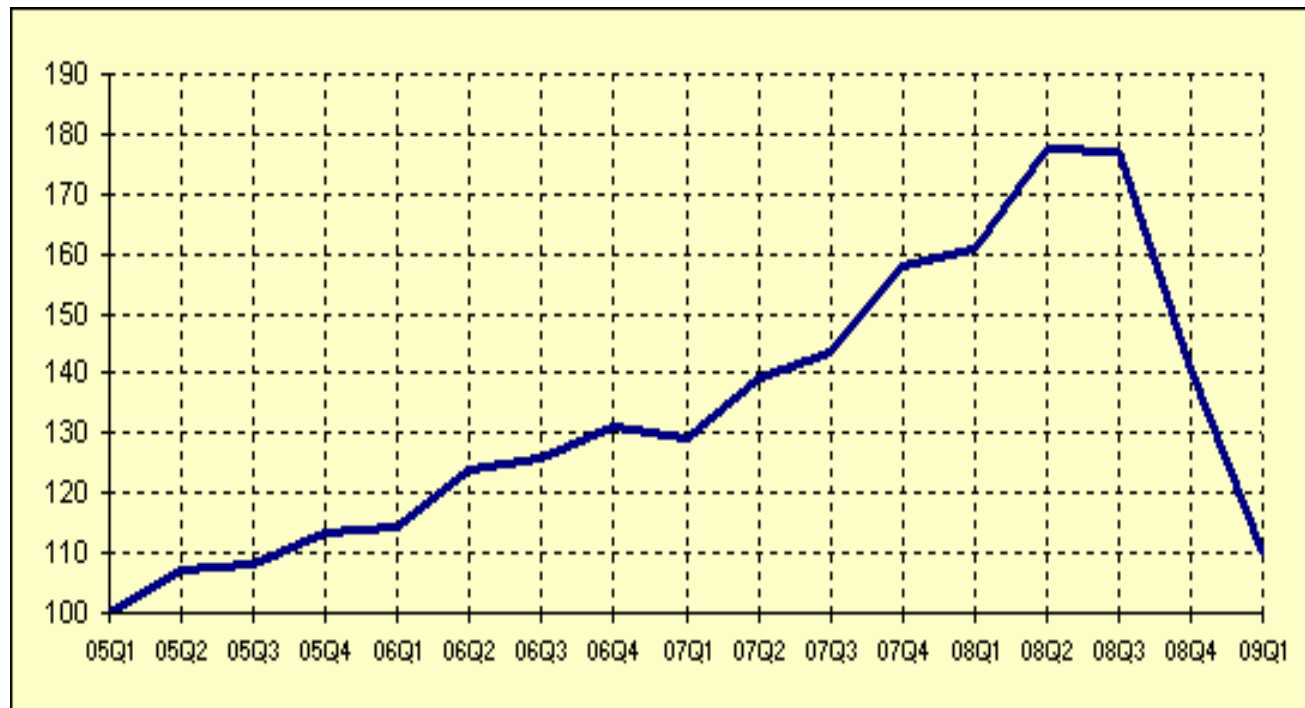
# Outline

- Drivers of economic growth
- Role of public institutions and productivity
  - Public Private Dialogue
  - Public Private Partnerships: Cluster Development
  - Productive Development Policies (PDPs)
- Role of the Inter-American Development Bank

# Sources of Growth

- Trade
- Capital Flows
- Technology

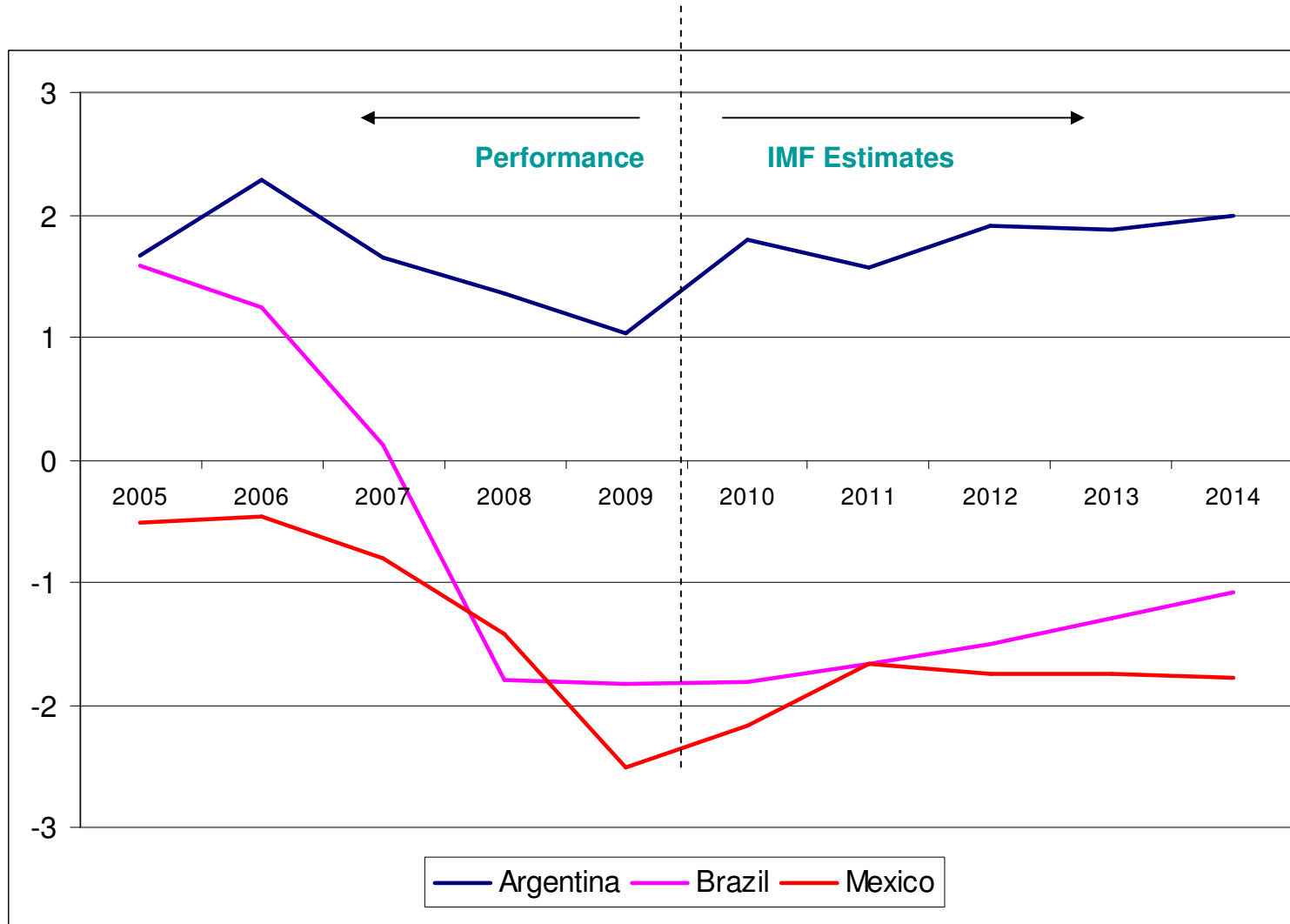
# Decline in Global Trade: *31% drop 2009/08 q1*



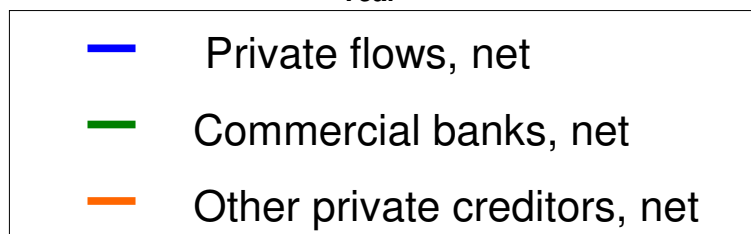
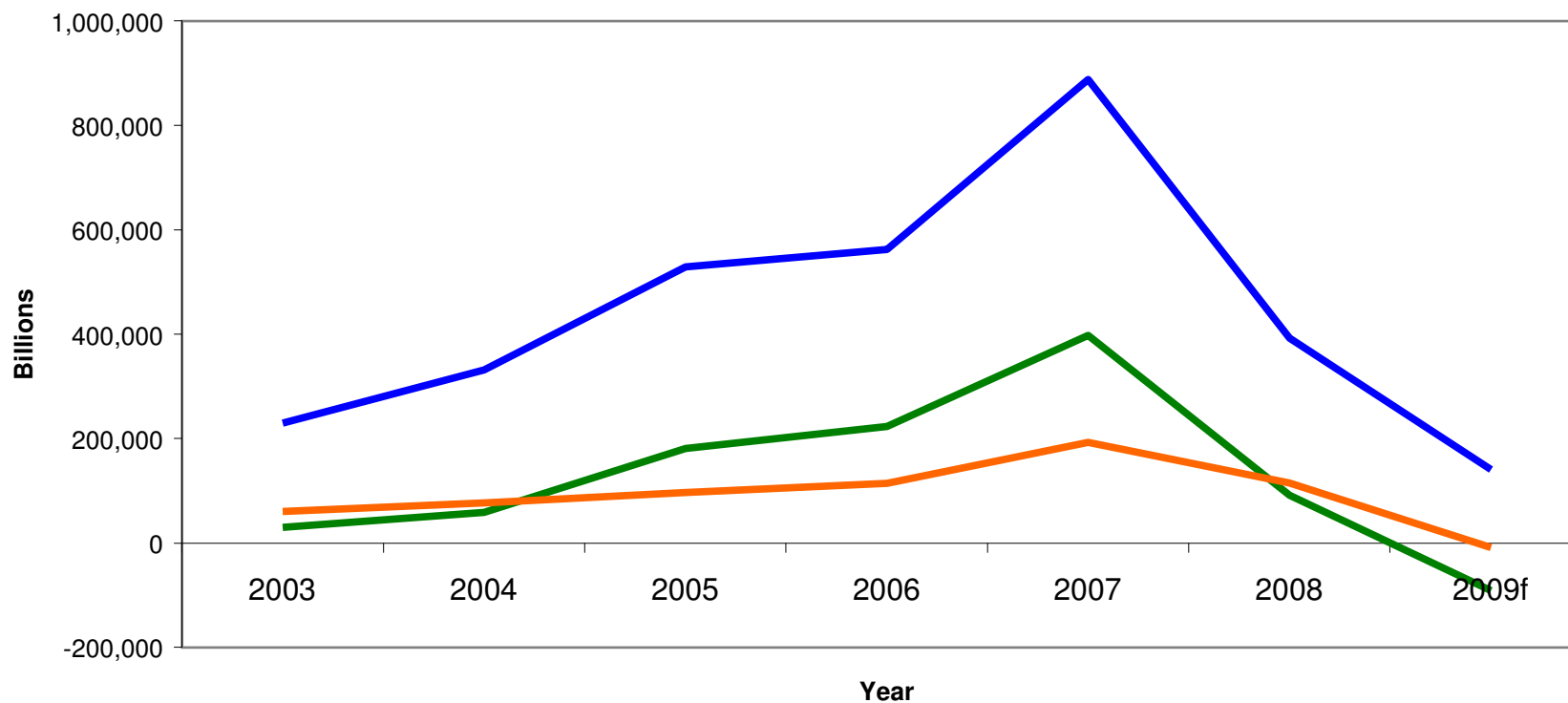
Source: WTO



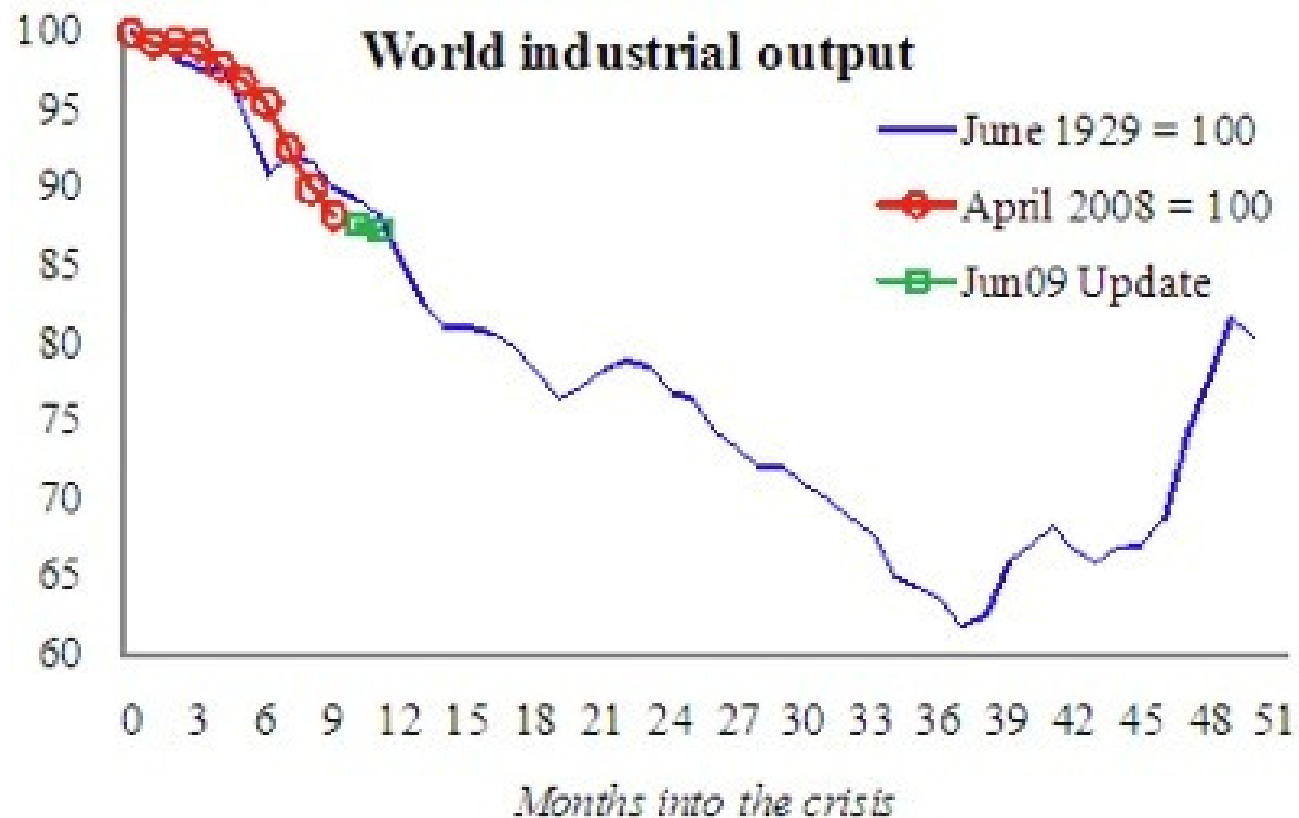
# Impact of Financial Crisis: Trade Balance



# Private Net Capital Flows



# Decline in World Industrial Output



# Impact of Financial Crisis: Real GDP, Exports and Imports

## World : Forecast Summary

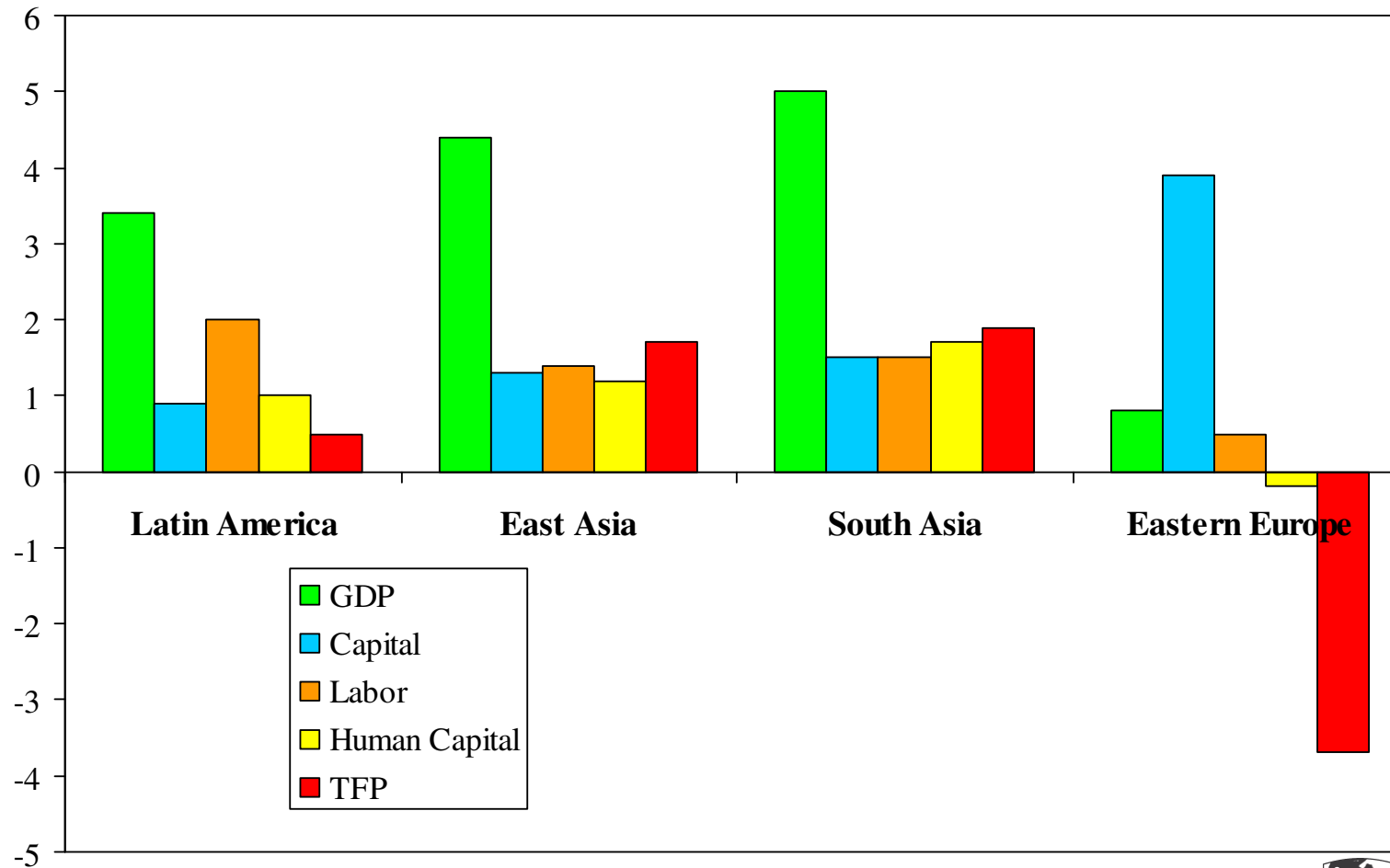
	2009	2010	2011
1. Real GDP	-2.9	2.0	3.2
2. Exports	-9.7	3.8	6.9
3. Imports	-7.7	4.1	7.2

## Latin America: Forecast Summary

	2009	2010	2011
1. Real GDP	-2.2	2.0	3.3
2. Exports	-7.7	2.3	5.1
3. Imports	-9.0	2.9	5.9
4. Current Account (% GDP)	-2.3	-2.1	-1.9



# Growth and Technology: (1970-2000)



Source: IDB, excluding China



# The Income Gap

## Summary Statistics for Relative Income per Capita

	1950	1960	1970	1980	1990	2000
Latin America						
Average	24%	25%	26%	27%	21%	20%
Median	20%	20%	21%	23%	18%	14%
Std. Deviation	0.15	0.16	0.16	0.15	0.12	0.14
Mean 5 Poorest	12%	11%	11%	11%	8%	7%
Mean 5 Richest	49%	50%	51%	50%	37%	41%
Ratio 5 Richest/5 Poorest	4.0	4.4	4.8	4.5	4.7	5.9
Europe 15	49%	57%	70%	74%	74%	73%
East Asia	14%	16%	24%	33%	42%	48%
South Asia	7%	6%	6%	6%	6%	7%

Source: Maddison (2003). Figures are arithmetic averages of countries in each group.

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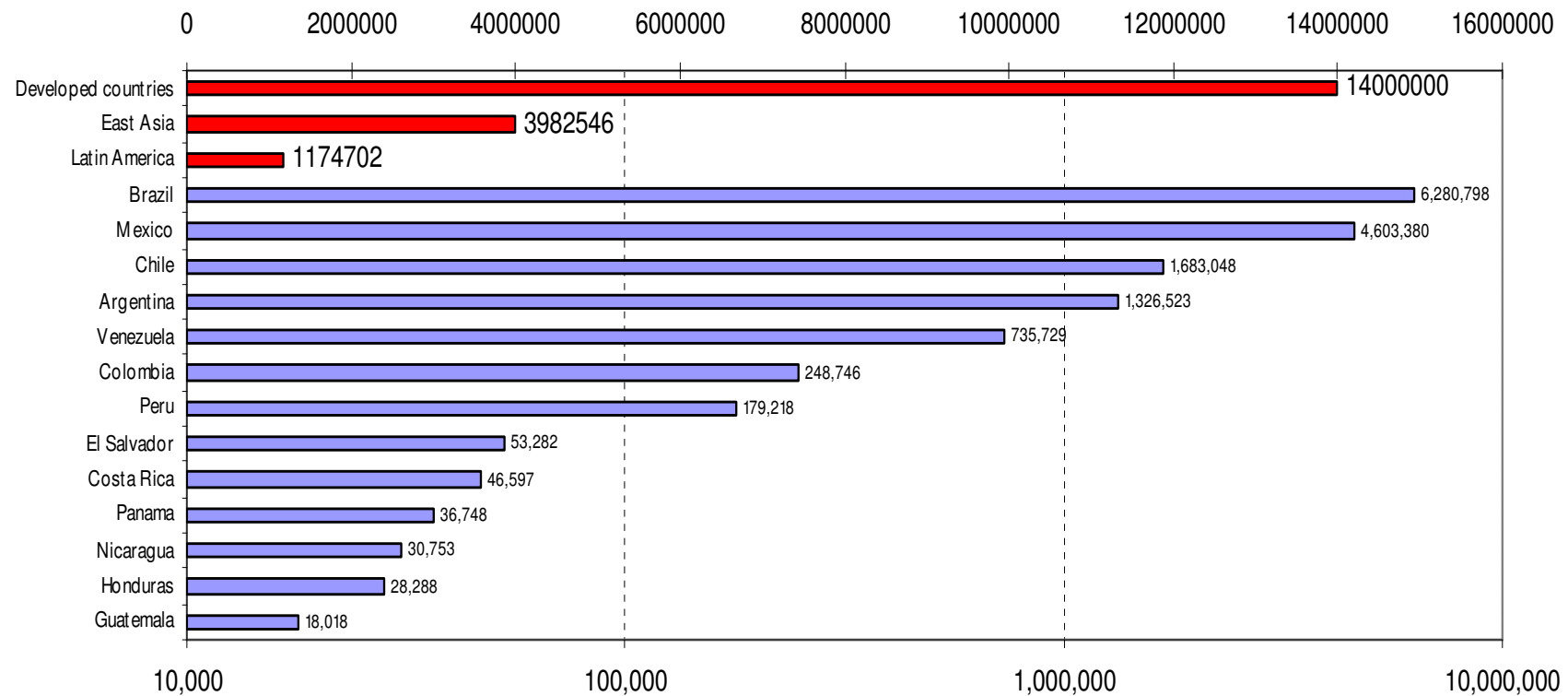


# New Policies for Growth

- New Paradigm for Growth Policies: Beyond the Washington Consensus
  - Pace of technological change
  - Increase in global competition
  - Competition for scarce capital
- Policies that Affect Firm Level Productivity
  - Innovation
  - Scale of operations
  - Inter-firm linkages

# Size of the Largest Firms

## Regional Comparison of the Size of Large Companies (In thousands of US\$)



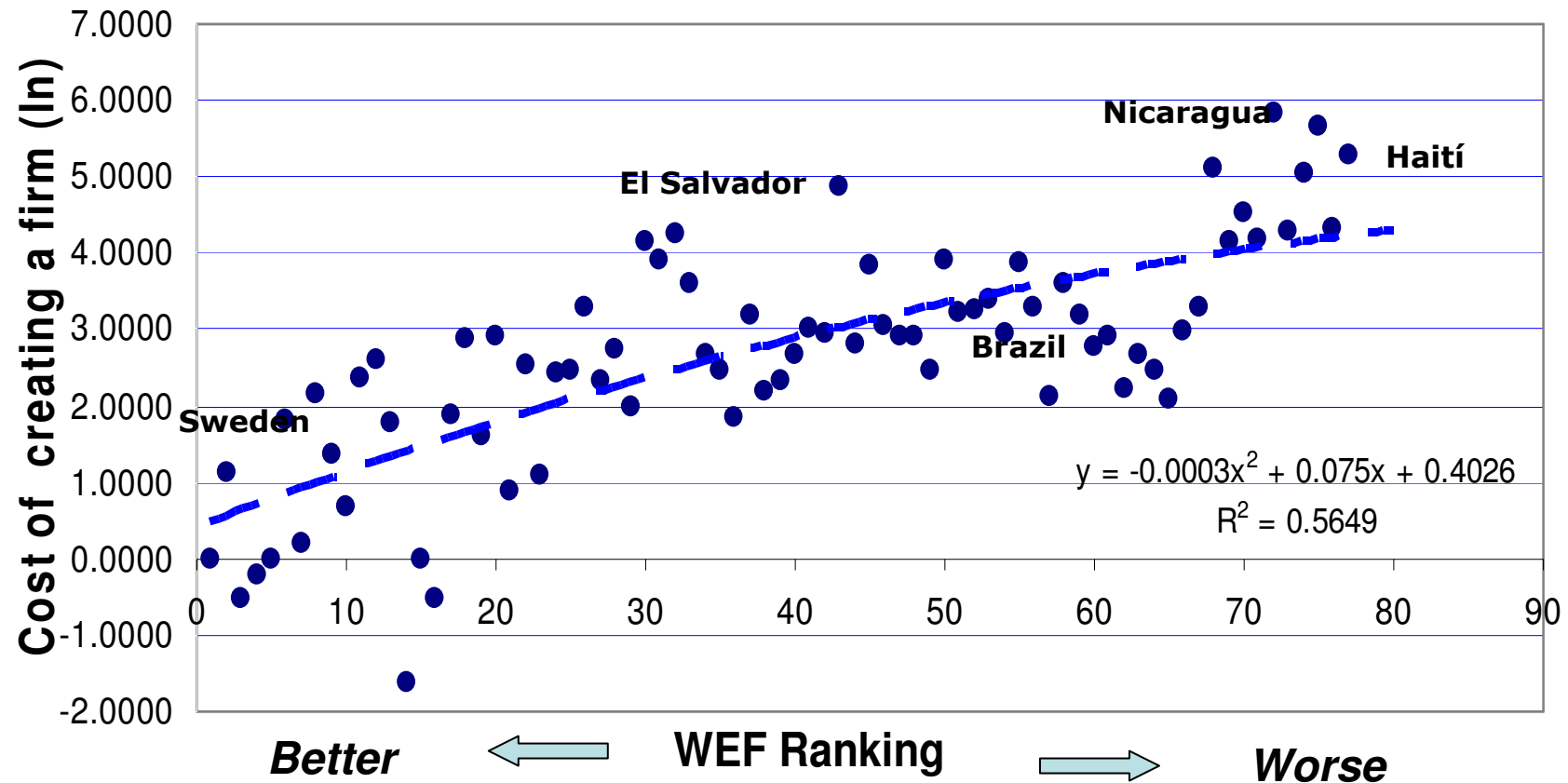
### Asset average of the 25 largest firms in the country (thousands of dollars)

*Source* : IDB based on World Scope and América Economía.

*Note* : In some countries the database includes less than 25 firms.



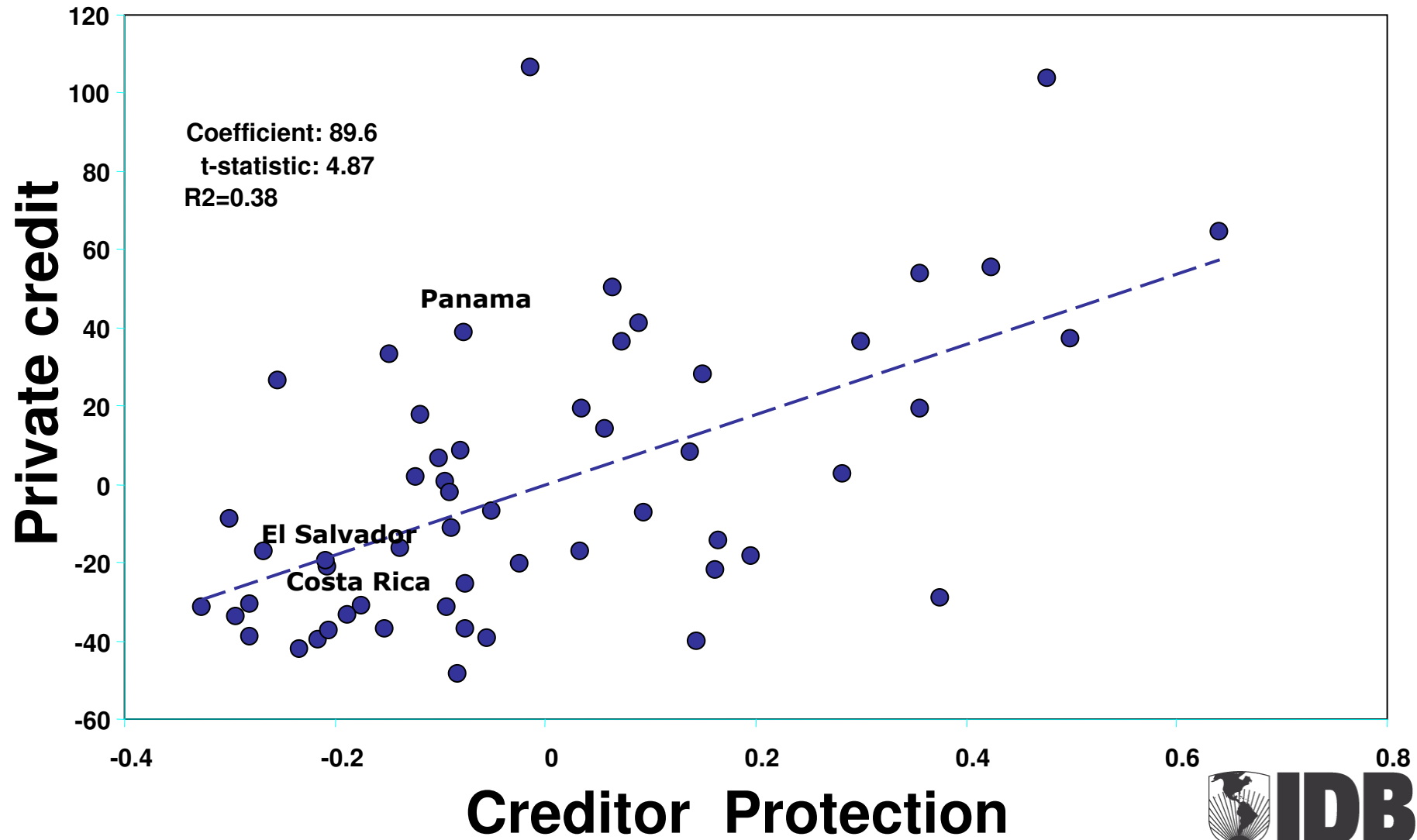
# Cost of Setting Up a Firm and Competitiveness



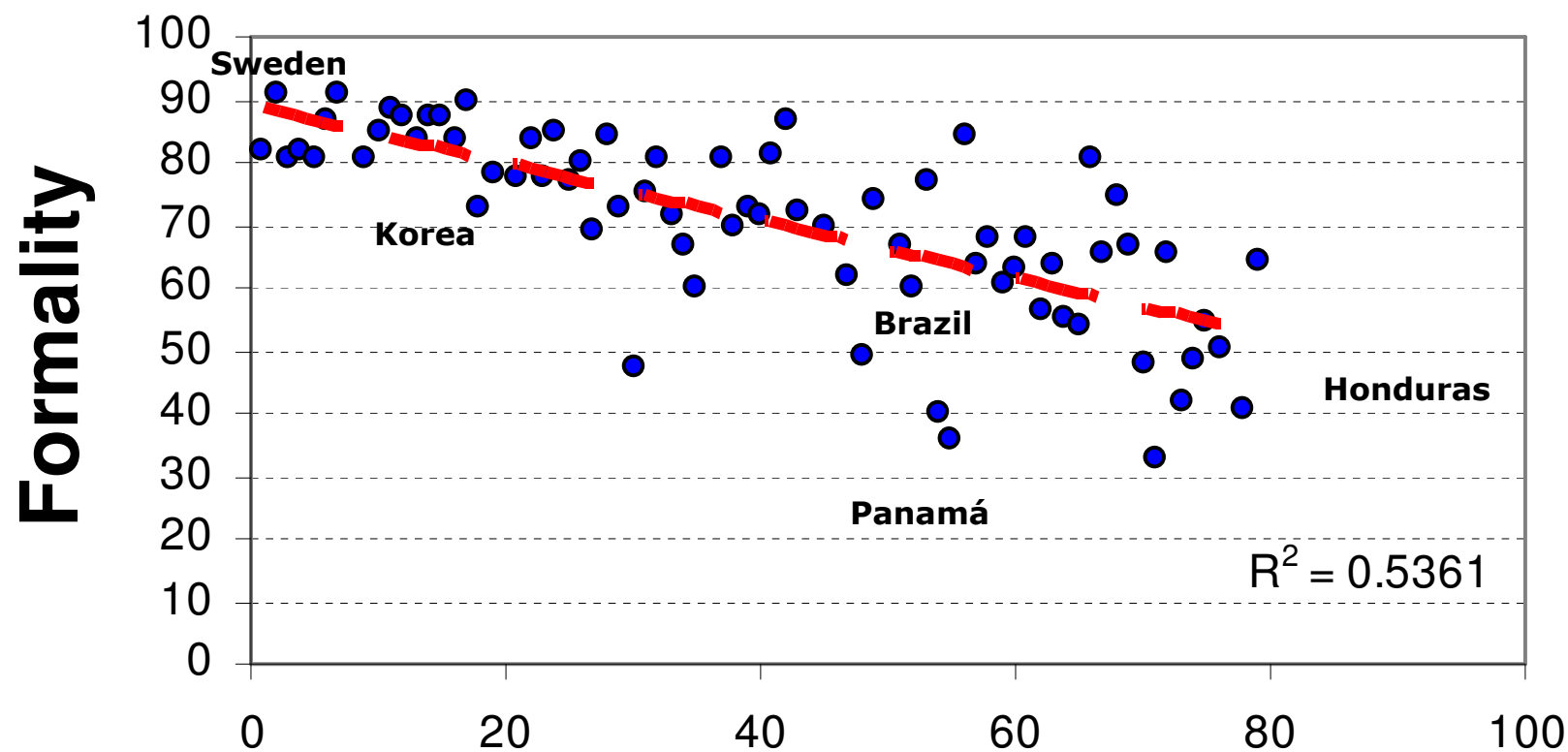
Source: Prepared by IDB



# Credit and Creditor Protection



# Growth and Informality



## Growth Potential (WEF)

Source: Prepared by IDB



# Growth Policies

Classic Policies

Horizontal

Vertical

Public Goods

Roads, Schools  
Trade Policy  
Competition Rules  
Business Climate

Industry Research Institute  
Quality Standards  
Specialized Infrastructure

Market Intervention

R&D tax incentives  
Grants to firms  
Subsidized training  
Micro/SME credit

Sector tax holidays (EPZ)  
Industry subsidies  
Directed credit

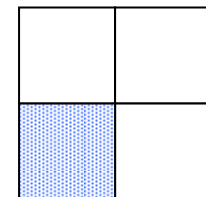
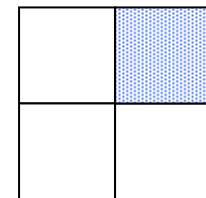
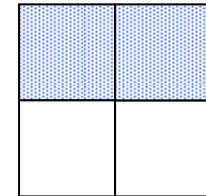
Productive Development Policies

Industrial Policies

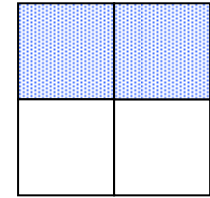


# New Institutional Roles

- Public Private Dialogue
  - Competitiveness Councils
- Public Private Partnerships
  - Case studies
  - Cluster Development Model
- Productive Development Policies



# Competitiveness Councils



Consejo Mesoamericano de Competitividad, North American Competitiveness Council

Brazil, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Peru, Panama

Argentina: Mendoza,

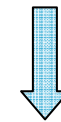
Brazil: APL

Chile: ARD

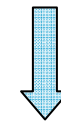
Mexico: Chihuahua, Campeche

Peru: CERX

Regional



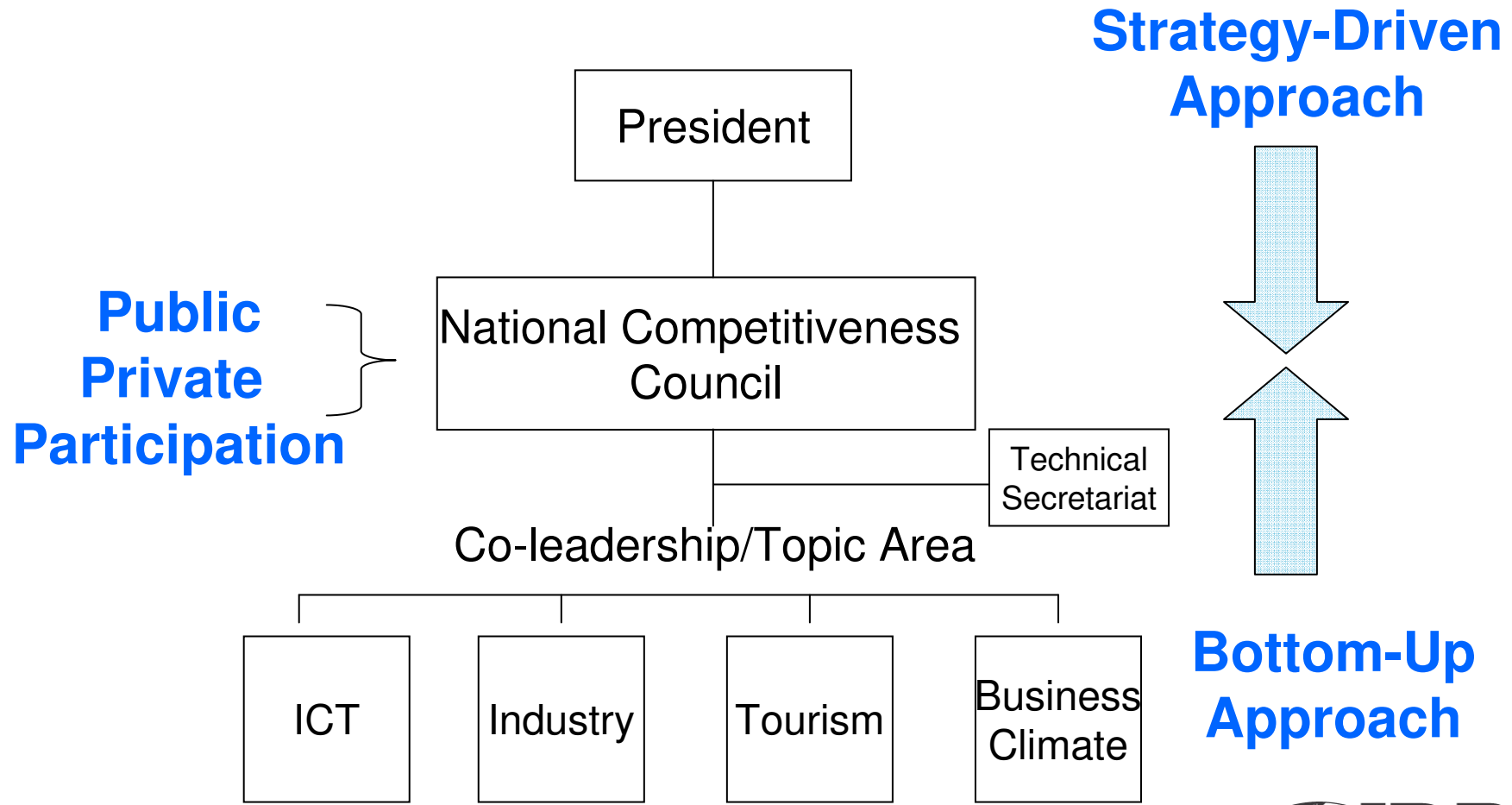
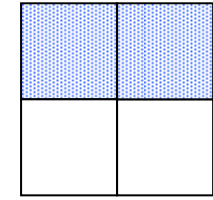
National



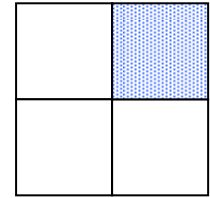
Local



# Public Private Dialogue: Competitiveness Councils



# Public Private Partnerships

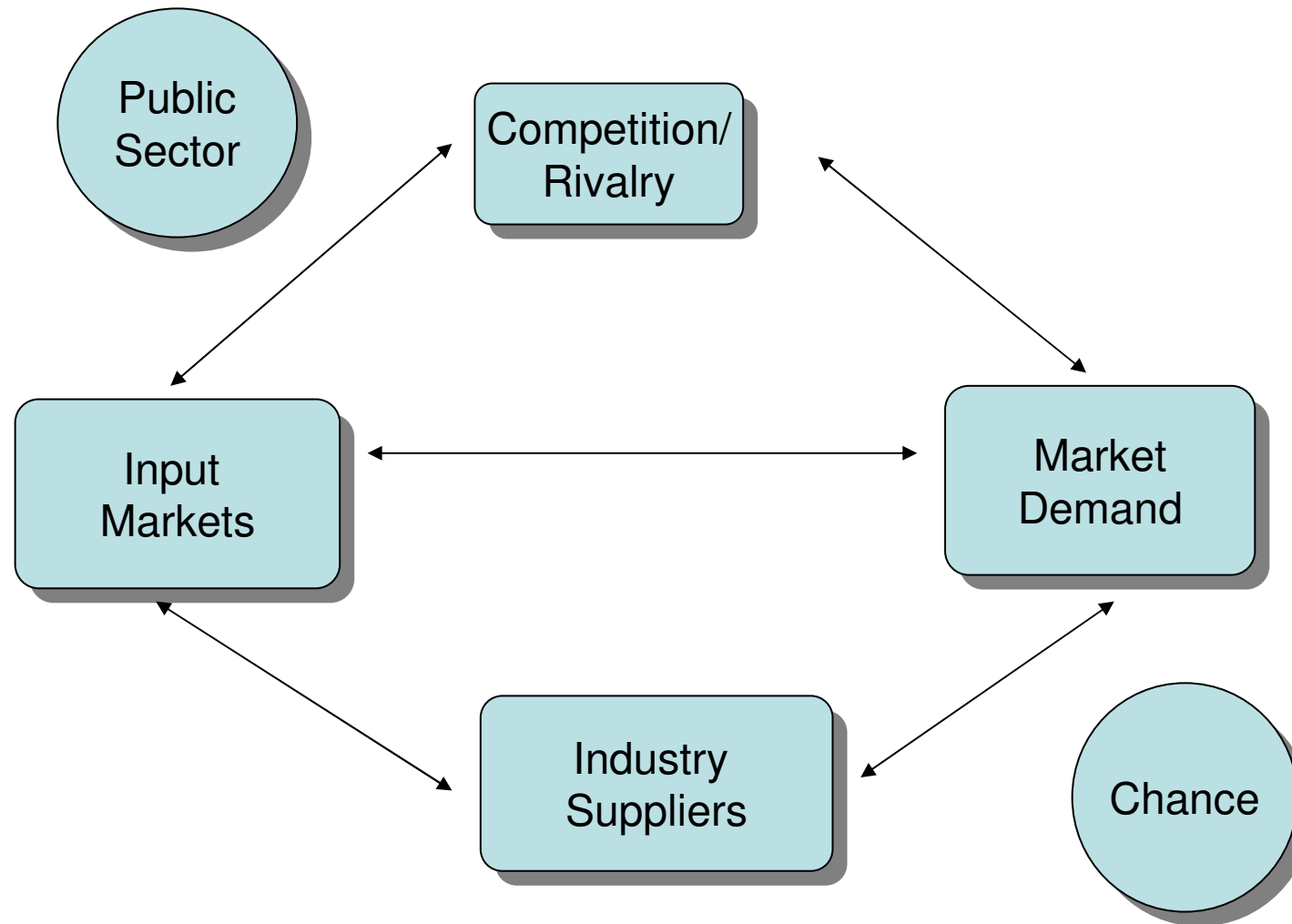


## Success Stories

- Taiwan: Venture Capital (Electronics Industry)
- Ireland: Role of IDA (Pharmaceuticals, software)
- Chile: Fundación Chile (Salmon, Wine)

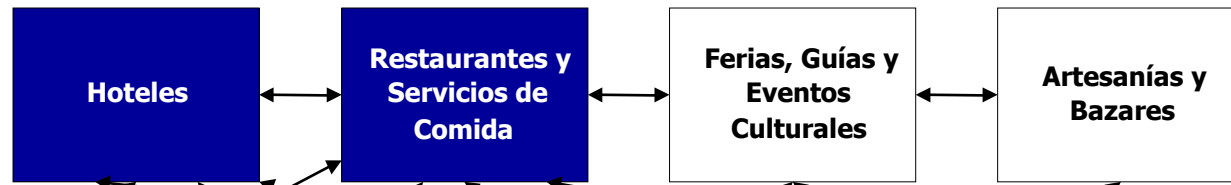
→ Cluster Model

# Porter's Competitive Advantage Model: Clusters

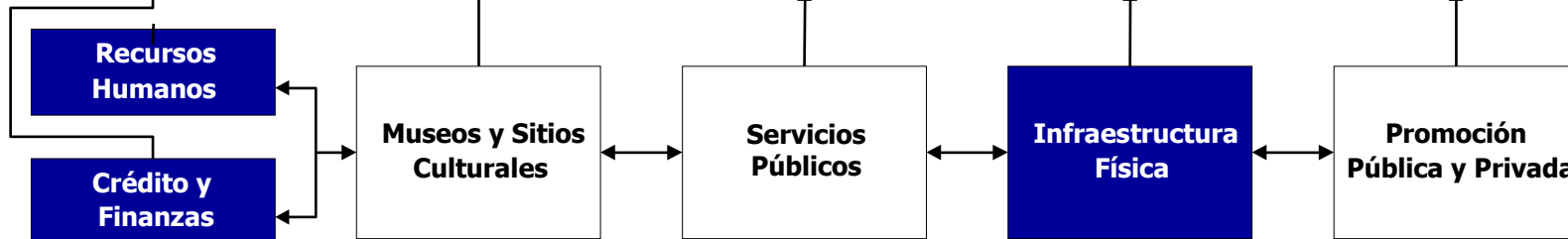
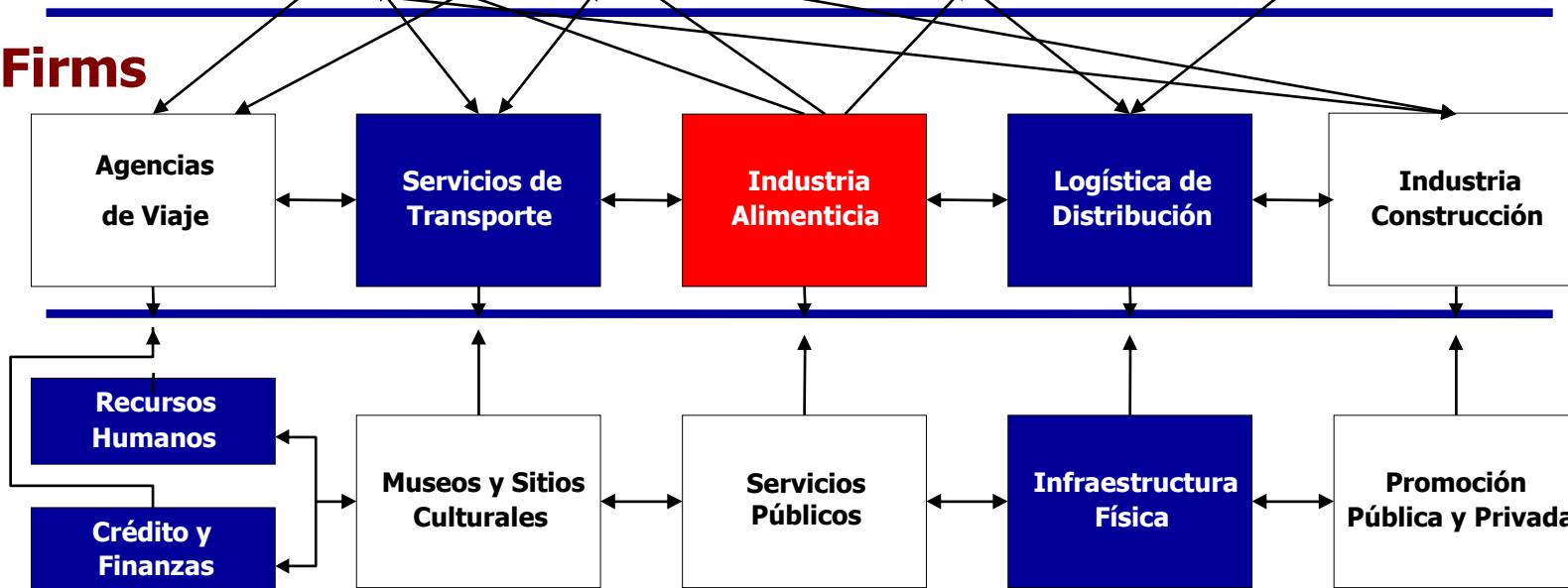


# Cluster Map

## Lead Firms



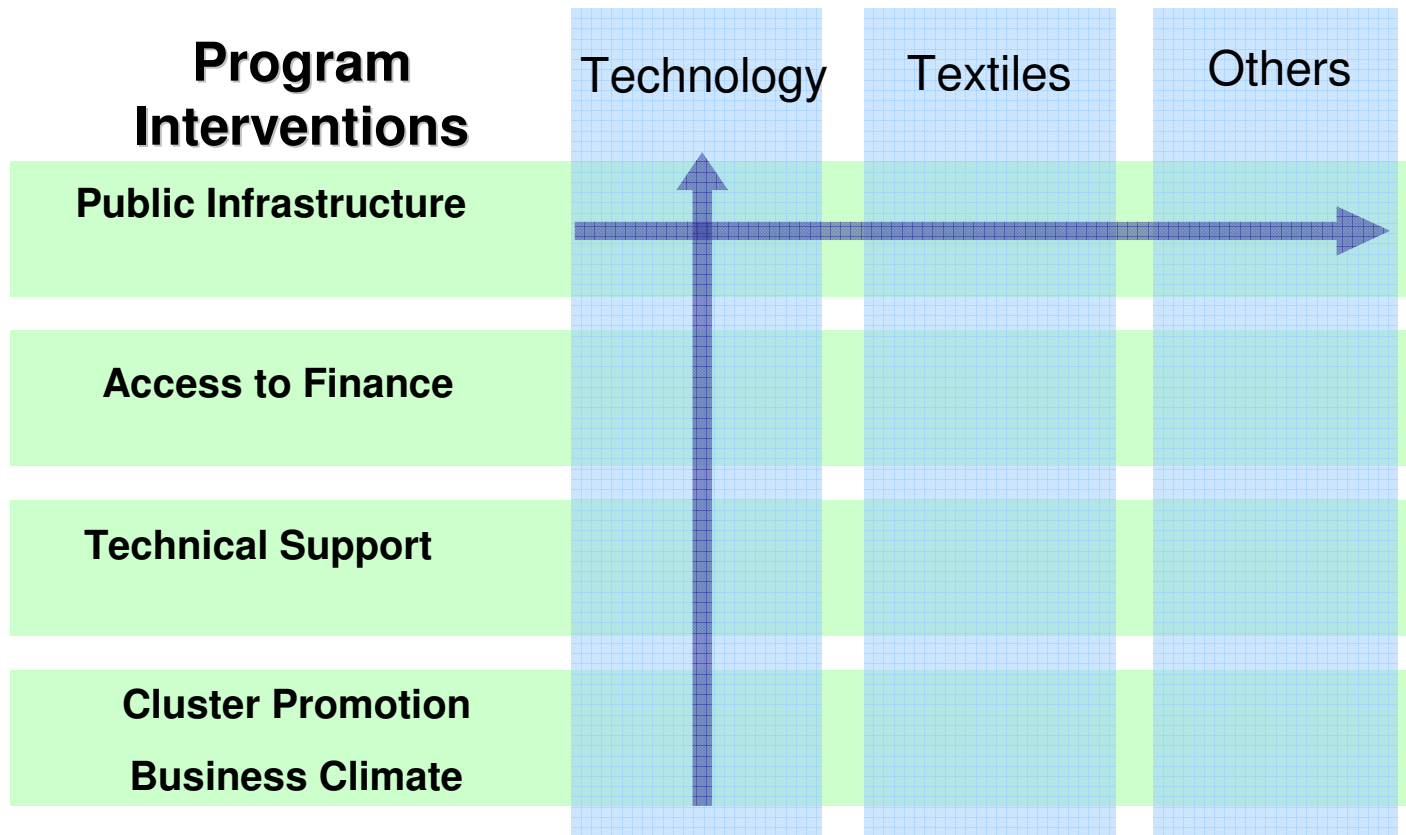
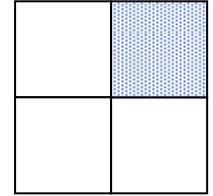
## Support Firms



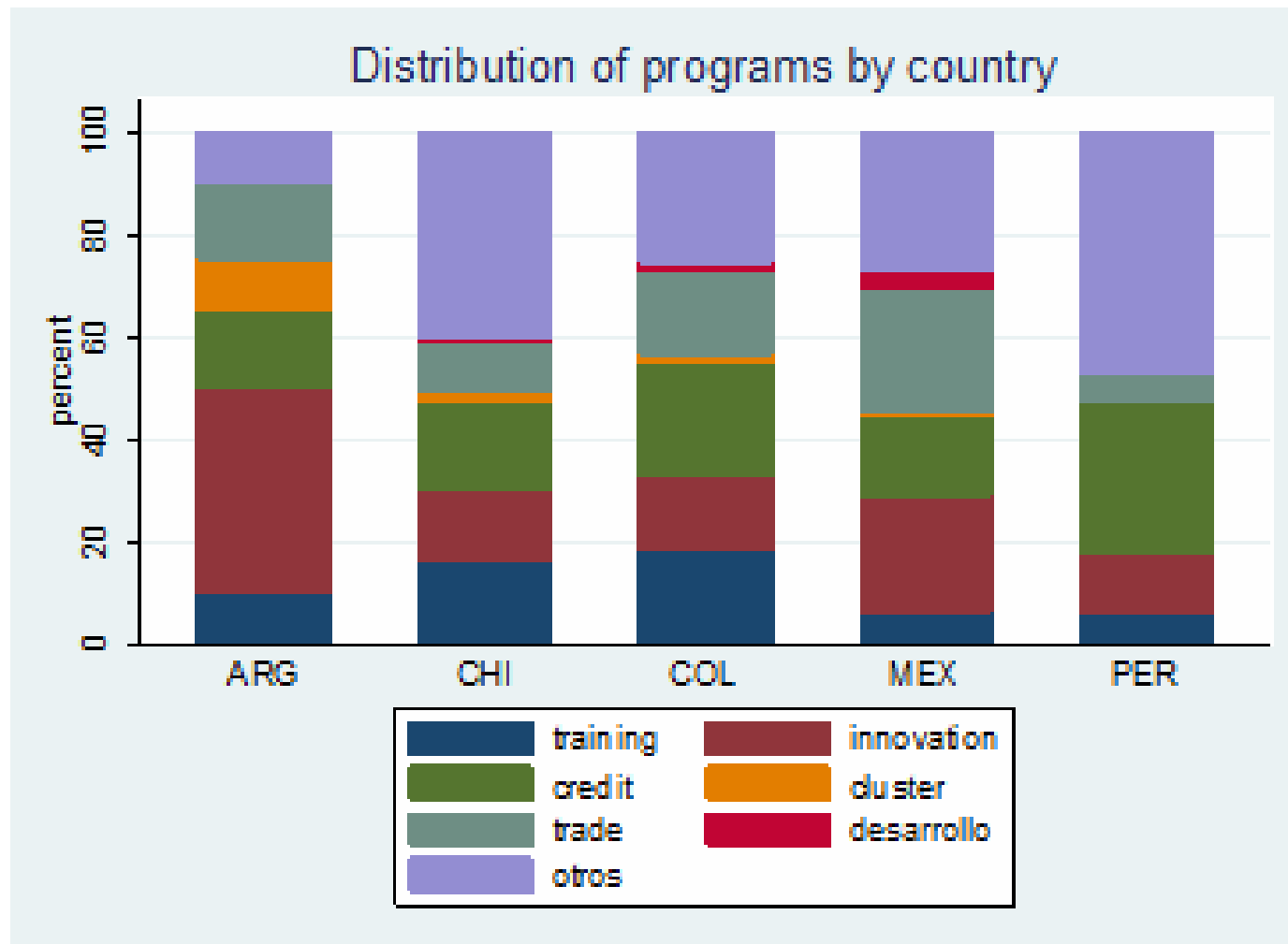
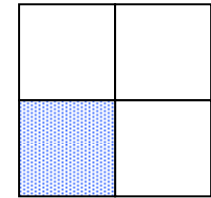
## Infrastructure



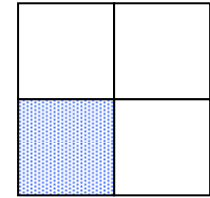
# Cluster Programs



# Productive Development Policies for SMEs

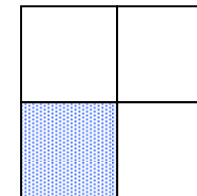


# Productive Development Policies: Nonfinancial



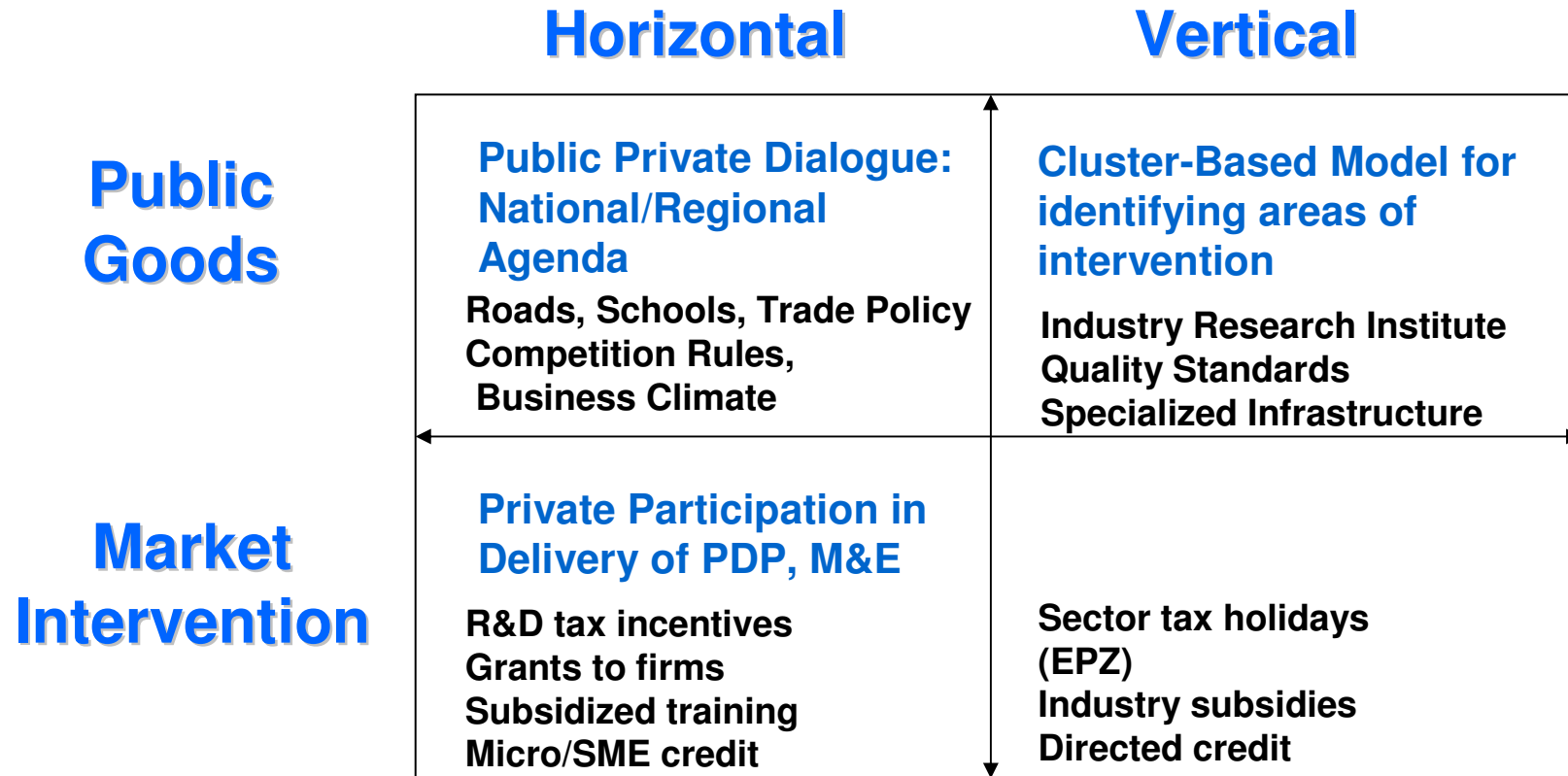
- Firm Management upgrading
- Business alliances (vertical and horizontal)
- Technology transfer
- Innovation
- Export promotion
- Investment attraction
- Entrepreneurship programs
- Training

# Role of Public Institutions: Layer Cake Model



Level	Role	Institución
3rd	<ul style="list-style-type: none"> <li>Define policies, evaluate impact, promote coordination in the public sector</li> </ul>	<ul style="list-style-type: none"> <li>Ministry (economy, development trade, sector) (MDIC)</li> </ul>
2nd	<ul style="list-style-type: none"> <li>Design PDPs, assign resources</li> </ul>	<ul style="list-style-type: none"> <li>Agency (SEBRAE, BNDES, CORFO, SSPYME)</li> </ul>
1st	<ul style="list-style-type: none"> <li>Administer funds and intermediate resources</li> </ul>	<ul style="list-style-type: none"> <li>Agents and institutions (public and private)</li> </ul>

# Growth Policies



# Role of the IDB

- **Lending:** *investments with public sector + direct lending and capital to private firms*
- **Technical Assistance:** *specialized skills and local knowledge for investment projects, policy reform, corporate finance, and project finance*
- **Research:** *research and analytical capabilities which provide the necessary inputs for policy discussions*
- **Policy Dialogue:** *convening authority with regional institutions and national level discussions*

# Concluding Lessons

- **Dialogue between the public and private sector with** clear, open rules that encourage the participation of various actors.
- **Positive externalities** are to be targeted (social returns > private returns)
- **Risk sharing** should be the basis of public interventions, as well as the socialization of the benefits.
- **Do not “pick winners”**, rather use clear monitoring tools to measure success and support it, use the same criteria to “cut” loses
  - **Private sector selects** when and how to compete
  - **Public sector identifies** lessons learned, disseminates results, both positive and negative, and measures impact.



**Inter-American Development Bank / [www.iadb.org](http://www.iadb.org)**