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Rethinking Industrial Policy from the Perspective of New Structural Economics

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## Editorial Introduction

## Rethinking Industrial Policy from the Perspective of New Structural Economics

Industrial policy is back to the agenda of international development (Stiglitz, Lin, and Monga 2013), as industrialization and economic structural transformation is at the heart of Sustainable Development Goals (SDGs) succeeding Millennium Development Goals (MDGs).<sup>1</sup> Though the basic consensus on ‘why industrial policy’ is needed given market failures, researchers disagree with each other on ‘how to implement industrial policy’ (Rodrik 2009). Should the government adopt a comparative advantage conforming strategy or a comparative advantage defying one? (Lin and Chang 2009) Should the government intervention be sector-targeted? Can the government tackle the challenge of incapability and rent-seeking to overcome government failures? While the popular perception that most industrial policies fail miserably has tempted us into saying ‘no’ to all kinds of industrial policies, a more constructive approach is to delve deeper into comparative studies of both successes and failures in an effort to make prudent recommendations on how to make industrial policy work better in practice.<sup>2</sup> Indeed, empirical evidence shows that some countries have successfully deployed industrial policy to promote industrial upgrading and structural change both in the past and at present (Amsden 1992; Wade 1990; Chang 2002; Mazzucato 2014). This symposium on New Structural Economics is an endeavour towards a deeper understanding about *under what conditions industrial policy works*. Recognised as the third wave of development thinking after structuralism and neoliberalism,<sup>3</sup> New Structural Economics (NSE), which uses neoclassical approach to study the determinants of economic structure and structural evolution, is proposed by Professor Justin Yifu Lin with the aim of advancing frontier research on structural change and promoting structural transformation in developing countries (Lin 2012).

From the perspective of NSE, the effective implementation of industrial policy entails three essential elements. First, governments need to work together with private sectors to target industries compatible with the country’s latent comparative advantages. Second, governments need to identify sector-specific binding constraints in a dynamic manner whose solution may go beyond the capacity of private firms themselves. Third, governments can play a facilitating role in mitigating the binding constraints and turning the latent comparative advantages into competitive advantages

<sup>1</sup> For Sustainable Development Goals (SDGs), see <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>.

<sup>2</sup> For examples of such efforts, see (Altenburg 2011; Lin and Monga 2011; Noman and Stiglitz 2015).

<sup>3</sup> Dr. Hippolyte Fofack, Chief Economist of African Export-Import Bank, Speech entitled “Road to Sustainable Industrialization in Africa: What does it Take?”, at the African Development Bank Conference, Abidjan, Cote D’Ivoire, May 25-29, 2015.

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