Industrial Policy in Developing Countries
Failing Markets, Weak States

Tilman Altenburg
Head of Department, Sustainable Economic and Social Development, German Development Institute, Germany

Wilfried Lütkenhorst
Associate Fellow, German Development Institute, Germany and Jingshi Principal Professor, Beijing Normal University, China

Edward Elgar PUBLISHING
Cheltenham, UK • Northampton, MA, USA
Contents

List of figures, tables and boxes vii
Foreword Dirk Messner viii
Acknowledgements x
List of abbreviations xi

1 Why this book? 1

2 Societal goals ruling markets 7
   2.1 Externalities: a red herring? 7
   2.2 Economics and ethics 12
   2.3 The reality of multiple societal goals: sustainable development and industrial policy 14

3 Industrial policy for social inclusion 17
   3.1 Rising inequality as a global concern 17
   3.2 Inclusion via promoting small and medium enterprises and labour-intensive production 19
   3.3 Inclusion via spatial redistribution 22

4 Industrial policy for a green transformation 28
   4.1 Scope and limitations of market-based policy approaches 29
   4.2 Policy direction through guided structural change 31
   4.3 High uncertainty and long time horizons 34
   4.4 Dealing with stranded assets 36

5 Governance and governments: balancing market and state failure 38
   5.1 How much intervention? 38
   5.2 From pretty ideals to ugly realities: the politics of industrial policy 45
   5.3 Policy capabilities required 51
   5.4 Principles of smart industrial policy 53
What is special about industrial policy in developing countries? 63
6.1 Why and how context matters 64
6.2 Economic development under latecomer conditions 65
6.3 The need to kick-start development 72
6.4 The context of persistent poverty 77
6.5 Green transformation from a developing country perspective 84
6.6 Industrial policy in limited access orders 90
6.7 Strong role of external policy factors 98

Selected developing country case studies 107
7.1 Ethiopia: kick-starting structural change in an agrarian society 108
7.2 Mozambique: persistence of elite deals 117
7.3 Namibia: good governance is not enough 125
7.4 Tunisia: structural change under authoritarian rule 133
7.5 Vietnam: escaping the middle-income trap? 142

Comparative insights into success and failure 153
8.1 Mixed performance 153
8.2 Fragmentation of business 155
8.3 Government and the private sector: partners in development? 157
8.4 National projects of industrial transformation and selective policies 162
8.5 Green growth and climate change: not yet mainstreamed 164
8.6 Planning vs searching 166
8.7 Ensuring effective policy implementation 168

Rethinking industrial policy in developing countries 176
9.1 Failing markets and weak states: striking the right balance 176
9.2 Ways forward: key elements of future industrial policy 179

References 184
Index 207