

## Concept

# Unique and Global Development Policy

## Definition

Unique and Global Development Policy<sup>1</sup> is a set of policies policy<sup>2</sup> that promote social and economic leapfrogging and includes inter alia: physical infrastructure, regulation, tax policy and trading agreements. This policy focuses on two areas:

- **Exploiting Strong Global Trends** – strong global trends are social and geographical trends with substantive long term economic potential. Unique and global development policy aims to identify these trends on time, develop the right capabilities in order to produce economic value, implement these capabilities on a large scale, and ultimately abandon the trend as it loses momentum. Prominent global trends today include, for example global warming, the rise of China and India, transformation to green energy and aging of the western societies.<sup>3</sup>
- **Exploiting Unique Assets** – each country has assets or burdens that are special to it and cannot be copied. Often, these unique assets stem from a nation's unique challenges and constitute the country's relative advantage in the global arena. For example, Israel's heavy security burden was transformed into a unique growth engine when spillovers from the military industry helped in the early 90's to form a successful ICT industry in Israel.<sup>4</sup>

## Background

**Leapfrogging requires exploiting a strong global trend and quickly transforming the composition of the national product** – most countries that experienced social and

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<sup>1</sup> Development policy is the sum of incentives and inputs that a country provides in order to promote economic activity. Development policy is based on the concept of 'industrial policy'. According to prof. Dani Rodrik "The nature of industrial policies is that they complement – opponents would say 'distort' – market forces: they reinforce or counteract the allocative effects that the existing markets would otherwise produce". Rodrik D. **One Economics Many Recipes**, Princeton University Press, 2007, p. 100. (Hereinafter: One Economics)

<sup>2</sup> Economic and social leapfrog is a process of an accelerated growth rate of 3.5% for at least eight years that brings to reduction of gaps in quality of life relative to developed countries. For further reading see Reut product: Principles and Guidelines for Achieving a Socioeconomic Leapfrog - Version B (hereinafter: leapfrog).

<sup>3</sup> [The Growth Report - Strategies for Sustained Growth and Inclusive Development by the Commission on Growth and Development](#), Washington DC: The World Bank, 2008). Chapter 4. (Hereinafter: Growth Report)

<sup>4</sup> See: [The Future of Growth Promotion in Israel: A Return to Boosting Avant-Garde Industries and Scientific-Technological Innovation](#), A report that has been prepared for the 17<sup>th</sup> Caesarea forum by a team of experts headed by Prof. Arnon Bentor, 2009, P. 8-9.

economic leapfrogging exploited strong economic trends that accelerated the pace of economy and products' change.<sup>5</sup> This change included abandoning unprofitable products and industries and adopting or developing new ones to replace them.

**The private sector alone cannot lead a rapid change in the products' composition** – the private sector is generally risk adverse and is driven by the rational of profit making. The private sector usually avoids investing in new products and markets unless there is public infrastructure to support it. Therefore, the private sector tends to develop in an incremental way based on its existing capabilities. For example, a flower grower will not make new investments to access new distant market without the existence of an adequate aerial infrastructure.

**In order to leapfrog there is a need for a policy that promotes fast changes in the product's composition** – countries that leapt managed to accelerate the pace of change [that naturally take place in a market]. In order to, the private and public sectors should build mechanisms that can regulate the execution of these changes rapidly. **A Unique and Global Development Policy that focuses on the interface between the public and the private sector, is an example of such an essential mechanism.**

### Fast and Sustained Progress in the 'Product Space'<sup>6</sup>

The 'product space' illustrates the challenge countries face in changing their product composition and the link between the unique and global development policy and the process of leapfrogging.

**The product space shows how the private sector tends to move incrementally** – In most cases countries' new products will be close (in terms of the capabilities needed for the production, and in the 'product space' itself) to the products the country is already producing.<sup>7</sup> Therefore, the position of the country and its specialization conditions the route of its future development. As a result, poor countries need to move a long

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<sup>5</sup> For example, Singapore recognized the growing rates of world trade and utilized its location as a passageway between East and West through the construction of sea ports, airports and the establishment of aviation and shipping industries. See: Kuan Yew L., **From Third World to First** (U.S.A- Harper Collins Publishers, 2000), p. 471-487.

<sup>6</sup> **The 'product space'** is a theoretical concept that derived from a research by Prof. Hausmann, prof. Barabási and others. The concept describes all the products that countries produce by industries. Usually, sophisticated products that have great economic value are produced by rich countries and are located in dense concentrations in the center of the 'products space'. For further reading see: Hidalgo, C.A., Klinger, B., Barabási, A.L, Hausmann R., "**The Product Space Conditions the Development of Nations**", Science, Vol. 307, July 2007. Hereinafter: the Product Space Conditions the Development of Nations.

<sup>7</sup> For example, a country will not find it difficult to move from producing televisions to producing movie projectors, since the industrial capabilities required are relatively similar. See: The Product Space Conditions the Development of Nations .

distance, mostly from the 'product space' outer periphery to the center, in order to produce products with high economic value.<sup>8</sup>

**Unique and global development policy allows rapid movement in the 'Product Space'**<sup>9</sup> – Unique and global development policy allows the economy to rapidly change the composition of its GDP and to move to the production of products with high economic value – in others words to 'move' rapidly in the 'Product Space'.<sup>10</sup>

**A necessary condition for rapid and sustainable movement in the 'Product Space' is regulation of the labor market** – In many cases, states fail to preserve a high growth rate because they have difficulty coping with the consequences of the rapid progress in the product space, or in others words, of the a rapid change in the composition of GDP.<sup>11</sup> In these cases, entire populations that feel excluded from the fruits of growth obstruct the processes of change.<sup>12</sup> Therefore, in order to promote sustainable growth, regulation of labor market is also necessary – an agreement between employers, workers and government in which arrangements that allow employment flexibility on the one hand and protection of the worker on the other are set.<sup>13</sup>

## The Need for a Diagnostic Approach

**An effective development policy is a policy that connects the unique potential of the country to a global trend that has been identified.** The decision about the mix of policy instruments must be based on an analysis of the country's relative position in the product space (the unique context and capabilities of the country) in relation to areas associated with the selected global trend.<sup>14</sup>

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<sup>8</sup> See appendix: Product Space.

<sup>9</sup> For further reading see: The Product Space Conditions the Development of Nations.

<sup>10</sup> See appendix: Product Space.

<sup>11</sup> Rapid progress that is not sustainable is similar to the concept 'accelerated growth' that was coined by Prof. Ricardo Hausmann. 'Accelerated growth' is defined as a real GDP annual growth rate of 3.5% for a period of 6-8 years. In most cases, countries that experienced an 'accelerated growth' return to the average growth rate after a few years. See: Hausmann, R., Pritchett, L., Rodrik, D., **Growth Accelerations**. NBER Working Papers Series, Harvard University, 2004.

<sup>12</sup> The distribution of the fruits of growth is related to the concept of 'inclusive growth': this is a growth whose scope of beneficiaries among all sectors of the population is high. 'Inclusive growth' leads all citizens to feel confident that they and their children will enjoy the fruits of growth. The definition of Inclusiveness is different from justice or equality. 'Inclusive growth' is essential for leapfrogging. See: leapfrogging, p.10,13; Growth Report, p.6.

<sup>13</sup> For further reading see: Leapfrog, p.20

<sup>14</sup> A decision on the desirable action channel also depends on the potential of the selected area in the 'products space' to serve as a springboard for a future jump to new attractive areas.

**The first stage requires an examination of the potential of existing products** – if there is a growth potential for the country in products that it already produces, it should continue to operate within existing operations.<sup>15</sup>

**If the country already exhausted the growth potential in existing products, it should abandon the products and industries that exhausted their growth potential and formulate a policy mix based on the following channels:**

- **Adopting products that are new to the economy** – the private sector can produce new more sophisticated products, according to the selected global trend, that already exist in the global market and that have not yet been adopted in the local economy. In order to do this, it needs to identify the bottle necks which need to be removed or the public input that need to be provided (to allow this).
- **Developing completely new products and services** – in the arena of the selected global trend, the country can develop completely new products, services and industries. To do this it has to invest in policies that support innovation – to participate in private sector's R&D processes, to invest in universities-industry collaboration and to support the higher education system.

## Implementation Principles

**Unique and global development policy promotes trial and error of the private sector** – unique and global development policy promotes diversification of the economy's products within the identified global trend. This is a process where the government encourages trial and error of the private sector<sup>16</sup> to test which new profitable products can be produced.

**Ongoing dialogue is the effective means to encourage trial and error of the private sector** - the challenge for government policy is the development of mechanisms to detect the missing inputs or the bottle necks that are most significant to the private sector.<sup>17</sup> These mechanisms aim to uncover knowledge located in the private sector and are inaccessible to decision makers. Ongoing dialogue may reveal those inputs that will maximize new activity in the economy.<sup>18</sup>

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<sup>15</sup> According to Prof. Hausmann, countries that compete in the market of sophisticated and innovative products are forced to improve the competitiveness of their products so that in the long run this trend will benefit them to the point where they become leaders in their fields. Only then, should the decision be taken as to which new products to invest in. See: The Product Space Conditions the Development of Nations.

<sup>16</sup> See: **One Economics**, p.105

<sup>17</sup> Since the country has many options to invest in public inputs, the great difficulty is to determine which public inputs will yield the highest social and economic benefits within the selected global trend. See: **One Economics** , p.104

<sup>18</sup> This process is coined by Prof. Dani Rodrik as 'Strategic Collaboration'. Sometimes it refers to information that companies can provide for 'free'. For example: A country that builds an industrial

**In practice, there are several practical guidelines for policy** – for example, governmental support needs to nurture capabilities like professional skills and build infrastructures that serves many industries instead of supporting specific sectors; it should prefer investment in activities with positive externalities on other sectors; it should include clear criterion for success; and it should determine sunset clause for governmental support.<sup>19</sup>

**Money is not necessarily the most important public input** – the most important governmental input is not necessarily financial grants. Policy and regulation in the form of legislation, standards or international agreements reduce the inherent uncertainty that exists in the private sector.

End.

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park may locate the companies that have decided not to enter it and examine the common reasons that prevented their participation. The common reason for not entering the industrial park may indicate the missing inputs which caused loss of economic potential. For further reading see: **One Economics** p.100.

<sup>19</sup> **One Economics** p.117



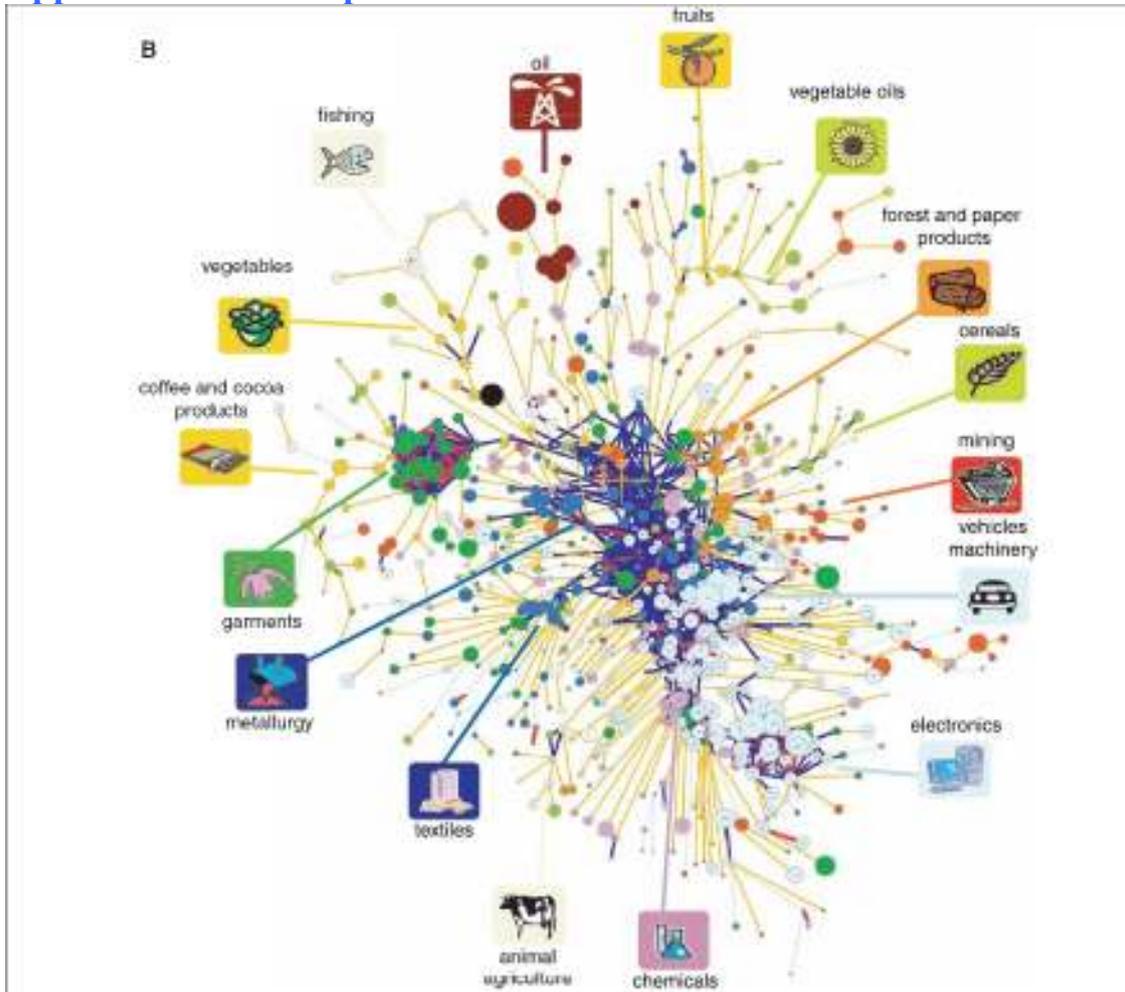
To become one of the fifteen leading countries

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יגאל אלון 126, תל אביב 67443 ■ 67443

(580419513 ע"ר) +972-(0)3-6950090 ■ [office@reut-institute.org](mailto:office@reut-institute.org) ■ [www.reut-institute.org](http://www.reut-institute.org)

## Appendix: Product Space



From: Hidalgo C.A., Klinger, B., Barabási, A.L, Hausmann R., "The Product Space Conditions the Development of Nations", *Science*, Vol. 307, July 2007.