

# Capacity Building for Industrialization; Towards an Alternative Perspective on Trade and Industrial Policies

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## Abstract

Since early 1980s developing countries have embarked on deregulation of industrial activities in general and international trade in particular with the objective of enhancing capacity, diversification and upgrading of exports and output in favour of manufactured goods. Studying a sample of developing countries that have undertaken trade liberalisation and economic reform during the last two decades the author disputes two general propositions behind recommendations for universal and across-the-board liberalization: that import liberalization and free trade are always conducive to economic development irrespective of the level of development and industrial base of developing countries; that the invisible hand of the free market is always the best instrument to promote industrialization.

The study concludes that the experience of export promotion of 1980s and 1990s is by no mean a success in the majority of cases, as it was not the experience of traditional import substitutions of 1950s to early 1908s. During the last two decades, a minority group of countries, have performed well, relatively speaking, in terms of growth in export, but the majority of countries in Latin America and Africa have shown poor or moderate performance. In the case of the minority group, only in a handful of countries, predominantly in East Asia, high export growth was accompanied with high rate of growth of MVA and upgrading. In fact, not only low-income countries but also some of those which had important industrial capacities before the initiation of reform programmes, have experienced de-industrialisation and became more vulnerable to external factors. In the case of the "minority group" economic reform, particularly trade liberalization, has taken place gradually and selectively, at least until recently, as a part of their long-term industrial policy. By contrast, the "majority group" embarked, in the main, on a process of rapid structural reform including uniform and across-the-board liberalization.

Taking into account the experience of the successful and failure cases during the last 50 years, the author proposes an alternative regulatory framework for governance of trade and industrial policies of developing countries. In such a framework, economic activities are governed by a "dynamic coordination system" comprising of various elements-markets, firms, governments and institutions- where: the relative role of each elements changes from one country to another and over time depending on the level of development of the country and availability of market institutions; the firms are strategically active and play a central role in capacity building.

Having such a domestic regulatory mechanism in mind, considering the international market structure and regarding trade policy, including liberalization, as a tool of development, rather than an end *per se*, he identifies elements of a framework for dynamic trade and industrial policy; refers to contradictions in designs and implementations of the WTO rules and regulations and their anti-development biases, and argues for changes in the international trade regulations to render them conducive to industrialization of LDCs.

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\*The author is a senior economist in charge of Macroeconomics and Development Policies Branch, Globalization and Development Strategy Division of UNCTAD. The opinions expressed here are those of the author and do not necessarily reflect the views of UNCTAD. The presentations is based on his recently published book: *Trade Policy at the Crossroads; Recent experience of Developing countries*, Palgrave, Macmillan, 2005. Comments are appreciated and may be sent by e-mail: [Mehdi.Shafaeddin@UNCTAD.org](mailto:Mehdi.Shafaeddin@UNCTAD.org) or [MshafaM@Netscape.net](mailto:MshafaM@Netscape.net).

