# Who is *not* Afraid of Industrial Policy? A Southern Perspective

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***Abstract***: This article examines the feasibility of industrial policy as a solution to macroeconomic volatilities and disruptions in global value chains, with a focus on the perspectives of countries in the Global South. The COVID-19 pandemic exacerbated existing weaknesses in these economies, making it difficult to implement effective countercyclical measures and find resilience in value chains. The paper argues that industrial policy, often seen as a remedy during crises, is mostly accessible to countries in the centre of the world-system, leaving the Global South at a disadvantage. The author calls for a more representative and democratic approach to development in the Global South to avoid further marginalization. By pursuing inclusive growth, improving income distribution, identifying strategic niches in value chains, promoting technology density, establishing favourable macroeconomic regimes and adopting environmentally conscious policies, Southern countries can pave the way for a more equitable and just global economic system. Achieving these goals requires greater financial and technological power, necessitating foreign relations to advocate for multipolarity, human rights, and democracy in international forums.

***Keywords***: Southern economies, Macroeconomic volatilities, Sustainable development, Economic dependence, Resilience, New Industrial Strategy, Multipolarity.

When international crises arise and countries are experiencing macroeconomic volatilities related to exchange rate fluctuations, capital flows, balance of payments constraints, loss of competitiveness, and now even inflation, industrial policies are recast.

However, in this paper, we argue that industrial policy is not a realistic option for most economies, it is more of a privileged alternative available for those in the centre of the world-system (Wallerstein, 2004).

## The COVID-19 Crisis and Global Value Chains

The COVID-19 pandemic was a humanitarian crisis, particularly damaging for the less wealthy of the

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Global South (Sachs, 2022). Historical structural weaknesses made it more difficult for Southern countries to find resilience in value chains and to perform countercyclical macroeconomic regimes to address the pandemic's major challenges.

This is a profound problem related to the insertion of countries in global financial and productive flows, as it directly impacts development possibilities. The participation of domestic companies in the international division of labour (fashionably referred to as ´global value chains´) determines the quantity and quality of a significant part of the jobs generated, based on the available production technologies. The ownership of strategic technologies and the performance of high value-added activities of the chains, as well as the financial capacity to boost funding for investments, remain the dividing line between the centre and periphery of the world-system (Furtado, 1961; Amin, 2010; Reis & Kvangraven, 2023).

The decisions of where to produce technology and other high-value-added activities of the value chains are generally determined by the State's geopolitical positions and by the leading transnational corporations' governance strategies. Thus, those decisions can be definitive for countries' patterns of productivity and wages.

Time after time industrial policy resurges as key for companies and governments of both Global North and South as they were on a level playing field (WB, 2021). However, the difference in conditions to undertake industrial policy actions is striking. This was clear during the pandemic, which differently impacted their macroeconomic regimes and, dramatically, their conditions to fight COVID-19.

China impressed the world with the fast return of her economic activity, with industrial production recovering to pre-pandemic levels as early as June 2020. However, the situation in other countries was not as resilient: by November 2020, most regions had still not reached their pre-crisis production levels, according to UNIDO (2021).

OECD's policy brief Global Value Chains: Efficiency and Risks in the Context of COVID-19, February 2021, has concluded the obvious: "concentration typically amplifies the volatility" of chains. Greater integration with global markets, depending on its quality, can be a double-edged sword: on the one hand, it allows smaller economies to reach a larger customer base; on the other, it makes them more exposed to external demand shocks than large economies. In general, vulnerability is linked to high export and import penetration coefficients concentrated in a few firms from a narrow range of destination or origin countries, such as China, the US and Europe. Supply chains with little diversity of suppliers or customers are more likely to be disrupted and can amplify the propagation of shocks.

Regardless, the OECD (2021) approaches "concentration" in the limited sense of market competition microeconomic models, its diagnosis is practical: building back better (OECD, 2020).

To increase resilience, robustness and readiness in GVC (UNCTAD, 2022), the great powers rapidly launched substantive industrial policies' plans. Thus, the pandemic strengthened the rivalries between both companies and States, in order to acquire another kind of concentration: of power and of wealth (Stopford & Strange, 1991; Shutte & Prashad, 2023).

During the pandemic, the system became more concentrated in geopolitical terms because of the technological changes and financial improvements that are being made by the TNCs. It is an opportunity to keep or to raise their profit rates. When this happens, historically, class and intersectional struggles tend to intensify (Reis & Kvangraven, 2023). Then, the escape routes for Global South countries are scarce.

## Industrial Policy is Back Again, but for too Few

UNCTAD (2020, 2021) see a "perfect storm" in the international production system, caused by the joint effects of the pandemic and the "megatrends" - disruptive transformations in the course since the financial crisis in 2008/09: a) Technological trends and the New Industrial Revolution (NIR); b) Trends in global economic governance; c) Trends in sustainable development. Moreover, the war between Russia and Ukraine intensified geopolitical and economic concerns which led some nations to offer incentives to rethink manufacturing (UNIDO, 2022).

However, there aren't umbrellas for everyone. As argued in the last section, protection depends on financial and technological power, which today is attested in the American and Chinese investments to become carbon-neutral within 30 to 40 years, which might be the new engine of their growth dynamics (Reis, 2021a).

The 2021-2025 five-year plan wants to make China a leading innovator by 2035, focusing on 4.0 technologies such as next-generation artificial intelligence, semiconductors, cloud computing and 5G networks - so that R&D spending rises by more than 7 per cent each year. They want the non-fossil fuels to grow from 15 per cent to 20 per cent in the energy use matrix by 2025.

The Biden and Harris administration announced in 2021 the Jobs and Infrastructure plan, and a task force for greater resilience of supply chains and the revitalisation of American industry, based on infrastructure, especially related to clean energy. Then, the report of the White House's Task Force identified the most critical chains' activities for the US, namely: semiconductor processing, large capacity batteries, strategic minerals and materials (rare earths in particular), pharmaceuticals and active pharmaceutical ingredients (API).

Such vulnerabilities were coming from, as highlighted, industrial policies adopted by allied/partner/competitor nations, geographic concentration of global supply in East Asia, limited international coordination, etc. Therefore, in 2022, the US launched the Inflation Reduction Act, a huge spending programme that includes actions on the supply side to fight inflation, such as reducing energy costs, with the intention of increasing cleaner production, reducing carbon emissions, and cost relief in the health sector.

The European Union (EU) also had initiatives for resilience in value chains, published by the European Commission and the European Parliament. The Industrial Strategy 2020 proposed industrial alliances and industrial ecosystems to achieve the green and digital transition, preparing them against crises in strategic sectors (EPRS, 2021).

The New Industrial Strategy, revises the previous one, analysing a set of sensitive products for which the bloc is highly dependent on external suppliers. It contains six in-depth reviews of supply chains with the prevalent use of these materials: active pharmaceutical ingredients (APIs), batteries, hydrogen, raw materials, semiconductors, and cloud and edge technologies. And the Green Deal Industrial Plan of March 2023, aims to increase the competitiveness of Europe's green industry and accelerate the transition to climate neutrality. The pillars of the plan are: the regulatory environment; faster access to finance; improving human capabilities and skills; open trade for resilient supply chains – except in sectors related to strategic autonomy.

Therefore, in the centre of the world-system dynamics, the States are stronger in the economic and political, domestic and international spheres. This happens not only because countercyclical measures to circumvent the COVID-19 crisis were needed, but also to induce investments in the strategic technologies and industries of our time: the sustainable 4.0 paradigm.

These efforts of the two main world powers, and of Europe, even if not fully completed, tend to intensify the concentration of power and wealth, moving the periphery away from the core that creates and appropriates the profits of global productive and financial technological standards (Reis & Kvangraven, 2023).

## Finding the Loopholes

In this context, the spaces of resistance for companies and nations with less power in the markets, like many in the Global South, become even smaller. As a conclusion, only a few countries can implement effective and long-lasting industrial policies, imposing a harsh situation on others.

To avoid more economic dependence and political decay, Southern States need an emancipatory and sovereign vision of development. Based on more representative governments and democratic institutions, developing economies can seek strategic niches in value chains that might accelerate growth and, in addition, improve income distribution between social classes, genders, ethnic-racial groups and regions of their territories (Reis, 2021b).

In other words, the challenge is to find a route for economic dynamics that generates decent jobs and income, and raises the country's general income standard, with environmental and climate justice. Necessarily, this means changing the productive structure to promote its technology density, engendering spillovers and multiplier effects. Then, education and ST&I systems, with a long-term vision towards inclusive and sustainable developments should be fostered.

However, a favourable macroeconomic regime is crucial, with monetary and fiscal policies that lead to interest and exchange rates consistent with structural change. High interest rates are a major problem for the Global South, particularly for micro, small and medium-sized enterprises and for low-income consumers. And competitive exchange rates for the resumption of industrial dynamics, without causing inflation and socialisation of losses, are also important (Reis & Lacerda, 2023).

Unfortunately, the international financial system is not contributing to these conditions in poor countries. Thus, foreign relations must promote a haughtier and more active productive and financial integration of the South. Multipolarity, human rights, nature and democracy must be further advocated in international forums. It is urgent to reinforce the cultures of peace, improving social interrelations between the Global South and the North.

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