

**INSIGHTS FROM THE INTERNATIONAL SUMMER SCHOOL & WORKSHOP ON APPLIED INDUSTRIAL POLICY (& BEYOND): THEORY, EMPIRICS AND INSTRUMENTS FOR EFFECTIVE POLICY DESIGN**

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By Majune Kraido Socrates, PhD Student, School of Economics, University of Nairobi

**INTRODUCTION**

The Summer School and Workshop was conducted on 4th and 5th September, at Istanbul Commerce University which is located in Istanbul, Turkey. This Summer School and Workshop was organized under the Smart Economic Planning and Industrial Policy (SEPIP) Program of the Center for Industrial Policy and Development in cooperation with the United Nations Conference on Trade and Development (UNCTAD) and sponsors such as the Turkish Cooperation and Coordination Agency (TiKA). The main objective of this Summer School and Workshop was to provide an overview of the process of structural transformation and its linkages with development, and to equip participants with knowledge of the key policy instruments that could accelerate the gradual transformation of the economic structure.

The Summer School and Workshop was conducted in English and it entailed a mixture of lectures, group discussions and exercises. Lectures, group discussions and exercises were moderated by Prof. Dr. Murat Yulek (Chair SEPIP Conferences) and Dr. Piergiuseppe Fortunato (UNCTAD).

**PRESENTATIONS AND INSIGHTS**

The first day entailed Understanding Industrial Policy with key points of discussion being: Structural Transformation and Industrial Policy; Growth Diagnostics as an operative tool to identify policy priorities; Education Policies and Industrial Development; and Innovation Policies and Industrial Development. The second day entailed presentations and discussions on Sustaining Industrialization beyond Industrial Policy. Key areas of discussion were: Capacity and Challenges of Industrial Policy; Trade Policies and Industrial Development; Public Procurement Policies and Industrial Development; and identifying Strategic Sectors through Sectorial Priorities.

Industrialization is a process in which the share of manufacturing sector in an economy is increased. This leads to structural transformation and in turn economic development. Industrialization undergoes five major stages: first is the import and use of machinery; second is technology adoption (better use of machinery); third is technology adoption (servicing and repairing skills); fourth is imitation; and fifth is innovation and product. It is significant to note that industries in an economy differ per stage because some of them are more advanced than others.

For developing countries like Kenya to experience industrial development, the following remedies should be considered:

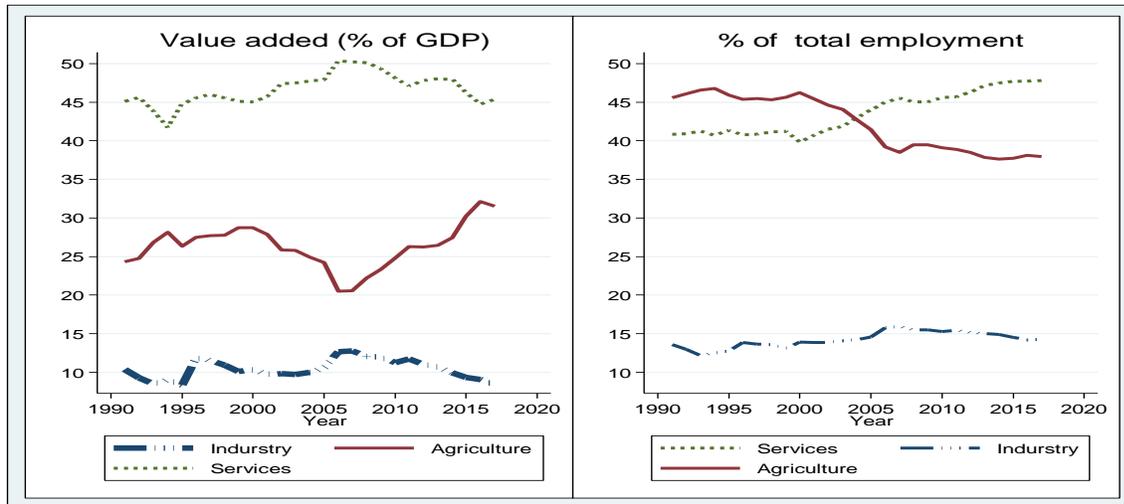
1. Establish a development strategy that aims at industrializing an economy.
2. Select a strategic sector to develop. The criteria of identifying this sector is based on four considerations. First its value-addition potential in the overall economy or on per capita income. Second is potential of learning by doing. Third is the depth of technology and fourth is level of backward linkages.
3. Align the education policy towards the sector identified in (2). This is to boost skills, innovation and entrepreneurship.
4. Align trade policies towards the sector identified in (2). This can be done through assessing the Global Value Chains, level of export sophistication, product density in the product space and generally the level of comparative advantage.
5. Enhance Development Based Public Procurement that assists in technological and industrial development.

“The success of East Asian countries is largely attributed to their strategic development of their technologically intensive sectors”  
– Prof. Dr. Murat Yulek

An application of these recommendations in Kenya shows that the country is undergoing a structural transformation. Figure 1 shows that the services sector contributes to at least 41% of the share of value added in GDP. It is higher than the agricultural sector and manufacturing sector. From 2004, employment has shifted towards the service sector while that in the agricultural sector has continuously declined. Over the same period, the share of employment in the manufacturing sector, though declining, has oscillated between 15.96% and 14.26%. Further scrutiny indicates that Kenya has undergone premature de-industrialization. This is because there is a shift in employment from the manufacturing sector to the service sector without passing

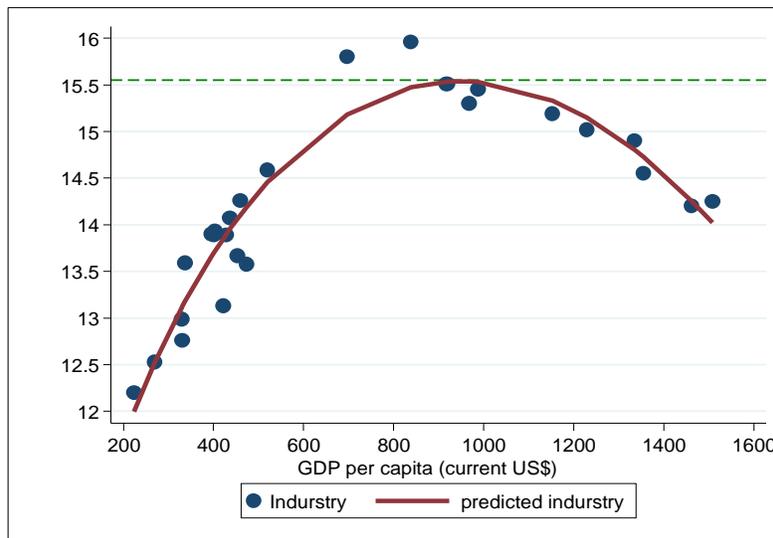
through all the aforementioned five stages. As illustrated in figure 2, employment in manufacturing sector peaked at 15.55% with a per capita GDP of \$900 between 2008 and 2011.

**Figure 1: Value Added and employment shares by sector, 1991-2017**



Source: Own computation using World Development Indicators Data (2018)

**Figure 2: Premature deindustrialization process in Kenya, 1991-2017**

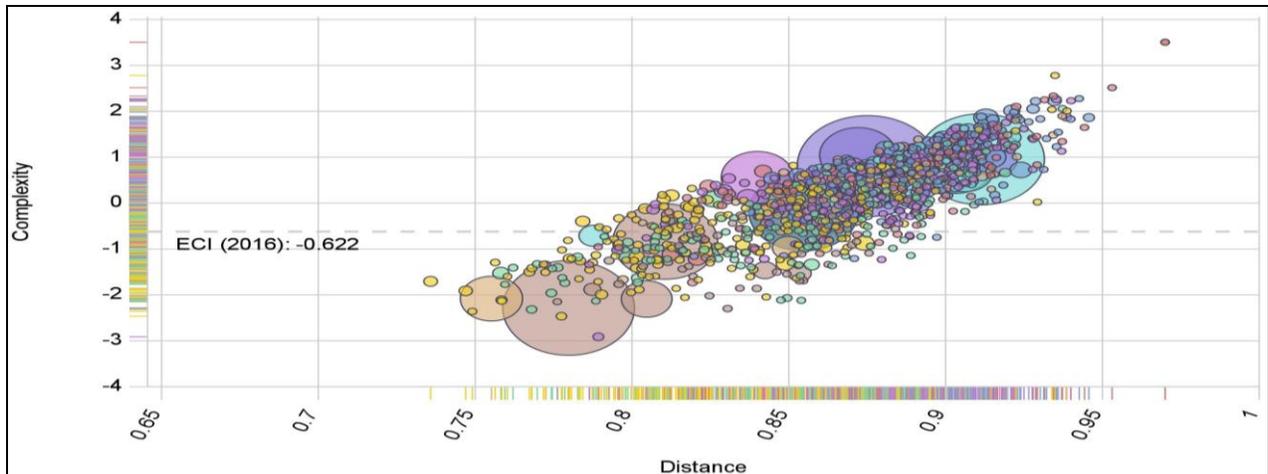


Source: Own computation using World Development Indicators Data (2018)

Fundamentally, Kenya has a comparative advantage in services. As a result the service sector should be enhanced because it increases productivity in the manufacturing sector (servification) and contributes to product diversification that is good for exports. In this regard, figure 3 shows that Kenya's feasible products are mainly agro-based manufacturing products and minerals such

as petroleum oil (crude and refined) and petroleum gases. This will spur the manufacturing sector that complements the services sector.

**Figure 3: Kenya's feasible products in 2016**



Source: Atlas of Economic Complexity (<http://atlas.cid.harvard.edu/>)

### PICTORIAL REVIEW



A visit to the Istanbul Chamber of Commerce on day one



Prof. Dr. Murat awarding Mr. Majune a certificate of participation on day two