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"INDUSTRIAL POLICY IN OECD COUNTRIES"

Annual Review 1992

This annual report analyses recent government initiatives to promote industrial development and adjustment in OECD countries. It also reviews trends in industry, on the basis of quantitative indicators of industrial production, inputs and performance that enable international comparisons to be made.

This year's report contains two special parts highlighting structural issues and processes under way of particular interest. The first analyses structural shifts in industry in seven large OECD countries since the first oil shock. The other examines the emergence and policy implications of the globalisation process.

Information is also provided on industrial policy measures and trends in Korea, Taiwan, Hong Kong and Singapore, as well as in the Czech and Slovak Federal Republic, Hungary and Poland.

A changing role for industrial policy

Industrial policy in OECD countries is at a turning-point. During the 1980s, it gradually moved away from an approach principally defined by policies aimed at sheltering declining industries or "picking winners". Emphasis was instead put on reforming tax systems to make them more efficient and more neutral with respect to industrial investment choices, and on the need to enlarge as much as possible the scope for market forces by large scale privatisation and deregulation in many countries. A certain convergence slowly emerged around a set of principles broadly favouring market-correcting or market-enhancing policy measures, aimed directly at specific and known market flows, or at promoting industry generally. Public support to industry declined, and its focus shifted away from general-purpose policies, such as general investment aids, to more focused support measures such as aid to R&D, training, assistance to SMEs, regional development and export promotion. At the same time, important differences rooted in national specificities remained, centred around the appropriate role of government in the restructuring of declining

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industries, the scope of policies benefitting industries or technologies considered to have growth potential, and the desirability of a strong competition policy.

In the current economic climate of industrial production declines and job losses, and with structural problems as acute as ever, the role of industrial policy is being redefined. Policies being put in place in OECD countries reflect a number of factors: (i) national characteristics regarding the role of government as a regulator and arbitrator of economic processes, a supplier of public goods, and an insurer against risks in market-led structural changes; (ii) the extent of perceived market failures due to externalities, or of market dysfunctioning which often inhibits entrepreneurship within the private sector; (iii) the changing perception of the importance of a strong industrial base, in particular in manufacturing, and the role of governments in enhancing the "structural competitiveness" of economies; (iv) the institutional capabilities to define, manage and co-ordinate an increasingly interconnected array of policy measures in fields as diverse as taxation, labour markets, regional development, R&D, trade and competition policy; (v) the constraints imposed by the orientation of macroeconomic policies and the associated budget difficulties; and (vi) the diminished room for manoeuvre that is left to national governments by their international commitments (e.g. in trade policy) and by the globalisation of markets and strategies of firms.

#### The globalisation of industrial activities

The strategies that multinational enterprises increasingly adopt in order to cope with rapid technological change and to compete effectively has meant that industrial activities have become more globalised. They are characterised by the development of international networks of collaborating firms, the pivotal role of foreign direct investment, new patterns of international sourcing of production inputs, and by the wide geographical dispersal of activities. In this environment, the objectives of global firms and of national governments do not always coincide. The citizenship of companies often becomes "blurred" as assets, ownership, and production are spread across countries, while products become multidimensional composites whose origin are often difficult to determine.

Globalisation raises a number of issues for policy makers. Some of these relate to the possible divergence of the global strategies of firms from "national interests". This has practical implications for the choice of policy instruments and the targeting of policy measures, as for example when choosing between assisting the production and R&D activities of national firms versus assisting the development of more immobile factors of production such as labour or infrastructure development which build up the local capabilities. Other issues relate to the intensified international competition arising from globalisation. This has led to a greater use of "grey-area" measures in many countries and exacerbated international frictions. The development of multilateral disciplines limiting such behaviour is a priority area for policy.

## The situation in industry

Manufacturing production in the OECD area declined in 1991 by 1.1 per cent, with industrial production as a whole (mining, manufacturing and utilities) declining by 0.5 per cent. There was some diversity among countries, with production declining most in Finland, Sweden and Canada, while increasing in Ireland, (western) Germany, Denmark and Japan. In terms of industries, the steepest declines were recorded in wood products, textiles, iron and steel, transport equipment, basic metals, non-electrical machinery, fabricated metals and motor vehicles. Employment in manufacturing declined by 2.8 per cent; unlike in previous recessions, employment in services has not acted as a buffer for job losses in manufacturing. The decline in employment seems to be evenly spread, with industries and regions previously unaffected recording sharp job losses. Physical investment declined in most countries in 1991 or early 1992, as did rates of capacity utilisation in manufacturing. Productivity continued to increase, reflecting labour shedding occurring at a faster rate than the decline in manufacturing production; at 1.7 per cent for the OECD as a whole, it recorded its slowest rate of growth in over ten years.

Alongside these recent trends, the report highlights important structural aspects and shifts in industry. Industrial R&D data from 1985 to 1990 illustrate Japan's substantially increased share in overall OECD R&D expenditures in all industry groups, the declining share of the United States and the stability of the share of the European Community.

In international trade, data covering the 1970 to 1990 period show how the United States has lost export market share in all manufacturing industry categories, while conserving an important comparative advantage in high technology, as well as Japan's move out of low technology and labour-intensive industries towards medium and high-technology. An export specialisation around medium technology, or scale intensive and specialised supplier industries has helped Germany increase or hold market share across the board, while Italy seems to be the only large country whose manufacturing exports moved in the direction of labour intensive industries. Regarding smaller OECD countries, the stability of export market shares and specialisation pattern of mature economies such as Austria, Switzerland and the Nordic countries contrasts sharply with the considerable export market gains made by Ireland and Spain, whose export specialisation has moved in the direction of medium and high technology industries.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89).

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