



## A ROLE OF CURRENT INDUSTRIAL POLICY AND MANAGEMENT IN ECONOMIC PROGRESS

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### ABSTRACT

*Industrial policy is an important means of promoting industrial production and stimulating economic growth for governments. Industrial policy is back at the forefront of the political discussion, as the world is going through drastic transformations. This article adds to the debate by introducing a new industrial policy theory, integrating some topics that have so far been ignored and taking into account the recent changes in economic reality. The authors examine how in confusion, the integration of some of the overlooked issues commitments, The theory changes with learning in development, economic management (especially demand management), and conflict management. They then discuss how to adjust the theory of industrial policy in light of recent developments in economic reality: The growth of the global value chain, of finance and of modern imperialism. This contribution aims at fostering a realistic approach to industrial policy and pointing in a changing environment to new areas for policy action.*

**KEY WORD:** Industry, Industrial Policy, Management, Economic, Economic Development.

### INTRODUCTION:-

In the last decade, industrial-policy understanding has taken an abrupt turn. Following the vigorous debate from the late 1970s to the mid-1980s, sparked by the success of Japanese and other East Asian industrial policy activities, the industrial policy debate had sunk into three decades of politically driven wilful indifference (see Chang, 2011, for an early discussion review). Despite considerable progress in our theoretical and empirical knowledge in the field, 'industrial policy' has become a word one has not spoken in polite business. Yet, surprisingly, industrial policy is now back in fashion in both academia and, most importantly, the modern world. [4] Economic growth is a cycle of constant technological advancement, industrial modernization, and institutional change-making it fundamentally fraught with market failures. Before the crisis of 2009, industrial policy as an instrument for encouraging industrial modernization was generally criticized by economists who were unconvinced of their theoretical foundations and cited their weak record. Many economists assumed that the State should concentrate on preserving economic (fiscal and financial) stability and establishing a market climate that is marked by the absence of inequalities,



thereby providing a level playing field for all economic actors. The post-crisis view has changed markedly. Both economists and politicians have interpreted the recession to be the product of uncontrolled free markets to a considerable degree, leading many economists to take a fresh look at the state's position in economic management. One concept that is gaining momentum among economists is that broad-based initiatives to support industrial modernization and diversification are crucial for promoting structural change and stimulating sustainable growth[1].

Industrial policies are loosely characterized as the selective interventions that aim to shift the output structure against certain sectors. These strategies are not only commonly practiced today in developing countries, but have also played a prominent role for many now-advanced economies in the growth stage. Historical examples of industrial policies in the 1950s and 1960s include Japan and South Korea and Taiwan in the 1960s and 1970s. In all these cases, the government has heavily promoted upstream "strategic" sectors which supply many other sectors. Through these times a number of policy instruments were introduced, including various types of tax incentives and subsidized credit, and, in the case of Taiwan, direct state involvement in production[2].

Government interference, and more specifically industrial policy, were points of controversy as long as the field of economics existed. Early political and growth economists like Paul Rosenstein-Rodan, Albert Hirschman, Alexander Gerschenkron and Raúl Prebisch highlighted the importance of government involvement and a state's capacity to shape economic activity in ways that would be most beneficial to society. Technology policy in the early 1980s moved to a more market-oriented approach, restricting government interference to measures that aim to make business results more competitive by growing competition or delivering public goods. That point of view has led some economists to argue that having an industrial policy is not the strongest industrial policy. Nevertheless, more recently there has been growing public pressure to minimize unemployment and promote economic development, and a renewed interest in industrial policy in this regard[3].

In the real world, after the financial crisis of 2008, many leading economies have been more able to understand the importance of industrial policy and have taken measures to improve it — the most popular examples are the US and Germany (Andreoni, 2016; Mazzucato, 2013). Following the end of the China-driven commodity boom, many developing countries, which in the 1980s and 1990s had been busy dismantling their industrial policies, realized that they needed industrial policy to upgrade their economies. Most middle-income countries in Asia, and some in Latin America, are now thinking about industrial policy as a tool to solve the 'middle-income trap' (see Felipe, 2015; Noman and Stiglitz, 2016). The Gulf region's oil economies have started to think about industrial policy as a tool for economic diversification (Cherif and Hasanov, 2014). Even the African economies talk about it in their attempt to get out of poverty (Chang et al., 2016; Kanbur et al., 2019; Noman and Stiglitz, 2015). [7-8]

Despite these recent developments there is an urgent need for a new, less politically motivated industrial policy discussion. This article is not intended to add to this effort by revisiting the classic industrial policy debate of the 1990s; Based on the 'miracle' of East Asia, nor through a thorough analysis of the the number of industrial policy interventions that have grown along the conventional structuralist, evolutionary and growth lists [5-6].

### **INDUSTRIAL POLICY: MEANING:**

Industrial policy is a declaration which defines government's position in industrial development. The role in the country's industrialization of the public and private sectors. The relative position of industries big and small. The Foreign Capital position etc. In short, this is a list of the goals to be accomplished in the field of industrial growth and the steps to be taken towards achieving these objectives. The industrial policy thus reflects formally the domains of public and private sector action.

This sets out rules and procedures which will regulate industrial activity growth and trends. Industrial policy is not set nor is it inflexible. This is written, written and redrafted according to changed construction circumstances, specifications and perspectives.

### **Industrial Policy Need for Developing Economic:**

The plan's goals are not being accomplished because of the lack of adequate policy measure needed for implementation. In this case we can't blame the plan's target. In addition, the industrial policy provides the operational counterpart of industrial planning, and the same is to be viewed as the key official instrument for the proper execution of the plan objective and successful implementation of planning

collaboration and cooperation between the different planning process participants, and in particular between policy makers and planning experts.

Initially the targets had to be met within the context of controlling policy and defending against international competition. The public sector was supposed to provide basic services and an economic development leadership role while the private sector was expected to play a complementary role in the mixed economy. Such policies resulted in some negative effects. Barriers-to entry that restricted domestic competition and offered unlimited immunity from foreign competition to domestic industry. The growth of small-scale and national dispersal industries had negative effects on economies of scale. Barriers to entry Restricted capital transition from sick to rising industries. There have been few opportunities for technical upgradation and logistical barriers, and bureaucracy has been inherent in physical controls and a multitude of rules and regulations.[15]

Attempts had been made during the 1980s to liberalize the industrial policy system and gain momentum in the process of reorientation. The main policy changes were census of a variety of industries, specific banding of other industries for expansion and power utilization purposes, Expanding the position of large houses / enterprises by expanding the list of industries open to them by increasing the asset threshold to Rs. 100 Crores for Restrictive Monopoly and Trade Practices Act [MRTP] houses, increasing investment limits for small-scale industries and providing tax concessions to encourage them; Exemption from licensing requirements for increases of up to 49 per cent over permitted capacity for modernization / renovation / replacement purposes; enabling the importation of international technologies and capital goods and raw materials for modernization and quality improvements; Fixing the minimum economic size for a variety of sectors, proposing national policies related to particular industries such as textiles, cotton, electronics and computers, iron and steel, medicines, petrochemicals and power generation, and simplifying rules and procedures[15].

### Current Situations in Industrial Policy through Economic Progress:

The ambiguous existence of industrial policy is attested by the fact that there is in fact no widely accepted definition of the concept (Chang, 1994; Stiglitz and Lin, 2013; Warwick, 2013; Stiglitz and Greenwald, 2014; Andreoni, 2016). The most concrete definition of industrial policy would be to describe it to include any policy affecting industry (usually interpreted as the manufacturing industry), In the same way we can describe fiscal policy as policies affecting government revenue and expenditure, and monetary policy as policies affecting monetary variables. Indeed, some commentators who follow this concept may include, as part of industrial policy, infrastructure policy, education policy, and tax policy (Chang, 1994; Andreoni, 2016b; Noman and Stiglitz, 2016).[12] Nonetheless, most industrial policy analysts describe industrial policy as "selective" industrial policy, "sectoral" industrial policy or "targeting" – a policy that intentionally favors certain industries / sectors (or even firms) over others, against market signals, Typically (but not necessarily) to increase production and enhance productivity growth, both for the overall economy and for the targeted industries themselves.

Hence defined industrial policy has become much more contentious than defined industrial policy more broadly. Many people think industrial policies should be general (or functional or horizontal) rather than selective (or sectoral or vertical) in nature. Economic policy should also concentrate on "public goods" that favor all sectors equally but are likely to be under-provided by the market for example, education, research and development (R&D) and infrastructure and not involve „picking winners“.

The fundamental problem with this view is that we can not get too far from the distinction between limited and general industrial policies. In a world with scarce resources, any policy choice you make, however general the policy can look, has discriminatory effects which imply targeting.[13-14]

One fundamental feature of modern industrial economies is that it requires permanent investments in development. Most of these include physical capital which embodies certain technologies (including energy systems) and which can not be substantially recast to embody other technologies. Different styles of internal organizational structures (e.g., vertical integration, diversification) or specific types of long-term

relationships with suppliers (e.g., just-in-time Japanese, or JIT, distribution system) are often most often operational.

In that case, based on our knowledge of the probability of each potential future state of the planet, we should determine exactly what level of commitments we are going to make, by comparing the gains from productivity increase (discounted over time) with the loss from the failure to make the required adjustments in response to changing circumstances (also discounted over time).

At the more competitive stage, industrial policy makers should enact policies that minimize uncertainty about technology's future evolution — rather than reducing uncertainty about consumer demand, product supply, and competitor strategies, provided the technology. Second, the government will provide a consistent forum for an industry's technological transformation by taking a lead in the growth of the core technologies. To this regard, the best example is the US government, which initially funded technical advances for the machine, the internet, the semi-conductor, etc. through public R&D funding (Berger, 2013; Block and Keller, 2011; Mazzucato, 2013). [9-11] Second, the government will force companies into creating research consortia to develop core technologies that they can share and use to develop more advanced technologies that they will compete with. Such an arrangement supported the developments of Japanese mainframe computers and US semi-conductors (SEMATECH). Fourth, the government can eliminate confusion about the course of future technological innovation by implementing a technical standard during the early stage in the growth of an developing market, where various technical standards compete with one another. Fourth, the government should subsidize or directly provide 'public goods' related to technology (such as data, metrology, prototyping, and testing facilities) to reduce the risk associated with the scaling up of emerging technologies. Several technology intermediaries such as the Fraunhofer in Germany or the National Network for Manufacturing Innovation in the US (Andreoni, 2016; Tasse, 2007) provide such services. [4]

#### MANAGEMENT IN ECONOMIC PROGRESS:

Historically, the industrial policy discussion has had a supply-side partiality. This supply-side bias is responsible for the propensity of industrial policy scholars to overlook the effect of demand management on industrial policy behavior, both domestically (via monetary and fiscal policies) and internationally (especially through exchange rate policy).

One clear economic policy explicitly affecting industrial policy is interest rate policy. High (real) interest rates deter investment in general, but have a greater negative effect on investment in the manufacturing sector, where the funding demand is higher due to higher capital requirements than in other industries. We have seen vividly the negative impacts of high interest rates on the manufacturing sector in countries such as Brazil and South Africa over the last couple of decades, with real interest rates mostly about 10–12 percent, and as a result, few companies are willing to borrow for investment.

On the domestic front the relationship between industrial policy and macroeconomic management doesn't end. There is also an international dimension of it. And the so-called 'international trade multiplier' is critical in the management of foreign demand, the management of the exchange rate. Overvalued currencies can be generated either by the 'Dutch disease' (a sudden inflow of export earnings from a natural resource bonanza not offset by macroeconomic policy) or by policy bias towards the financial sector. Overvalued currencies tend to affect export industries more negatively, particularly manufacturing industries, although different sectors tend to be affected in different ways depending on the price elasticity of their export product demand. Many goods whose demand elasticity is lower on the world market tend to be less affected than those with high elasticity. Once again, industrial policy will mitigate to some degree the impact of overvalued currency. For example, the BNDES in Brazil has tried over the last couple of decades to counteract the impact of overvalued currency by extending subsidized credit to selected sectors. [4]

**CONCLUSION:**

This article contributes to this new phase of the debate by raising some neglected issues and discussing the changes in reality which require the theories behind industrial policy to be reformulated. Ultimately, while I downplayed the position of "fundamentals" (e.g. endowments of human and physical resources and institutional quality), that's not because I don't think they are significant, yet because I wanted to be emphatic that they are not the only driving force behind the trends of specialisation. The issue with concentrating solely on these basics at the detriment of the sort of initiatives that have already been discussed is that it overlooks the diverting possibilities that can be sought even with relatively weak institutes and low skills and capital levels. Had China and India actually concentrated on getting the basics right, the former would not be an exporter of today's advanced electronics goods and the latter would not have been a global force in IT services. It is a fair guess that it will develop as fast as the neither nation.

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