Some Thoughts on Industrial Policy

NAKAO Takehiko
Chairman, Center for International Economy & Strategy
Former President of the Asian Development Bank
January 10, 2025

At the Conference Jointly Organized by
East Asian Institute, National University of Singapore,
John F. Kennedy School of Government, Harvard University, &
National School of Development, Peking University

1. History of Industrial Policy

- American Independence War
- Mercantilism and Imperialism (Military Purpose)
- Meiji Modernization and Post-war Industrial Policy in Japan
- Success of Outward-Oriented Industrial Policy in East Asia
- Unsuccessful Experiences of Central Planning (Communism), Anti-colonialism and Import Substitution

2. Measures for Industrial Policy

- Tariff and other Import Restriction
- Restriction on FDI (including Ceiling of Ownership)
- Preferential Tax Treatment
- Preferential Credit Allocation
- Subsidy
- Favorable Exchange Rate for Export
- Support for R&D (for targeted industry)
- State-owned Enterprises

3. Reasons for Blaming Industrial Policy

- Inefficiency (especially in small economies)
- Rent-seeking and Corruption
- Problems for Macroeconomic Management
- Unfair Competitive Edge
- Against the Idea of Multilateral Liberal Trade and Investment
- Element of Securing Hegemonical Power for the US

4. Justification of Industrial Policy

- Infant Industry
- Positive Externality (such as R&D)
- Anti-monopoly in the Global Level (cases for Airbus and Japanese car makers)
- Industrial Transformation (helping smooth exit of industry)
- National Security (such as exception clause GATT §21)

5. Comeback of Industrial Policy (IMF, April 2024)

- More than 2,500 Industrial Policy Interventions in 2023
- More Active Use by Advanced Economies (including the US & EU)
- Competitiveness as Objective for One-third of all measures
- Most-active Use in Military-Civilian Dual Use Products & Advanced Technologies (e.g. semiconductors and low-carbon technologies)

6. Back Ground for Change (New Justification)

- Securing Supply Chain (experience of pandemic and disasters)
- Emerging Idea of Economic Security (resilience, indispensability)
- Speedy Technological Development and Rivalry for Hegemony
- Winners-Take-All Nature of Digital Technologies and AI
- Climate Action and Externality (e.g. subsidy for renewable)
- Emergence of China as Industrial & Technological Super Power
- More Attention for National Security (wars and tensions)
- Social Divide and Need for Consideration of Employment

7. Future of Industrial Policy

- Will Trump Administration take unilateral industrial and trade policies (especially tariff) as promised which can be very harmful to consumers and business?
- Will China’s industrial policy with the idea of self-reliance and priority of security-over-economy work?
- Can we have decoupling or derisking in this integrated global economy without seriously damaging welfare of people?
- Can we have a reasonable international “agreement” or “understanding” about the appropriate use of industrial policy?
- Is the world heading for the time of protectionism and block economies which was one of the root causes of World War II?
- Can the WTO play a role to keep multilateral liberal trade and investment framework which is essential for growth and peace?