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New Industrial Policy of South American Countries and Industrial Cooperation with Korea

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Background

In recent years, major Latin American countries, represented by Chile, Colombia and Peru, have been actively implementing 'new industrial policy' in order to change their economic structures, which have a high dependency on primary goods, and to promote their export competitiveness. A number of reasons these policies are called new industrial policy are as follows: first, they focus more on export promotion, unlike the old industrial policy from 1950~1980 whose main focus was import substitution. Second, the new industrial policies highlight the importance of innovation. The industrial policies of Chile, Brazil, Uruguay, and Colombia emphasize in particular the importance of innovation. Third, new industrial policies are nowadays backed by sound budgets. Last, but not least, new industrial policies are aiming for public-private alliances and are more horizontal, whereas old industrial policies were more of a vertical nature, presided by the government.

Despite their high interest in and willingness toward industrial policies, most countries in the region are facing difficulties in introducing and implementing them due to a lack of experience and know-how. Some point out that their weakest spot is the lack of human resources; an absence of professional public officials who are well aware of industrial policies.

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The purpose of this study is to focus on Chile, Colombia, and Peru, analyzing the new industrial policies of these countries, and to discover opportunities and demand for industrial cooperation. The definition of industrial policy here is a certain type of intervention or government policy that ameliorates the business environment and changes the economic structure with the aim of economic growth and social welfare improvement.

New Industrial Policy of Latin American Countries

The three Latin American countries, Chile, Colombia and Peru, were in need of active industrial policies by the 2000s. First and foremost, they needed to diversify their export and industrial structure. Since the year 2000, dependence on the primary commodity exports of these South American countries has increased, due to China's primary commodity boom (rose from 67% in year 2000 to 76% in 2013). In particular, Colombia's export dependency on primary resources has jumped from 66% to 82% during the same period. This high dependency on primary goods can lead to high volatility in economic growth. During the period from 1996 to 2014, Chile, Peru, and Colombia's volatility of economic growth exceeded the Latin American average. Second, these three countries had to promote their productivity. According to the IMF and other researches, the high rate of economic growth in the 2000s was achieved thanks to a high input of labor and accumulation of capital, rather than driven by TFP growth. In this sense, the low productivity of the three countries could be explained by the lack of innovation. Third, they needed to strengthen national competitiveness. These three countries all ranked on a mid--to-high level among South American countries, according to the World Economic Forum. However, their rankings have dropped or remained stagnant since 2010. In order to make the transition to an 'innovation-driven' economy from their current 'efficiency-driven' economy, they must expand R&D expenditure, and improve educational levels.

1. The Chilean Case

In the case of Chile, we analyze the 'Agenda of Productivity, Innovation, and Growth (*Agenda de Productividad, Innovación, y Crecimiento)'*, which the Bachelet government has been implementing since 2014. The Chilean government adumbrates the necessity of this agenda with the structural limitations of Chilean economy. It explains that Chile's economic growth over the past twenty years has been driven by production and exports based on natural resources; and now, it is time for Chile to discover a new growth engine for the mid to long term.

In this Agenda, Chilean government advocates active government intervention in order to resolve market failure. Also, in order to enhance productivity, the government shows strong determination to extensively improve the efficiency of the social system. One of the main goals of Chile's industrial policy is 'innovation'. However, it has been criticized for its deficiencies, such as shortage of capital, and insufficient -industry-focused promotion policies.

2. The Colombian Case

In the case of Columbia, we study the 'National Development Plan (*Plan Nacional de Desarrllo 2014-2018*)' and 'Productive Transformation Program (*Programa de Tranasfor-*

mación Productiva)', which President Santos has chosen for his second term.

Through this national program, three key characteristics of Colombia's industrial policy can be described as follows. First, it emphasizes the importance of fostering exporting companies, which in Colombia are called start-up programs. The policies seek to remove barriers that hinder the development of the companies, while also improving their competitiveness. Second, the policy regards establishing an industrial cluster as crucial. The Colombian government, since 2012, has introduced programs that support innovative corporations. Lastly, it highlights promotion of productivity. As part of this program, the government has selected around 20 industries including automobile/automobile parts, textiles, software/IT services, medical tourism, agriculture, etc.

3. The Peruvian Case

Lastly, Peru′s industrial policy study is based on the 'National Plan for Productive Diversification (*Plan Nacional de Diversificación Productiva)*', which was introduced in 2014 by the Humala government.

The National Plan of Productive Diversification (Plan Nacional de Diversificación Productiva, PNDP) was suggested as a solution after diagnosing the limitations of Peru's economic growth. According to this national plan, Peru prefers comprehensive policies that can be applied to overall industries, rather than focusing on a selected few. While it does not support specific industries, the plan is enthusiastic in supporting small and medium enterprises. In addition, the Peruvian government has interests in the participation of Peruvian firms in the global value chain, with a view to diversifying its exporting industries. Lastly, the government is trying to discover new industries while maintaining its competitiveness in natural resources.

Policy Suggestions for Enhancing Industrial Cooperation with Korea

Several industrial sectors were selected in this section for each country and the possibility of cooperation with Korea is evaluated. The selection of promising industrial sectors for cooperation was based on the policy demands of the three countries, the interests of Korean government and the private companies,' and the outcomes of President Park′s tour to Latin American countries in April 2015. For Chile, the "Start-up Chile Program" is selected as a useful tool for sharing each country's experience on SME start-up policy and cooperation in the innovative sector. As for Colombia, automobiles/automobile parts, software and IT services, cosmetics/hygienic goods are suggested as promising sectors that the Colombian government is trying to promote. Peru's selection of industries includes textile and costumes made of alpaca wool, and processing of marine products.

In the meantime, Chile, Colombia, and Peru have relatively high income levels, and this has proved to be a constraint in economic and industrial cooperation between governments. Also, these three countries boast market-friendly inclinations, and most of the big projects are privately led. Therefore, Government-to-Government (G2G) cooperation is not easy compared to other Latin American countries. Also, human capital has been specifically pointed as one of their restrictions to cooperation, in the form of the frequent replacement of local public officials, and the lack of professionality. At the firm level, vague information about local markets, insufficient local legal consulting, and hardships in finding local partners are considered as difficulties.

The following are policy suggestions for enhancing industrial cooperation with these three Latin American countries. The suggestions are based on an examination of the current state of bilateral industrial cooperation, and address their difficulties. Based on this survey, basic directions for the enhancement of industrial cooperation were suggested in six points. First, more extensive sharing of Korea's industrialization experiences are necessary. Since Latin American countries are actively implementing new industrial policies focusing on industrial diversification and innovation, so as to escape from their dependence on primary goods, they would have much to benefit if Korea shared more of its experiences in industrialization. Second, industrial cooperation should be more reciprocal and balanced. The existing economic relationship between these three countries and Korea has been unbalanced. This should be rebalanced and made sustainable. Third, triangular cooperation should be considered as an option. Since the income levels of these three countries are relatively high, they are now shifting their position from beneficiaries to aid donors. Fourth, substantial cooperation through a selection and concentration strategy is crucial. Since Korea has limited resources for cooperation, it needs to be more focused, and limited to specific sectors where Korea holds comparative advantages and local demand is high. Fifth, customized cooperation strategy is necessary. These three countries all have abundant natural resources, but their economic development stages and industrial structures vary. Lastly, proper counteraction against the drastic change in the trade environment of these three countries should be planned, with consideration to the dramatic shifts in the economic environment.

Lastly, four strategies for promoting industrial cooperation with Chile, Colombia, and Peru were suggested as follows. First, it is important to construct diverse institutions to promote trade and investment between Korea and these countries, such as export incubators, chambers of commerce, innovation committees, etc. Second, establishing a platform for bilateral SME cooperation is necessary. In particular, the development of SME cooperation programs requires the utilization of Latin America's regional development banks, such as the IDB, CAF, and CABEI, which have strong business networks and capitals in local markets. Third, supporting the GVC (global value chain) participation of the three countries should be considered. Combining the natural resources, such as agricultural, marine, and mining products, endowed in these three countries with Korea's technology, new business models can be developed. Especially after the TPP has been settled, Chile, Peru and Mexico as a GVC production base is expected to grow in importance. Toward the support of the three countries' GVC participation, we suggest 1) joint advancement into third markets (such as China) through a strategic alliance between Korea and Latin America, and 2) advancement in the sectors with higher potential to join the GVC. Fourth, a 'Korea-Latin America Innovation Summit' should be held, targeting the three Latin American countries' close interests in innovation, and including the participation of university CEOs and R&D institutions in the two regions. KIEP