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Modern Industrial Policy and Public–Private Councils at the Subnational Level: Mexico's Experience in an International Perspective *

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Abstract

In recent years, the need for modern industrial policies has been increasingly acknowledged in the literature and by the praxis of developed and developing countries, including much of Latin America. Whether a country should have an industrial policy is no longer in question; rather, the issue is how to do it right. Nevertheless, research is still incipient on the experience with the specific institutional arrangements and governance structure required for effective modern industrial policy, and this is especially true in large countries with developed subnational governance structures. One institutional mechanism considered vital to effective modern industrial policy is the modality of public–private dialogue and problem solving that supports a search for obstacles and solutions to agreed development objectives.

This paper addresses the institutional foundations of industrial policy at the subnational level, with new empirical evidence from a large federal state—Mexico. It presents a detailed analysis of the governance of 32 newly created public–private State Productivity Commissions. All evidence analysed point to the fact that most of these commissions were in a rudimentary state of development after more than three years since the federal law promulgated them. Problems of governance in many ways mirrored issues that often emerge in national councils, but were graver in their depth and covered even the most rudimentary elements. Moreover, the peculiarity of the CEPs emerging out of a federal labour law appears to have generated overly narrow agendas. Central government's entities have a major challenge to provide and mobilise technical, administrative, and possibly financial support for the sub-national commissions.

JEL Codes: F63; F68; L52; O25

Keywords: Economic Development; Industrial Policy; Alliances; Committees; Institutions and Growth; Governance; Positive Analysis of Policy Formation and Implementation; Search; Federalism; Mexico

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1. Introduction

Despite the opening of the Mexican economy after it joined the GATT in 1986 and NAFTA in 1994, coupled with a privileged geographic position vis-à-vis major world markets, Mexico has been an economic underperformer. Between 1981 and 2012, the economy grew by just over 2 percent per annum (2.7 percent since 1990) and per capita income by only 0.6 percent annually (McKinsey Global Institute, 2014). By any standard, this is poor performance, especially given Mexico's many growth-enhancing structural reforms since the region's debt crisis in the early 1980s. More recently, economic growth has hovered between 2 and 2.5 percent (ECLAC, 2015), while the IMF has projected 2.1 percent growth for 2017 and 1.8% for 2018 (IMF, 2017).

There are many reasons for this poor performance, some of which are widely cited in the literature. One frequently mentioned reason is that despite an impressive expansion and diversification of exports, in large part due to implementation of NAFTA, imported content is high; thus, value added is low, and there are insufficient linkages to the domestic economy (Blyde, 2014; ECLAC, 2008). Another factor that has been gaining increasing attention is low productivity. According to the McKinsey Global Institute (2014), between 1990 and 2012, labour productivity grew by an average of only 0.8 percent per annum. Estimates of total factor productivity (TFP) vary, but Guillén Martín (undated) of Mexico's National Institute of Statistics and Geography estimated that average annual TFP growth was –0.39 percent between 1990 and 2011. Meanwhile, relative TFP levels at purchasing power parities have been stuck at about 40 percent below those of the United States, which contrasts sharply with the relative levels achieved prior to 1980 (Figure 1). This decline in productivity is responsible for the expanding gap between Mexico's per capita gross domestic product (GDP) and that of the United States. Mexico is not alone; productivity growth in Latin America has been generally meagre since the 1980s (Crespi et al., 2014; ECLAC, 2012; Grazzi and Pietrobelli, 2016; Pagés-Serra, 2010). In addition to all the above, the Mexican economy now faces the uncertainty of the siege on NAFTA by the Trump administration.

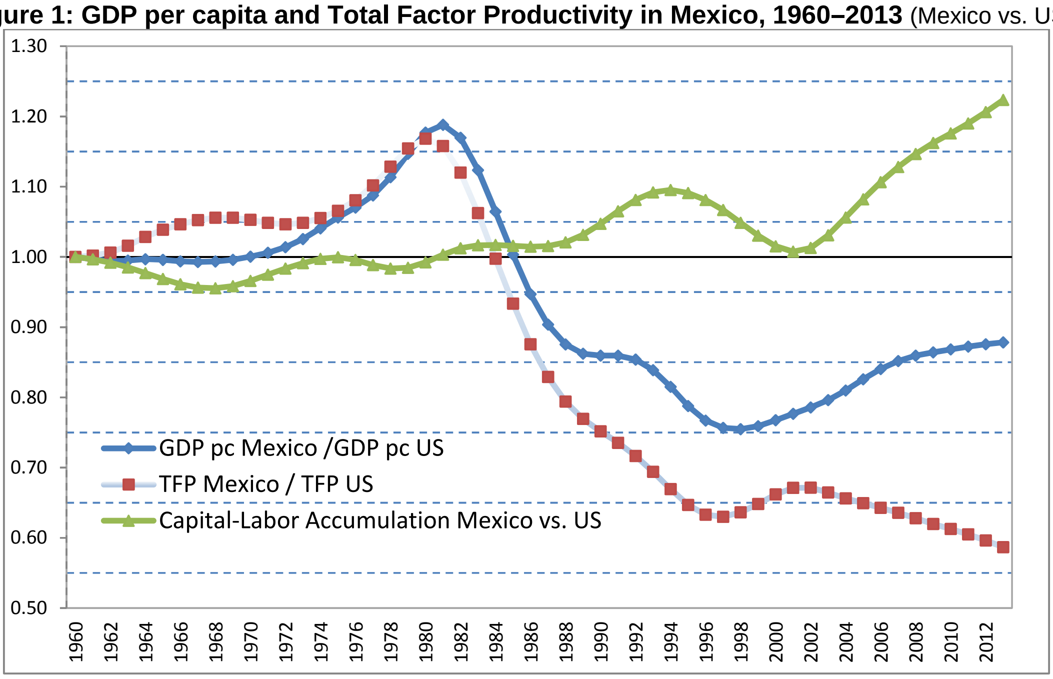
Notwithstanding an exogenous boost in the growth of some Latin American countries during the 2003–08 commodities boom, uninspiring economic growth has been a general characteristic of the region since the 1980s. Many countries began to address this problem in the 2000s by introducing forms of the new industrial policy advocated by economists like for example Dani Rodrik (2007) to address their lack of "international competitiveness" (Devlin and Moguillansky, 2011). However, competitiveness is an imprecise concept, as reflected in the myriad of indicators used to calculate it; for example, the widely consulted World Economic Forum's Global Competitiveness Index has no less than 115 indicators (WEF, 2015).[1] Mexico's current administration recognised the amorphous nature of the concept and decided to focus on the core determinant of so-called competitiveness, that is, productivity. Productivity is a narrow quantitative measure that targets a precise goal, yet has broad implications for competing in markets; moreover, it serves as a unifying concept that focuses the mind when searching for, and prioritising, the binding obstacles to achieving more robust market outcomes.

[1] For discussions of the conceptual weakness of the WEF rankings, see Devlin (2013) and Lall (2001).

In addition, Mexico integrated the concept of productivity with the idea of its "democratisation" so that the benefits would be spread more evenly and thus reduce the severe income and regional disparities in the economy (Stezano and Padilla, 2013). Official statistics show that 20 percent of the population lives below minimum levels of welfare, US$4 per day in urban areas and US$2.9 per day in rural areas. In another broad official indicator of social privation, 60–70 percent of the population in Southern states such as Chiapas, Oaxaca, and Guerrero live in poverty compared to the national average of 46 percent and rates of 20–30 percent in the most economically advanced states.

It is against this backdrop that the government launched a number of initiatives. First, in November 2012, the National Congress approved a reform of the Federal Labour Law. The reform's Articles 153K and 153Q promulgated the creation of a National Productivity Committee (*Comité Nacional de Productividad*, or CNP) along with homologous State Productivity Commissions (*Comisiones Estatales de Productividad*, or CEPs) in 31 states and the Federal District of Mexico. The CNP and the CEPs would have formal stakeholder representation from the public sector, business, labour, and academia.

Figure 1: GDP per capita and Total Factor Productivity in Mexico, 1960–2013 (Mexico vs. USA)



Source: IDB (2016).

Meanwhile, in August 2013, the government launched by decree the Programme to Democratise Productivity (*Programa para Democratizar la Productividad*) 2013–2018, which contained an assessment, a strategy, and actions for productivity growth in Mexico that will be achieved with an equitable distribution of benefits (Government of Mexico, 2013). This was followed in May 2015 by the Law on Stimulating Sustained Growth of Productivity and Competitiveness in the National Economy (Ley para Impulsar el Incremento Sostenido de la Productividad y la Competitividad de la Economía Nacional) and Article 21bis in the Law on Planning (*Ley de Planeación*) (Secretariat of Finance and Public Credit and Secretariat of the Economy, 2015).

The latter established that the national policy on promotion of economic growth would include a Special Programme for Productivity and Competitiveness under the authority of the Ministry of Finance, which "will be mandatory by dependencies and entities [of the federal government] in their respective competencies." The law also expanded the duties of the CNP to include coordination and agreements with the CEPs with respect to the design, execution, and evaluation of policies, programmes, rules of operation for projects, and regulations needed to support productivity in sectors or regions. Article 21bis established that the six-year National Development Plan, and the projects derived from it, must have a long-term vision of up to 20 years and be consistent with the Law on Stimulating Sustained Growth of Productivity and Competitiveness in the National Economy.

The need for modern industrial policies to stimulate productivity, industrial upgrading and sustained high levels of growth for economic convergence with rich countries is largely acknowledged in the literature and in policy practice (Chang 2009; Hausmann et al., 2008; Lall, 2004; Rodrik, 2000; Stiglitz and Lin, 2013). Likewise, the new industrial policy acknowledges the need to include the private sector in this process and develop smart forms of collaboration with the government sector without unproductive rent-seeking by either party (e.g., Hausmann and Rodrik, 2003; Rodrik et al., 2004).

However, less is known about the specific institutions required for modern industrial policy, their organisation, and their internal governance. An exception is the recent work undertaken by one of the authors of this paper (Devlin, 2013 and 2016; Devlin and Moguillanski, 2011 and 2013).[2] And within this domain, one area that has often been neglected is the analysis of the institutional dimension at the subnational level: what form and governance structure should development institutions take, and how should they be related to and interact with national (federal) institutions? This is less clear, and very little systematic empirical evidence is available.

This paper attempts to address this issue, so relevant for the success of modern industrial policies in countries with a formal national-subnational dialogue framework. We study the detailed public–private institutional mechanisms and set-up required to put in motion a social process aimed at enhancing productivity and growth at the subnational level. This is done with specific reference to the case of subnational institutions aimed at promoting competitiveness and productivity in specific regions and states using novel empirical evidence gathered in Mexico.

This evidence was derived from two questionnaires on the institutional governance of the newly created CEPs, sent to the presidents or Secretaries and the appointed representatives in the public and nongovernmental sectors, respectively (Devlin and Cabezas, 2015a and b). The questionnaires focused on key governance issues and perceptions of the council participants about the key factors for productivity enhancement in their states. The questionnaires were distributed in 2014, and the responses were delivered by February 2015. In addition, we draw on two detailed case studies carried out on the CEPs of Jalisco and Chiapas with several field visits (Devlin, 2015a and b) and a policy-relevant auxiliary input on Colombia's National Competitiveness System, which incorporates public–private councils of the central government and sister councils in subnational departments (Gomez and Mitchell,

[2] Additional recent examples are also Fernandez Arias et al., 2016; Sabel and Zeitlin, 2011; Schneider, 2015.

2016). Finally, public–private policy councils can be analysed from the angles of (i) process/governance and (ii) impact. A complete picture requires analysis of both dimensions. We focused only on process/governance, since the CEPs were new.

The structure of the paper is as follows: Sections 2 and 3 overview general aspects of public–private policy councils and their governance based on international experiences. Section 4 presents the new evidence on Mexico's CEPs and their governance in the initial years after their launch. Section 5 explores the detailed cases of the states of Jalisco and Chiapas, while Section 6 summarises and concludes.

2. The Operational Levels of Public–Private Policy Councils

Modern industrial policies, sometimes called productive development policies (PDP) in Latin America (Crespi et al., 2014), are geared toward identifying and relieving binding constraints on rising productivity, structural transformation, and sustained high rates of economic growth needed for catch-up with rich countries. The aim is to promote enhanced productivity and competitiveness of existing industries, as well as new domestic commercial and technological capabilities of a higher order to attain economic diversification and upgrading at a pace and a quality beyond what the autonomous play of market forces would be expected to provide. PDPs have also been deployed for "orderly deaths" of sunset industries. When applied pragmatically to align dynamically with markets, industrial policies are seen as enablers rather than substitutes for market forces. Industrial policies have historically been a key success variable in the structural transformation and productivity growth that underpin processes of economic catch-up with developed countries.

As mentioned, the contemporary literature on industrial policy has, inter alia, emphasised the importance of public–private strategic economic policy dialogue as a tool for the formulation and implementation of industrial policies (Fernandez-Arias et al., 2016, Mc Dermott et al., 2009). This dialogue should represent a search process, from which can emerge more knowledge and agreements among market players for the formulation of PDPs than if the government were to "pick" policies and related incentives on its own (Hausmann and Rodrik, 2003 and 2006). They can also be an agent of consensus building and continuity of PDP strategies across political cycles (Schneider, 2015).

The dialogue usually is undertaken in the formal setting of a council or commission (Devlin and Moguillanski, 2011). This can facilitate transparency among the players (and depending on design, with the public too), reduce the risks of unproductive rent seeking and provide a vehicle for technical support. In terms of strategies for economic transformation and development, these public–private councils can function at various levels and timeframes. One level is public–private dialogue that supports relatively broad national strategic objectives for economic transformation and development of the economy as-a-whole. This is the role of Mexico's CNP. Others can support mid-level strategies for specific sectors or national thematic objectives, such as innovation. The time horizons of councils can be short, medium, or long, or some combination thereof, and therefore they can be instrumental for active industrial strategies as well as medium and long-term technology foresight exercises (Pietrobelli and

Puppato, 2016). These types of dialogue also can be mirrored in lower-level councils at the regional, state, or even municipal levels.

Regarding Mexico's CEPs, they are organised at the state level, although some have municipal participation. The different levels of public–private dialogue, moreover, should have open channels of communication with each other to promote coordination and synergies reflective of a national project. In principle, national-state coordination is the role of the CNP. Until mid-2015, that coordinating role was only incipient and there was little or no communication between CEPs for specific cross-state regional issues.

Some expert thinking seems to focus exclusively on industry specific dialogue (e.g. Ghezzi, 2017). Industry specific dialogue obviously has the virtue of self-interested, contextually knowledgeable players that have highly focused objectives related to their own productive activities. But working in tandem with national or state councils ("peak councils", following Schneider, 2010, who refers to peak national business associations) has advantages too. Peak councils can help focus on development of national priorities in a context of limited national resources facing global challenges and opportunities. These councils can attend to macro-issues that can condition the success of sectoral initiatives. They can also serve to educate the public about the benefits of certain public resource allocations that may not be self-evident[3]. Peak councils additionally can disseminate knowledge about successful sectoral or thematic initiatives to generate political support for industrial policies, to reinforce success cases, to transmit lessons among other initiatives, as well as identify failed initiatives to encourage adjustments or their termination. National and state councils also can support continuity of initiatives between political cycles when political leaders, ministers (and their consultants) leave public service.[4] Finally, national or state councils can help bridge the "balkanised" social, commercial and productive settings and the remarkable costly coordination failures often found in developing countries which inhibit a national project.

3. The Governance of Public–Private Councils

Focusing primarily on peak councils, several characteristics of good governance, based on international experiences (Devlin, 2016 for a summary), should be highlighted at the outset. First, intangible and tangible dimensions of governance are equally important; they must work in tandem for success, as weakness in one will negate good practice in the other. Second, effective governance involves many trade-offs between which a delicate balance must be struck. Third, while councils must necessarily be *sui generis* in their governance given countries' different cultural, historical, political, and economic settings, international experiences imply certain principles. Indeed, these principles informed the

[3] This happened in Ireland when in the face of more popular demands on public policy its national council contributed to public acceptance of a large allocation of public resources to fund innovation, the importance of which had not been well understood by the average citizen (Devlin and Moguillansky 2011).
[4] In Peru, seemingly successful *Mesas Productivas* lost momentum when the lead minister and his consultants left with a change in government (Fernandez-Arias, 2016, Ghezzi, 2017).

analysis presented in this paper. Fourth, governance's central objectives are the involvement of public leadership/commitment at the highest relevant level[5], frank, policy-relevant, problem-solving dialogue[6] and exchange of information underpinned by provision of quality technical support, coordination mechanisms among agents, mobilisation of resources for agreed objectives, monitoring-evaluation-adjustments, and avoidance of unproductive rent-seeking. Fifth, behind these central objectives are many governance details involving the structure and process of a council, any one or combination of which can be a determinant of effectiveness. Finally, public–private councils are complex human endeavours involving interaction of multiple actors in fluid democratic political and economic settings.

After long periods of debt crisis and neoliberal policies, industrial policies re-emerged in Latin America in the 2000s with a more pragmatic focus on public-private partnerships searching for the appropriate policy interventions. Today most countries of the region have national public–private policy councils to support competitiveness, innovation, and productivity. They are often complemented by sectoral and regional councils. Examples of recent experiences are shown in Table 1.

Not surprisingly, even in highly developed democracies, councils are far from perfect in their governance and outcomes. The best public–private strategic policy councils are by nature a product of trial and error, where governance must continuously evolve and be refined according to formal evaluations of the council's goals and its impact on these objectives.

Among the most important factors is political leadership and government commitment. A dialogue council will work effectively only if the government and participants are politically committed to making it work, and if that commitment is reflected in the allocation of public and private resources to implement the agreed objectives (Schneider, 2015). A typical problem that can occur is that the government's launch of a council is merely political window-dressing disconnected from day-to-day policy and programme implementation, or that the initially sincere leadership behind a council wanes in the course of its term. Another problem that arises is that there may not be a ministerial champion (or its equivalent) linked to the council with the political power and prestige to ensure that agreements are implemented by the relevant offices of the executive branch. Political leadership also often can dissipate between a country's political cycles because the new government simply views the previous dialogue as a creature of the last administration. For a policy council to survive as an effective tool throughout the political cycle, *its raison d'être* must be shared across the political spectrum in the public and private sectors. That will be more likely if it does not appear to be a narrow political tool of the incumbent government, or a vehicle for wasteful rent-seeking. In summary, councils must be councils of state and not a council of government or special interests. These are challenges that Mexico will face with future changes in the administration.

[5] This involvement can be up front as formally set in the Mexican CNP and CEPs, as well as many other councils. Or, less commonly, that political leadership can be more in the background if and when conditions are such that councils can rely more on the self-organisation of the stakeholders, as in Malaysia (Sabel and Jordon, 2015).
[6] For some principles of effective dialogue, see Karlsen and Larrea (2015).

Clarity of purpose is an important intangible. When a council is set up, the government and participants must be clear about what it wants to achieve, effectively communicate the objective so that they and the public at large internalise it, and construct a governance structure that is aligned with that purpose. Goals should be relevant to the participants and society, realistic and achievable in principle, and mostly measureable in terms of impact to ensure accountability. A government must also be clear about the degree to which it wants the council to be a primary channel of communication for stakeholders rather than more traditional bilateral consultations and lobbying by social groups and firms. If the government is not clear about that, then the public bureaucracy could become so porous as to erode the legitimacy of the council as a relevant forum of interface with government officials and stakeholders.

The aforementioned *balancing of many trade-offs* is another intangible. For instance, a large number of council members maximises potential information gathering and wards off rent seeking, but also could inhibit problem solving dialogue. A very restricted council membership would be conducive to frank dialogue, but restricts information flow, could undermine political legitimacy and raises the risk of rent-seeking. There are no strict formulas for managing trade-offs but a balance must be struck through good judgment aligned with the particular context.

Culture is another intangible that influences the nature of governance. Some aspects of good governance can reflect cultural habits. For instance, in a country that has a culture of honesty and transparency and/or everybody knows everybody, as appears to be the case in Scandinavia, formal codes of conduct and financial disclosure may not be necessary for the good governance of the council. Other countries have a culture of strong distrust between social groups and the government; in such countries, governance should include instruments that would not be necessary in a country with strong social cohesion. Mexico would seem to be in the latter category.

Context will influence the nature of good governance as well. For instance, addressing principally long-term challenges or time-bound ones and the emergence of economic crises or major political or economic transitions will have implications for the effective configuration of the governance of a council.

The *tangible* aspects of good governance are related to concrete institutional characteristics. Useful outcomes of a public–private policy council will be strongly linked to the institutional design, which involves deciding what the primary mandates will be, who should participate in light of these mandates, the structure and processes of the council, the types of discourse that will be encouraged, and others. Getting the right institutional design should be considered a process of discovery involving trial and error in an idiosyncratic environment. Hence, local adaptations and redesigns are part of the good governance equation.

There are many details related to tangible governance. In the case of the analysis of Mexico's CEPs through a questionnaire, we grouped them under topics such as mechanisms of coordination with other existing public–private councils with overlapping/complementary mandates; the relevance of the CEPs' work agenda vis-à-vis productivity and the available budget to support it; the number, level and relevance of public and private sector representation; the role of alternates; the existence and effectiveness of formal rules for procedures and overall operation of the council; the organisation of subcommittees; the organisation and budget of the Secretariat and its functions for process and technical support; mechanisms of public outreach; evaluation of the council and its work; and coordination with the CNP, among others.

Table 1. Examples of Experiences with Public–Private Policy Councils in Latin America			
	Council	Type of council	Structure
Brazil			
National	Economic and Social Development Council (CDES). Advisory body to the president on state reform and on medium/long-term issues	Formal, structured	Representatives of workers, businesses, social movements, and the government organised in thematic groups. More than 100 council members chosen by the president
Sectoral	National Industrial Development Council (CNDI)	Formal, structured	Ministries, representatives of industry and the president of BNDES. It supervised industrial development polices
Sectoral	Sectoral and state-level councils and forums for public–private dialogue on the implementation of productive development programme (PDP)	Formal, ad-hoc but there were efforts to structure	Sectoral and thematic business associations and representatives of sectoral and thematic public agencies.
Chile			
Sectoral	Productive Development Forum – Council for Productive Development (1994–99)	Formal, structured	Tripartite partnership: government-unions-business. 24 council members chaired by the Minister of Economy
National	National Innovation Council for Competitiveness (CNIC). Defined the innovation strategy and advised the Presidency on innovation policies.	Formal, structured	*Various additional ad- hoc alliances set up at different times on different issues* with representatives from government, business, academia, and NGOs
National	National Productivity Commission. Provides independent advice to the president on pro-productivity policies	Formal, Structured	Representatives from academia, business, labour and government
Colombia			
National	National Planning Council. Consensus building on the National Development Plan	Formal, structured	Composed of representatives of civil society groups
National	National Commission and Innovation. Development and oversight of the strategy for productivity and competitiveness	Formal, structured	Chaired by the president with the participation of business, academia and unions, public agencies, private organisations. System includes sister department-level competitiveness commissions
Costa Rica			
National	Presidential Council for Competitiveness and Innovation	Formal, structured	Four representatives from government and three from the private sector
Dominican Republic			
National	National Competitiveness Council	Formal, structured	President, representatives from ministries or sectoral associations and the private sector.
El Salvador			
National	Economic and Social Council	Formal, structured	Business associations, representatives of social groups, and government representatives
Ecuador			
National	The National Council of Production	Formal, structured	Business associations that commented on government plans (consultations)
Sectoral	Sectoral Councils	Formal, structured	Tripartite councils to identify and overcome productive constraints and negotiate wage pacts
Mexico			
National	Consultations by the Presidency	Formal, ad hoc	Private sector participation through consultations and negotiations with business associations, unions, and other members of civil society.

National	National Productivity Commission	Formal, structured	Government, business, labour and academic representatives with sister councils in 31 states and the Federal District
Panama			
National	National Concertation for Development. Preparation of national development strategy	Formal, structured	Council with representatives of business, unions, the Church, social sectors, indigenous groups, political parties and the government at central/local levels.
National	National Competitiveness Centre	Formal, Structured	Government and business representatives that also supports an annual dialogue forum with government and civil society.
Peru			
National	National Accord	Formal, Structured	Members made up of political parties, business, labour, farmers, universities, churches, regional representatives, government ministers and chaired by the president of the Council of Ministers.
National	National Competitiveness Council	Formal, Structured	President of the Council of Ministers, ministers of state, representatives of business, labour and INDECOPI (NGO that oversees competition issues)
Sectoral	Productivity Tables	Self-organised	Business and government
Uruguay			
National	Sectorial Tripartite Councils	Formal, Structured	Sectoral ministries, sectoral business associations, labour of the sector and sometimes a representative of the innovation agency ANNI.
Source: Authors' elaboration based on Devlin, 2016. Note: not necessarily reflective of current situations			

4. Analysis of Mexico's CEPs

In early 2015, we distributed two questionnaires to presidents and the appointed representatives of the 32 Mexican CEPs, respectively the "Complete" questionnaire and the "Auxiliary" questionnaire. Although we received a partial response,[7] the responses were representative of the heterogeneous makeup of federal entities in Mexico and represent a source of original evidence that was not available before. The responses revealed the general state of play of the CEPs in the first quarter of 2015, more than two years after their creation. This period is critical because a successful launch would create a virtuous circle for the Mexican productivity initiative, while systematic failures would risk erosion of the initiative's political credibility and a downward spiral.

Responses to the questionnaires indicate that one of the CEPs was legally launched in 2012, 11 in 2013,one in 2014 and 10 in 2015. . Thus, at least 23 CEPs were established in some form in early 2015 (Table 2). The limited participation of the states, the fact that representatives on the commissions of 10 states answered but their presidents/secretaries did not, along with the incompleteness or contradictory nature of answers, all suggest a weak quality of governance of the CEPS at the beginning of 2015.[8]

In any event, 15 states pointed to previous experiences with public–private councils, and 12 of those councils were still functioning. Most of the functioning councils had moderately or highly overlapping or complementary mandates to that of the CEP. It is concerning that most states did not seem to have very clear mechanisms established to coordinate the CEP with the other relevant councils.

Does the Mexican experience offer any lesson on how to (or not to) launch council initiatives at the decentralised level? Could Mexico have done it better?

When launching a council, it is advisable to do prior studies on issues such as the principal obstacles to greater productivity in the state, the political environment for launching productivity enhancing reforms, identification of the main offensive and defensive interests of major stakeholder groups, the institutional obstacles to achieving frank problem-solving dialogue among the main interest groups, and the risks of capture of the CEP by special interests. Few states made this prior effort and none prepared studies of the possibility of capture, or gaming, of the CEP by public or private interests.

Respondents provided a range of opinions on the priorities in the state for raising and democratising productivity. The majority of opinions had to do with human capital and labour markets issues. This may not come as a surprise, since the CEPs emerged from the reform of the federal labour law and state-level Ministries of labour are often an important, if not dominating, force in many CEPs. Nevertheless, there are many potentially important constraints on greater TFP of which labour is only one. Science,

[7] Thirteen presidents/secretaries and representatives of CEPs from 19 states responded (Devlin and Cabezas, 2015a and b).

[8] A further update found that by May 2016, 25 percent of the CEPs still had not met, only three had a functional work program, and only two had comprehensive internal governance guidelines (personal communication from an interview by Alejandro Alfaro with personnel of the UPE. Hence it would appear that the profile captured in early 2015 remained relevant through 2016.

technology and innovation (ST&I) did not figure prominently in the responses, which is worrisome. Hence, there was a risk that the work agendas of some CEPs would be overly narrow, needing assistance to broaden their purview. However, representatives in the CEPs showed to be receptive to a broader agenda, expressing interest for improvements in many areas.

It is positive that there was broad consensus by the respondents regarding the institutional factors for the success of the CEP: the existence of an adequate budget, technical capacity, consensus building, political commitment, and an understanding of the scope of the CEP and its statutes. Unfortunately, our analysis suggests that for many states these institutional conditions were not nearly fully met, and their institutional strengthening remained a challenge.

Table 2. Participation in the Two Questionnaires on Mexico's CEPs

State	Complete questionnaire*	Auxiliary questionnaire	Government	Business	Labour	Academia
Aguas Calientes		X	1			
Baja California		X	2	1		
Campeche	X					
Chiapas	X	X	1	1	1	1
Chihuahua	X	X	3			2
Colima	X					
Durango		X	1			
Guanajuato	X	X	1			2
Guerrero		X			1	
Hidalgo		X	1		1	4
Jalisco	X	X			1	
Mexico	X			1	1	
Nayarit	X	X				2
Nuevo León	X					
Oaxaca	X	X	1		1	
Puebla	X					
Querétaro	X	X	3		1	1
Sonora		X				1
Tabasco		X			1	1
Tlaxcala		X			1	
Veracruz	X	X	7	5	4	2
Yucatan		X	2			
Zacatecas		X		1		1

Source: Devlin and Cabezas (2015a and b). *Respondents are either the president or secretary of each CEP.

In terms of the three major institutional challenges for the CEP, the most frequently cited were political commitment, coordination of the actors represented in the CEP, the capacity to influence government decisions, available public resources, and consensus. All of these are true challenges for any public–private council, and clearly real challenges for many of the Mexican CEPs. What was almost totally overlooked was the importance of evaluation of the CEP and its impact on public policy and programmes and on stated development objectives. Without evaluation, there is no accountability or generation of feedback loops in the normal trial and error governance of public–private councils.

Influencing public resource allocation would be the largest sign of political commitment to the objectives of any policy council and its effectiveness. A worrisome sign was that most non-public sector respondents were not very optimistic that their CEP could influence the allocation of public resources. For the political credibility of the CEP and the maintenance of high-level participation, it would be of paramount importance that the public sector's political commitment be signalled by specific financing commitments reached in the council. While the CEP should have a medium- to long-term vision, it would be important for the work programme to include shorter-term "low-hanging" fruits that could be quickly harvested by the government and thereby instil a sense of purpose and relevance in the forum. This was hard to assess since few CEPs had a developed agenda.

The CEPs did not have written detailed and approved norms and procedures beyond the most basic that appeared in the founding decrees (e.g. the generic composition of the CEP's membership, how many times a year it would meet in ordinary sessions, quorums, voting). The paucity of norms and procedures was observed in unanswered questions, or contradictory answers about the details of the governance. Nor was a code of conduct developed for CEP members, even though many representatives thought that it would be a good idea to do so.

As mentioned above, any public–private council needs to strike a balance between extensive membership to maximise information search and limited membership to maximise dialogue. For example, more than 25 appointed representatives in plenary would probably err in the direction of maximisation, and a number of CEPs seemed to exceed this number to a significant degree.

A neglected area within the CEPs was a structure of dialogue with ethnic groups, whose productive and political protests in some states can affect economic output and productivity. No CEP had a dedicated source of financing and a budget and relied on ad-hoc support. This could be an acceptable arrangement in the early life of the CEP, but it would be less so if and when the CEPs developed a comprehensive agenda, introducing uncertainty and threatening the independence of the council.

All of the CEPs had a secretariat, although little or no information was provided about their structure, precise functions, and personnel. This indicated limited secretariat capabilities, which requires attention because a strong secretariat is a requirement for success. The secretariats were generally extensions of an existing state entity. This too is a reasonably cost-efficient arrangement in the early life of a CEP, but not for their medium-term credibility and effectiveness. Indeed, the neutral and apolitical stance of a secretariat risks being compromised, especially if public officials are not part of a professional and publicly-motivated civil service as happens in Mexican states. The secretariat also could fall victim to internecine bureaucratic tensions as was witnessed in the case studies below.

Information from the questionnaires suggested that the technical capabilities of many secretariats in the area of productivity was low or non-existent and needed strengthening. The secretariats were very weak in ICT, logistical support, and public communication programmes, vital tools for an effective secretariat. No secretariat had formed an outside advisory group of experts from other states or countries which could have enhanced capabilities.

Finally, respondents almost universally expressed the feeling that connections with the CNP and the Productivity Unit (*Unidad de la Productividad Economica, UPE*) of the Ministry of Finance, that served as its secretariat, were weak or non-existent. One of the lessons from the Colombia experience (Gomez and Mitchell, 2016) is the importance of proactive support of the national council for the regional councils. An annual meeting of CEPs, similar to arrangements for regional councils in Colombia and the development of a secure intranet site for exchange of experiences among the CEPs, would be advisable. Neither arrangement was indicated in the questionnaire responses.

5. Insights from Pilot Case Studies of the CEPs in Chiapas and Jalisco

Detailed pilot studies were carried out with several field visits to analyse the shortcomings in the CEPs governance in the states of Chiapas and Jalisco. Whilst they displayed characteristics sometimes peculiar to each state,[9] many of the issues have broader application to other CEPs in Mexico and to similar institutions elsewhere.

One of those issues is the development of a work agenda that is truly rooted in assessments and prescriptions for improved productivity. In Chiapas, the state government in its founding decree set out the CEP's work agenda prior to any assessment and approval by the CEP's appointed board. Moreover, the agenda was just about entirely focused on labour issues, reflecting the fact that it was largely a product of the state's ministry of labour which dominated council dynamics. In Jalisco, the initial agenda was ill-defined and not directly aimed at productivity. The first focus is a clear risk for other CEPs because they emerged from the reform of the federal labour law, while the second weakness highlights the risk of having appointed representatives not fully understanding the role of the CEP and the issue of productivity.

Productivity underpins competitiveness, diversification, and upgrading of economic activity as well as the creation of formal jobs and better salaries. It was noted in the field research that some appointed representatives, but especially those from labour unions, were sceptical of, and uncomfortable with, a CEP work agenda focused on productivity because it was construed as a programme "to do more with less and more rapidly." In reality, the concept of productivity of course is dynamic, not static: firms, the State, and its citizenry *must invest* in tangibles and intangibles that raise productivity, an important message to convey in such public–private councils.

Labour issues are important for productivity, but there are other fundamental pillars of productivity that need to be examined in the context of the CEPs' agenda and strategy. Finding the road to greater productivity requires an ex-ante diagnosis of broader scope than the labour market. Thus, the agenda of the CEPs should contribute to the construction of a medium- to long-term strategic vision, along with the sequencing of policies and programmes that release constraints and make that vision a reality.

Given the limited financial and human resources of most governments, action agendas should be very focused, taking into account capabilities that exist or can be realistically developed and in sequences that have a cumulative impact on productivity, economic upgrading and diversification. Brand-new support programmes on which the state governments have little experience should be launched in the

[9] For full details, see Devlin (2015a and b).

form of pilot programmes and expanded (with necessary adjustments following evaluation and learning) when there is evidence that objectives are being met. Similarly, failed programmes must be eliminated.

Another suggestion emerging out of the case studies is to include in the agendas "low-hanging" fruits that can be harvested quickly. Such achievements will instil a sense of relevance to council members and the public while awaiting longer-term outputs to materialise.

Finally, given weak capabilities of the public sector in both states, productivity agendas, and industrial policy more generally, must include strengthening of personnel and institutions of state governments in service delivery, support programmes, project planning, and implementation, as well as modalities of effective dialogue and collaboration with private sector constituents. A common mistake is to assume that government is a deus ex machina which is ex-ante prepared to tackle all these issues. Capability building is an objective for both the public and private sectors. But in the Chiapas and Jalisco CEPs this issue was not being addressed.

If the CEPs are to lead the drive to greater productivity and its democratisation, it is paramount that the initiative be led by active participation at the highest political levels, in this case the Governor of the state and Secretaries (i.e. Ministers in Mexico) of key public portfolios for productivity issues. These include economic development, public works, science and technology, finance and others. Chiapas met this requirement on paper but not in practice. The same for Jalisco where, in addition, the governor was not even a member of the CEP. A specific complication in Chiapas was that the dominance of the priorities of state's ministry of labour in the work agenda discouraged the ministries of other key areas from participating. When the highest-level officials are not on, or not really participating in, the CEP, the likelihood of high-level nongovernmental appointees participating is quite low. That was the situation for the two pilot cases, and the CEPs became politically debased across the board.

This brings to the fore the issue of representation of nongovernmental sectors. Representation in the CEPs of Jalisco and Chiapas, and in the CEPs more generally, is rooted in what is often termed "peak associations," that is, heads of business chambers or associations, labour unions, and universities. These peak associations usually have the advantage of legitimate representation and often, especially in the case of business groups, the ability to mobilise technical support for their representatives in the dialogues. However, they can also be overly bureaucratic and, especially in those states with an old-style corporatist tradition, beholden to the state government's portfolios These situations can seriously handicap frank, problem-solving dialogue. A possible arrangement to add dynamism to the dialogue would be to make a limited number of the appointments on the CEP in a personal capacity for individuals of very high public standing with a recognised reputation for honesty and practical knowledge of productivity issues in the state. These people could be selected from business, but also labour, academic, or nongovernmental organisational circles. In principle, they would provide a respected independent voice in the dialogue.

Regardless of this latter suggestion, distrust coloured the attitude of certain sectors in the CEPs. In Chiapas, some business representatives admitted that they were inhibited in undertaking frank dialogue because of their fear of irritating the heads of ministries that they did business with on a daily basis. In contrast, labour union representatives were bolstered by the CEP's agenda and dominant role of the ministry of labour. In Jalisco, based on their experience, labour unions were extremely sceptical about the government's likely follow-through on any commitments that might come out of the CEP. This distrust can only be mediated through frank dialogue between the stakeholders and the Governor of the state. This is difficult to achieve when the governor is de facto or de jure not part of the CEP.

Typically, appointments to the CEP were set for two years, renewable once, although one of the two pilot cases was unclear about the duration of an appointment. In any event, a better arrangement would be to name some of the representatives for four years, renewable once for three additional years. These staggered appointments would ensure that some members always continue on the CEP when the six-year term of a state government rotates, providing a degree of institutional continuity for the council over political cycles.

While appointees have an obligation to participate in every meeting of the CEP, it is inevitable that circumstances will arise where the appointee cannot be present. That is why alternates are so important. Both the pilot case studies and the questionnaires suggested that rules for alternates were not rigorous. The alternates could frequently change and were not necessarily of a level that approached the principal. Alternates should be named ex-ante, be permanent during the duration of the principal, represent credibly the level of the principal, and be present in all meetings so that they are well informed and "socially" integrated into the circle of principals. Unfortunately, with the persistent absence of the principals, the two CEPs became really a forum of unstable alternates.

In both cases, whether an appointee or alternate, there was considerable evidence of representatives being persistent "no-shows." The CEPs could have considered a rule by which a persistent no-show would lose voting privileges for a certain period of time. Of course, this is a real penalty only if the CEP had a compelling work agenda where votes have consequences, which they did not.

This issue in turn logically points to the broader issue of having the commissions prepare and approve a comprehensive written guide of rules and procedures. It is evident from the questionnaires, and reinforced by the pilot case studies, that only the most rudimentary guidelines were available to appointed representatives. These should include not only basic issues but also the specific role, functions, and organisation of the secretariat, structure and operational procedures of subcommissions, procedures for alternates and observers, allowed times for presentations and interventions, document circulation, procedures for preparation and timing of minutes, confidentiality, codes of conduct, evaluations, and others.

While the questionnaires did not address the issue of subcommissions, insights did come from the Chiapas pilot case study where the CEP, a bit haphazardly, launched a large number of sub-commissions. Subcommissions are a very important dimension of the governance of public–private councils. Given the necessary high-level representation of the commissions, plenary meetings cannot be too long, typically two hours at the most. However, much work can be done by subgroups between plenary meetings and reported to the commission members when they meet. As mentioned earlier, subcommissions should not be formed before commission representation is established; rather, they should be created and approved by the commission members themselves based on an agreed work programme. Moreover, their number should be limited and sequenced according to agreed staged priorities so as not to overburden the coordinating role of the secretariat, which was a real problem in the above-mentioned case. Meanwhile, the quality of chairpersons is critical to the effectiveness of a subcommission: he/she should be recognised for expertise in the topic of the subgroup, display social skills, and be knowledgeable about the public sector.

As confirmed in the questionnaires and in the pilot case studies, the commissions and their secretariats did not have a dedicated budget; they relied on the allocation of ad-hoc support from a state government entity. As mentioned earlier, this may be sufficient in the initial launch stage, but when a full agenda is developed, this arrangement may create uncertainty, resource shortfalls, politicisation, and bureaucratic tensions within the commission. A dedicated budget, which may require the creation of a formal legal identity for the commissions or their secretariats, should be seriously considered in a more mature stage of the CEPs and their work programmes.

The questionnaires also revealed that an important number of CEPs were created by federal law parallel to pre-existing public–private councils with mandates that overlapped or complemented that of the productivity commissions. Jalisco typified this situation. The state's CEP emerged coexisting with no less than seven other public–private councils written into state law and which had mandates that in some way related to productivity. This led private sector appointees to wonder why the CEP was created at all, clearly a bad start for the launch of the initiative. Moreover, there was little or no coordination among these councils despite having in most cases similar representation. To make things worse, in the political hierarchy the CEP was inferior because most of the other councils were presided over by the Governor, while the CEP was only presided over by a state government minister (economic development).

The recommendation that emerged from the pilot case study was (i) to formally give the CEP leadership in coordinating the productivity work of other councils, politically validating this by making the Governor the president, or (ii) make the CEP a de facto technical subcommittee of another council which by state law had the mandate to support productivity and was presided over by the Governor. Moreover, that existing council had a dedicated secretariat with budget and staff that could provide resources to the CEP. In effect, option (ii) would be a pragmatic exercise of adaptation to pre-existing state realities which may be instructive for other CEPs.

In both pilot cases, the secretariats were very ad-hoc appendages of existing state or federal bureaus. International experience suggests that extending secretarial services from an existing government entity can work, but the resources allocated to the secretariat function should be adequate, predictable, dedicated, and shielded from politics. Moreover, dividing the secretarial work between two government entities, as occurred in Jalisco, should be avoided, as international experience shows that is a formula for bureaucratic infighting, as was indeed witnessed in this state's CEP. If it is difficult to meet these requirements, an independent secretariat would be preferable.

In any event, in both cases studied, secretariats did not have formal staffing, structure, work programmes or budgets, and were deficient in ICT equipment. In Chiapas this was especially important because of the formation of a sister productivity commission in a region of the state, in which participants felt estranged from their parent CEP in the capital city. Neither CEP had a public outreach programme through instruments such as dedicated websites, social media, press releases or conferences, publications programmes, or a logo that branded the CEP. These media tools are fundamental for promoting a productive and innovative society and strengthening the relevance and accountability of the CEP for its appointees. Secretariats also lacked the capacity to provide neutral technical support. Such technical neutrality is especially important for appointees, for example, in the labour sector. Mobilising formal commitments from university academic departments and/or local research centres may offer a solution.

The pilot cases had not contemplated the formation of an external advisory council of Mexican and/or foreign experts. Outside advice helps reduce potentially insular deliberations of a state council, particularly where there is a tradition of corporatism, as appeared to be very much the case in Chiapas. The CEPs in the two states had had little or no contact with the CNP and the UPE that supported it, mirroring conditions reflected in the questionnaires. The example of Colombia (Gomez and Mitchellb, 2016) suggests that the UPE should a have a permanent technical group exclusively dedicated to supporting the CEPs.

The two CEPs also had had no contact with other CEPs in Mexico. This was a shortcoming since productivity issues cross state borders and experiences in one CEP can offer lessons to others. Again, the aforementioned Colombian experience of organising an annual meeting of regional councils and digital networks is instructive. Moreover, none of the CEPs had in place a system of performance evaluation of its internal functioning and the impact of its recommendations. Evidence has shown that regular and independent evaluation is a principal tool for learning, adjustments and accountability (Herzberg and Wright, 2006, Sabel and Jordan, 2015).

6. Conclusions

The need for modern industrial policies has been increasingly acknowledged in the literature and by the practice of successful countries. It is not a question of whether a country should have an industrial policy, but rather how to do it right. Much work has been done on the policy approaches for modern industrial policy. However, the specific institutional arrangements required for effective industrial policy have received less attention and indeed constitutes relatively virgin territory at the subnational (local) level, especially in territorially large countries. One institutional mechanism considered vital to effective industrial policy is public–private dialogue and problem solving that support a search for obstacles and solutions in the achievement of agreed development objectives. This paper has addressed this issue at the subnational level with new empirical evidence from the federal states of Mexico via a detailed analysis of the governance of newly created State Productivity Commissions (CEPs).

What does this experience teach us, and how can it provide us with useful insights applicable in other countries? It is clear that all evidence pointed to the fact that most CEPs were in a rudimentary state of development after more than 3 years since the federal law promulgated them. Problems of governance in many ways mirrored issues that often emerge in national councils, but were graver in their depth and covered even the most rudimentary elements. The weakness of state capabilities and local political commitment to an initiative born in the federal capital clearly was at play. The peculiarity of the CEPs emerging out of a federal labour law and consequent overbearing influences of state level labour ministries seems to have generated overly narrow agendas. More effective oversight would probably have come from ministries of economic development which have a scope of policy development more aligned with areas of productivity. The pilot case study revealed that this ministry was marginalised from the CEP of Chiapas and undoubtedly other states.

Without good governance, the CEPs will be mere paper inventions rather than a tool to raise productivity and its democratisation. For this reason, institutional capacity building is urgently needed. Time is of the essence. The longer the CEPs languish in governance limbo, the more their credibility as a tool of development will diminish and the more the shadow of public cynicism will be cast over them and take root in society.

It is clear that the central government's entities (i.e. CNP and the UPE) have a major challenge to provide and/or mobilise technical, administrative, and possibly financial support for the CEPs. Federal leadership also needs to better politically sell the productivity issue at the state level where commitments are not necessarily strong. Moreover, it may have been a mistake to launch 32 CEPs at the same time; pilots in two or three states might have been advisable, using the lessons learned as the foundation for gradual expansion to other states. In any event, the CNP/UPE should enter into dedicated support agreements with a handful of CEPs to help make them fulfil their promise. Learning from that and generating positive demonstration effects would pave the way for other CEPs to raise their standard of governance and effectiveness.

Policy councils' governance is always a process of trial and error. The sooner a coherent self-reinforcing process of political awareness and institutional capability building begins, the better. Other countries as well as policy analysts may find the lessons learned from these early Mexican experiences extremely useful for the design and implementation of their modern industrial policies.

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