

Do We Need Industrial Policies?:
A Role of Competition Policies to Foster Widespread
Private Sector Growth

Competition Policies as Instruments of Social
and Economic Development: Asian Perspectives

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Before “Abenomics”

Six (or more) “Afflictions” upon Japanese Economy

1. High corporate-income taxes

Tokyo 40.69 %; France 33.33%; Germany (on average) 29.38%; China 25.00%; Korea 24.20%

(in order of highest rates for selected regions)

2. Low birth rates and Aging Population

Total fertility rates (2009): France 2.00; Germany 1.38; Japan 1.37; Korea 1.15 (for selected countries)

3. Yen Appreciation

4. Inflexible labor market

5. High marginal cost (in an international comparison) to further reduce CO2 emissions

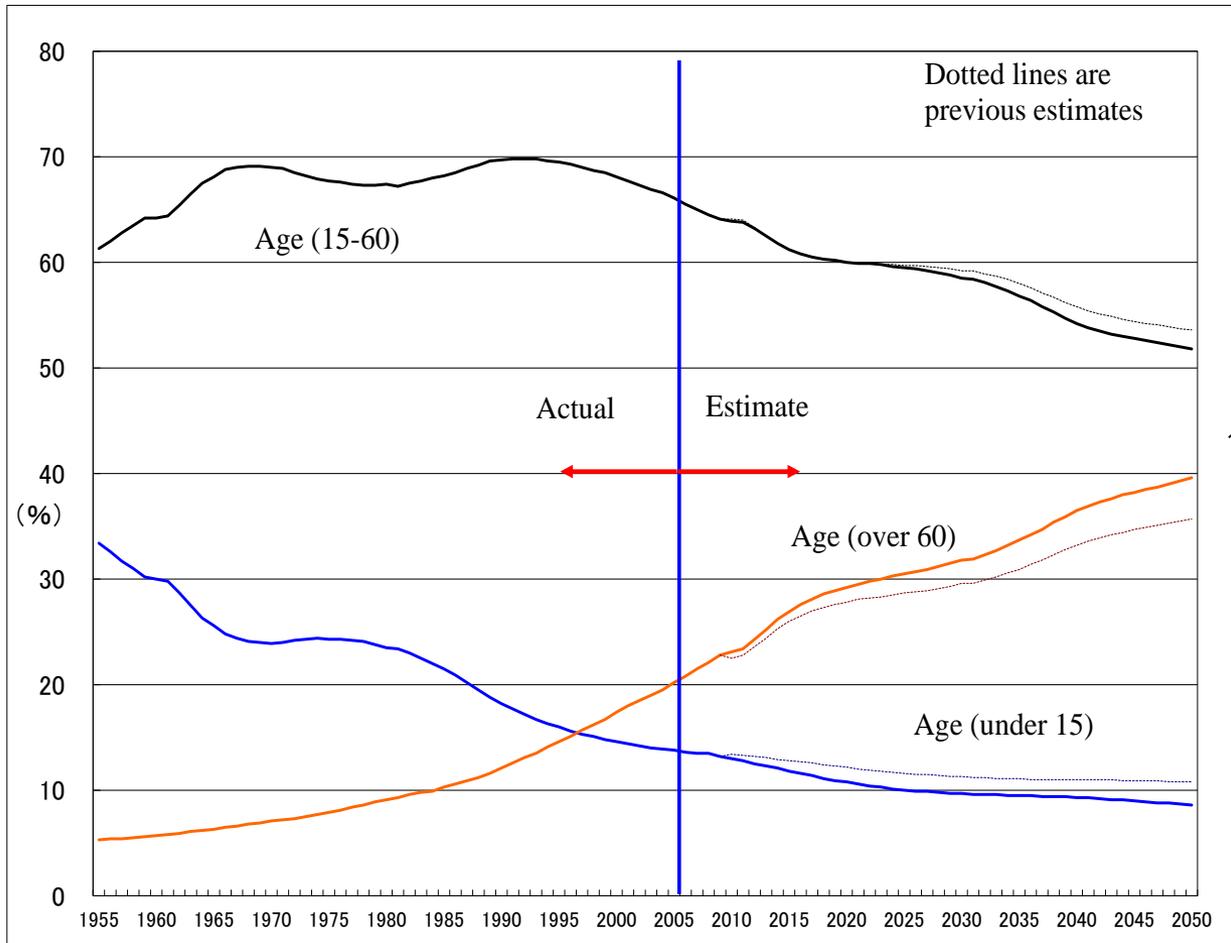
6. Set back in FTA/EPA negotiations

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- Severe Shortage in Electricity

- Floods in Thailand and aftermath of Tsunami etc...

Demography in Japan



- Immigration
- female labor participation
- Increasing retirement age

Ageing

Possible Problems

- Lower social mobility
- Lack of entrepreneurship etc



Possibility of severe set-back on productivity in Japanese economy

New Industrial Policies

“New” Industrial Policy and “New Industrial ” Policy - Background -

- Surges of interests in “industrial policies” among many countries.
- Broad range of policy concerns following the 2008 crisis:
 - Loss of manufacturing
 - Green Growth
 - “Growth Strategies”
 - Stimulus packages (e.g., automobiles, consumer electronics, etc)

What is “Industrial Policy”?

- Government intervention in the economy that aims to promote technology-enhancing industries. (Mankiw, 2007, *Principle of Microeconomics*, 5th ed: 209)
- Industrial Policy is basically any type of selective intervention or government policy that attempts to alter the sectoral structure of production toward sectors that are expected to offer better prospects for economic growth that would occur in the absence of such intervention. (Pack and Saggi, 2006, *The case for Industrial Policy*, World Bank)
- Policies that stimulate specific economic activities and promote structural change. (Dani Rodrik, 2008, *Normalizing Industrial Policy*: 2)
- Industrial policy include following five categories: (1) Industry Protection, (2) Regulation on public enterprises, (3) Investment to social infrastructure, (4) competition policy, (5) Other regulations (Imai, Uzawa, Komiya, Negishi, Murakami; Price Theory III, 1972)
- Any policies that the MITI implemented (Kaizuka, 1973)

Industrial Policies V.s Competition Policies

Relationship between competition and industrial policies has undergone considerable changes in the post-war era:

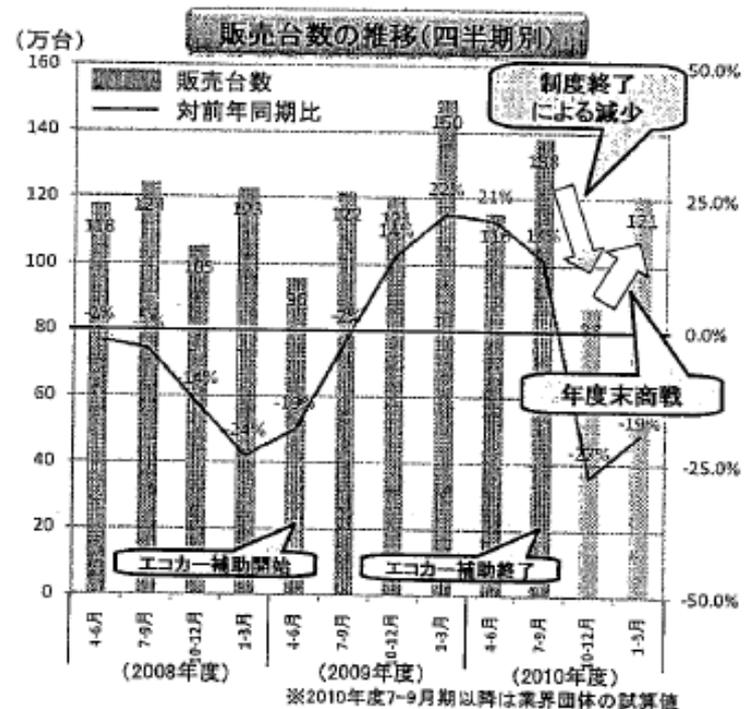
1. The enactment of Antimonopoly Act, under the guidance of GHQ (1947)
2. **Weakening of competition policies** and the rise of industrial policies (1950s and 60s)
3. **Active competition policies** (1970s)
4. **Further enforcement of competition policies** (1980s and 90s)
5. Surge in interests in industrial policies in the post-Lehman shock period.
 - “Eco-car” subsidies
 - Subsidies on energy-saving electronics

Rationale for Policy Intervention

- In general, it is better to leave private activities as they are; to avoid crowding out.
- Market Failure is one that justifies policy intervention.

Example: Eco-car subsidies in 2010-11

- Total budget: 627 million JPY
- What market failure: Extreme uncertainty and negative aggregate demand shock after the LS.
- What if market failure did not exist?

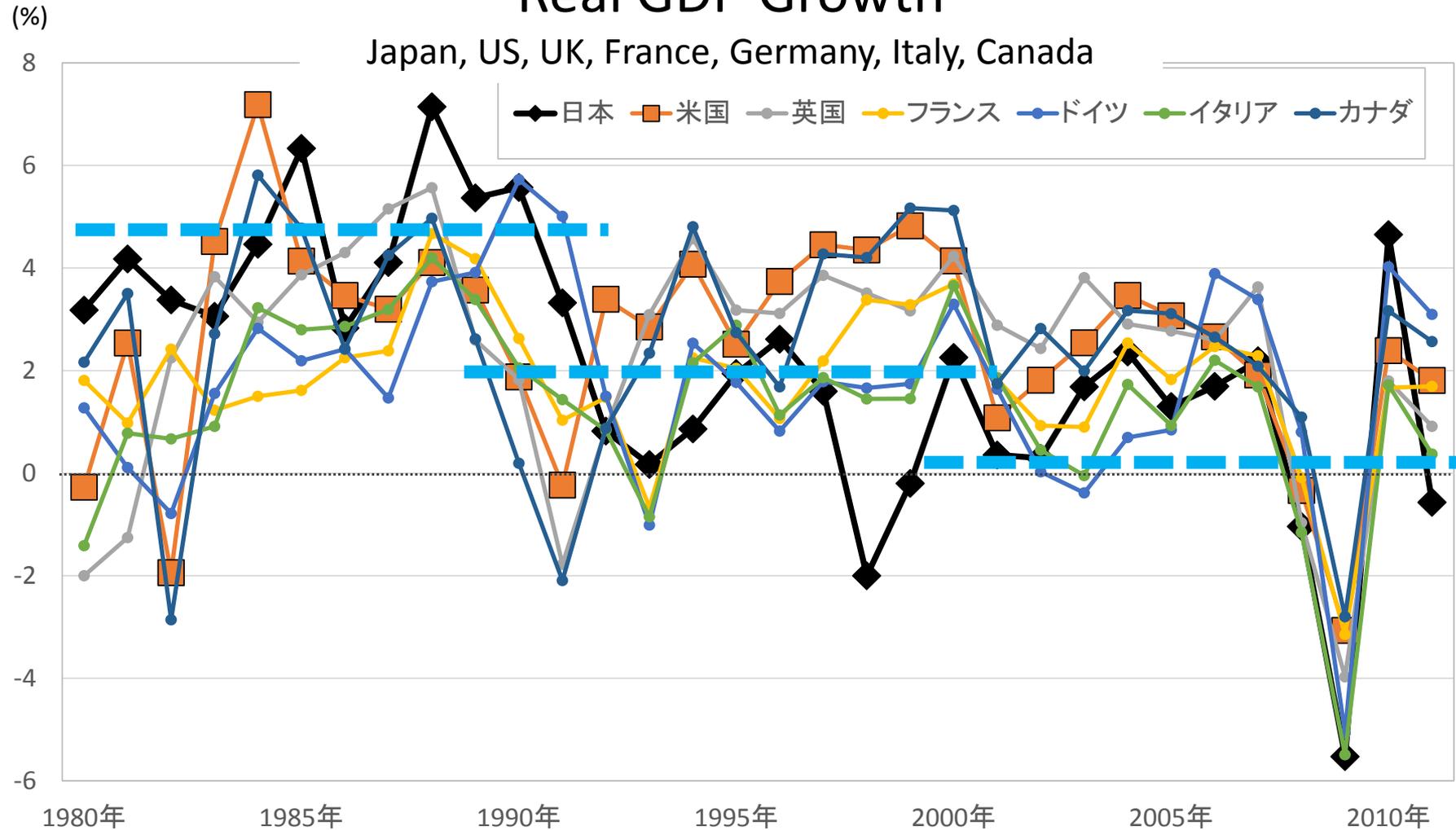


Market Failure & Gov't Failure

- Does the government correctly identify and rectify the market failure?
 - Political pressure, rent-seeking?
 - Is it possible to maintain neutrality in policy making?
Corruption, cronyism, poor cost control under multitude of conflicting goals and incentives.
 - Is the government capable of “picking the winner”?
- The 1990s is the period when people perceived “market failure < government failure”, and industrial policy lost favor.

Real GDP Growth

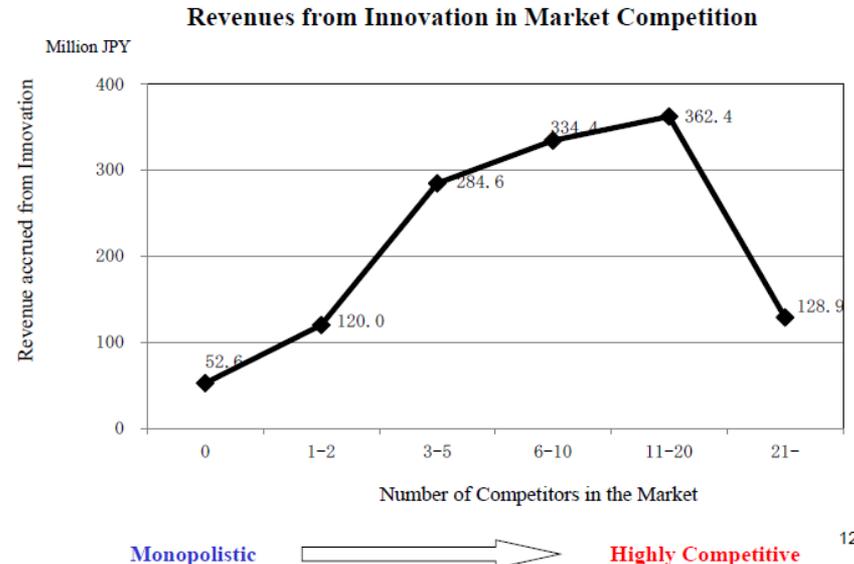
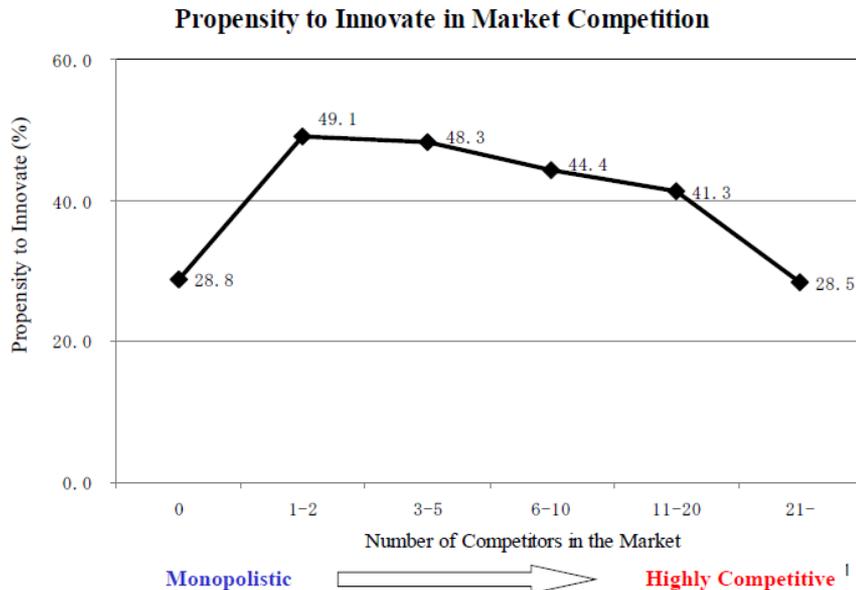
Japan, US, UK, France, Germany, Italy, Canada



出典: IMF-World Economic Outlook (April 2013 Edition)

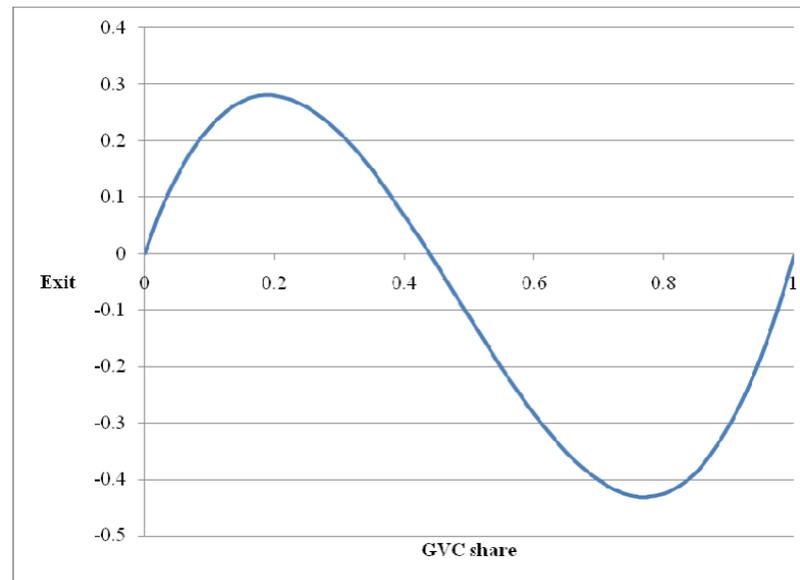
A New Trend of State capitalism

- State capitalism increasingly looks like a trend.
 - E.g., French set up a SWF. Brazil, South Africa, etc...
 - State capitalism appears to be successful in producing national champions that compete globally.
 - Is it compatible with the current global trading system under the WTO?
- Economists often believe that state capitalism is not only less innovative but also less productive.



However, a dose of state capitalism could be good

The effect of Government-sponsored venture capitalists (GVC) share on exits (either IPOs or M&As)

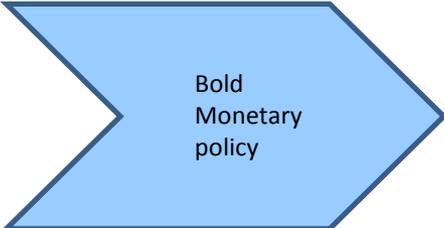
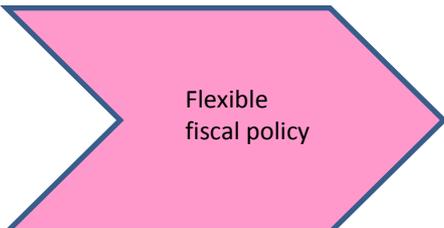


Source:
Brander et al (2011)

A Viewpoint

- Considering the side effect (i.e., gov't failure), it is difficult for the government to pick and choose a “national champion” for a particular industry or company.
- It seems to be essential to prepare for market environment from which a national champion emerges through natural selection process.
- The government should spare more resources to provide safeguards for those affected by the market selection process
 - Safety net for conventional industries
 - Structural reform that helps move resources from old to new industries.
 - Supports (vocational or educational) to help transition of jobs.
- Competition policies can be viewed as complement, not substitute for, industrial policies.

Abenomics

	Party manifesto(LDP)	Status	Major upcoming developments
 <p>Bold Monetary policy</p>	<p>Set a clear price stability target (2%), build a strong coalition between the Government and BoJ and implement bold monetary Policy toward achieving the target, eyeing the BoJ Law reform</p>	<ul style="list-style-type: none"> ● A2%YoY price stability target and JPY13 trn in monthly asset purchases of long- and short-dated JGBs from 2014 introduced by BoJ (Jan 22) ● Joint statement of the government and the BoJ on overcoming deflation and achieving sustainable economic growth announced (Jan 22) 	<ul style="list-style-type: none"> ○ Terms of two BoJ Deputy Governors end (Mar 19) ○ BoJ Governor's term ends (Mar 19) ○ BoJ Monetary Policy Board meetings (Mar 6-7, Apr 3-4, Apr 26, May 21-22...)
 <p>Flexible fiscal policy</p>	<p>After new administration is launched, quickly push through first round of emergency economic measures and continuously implement economic measures together with large supplementary budget and new fiscal year budget</p>	<ul style="list-style-type: none"> ● CEFP relaunched (January 9) ● Emergency measures to revitalize Japan's economy approved (Jan 11) ● FY13 budget approved (Jan 15) ● FY13 budget proposal and FY13 fiscal reform outline approved (Jan 29) 	<ul style="list-style-type: none"> ○ Passage of FY12 Supplementary Budget (expected mid-Feb) ○ Passage of FY13 Budget (expected around May)
 <p>Growth strategy that encourages private sector investment</p>	<p>Establish an 'Industry Competitiveness Council' within the Japan Economic Revitalization Office to promote targeting policy to nurture growth industries. First solve national issues, then set strategy targets possible in the world, then concentrate investment in core technologies and reform the system in order to introduce policies all at once.</p>	<ul style="list-style-type: none"> ● CEFP re-launched (Jan 9) ● Emergency economic measures for the revitalization of the Japanese economy approved (Jan 11) ● FY12 Supplementary Budget bill passed (Jan 15) ● Industrial Competitiveness Council launched (Jan 23) ● Regulatory Reform Council launched (Jan 24) ● FY13 budget proposal and FY13 fiscal reform outline approved (Jan 29) 	<ul style="list-style-type: none"> ○ Passage of FY12 Supplementary Budget (expected mid-Feb) ○ Passage of FY13 Budget (expected around May) ○ Drafting of New Targeting Policy (strategic market creation plan, expected around May) ○ Drafting of Nippon Industrial Revitalization Plan and Internationalization Strategy (expected around June)

Growth Strategy (5 June 2013)

- Private Sector:
 - Improve firm entry by 10%
 - Increase investment by 10% over three years
- Employment
 - Decrease the unemployed by 20% over five years
 - Increase high-skilled immigrants
- International Competitiveness
 - Designate “structural reform districts”
 - Introduce PPP/PFI on (air-)ports investment
- Open up public sector
 - Electricity Reform
 - Infrastructure Investment
 - Double Inward FDI by 2020

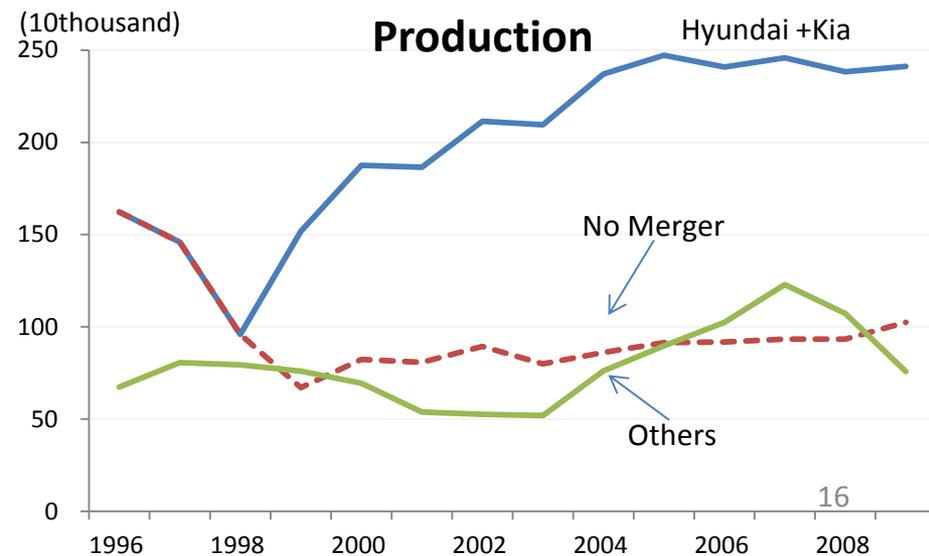
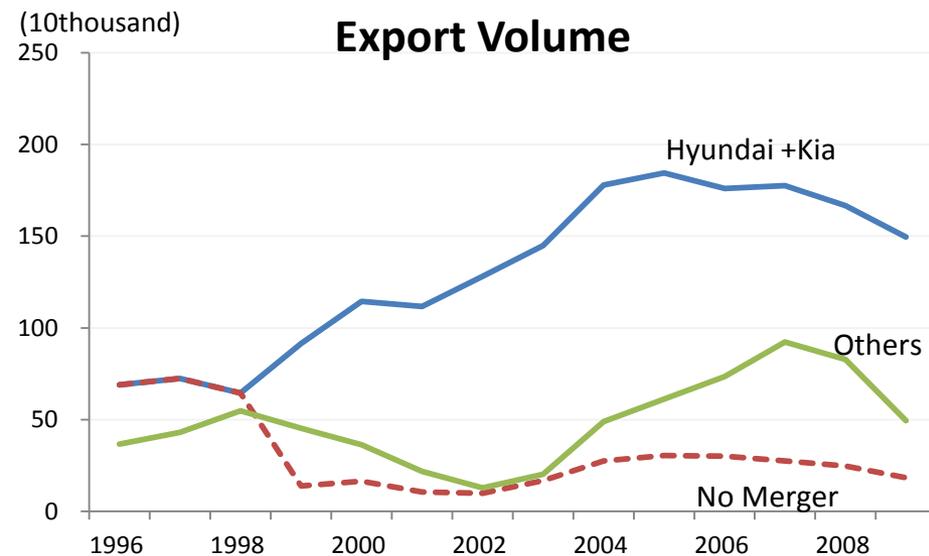
Through this strategy, the government aims to increase per-capital GDP by 3 percent per annum over ten years.

No mention on tax reform, labor market reform, general immigration policies, health-care reform, etc.

Efficiency in Competition Policies

- Competition Policies are viewed (perhaps more often by developed countries) as promoting “efficiency.”
 - E.g., Merger Regulation to enhance “international competitiveness” and promote restructuring

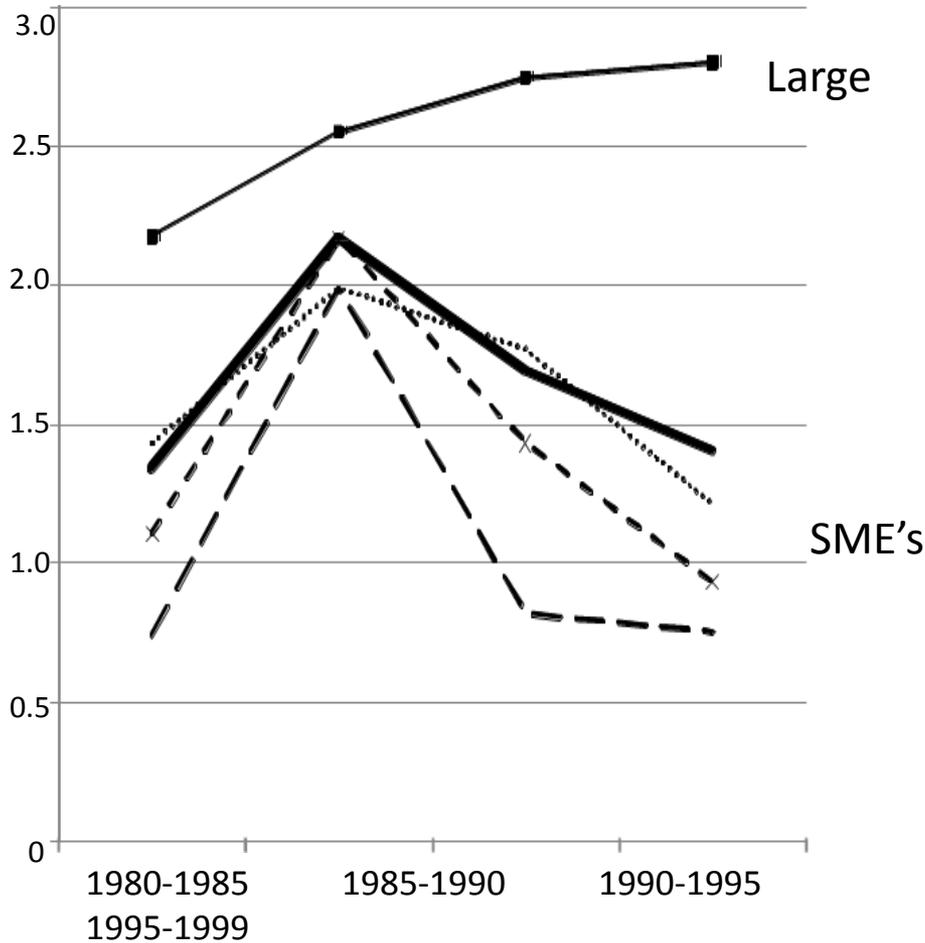
1997 Korean Merger: Hyundai-Kia



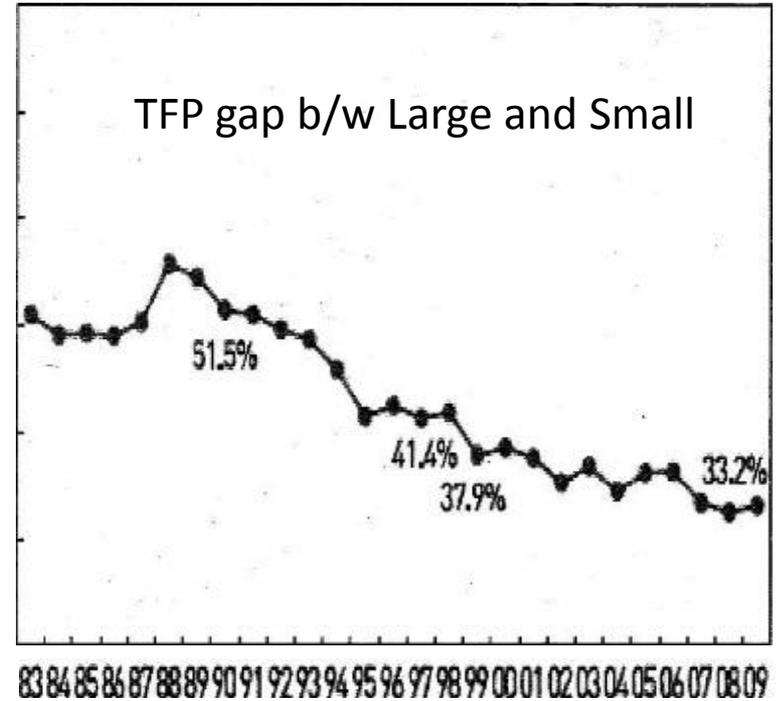
TFP growth rates by Firm Size

(Annual basis,%)

JAPAN



KOREA



An Open Debate:

Increasing importance on “equity” concerns

- While protectionism is not a desirable concern, how to build a fair ground of competition (esp. for SMEs) becomes an important policy concern in Japan.
 - Need for a guidelines on state aids on failing companies
 - How to protect and nurture entrepreneurship (that often coincides with SME policies)
 - Increase in excise tax (expected in 2014) and SMEs

Thank you for your attention

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