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Discussion:

Industrial Policy for Development by Ana Fernandes and Tristan Reed

Mary E. Lovely

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1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

Report reviews evidence and provides an optimistic assessment and practical guide

- Chapters pulls together policy counts and case studies. Thoughtful reliance on frontier research evaluating past policy uses and outcomes. Practical advice.
- Report offers an optimistic assessment:
 - Uses case studies to see what works, what doesn't, and draws lessons.
 - Emphasizes context and implementation for outcomes – just because a policy tool didn't work well once doesn't preclude its possible benefits.
 - Proposes a practical guide for governments asking what should be targeted.
 - Serious consideration of constraints on developing countries, including government and fiscal capacity.
- Refreshingly free of bias against small country activism.

Policy brief offers useful synthesis that recognizes limits on local knowledge

- Advice is conditional on attention to fundamentals: education, health, shared infrastructure.
- Argues that right target is activities with positive spillovers, but these are hard to measure directly.
- Warns against targeting outcomes, such as job creation, because they may not too unfocused to be effective.
- “Industrial policy is efficient only if it promotes an activity with positive spillovers.”
- Advises governments to **target new activities since these require learning.**

Does this advice narrow the range of positive interventions too much?

- Advises governments to **target new activities since these require learning.**
- Does this include sector in which the country has nascent comparative advantage and needs to achieve scale? Would these be old or new activities?
- How does “learning” happen? Is a shorthand for productivity growth?
- How is learning related to scale and how to achieve scale?
 - Learning by doing requires more production for active markets
 - Development of external economies (skill pooling, backward linkages, etc.) requires more production for active markets
 - Expectation of sector growth makes investment & innovation more attractive.

Feasibility depends on competitiveness, market potential and comparative advantage but how to assess these in local context?

- How can a developing country agency assess these factors? Is it enough that all of these “are measurable from publicly available data”?
- The report is tantalizingly vague on how policymakers should look for targets, despite offering a framework for identifying “strategic business activities”.
- More concrete advice could be given, taken from studies of infant industry motives, about the factors that should be considered:
 - How far are local producers from the competitive frontier?
 - How quickly can the domestic sector catch up (potential learning rate)?
 - What is needed to access a large enough market to reach scale?
- None of these questions seem easily answerable from publicly available data.

Trade-led growth is discouraged but exports allow producers to find larger markets

- The authors rightly highlight the narrowing path for manufacturing led growth.
- They caution against import substitution that shields local companies from competition.
- They note the turn to protectionism and industrial policy in advanced economies.

- But do they say enough about how to leverage trade?
- How can producers find markets if their own domestic demand is too small?
- What is the role of imported inputs in both manufacturing and services?

Are trade offs and costs underplayed?

- Industrial policy sometimes used in sectors without positive spillovers, and one can read the report as an attempt to discourage attempts to
 - retain non-competitive traditional sectors;
 - reshore sectors with constant returns;
 - distributional concerns.
- However, the report is light on the political economy motives for using IP for these purposes.
- The report also does not have much to say about distribution or how one measures cost effectiveness – positive spillovers alone are not enough to justify interventions.

Trade policy for development needs further assessment after this report

- If market size matters, then protecting domestic market and assuring foreign market access are desirable goals. How should trade policy assist?
- **Tariffs** close domestic market for “catch up” but have negative internal and external market impacts.
- **Exports as Metrics?** Korea’s President Park famously used exports as a metric for IP success. Is that metric still relevant? (Is India’s PLI Scheme, which provides financial incentives to manufacturers based on outcomes—such as external sales - good policy?)
- Isn’t this combination of closed domestic market and exporting something that many countries see as unfair trade when practiced by China?

Recommendation useful but more is needed

- Elaborate on the “rule of thumb” to focus on new activities.
- Consider the role of trade policy in its wider context.
- Provide advice on how to reduce rent seeking behavior that highjacks IP.
- Can a framework for accounting for the full costs of intervention be created?