



WP/19/74

IMF Working Paper

The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy

by Reda Cherif and Fuad Hasanov

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I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Institute for Capacity Development

The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy**Prepared by Reda Cherif and Fuad Hasanov¹**

Authorized for distribution by Ralph Chami

March 2019

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Abstract

Industrial policy is tainted with bad reputation among policymakers and academics and is often viewed as the road to perdition for developing economies. Yet the success of the Asian Miracles with industrial policy stands as an uncomfortable story that many ignore or claim it cannot be replicated. Using a theory and empirical evidence, we argue that one can learn more from miracles than failures. We suggest three key principles behind their success: (i) the support of domestic producers in sophisticated industries, beyond the initial comparative advantage; (ii) export orientation; and (iii) the pursuit of fierce competition with strict accountability.

JEL Classification Numbers: O25, O47, O57

Keywords: Industrial policy; technology; innovation; growth; diversification

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¹ We are grateful to Ralph Chami and Alfred Kammer for valuable suggestions and discussions. We would also like to thank Bergljot Barkbu, Andrew Berg, Claudia Berg, Sascha Buetzer, Chris Colford, Dennis Essers, Jean-Marc Fournier, Chris Papageorgiou, Jiro Podpiera, Cyril Rebillard, Sidra Rehman, Alasdair Scott, Nikola Spatafora, Andrew Warner, and IMF seminar participants for helpful comments and discussions. We are grateful to Lopo De Castro Neto for assistance with some data and figures and to Claudia Cohen and Ravaka Prevost for help with formatting the paper. All errors are our own.

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