The Business Environment

***The Consequences of “ Picking Winners” For Business***

In a development- oriented country, a good deal of business and commerce must be apolitical to enable sustainable industrial development. Almost every state pursues a policy through which it plans to develop industry and grow the economy. Through its industrial policy governments strategically shape the economy by targeting specific industries, firms, or economic activities, using a range of tools such as subsidies, tax incentives, infrastructure development, protective regulations, and research and development support are used for this purpose. Sometimes as part of this thrust, some states promote and establish “national champions” and “pick winners”. These concepts borrow heavily from the development experience and practices of the East Asian countries, of which a voluminous literature was written in the late 1980’s and 1990’s.

Through this policy, the state partners with selected industries and firms to gain all or some of the following: a) enhancing national security by promoting self-sufficiency in key industries, b) supporting job-rich and inclusive growth, c) revitalizing left-behind communities, and d) the voter optics associated with reviving the manufacturing sector. Part of this approach will include ensuring the selected national champions and picked winners receive contracts on a preferred basis to discharge the objectives. It’s not hard to see that there are benefits of this approach, as well as many downsides and negative consequences.

There are some good reasons why an agency would have preferences for specific contractors, and private institutions it would want to establish long- term partnerships with. Previous engagements which built trust, established rapport and understanding of the culture of doing business with a particular Ministry or business, are indeed strong reasons why a government may seek to retain business relations with a certain core of firms and extend contracts on a selective basis. In some instances, like new industries such as oil and gas, engineering and other new frontier sectors, there may be no choice but to utilize a specific set of experienced firms.

On the downside, there are strong risks associated with this practice, ranging from inefficiency, which comes with giving monopoly powers to firms/contractors, cronyism, the opening to bribes and corruption, and generally the consequences of non- adherence to the benefits of an open free -market procurement systems. As is well known, competition encourages effort and fosters merit, as firms are encouraged to strive for the low cost and high quality.

Some negative consequences are: firms who have tried again and again to obtain business through the official system and get no real success, after a while start scheming on how they can start extending favors, begging favors and paying favors to be able to navigate through the system. More serious business consequences follow, where a set of local firms, perceiving lucrative markets in an industry/sector, makes significant investments in plant and infrastructure, only to discover that it gets outcompeted by firms who have made lesser investments but gain favor and contracts through their relationship with state actors. This cannot be a level- playing field, and does not create “predictable” investment regimes. Local businesses of all sizes need this “predictability” to encourage optimal investment and sustained growth of sectors. For example, one of the objectives of Guyana’s Investment Act 2004 is “increasing the predictability, stability and transparency of the legal regime for investment.’

Moreover, in countries where the electoral choices are entrenched and sharply divided, there must be some significant proportion of business transactions, guaranteed on the open market. Regardless of who manages the ship of state, every business entity must be enabled to generate revenue from a fairly apolitical climate. This requirement mandates growing maturity among decision makers. For example, Guyana’s Investment Act of 2004, establishes that, “there shall be no discrimination between foreign and domestic investors, nor among foreign investors from different countries” thus seeking to protect the right of local business to obtain equal access to business.

A recent **IMF Finance and Development** Paper (Sept 2023)-*Industrial Policy and* *The Growth Strategy Trilemma,* by Author Ruchir Agarwal, noted:

*“…. promoting national champions can sometimes be effective, but it's not a guaranteed recipe for success. Even in other cases of market failure, the government may find it challenging to address the problem without causing significant distortions or incurring high fiscal costs” and that “promoting national champions can also have negative consequences. It can result in a concentration of economic power, misallocation of resources, and neglect of long-term considerations. It can also undermine market competition and innovation, ultimately harming growth and social welfare”.*

The author Ms J. Williams acknowledges and makes reference to the recent IMF Finance and Development Paper (Sept 2023)-*Industrial Policy and* *The Growth Strategy Trilemma,* by Author Ruchir Agarwal,