

Delicate Dynamic:  
Business-Government Councils and  
Industrial Policy in Latin America

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# Industrial policy is back

- Back lash against neoliberal, market oriented reform
- States everywhere more interventionist after 2009 financial crisis
- “Beijing consensus” displaces “Washington consensus”
- Every multilateral agency has major report
  - World Bank, OECD, Cepal, IDB, ECA, ILO

# Wide consensus on need for close business government collaboration

- Academic consensus
  - Hausmann, Rodrik, and Sabel
    - “we take ‘good’ industrial policy to consist of those institutional arrangements and practices that organize this collaboration [between public and private sectors] effectively”
- Comparative historical experience of successful industrializers
  - Japan, Taiwan, Korea, Singapore, Ireland, Finland, Germany all had industrial policies and hundreds of business-government councils

# Korean Export Council (1960s)

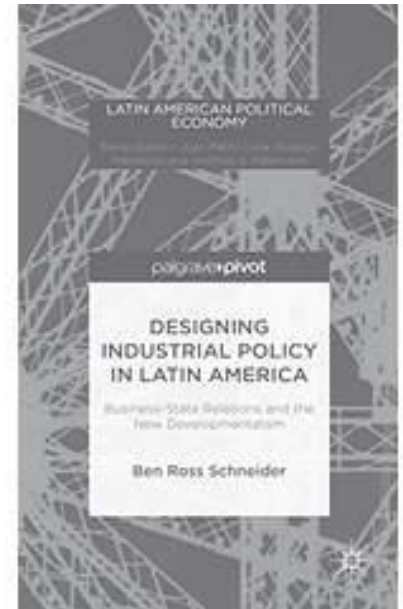
- Monthly meetings of about 100 representatives of government, business associations, and chaebol
  - Chaired by President Park Chung Hee
  - Lots of technical staff from government and business associations
- Information sharing, distribution of subsidies
- Amazing export success

# Active versus Passive Industrial Policy

- Active policy involves exchange of public subsidy for changes in firm behavior
  - Reciprocity (Amsden)
  - Performance standards
- Passive policy involves incentives for private firms
  - Removing obstacles (WB Doing business)
  - Horizontal policies and open incentives

# Types of business

- Export council and Korean chaebol
  - Domestic, diversified
  - No MNCs
- Big business in Latin America
  - MNCs
  - Diversified business groups, but often with core in natural resources or oligopolies
- Missing dimension in debates on industrial policy
  - Failures of markets, states, and businesses?



# Information asymmetry

- Among development practitioners, renewed interest in industrial policy
  - All advocate close business-governments collaboration because government lacks **information**
- Opportunity for strategizing on institutional arrangements for most productive collaboration

# Issues in Institutional Design

- 3 functions in successful business-government councils
  - Meaningful information exchange
  - Authoritative allocation
  - Discourage rent seeking
    - Some conflicts among goals



# 1. Facilitating dialogue

- Long term time horizon, frequent meetings, reiterated exchange
- Small numbers (20 members?)
  - Frequent recourse to business associations to organize representation
- Strong business associations
  - High member density
  - Capacity for interest aggregation and reconciliation
  - Professional staff
- Closed meetings
- Technical staff
  - Maintains momentum between meetings
- Some flexibility to revise institutions
  - Break into smaller working groups

## 2. Motivating participation

- Authoritative allocation
  - Trade negotiation
  - Subsidies and quotas
  - Must be difficult to bypass council
- Political will and high level government participation
  - Often recommended, but...
  - High turnover in politics
  - Shortens time horizons

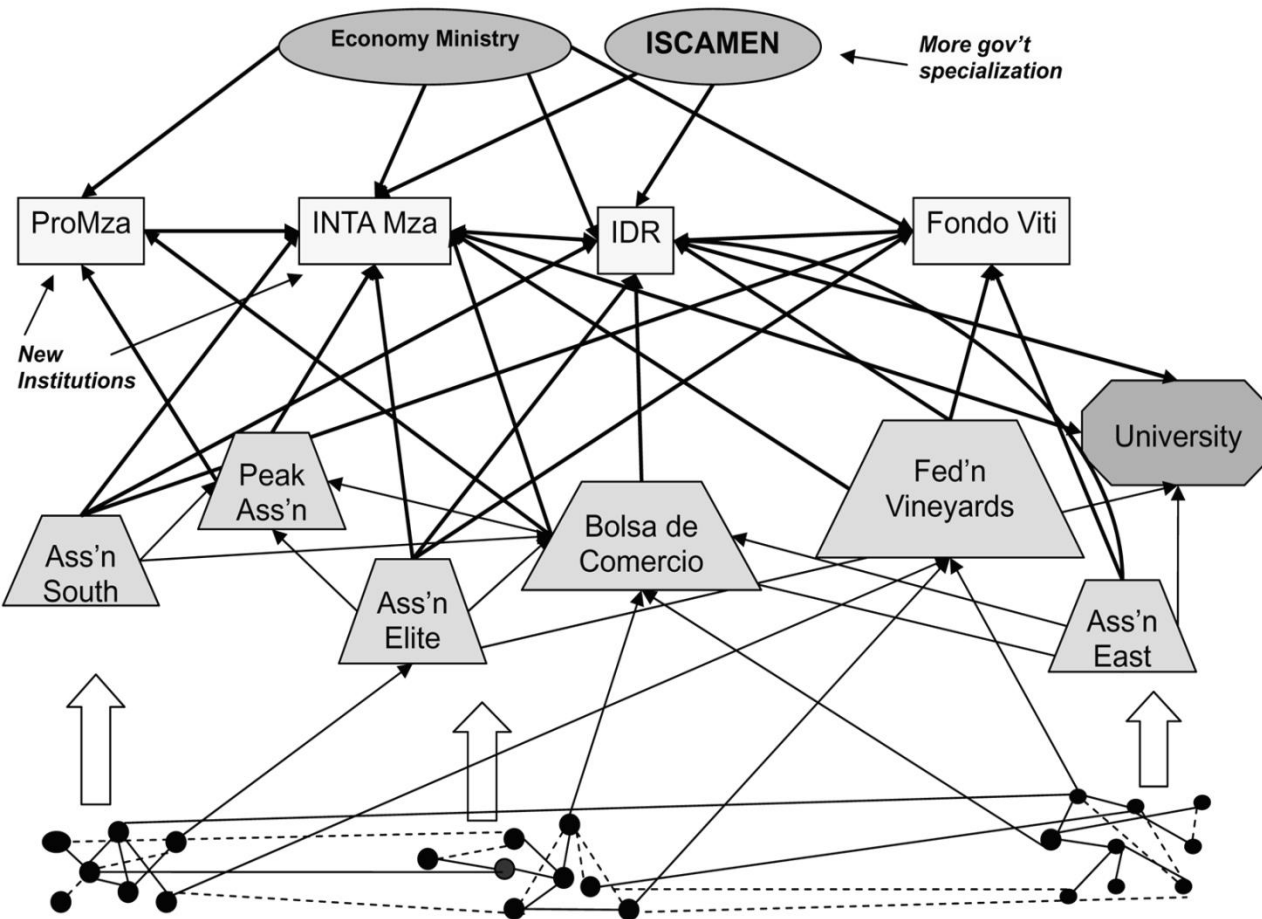
# 3. Discourage rent seeking

- Transparency
  - Near universal proposal
  - But, transparency impedes information exchange
- External accountability and monitoring
  - But external monitoring politically vulnerable
- Self monitoring
  - heterogeneous members (but not too diverse)
  - Internal monitoring more reliable than external

# Major empirical examples of successful councils in the 1990s

- Economy wide
  - Vocational training in Colombia & Brazil
  - Trade negotiations in Mexico and Chile
- Agriculture
  - Coffee in Oaxaca
  - Apples in Santa Catarina
  - Wine in Mendoza
- Industry
  - Autos and pharmaceuticals in Brazil
  - Software in Argentina
  - Fundacion Chile (salmon)
- Illustrative case of failure – Competitiveness Council in Chile
  - Many diverse members, infrequent meetings, no resources

# Business-Government Councils in Wine Production in Mendoza, Argentina



Source: Gerald McDermott

- Major coordination challenge
  - Hundreds of different actors
- Institutional evolution

# Consejo Nacional de Innovación para la Competitividad (2005), Chile

- Royalties from mining to invest in innovation
- Representatives from government, business, and universities (some individuals)
  - Business representatives were both individuals and associations
- CNIC defined 8 priority areas
  - designed to innovate in areas of existing comparative advantage

# Private Council on Competitiveness (Colombia)

- Invitation by president
- Small executive council of individual business people that met frequently with government
  - Reported to larger assembly that included major associations
- But, only passive policies (no rent seeking)
  - World Bank, Doing Business



CONSEJO PRIVADO DE COMPETITIVIDAD  
MEJORANDO LA COMPETITIVIDAD EN COLOMBIA

# Prominp, Brazil



- Created in 2003 to decide on local content in Petrobras investment in oil and gas
  - Executive council
    - Petrobras and sectoral associations
  - Narrower project councils
- Deep, continuous information exchange and authoritative allocation
  - Lots of rents
  - But with many participants watching and very knowledgeable buyers



# Mobilização Empresarial pela Inovação, Brazil

- Created by CNI (industry confederation) in 2008
- 30 CEOs plus 6+ representatives of government
- Designed \$30b innovation program
- Only deliberative, without decision making authority
- Private substitute for lack of government sponsored councils

# Conclusions

- Lots of experimentation and diversity
- Many ways of organizing business representation
  - Usually multiple forums
  - Some with business associations, some without
- All cases of information exchange, authoritative allocation, and reduced rent seeking



# Variation by goal

- Deliberation
  - Government does not know yet what to do
- Consultation
  - Government has a plan but wants feedback
- Implementation and coordination
  - Government enacted plans and wants help
- Oversight
  - Government is already implementing and wants to know results

# Conclusions

- No single effective design
  - Multiple institutional arrangements fulfill 3 functions
- Some more difficult tradeoffs
  - What is the right level of transparency?
    - Promoting dialogue versus discouraging rent seeking
  - High level political participation?
    - Credible commitments versus short time horizons
  - What should policy makers do if strong business associations do not exist?
- We still know little about how councils work