

Preface

National economic planning aims at defining strategic economic objectives and priorities for a country and designing longer term policies and institutional frameworks to achieve them. Complemented in some cases by industrial policies, economic planning is a dynamic attempt to change the structure defining parameters and policy mix of an economy.

In market based economies ranging from Western Europe to Asia, planning has been practiced since the end of the Second World War as a key developmental tool. Industrial policies have a longer history that could be traced back to at least Alexander Hamilton. Again, they have been employed in different countries under different forms.

Economic development has still been an ongoing quest and successful economic development is probably needed more than before by many nations. Since 1980s, however, with significant changes in the dynamics of the world economy, economic planning and industrial policy have been less discussed in academic and policy circles.

As external and domestic conditions have changed, so should planning. However, although it continued to be practiced one way or another in many countries, lack of discussion leads to either “planning as before” (being called economic planning or under the disguise of various other tools) or no formal planning. The former is likely to be inadequate or even inappropriate under new surrounding conditions. On the other hand, economic planning under different forms consists of related but generally uncoordinated developmental tools such as public sector strategic plans, revived forms of physical infrastructure planning, new versions of industrial, technology, innovation, cluster, and/or R&D policies. They are also likely to suffer from ineffective and/or cost-inefficient outcomes as they are generally ad hoc policy responses. On the other hand, it could also be argued that countries which opted or opt for no formal economic planning in fact practice certain aspects of planning this way or that way.

Owing to waning interest in economic planning and industrial policy, important questions such as the following are not receiving the proper attention: In what ways and areas, are economic planning and industrial policy being conceptualized and implemented in today’s world? Are there still reasonable roles for economic plan-

ning in today's world in assisting nations' quest toward economic development? What are the other tools forming an ecosystem of planning and industrial policy that can help accelerate economic development?

This book examines such questions and considers new roles for economic planning, industrial policy, and related contemporary tools to support economic development and national competitiveness. Firstly, it broadly discusses national economic planning in terms of the earlier theoretical and practical motivations. Secondly, it looks at selected country experiences with economic planning in retrospect and prospect. Thirdly, similarly, it looks at industrial policy in selected countries/regions. Finally, it discusses new economic planning approaches and complementing developmental tools such as learning systems, technology policy, cluster policy, and links to regional development.

The Chapters

The book is organized under four parts. The first part provides a background to economic planning and industrial policy. In the first chapter, I introduce the book and present a general background for economic planning, industrial policy, and related developmental tools. In Chap. 2, Mun HengToh provides a concise review of the major theoretical contributions to economic development since the Second World War. Backed by the Harrod–Domar growth model, economic development strategies in the 1940s till 1960s were much dominated by the debate between balanced growth championed by Ragnar Nurse and Rodenstein-Rodan and unbalanced growth led by Albert Hirschman. Unbalanced growth doctrine favors using the limited resources to develop the identified strategic sector which will then pull and push other sectors to support and achieve overall growth. The unbalanced growth approach somewhat jived with theories based on economic dualism associated with researchers like Arthur Lewis, John Fei, and Gustav Ranis. The basic dual economy theory explains how an agrarian economy with no modern industrial sector is transformed into a mature industrial economy. The idea of development as transformation from primitive traditional society to one characterized by high mass consumption was skillfully described by Rostow's book in 1961. By the end of the 1980s, new theories that have substantive impact on economic development were propounded by academics and researchers in field of business strategies, urban planning, and spatial economics. Many of these have neoclassical economics foundation and also have derived insights from increased spatial interdependence and competition attributed to globalization and availability of new communication technologies. New concepts like competitive advantage, agglomeration economies, and global value chain become increasingly familiar in development economics.

In the third chapter, Mehmet Babacan further discusses the theoretical underpinnings of national planning with reference to neoclassical and structuralist views. In selectively explaining the evolution of economic planning debate, he touches upon

the relationship between national economic planning, industrial policy, and regional economic planning.

Part II covers experience of selected nations with economic planning. In Chap. 4, Takeshi Niizeki discusses the role of Japanese government to enhance the total factor productivity (TFP) growth rate during the “growth miracle period” (1955–1973) as well as the “two lost decades” (1990–2009). He argues that the TFP was the driving force for the rapid economic growth (1955–1973) and a decline in the TFP growth rate was responsible for the sluggish economies, particularly in the 1990s. Further, he suggests that if continued bank lending to unproductive sectors is a major cause of slower TFP growth rate, opening the markets and letting firms compete through deregulation would be one promising policy the Japanese government could enact in order to boost the TFP growth rate.

In Chap. 5, Ahmet Kesik assesses economic planning in Turkey. Turkey has experimented with a relatively wide range of planning approaches; industrial plans in 1930s, development plans from 1960s to 1980s, national development plans starting from 1980s, and a transition period to strategic plans more recently. Kesik looks at the evolution of the concepts and the implementation of planning in Turkey through a historical perspective.

In Chap. 6, Yoshihisa Godo argues that land use planning and implementation in Japan were not successful, implying costs for future generations. He suggests that learning from Japan’s failure of land use planning, today’s developing countries should make efforts to introduce citizens’ participation into local administration.

In Chap. 7, Toh Mun Heng argues that the Singapore economy has shown remarkable adaptability and nimbleness to restructure and restrategize to ensure economic viability and sustainability. He underlines that modern concepts of development such as competitive advantage, value chain, cluster analysis, and agglomeration economies have been utilized by Singapore decision makers to foster growth.

In Chap. 8, Richard Haines discusses economic planning and industrial policy in South Africa. South Africa’s experience provides interesting insights enriched by constraints posed by the apartheid regime as well as the pressure of globalization accompanying the period following the abolishment of the apartheid regime. Moreover, he analyses state–private sector relations in a country which experimented with a range of industrial policy frameworks along with economic planning.

Part III covers industrial and innovation policy experience in selected countries. In Chap. 9, Ali Akkemik discusses the evolution of traditional Japanese industrial policies toward knowledge-based industrial policies since the 1990s. He explains the salient features of both the traditional and knowledge-based industrial policies and compares them from the perspective of the role of the government. He argues that there is still an influence of the developmental state practices in policy-making in Japan, presenting recent changes in the policy making process as well as the economic mindset with reference to the official documents on industrial policies.

In Chap. 10, Franco Mosconi underlines the recent prominence regained by industrial policy on the European scene. He sheds light on the substance of the new industrial policies by looking at the approach that the European Union—in particular, the European Commission—developed between 2002 and 2012. In this context,

in the center of the “new” industrial policy lies “knowledge-based investments, which have become all the more critical now that manufacturing is reclaiming its vital role in advancing vibrant economic growth.” He further argues that “what comes to the surface is a picture in which the rhetorical recourse to market failure is nothing more than the simplest, and least controversial, method for justifying industrial policy.” He suggests that industrial policies can assist European manufacturing regain a strong position within the “new international division of labour.”

In Chap. 11, Alan Gray examines the origins of Ireland’s export-oriented industrial policy and reviews the success of this policy over the past 50 years. He places this within the context of a remarkable history of both overall economic successes and failures of a small open economy. He argues that the experience of Ireland shows that industrial policy does not operate in a vacuum and failures in macro-economic, fiscal, and banking policies can undermine the success of even the best designed industrial policies.

In Chap. 12, Paul Rivlin discusses government’s role in Israel in supporting high technology and innovation sectors. Over decades, Israel has moved, from a highly controlled economy with dominant state sector to a market orientated one. Government has provided both direct and indirect support to achieve the development of high technology sectors including supporting private R&D. The Israeli military also played a role in the development of high technology in the country.

In Chap. 13, Hans Wissema and Julia Djarova explore the coming issues of innovation policy. They review three stages in the development of industrial and innovation policy, drawing “lessons” from each stage. An analysis of the current driving forces and newly emerging insight results in key suggestions for future innovation policy.

Part IV covers the ecosystem of economic planning in today’s world include strategic planning, learning systems, regional development, and clusters. In Chap. 14, Erinc Yeldan, Ebru Voyvoda, Kamil Taşçı, and Emin Özsan examine the macroeconomic effects of two complementary policy environments to invigorate growth, employment, and income equality across two broadly differentiated regions in Turkey: Poor and High/Mid-Income. With the aid of a regional computable general equilibrium model that disaggregates the production structure into 13 sectoral activities and two geographical regions, they first study the long run dynamic effects of a regional production and investment subsidization programme. Second, they supplement this environment by a productivity enhancement programme in the poor region. Their results reveal that regionally differentiated productivity enhancing measures coupled with a subsidized investment programme to facilitate capital accumulation and reduce the outflow of factors out of the poor region are of utmost importance in designing a sustained growth path to pull the aggregate economy from the dual traps of middle income and of poverty.

In Chap. 15, Melih Bulu and Murat Yalçıntaş discuss the role of government and private sector in cluster development. In analyzing the Turkish experience with cluster-based development policies, their findings show that even if a vast amount of resources were spent by the state organizations for the cluster development projects, the outcome is not as successful as the cluster development projects led by the

private sector. Their findings may assist fine-tune government's role in developing successful clusters.

In Chap. 16, Seyithan Ateş, examines the green development strategy of South Korea. He argues that the “Green Growth Strategy” (GGS) proposes a new paradigm for the countries aiming a successful transition to a sustainable economy. South Korea aims to embed different aspects of GGS into a single, coherent policy framework. The government has actively participated in the process by enacting necessary laws and establishment of the presidential committee. Other nations may draw lessons from South Korea's initiatives.

In Chap. 17, Ahmet Faruk Aysan, Mehmet Fatih Ulu, and Sadık Ünay discuss central bank related aspects of economic planning. In particular, they first examine historical development of central banking and underline that the central banks were first established to ensure financial stability. They then suggest the utilization of “consumption planning” as a form of strategic planning by central banks with a view to ensure financial stability. In their view, consumption planning was a key ingredient of the macroprudential measures—including some of the recently introduced unorthodox central bank policies—introduced following the global financial crisis products of strategic thinking.

In Chap. 18, Murad Tiryakioğlu suggests introducing national learning systems into the economic planning effort. He argues that the need for rapid development requires developing nations to close the technological gap with the developed ones. That in turn requires policies to increase national technological and learning capabilities of both private and public sectors. He underlines that in developed countries the driver of the technological capability is “learning by research” whereas in developing countries it is rather “learning by doing”. Moreover, developing countries lack both sufficient absorptive capacity and sufficient funds to support private and public R&D. Therefore, economic planning as a way to determine developmental priorities as well as allocating resources should be redesigned incorporating effective national learning systems.

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