Industrial Policy Session
Discussion of papers by David McKenzie (World Bank), Pritish Behuria (University of Manchester) and Tristan Reed (World Bank)

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What is common across the papers?

- Three excellent papers to help us think about industrial policy for low and middle-income countries (LMICs)

- All focus on a broad concept of industrial policy: diversity of government interventions to support firms/sectors
  - "government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal. The goal is typically to stimulate innovation, productivity, and economic growth. But it could also be to promote climate transition, good jobs, lagging regions, exports, or import substitution." in Juhász, Lane, and Rodrik (2023)

- All cover export-oriented industrial policy with different intensity: Tristan (sole focus); Pritish (one of 4 types of industrial policy regimes); David (one of many interventions)
Should LMICs pursue industrial policies?

- No definitive answer in these papers
  - Only Pritish addresses the question (new versus alternative regimes)
  - David and Tristan start from premise that governments are pursuing them so the questions are which types of industrial policies to pursue and how to do it effectively?

- But a partial answer is that some focus on export-oriented industrial policies is adequate: there are clear market failures and externalities and for most LMICs a large global market is needed for development and growth (Goldberg and Reed, 2023)
What is different across the papers?

- Tristan’s world view: ex-ante optimist (Yes, we can help governments target sectors for industrial policy)
- David’s world view: ex-post optimist (Yes, government support can increase productivity, innovation and jobs if program design is right)
- Pritish’s world view: cautiously pessimistic (No, industrial policies do not work if they have conflicting objectives and antagonize certain firms)
Despite different views, some alignment

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<th>Methodological Roots</th>
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<td>Neoclassical Economics</td>
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<td>Role of the State</td>
<td>Minimal, Facilitating State Horizontal IP</td>
<td>Active, interventionist state/Picking Winners Vertical IP</td>
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<td>Attitude to Comparative Advantage</td>
<td>Stay Close to Comparative Advantage (wasteful ren—seeking)</td>
<td>Defying Comparative Advantage Industrial Policy is acknowledged to be a ‘messy’, long process (including failure)</td>
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- Tristan’s low-risk targets sectors close to comparative advantage **with growing foreign demand**
- Tristan’s high-risk targets sectors defying comparative advantage (and with low technological relatedness) **with growing foreign demand**
Questions and Suggestions

- Pritish could enrich the set of "Who benefited?":
  - firms whose productivity/innovation increased due to Market-Led regime
  - firms whose exports increased due to Export-First regime (Frazer and Van Biesebroeck, 2010; Fernandes, Forero, Maemir, and Mattoo, 2023)

- Tristan’s approach raises questions:
  - RCA “magic recipe” uses gross export values but what about prices or exports in value added terms?
  - Can sector targeting be compatible with countries’ export diversification and resilience objectives?
  - How to integrate sector targeting and rules-compliant industrial policies that are mostly horizontal?
Takeaways for policy 1

- Industrial policies are not a panacea: regulatory and tax environments matter for their effectiveness
  - Coordination with private sector is key to understand obstacles and fine-tune policies

- Interventions need to attract high-potential firms and screen out firms with little growth prospects
  - Goldilocks in export promotion - support the marginal firm (Cadot, Fernandes, Gourdon, and Mattoo, 2015)

- Interventions gain from supporting firms that will do something different (export-oriented or innovation-oriented) and when competition is present or fostered (Aghion, Cai, Dewatripont, Du, Harrison, and Legros, 2015)

- Choice of instrument matters: a tax on firm profits is more sustainable
Takeaways for policy 2

- Local political constraints matter for choice of industrial policies
  - Uganda’s ban on used clothes imports and domestic-favoring procurement failed – due to opponents inside government, across firms, and in foreign partners

- State capacity constraints matter for implementation and success of industrial policies (Juhász and Lane, 2024)
  - Bureaucrats matter for effectiveness of export promotion (Barteska and Lee, 2023)
  - Excessive red tape and bureaucracy can result in program capture
    - Tristan’s big role for Chambers of Commerce vs David’s example of capture (third party can help)

- For LMICs with tight fiscal space, industrial policies need to have a clear goal, a clear justification, and to be carefully selected
Takeaways for research

- Rigorous evaluations of industrial policy interventions are growing but many more are needed for us to understand what works and under which conditions (especially in Africa)!

- Incorporate prospective impact evaluation as new policies are launched is crucial, especially on the green agenda

- Data and careful econometric estimation is not enough, need for structural models (IMF/WTO subsidies project)

- Researchers, operational colleagues, and government counterparts unite!