

Policy Panel

The Balzac problem (maintenance)

- *'If [a] place was to be a permanent forge of industry, fuel must be constantly added to the fire' (Honoré de Balzac)*
- But structural change means it is not enough simply to maintain.

The goldilocks problem: transition



The questions before us:

1. what policies can best be used to pursue innovation in support of inclusive growth?
2. what are the practical impediments to implementing such policies?
3. How can these be overcome?

Responses will naturally be different for lower income countries than for high-income countries. However, all countries face:

- limited resources (human, capital, technological), and multiple trajectory choices
- islands of excellence
- Global competition

Difference between the three groups

- Polarization is not the same as inequality
- Size of the pie vs distribution (which comes first?)
- What should countries pick –
 - the link between innovation, industrial and FDI policy
 - Appropriate innovation
- Infrastructure
- Government and institutional imperfections
- Dominance of different set of actors (public vs private, formal vs informal)

Developing countries: Updating the Lewisian dual economy model

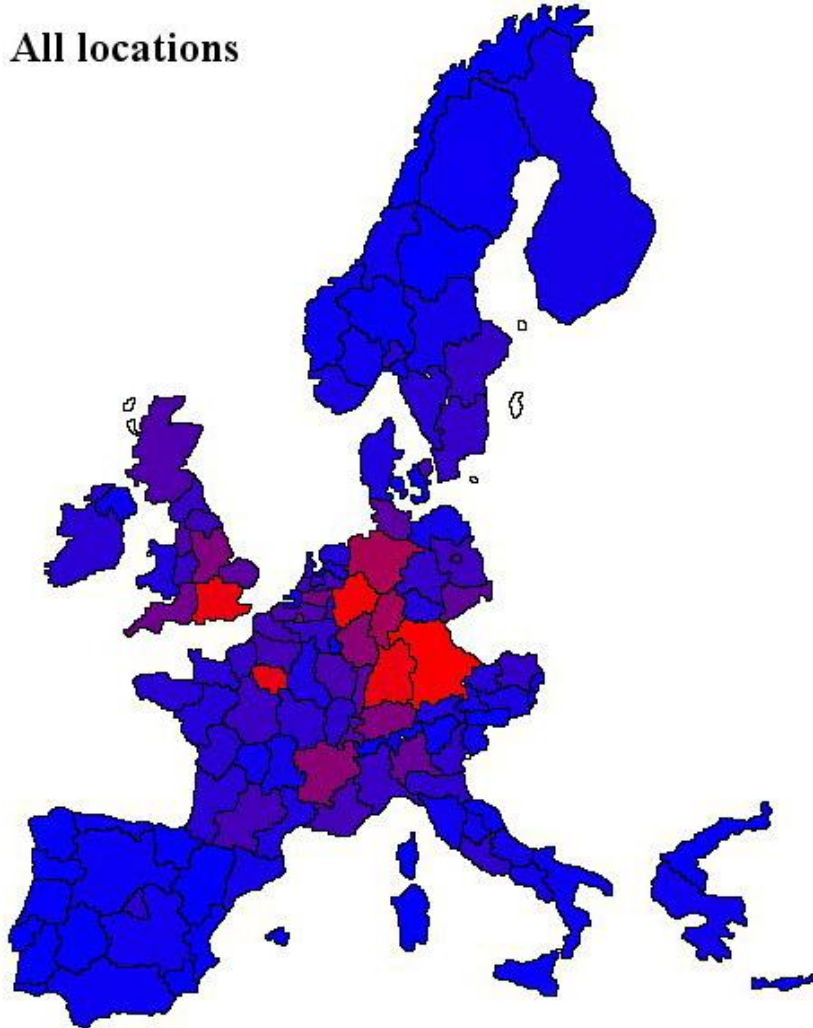
- a ‘traditional’ (and often informal) sector that reflects a high labour-intensity and a strong dependence on natural resources and agriculture. The ‘traditional’ sector focuses largely on local needs and is trade-extensive.
- a ‘modern’ urban economy which is engaged in knowledge-intensive, capital– and skills-dependent activities. The ‘modern’ economy has an international focus, and is intensively linked to the global actors.
 - Examining the prospects for the growth of developing countries requires us to acknowledge both these aspects

Innovation system policies

- Addressing the classics: physical and knowledge infrastructure, and capital
 - the definition of public goods has to be revisited.
 - Human capital is much more complex (managerial, technical, minimum skill levels) – fine-tuning to demand
- A dual economy requires dual innovation systems, and dual sets of policies (and the links between them)
- Services do not work the same way as mfg.
- Multinational firms?
- Overcoming constraints due to institutions
 - Inertia and lock-in
 - Moving the economy from informal to formal

The R&D activities of firms stays concentrated in a few locations

All locations



Foreign locations

