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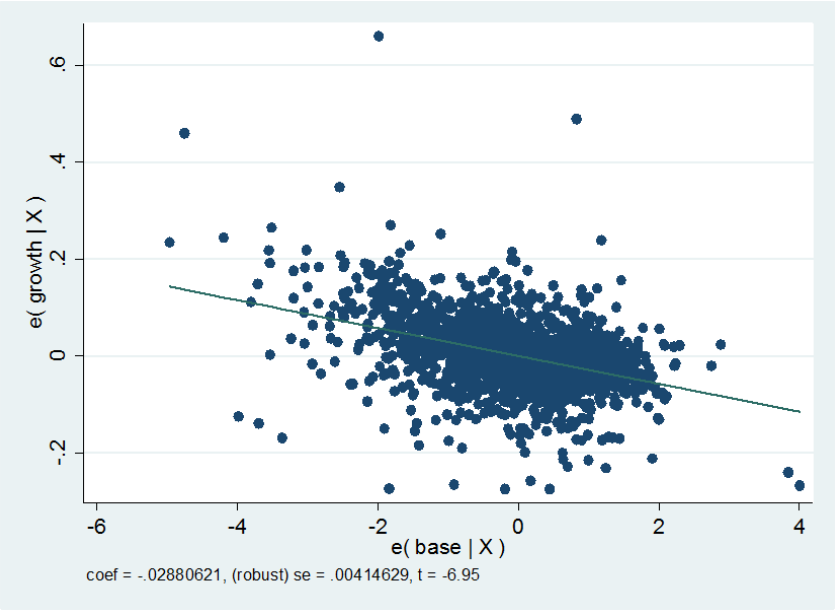
State-business relations and industrialization

Outline

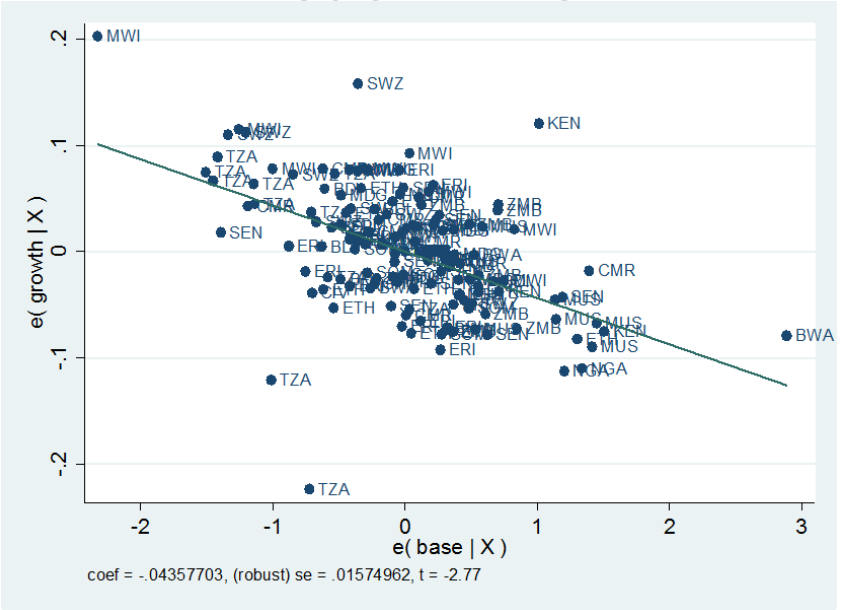
- Economics
  - manufacturing convergence
  - structural change
- Institutions
  - the architecture of SBRs
  - embeddedness, discipline, and accountability
- Politics
  - from rentier to developmental equilibrium
  - ideas matter as much as interests

Unconditional convergence in manufacturing labor productivity

FULL SAMPLE: 118 COUNTRIES



SUB-SAHARAN AFRICA: 20 COUNTRIES

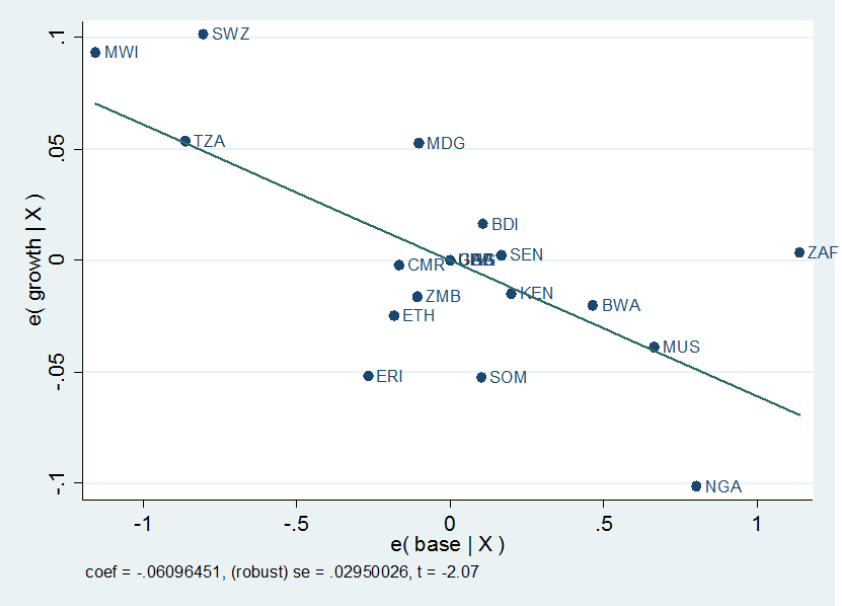


Each observation represents a 2-digit manufacturing industry, for the latest 10 year period for which data are available. The horizontal axis is the log of VA per worker in base period, and the vertical axis is its growth rate over the subsequent decade. Period, industry, and period x industry controls are included.

Unconditional convergence in manufacturing labor productivity

FULL SAMPLE

SUB-SAHARAN AFRICA



Each observation represents aggregate manufacturing industry in a specific country, for the latest 10 year period for which data are available. The horizontal axis is the log of VA per worker in base period, and the vertical axis is its growth rate over the subsequent decade. Period controls are included.

Structural change: the role of reallocation towards "manufacturing"

Divide the economy into manufacturing (*m*) and non-manufacturing (*n*). The economy's aggregate growth in GDP per worker can be expressed as

$$\hat{y} = \alpha\theta_m\hat{y}_m + (1-\alpha)\theta_n\hat{y}_n + (\theta_m - \theta_n)d\alpha,$$

Where a "^" over a variable denotes proportional growth rates, α is the employment share of manufacturing, and thetas are the productivity premia/discounts of the two sectors $\theta_m = y_m/y$ and $\theta_n = y_n/y$

Now let growth rates of manufacturing and non-manufacturing be

$$\hat{y}_n = g$$

$$\hat{y}_m = g + \beta(\ln y^* - \ln y_m),$$

where *g* is the underlying long-term growth rate of the economy. Note the convergence "kick" in manufacturing.

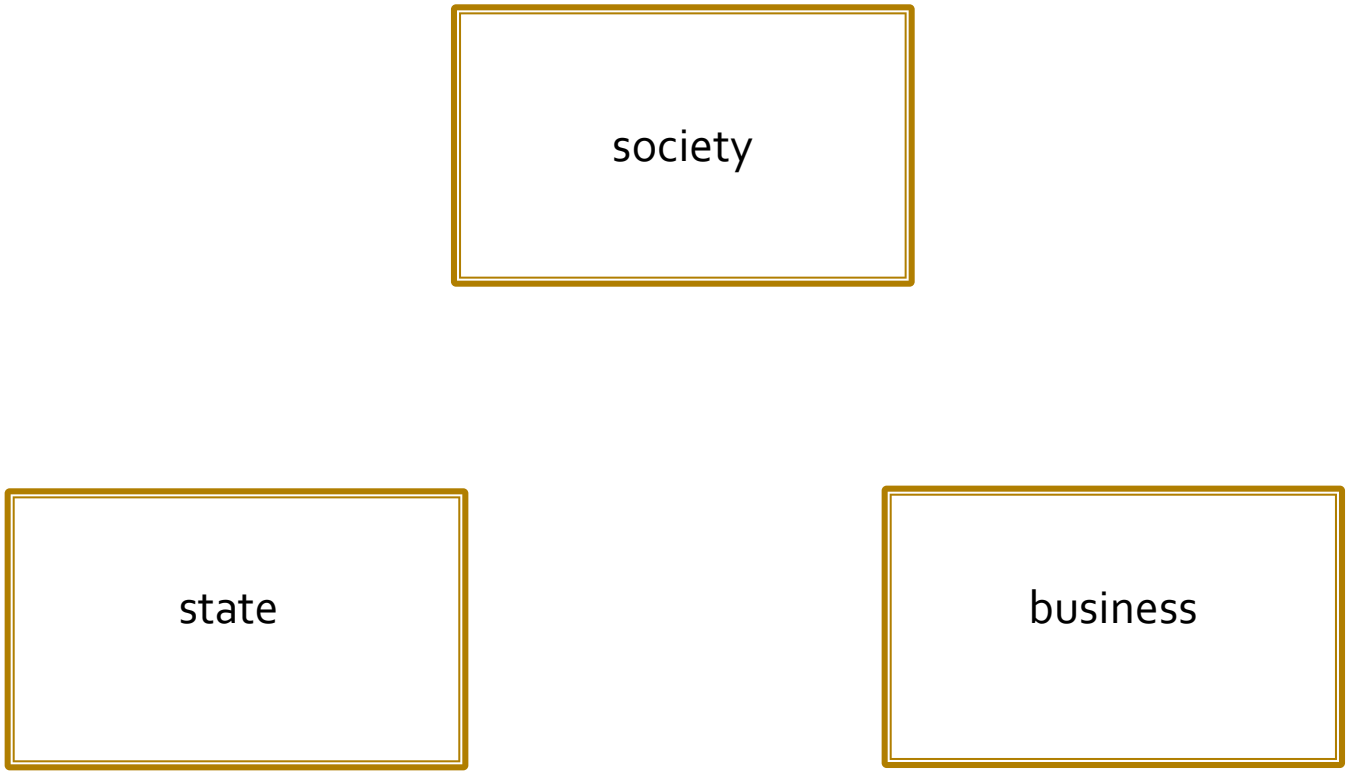
Substituting and rearranging

$$\hat{y} = g + \alpha\theta_m\beta(\ln y^* - \ln y_m) + (\theta_m - \theta_n)\, d\alpha$$

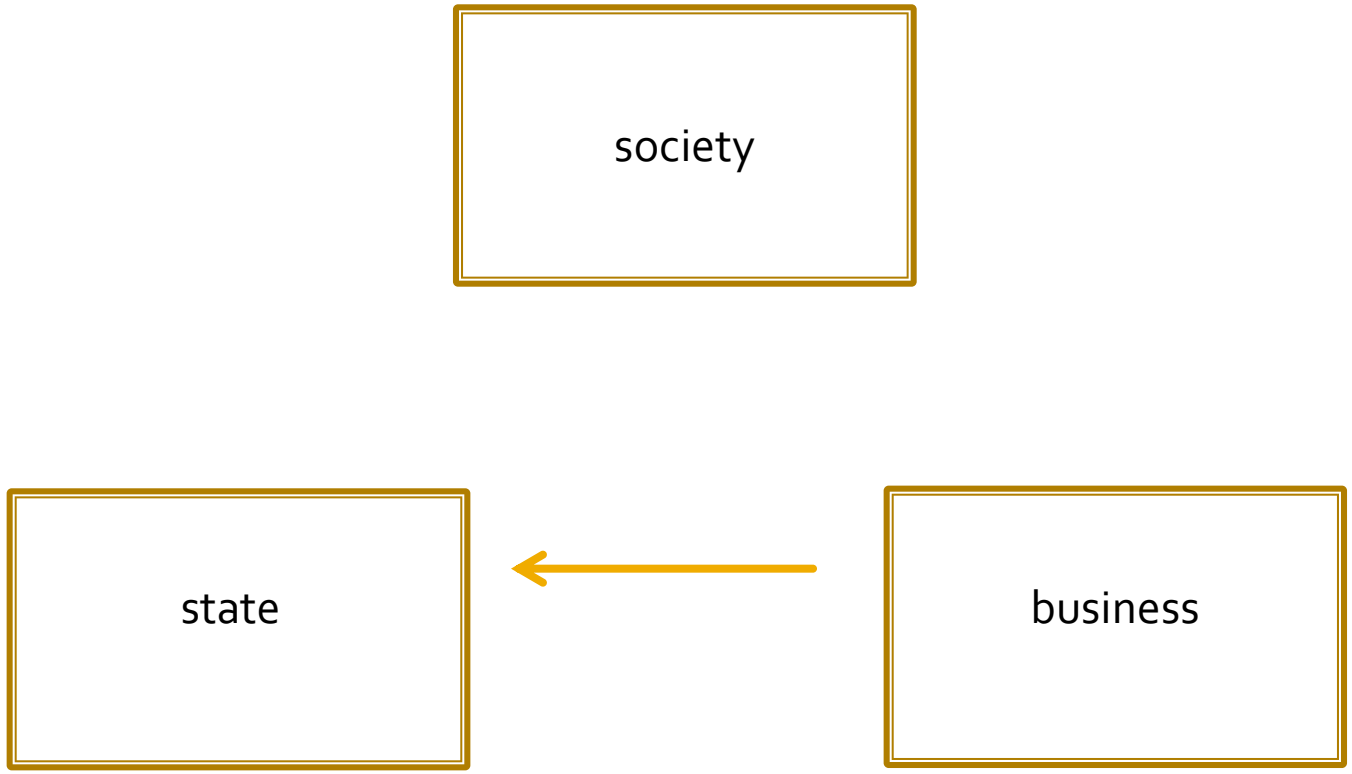
So growth equals an exogenous (or country-specific) component, a manufacturing convergence factor (that is decreasing in the level of manufacturing productivity), and a reallocation term.

Key difference between rapidly converging and non-converging countries

The architecture of state-business relations

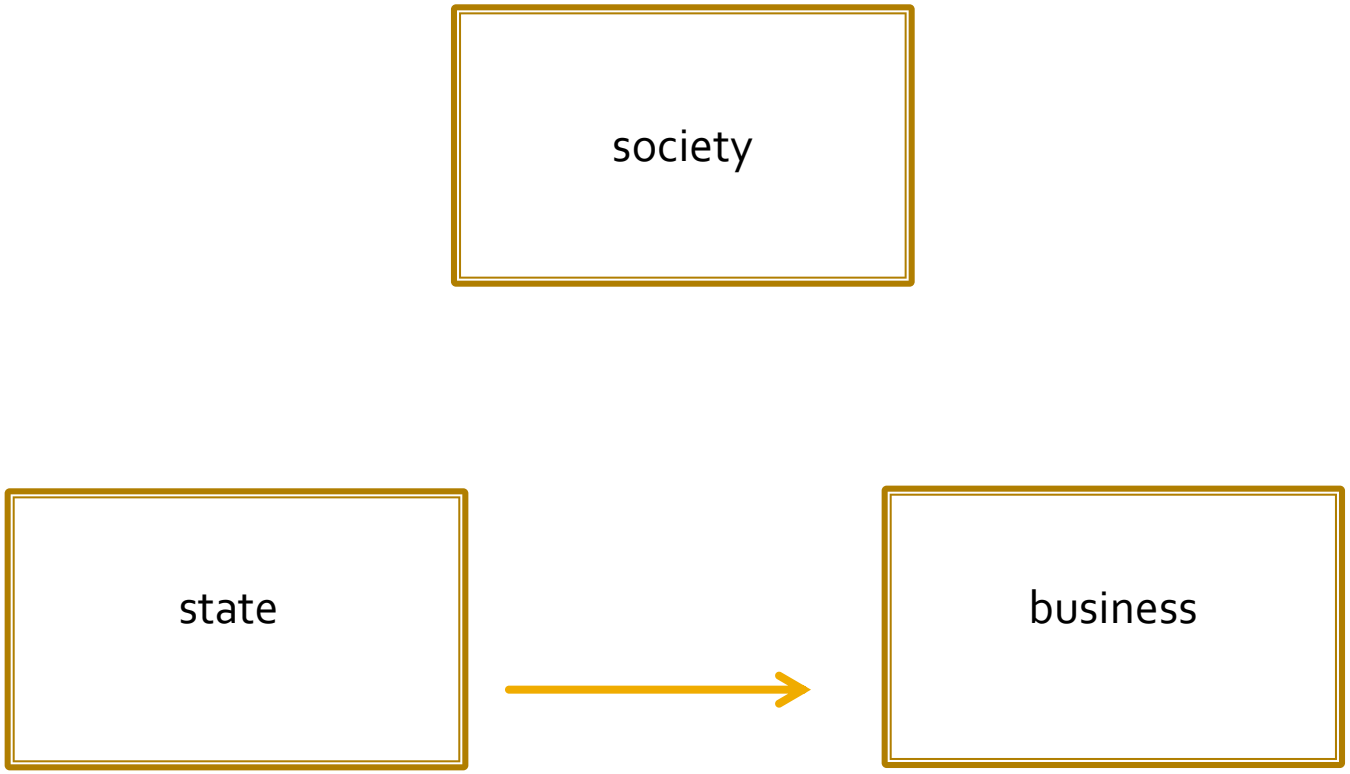


The architecture of state-business relations: embeddedness



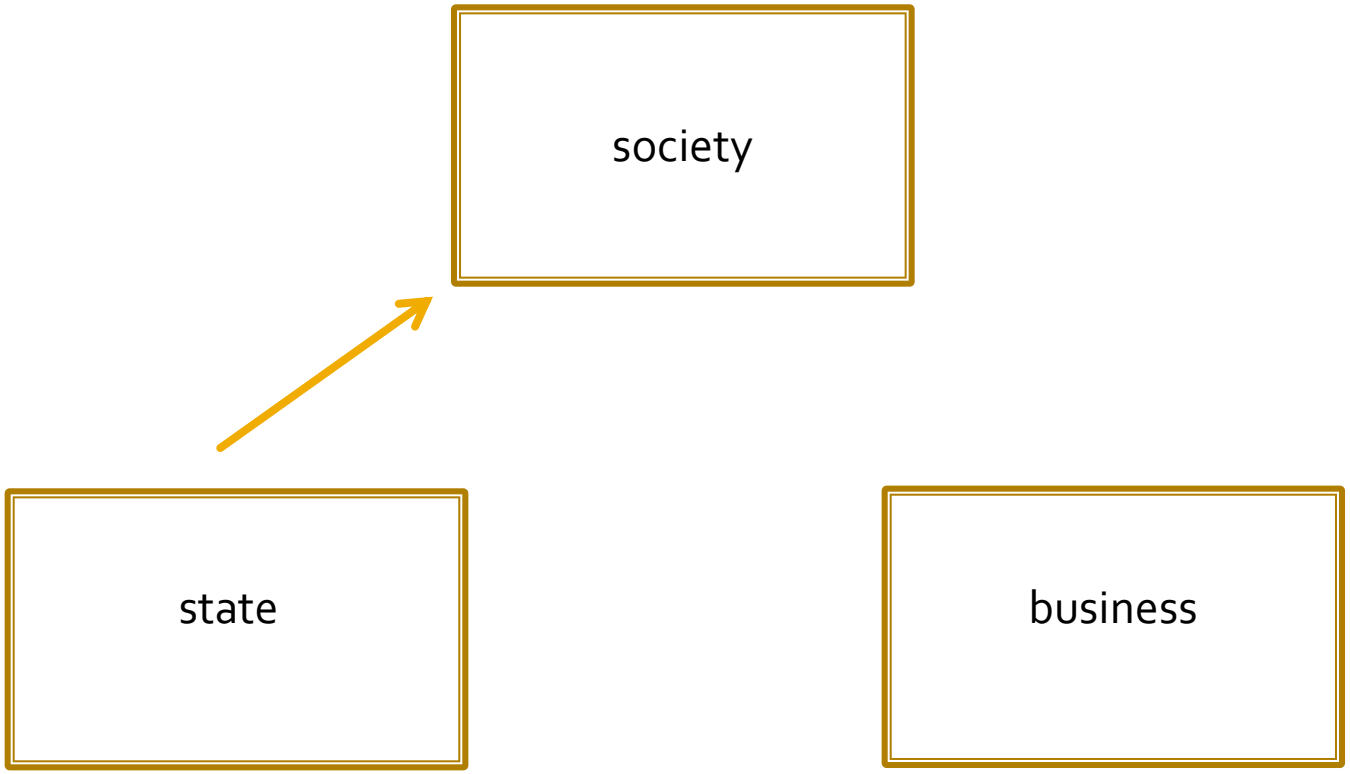
- Lack of government omniscience: required information is diffused widely in society
- Principal-agent model is not the right one
- Peter Evans: "embedded autonomy"
- Ethiopia (c. 2000), as negative example: no corruption, but also no diversification

The architecture of state-business relations: discipline



- Incentive for private sector to game the gov't: need for stick as well as carrot
- Clear objectives, measurable targets, monitoring, evaluation, program review
  - e.g., sunset clauses, time-bound incentives, performance audits

The architecture of state-business relations: accountability



- Need a clear political champion, transparency, publication & communication strategy
- Singapore (c. 2000), as negative example: superior performance, but due to special circumstances

Politics: role of ideas

- Whether we end up in a rentier or developmental equilibrium depends as much on the narrative leaders latch on to as on the constellation of power/interests
  - objective: enriching the elites
    - market repression (SSA) versus expansion (China)
  - objective: aggrandizement of the state (military/FP)
    - state-dependent development (Middle East) versus outward-orientation (East Asia)
- Transition from bad to good equilibrium is enabled by social contracts/political settlements at "critical junctures"
  - cf. James Robinson