



New Cooperative Global Governance

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Berlin Summit

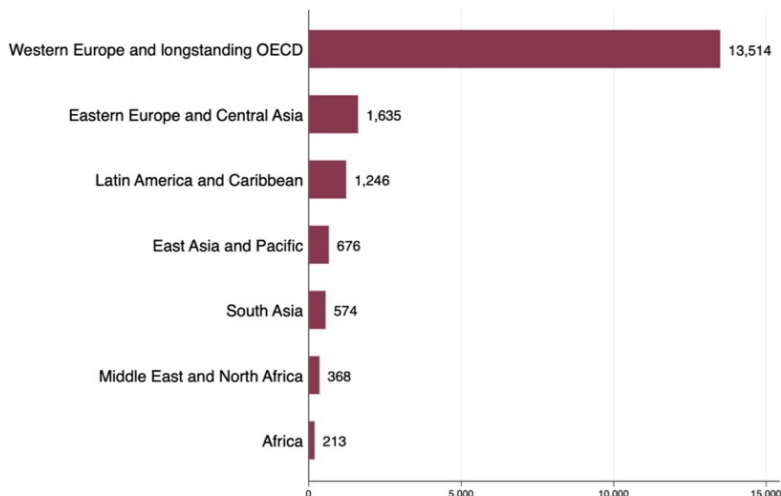
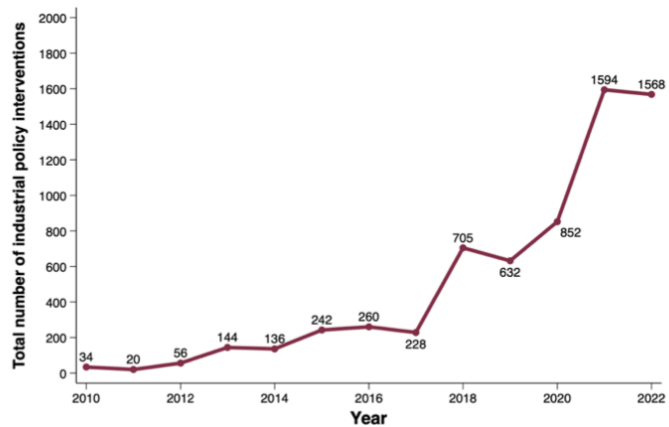
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Industrial policy is an old tool



- Government interventions that target the supply side: state-owned enterprises, direct subsidies, subsidized credit....
- Benefits: protect strategic sectors (e.g., steel, military) and/or promote sectors with high fixed cost or increasing returns to scale (e.g. anything that requires a lot of R&D)
- Challenges: expensive, hard to choose the right sectors

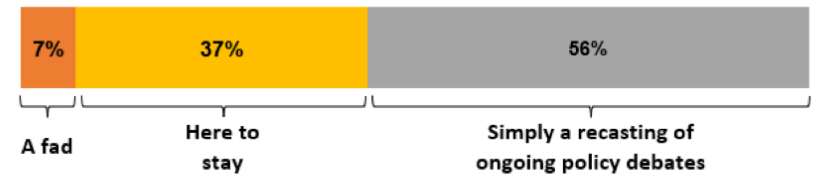




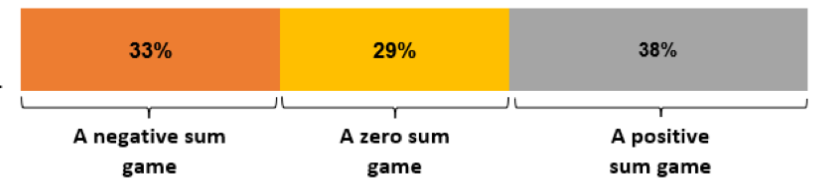
Can policymakers effectively identify market failures and pick sectors?



The revival of interest in industrial policy is...

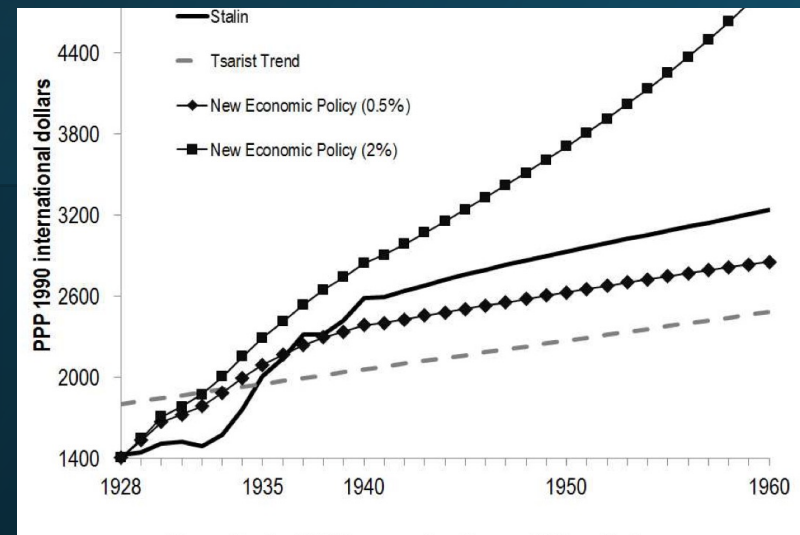
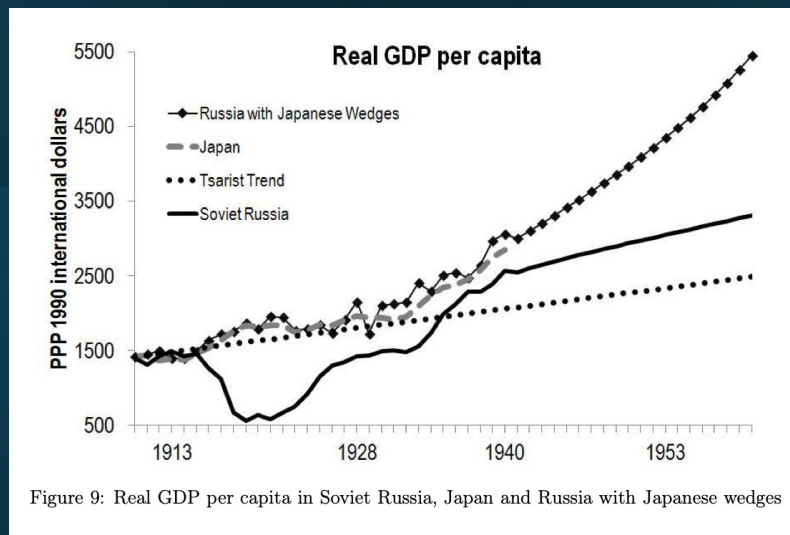


Regional competition incentivizes the use industrial policy. This is...



Ernest Liu, Bendheim Center for Finance Talk

Extreme IP does Worse than “market”



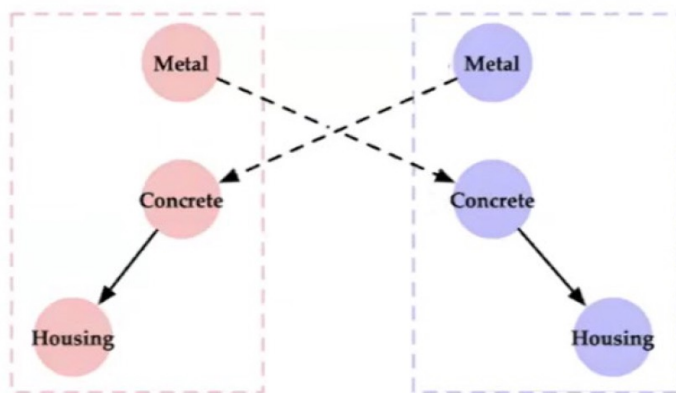
Cheremukhin et al. 2017



Moderate IP May Work (up to a point)

- Small Asian economies in 1970s and 1980s: S. Korea, Japan, Taiwan, etc.
- China in 1990s and 2000s
- Good for sectors catching up to the frontier of technology and production
- Less good for pushing the frontier
- For small countries: Sector growth = GDP growth
- For large countries: Sector growth = partial GDP growth

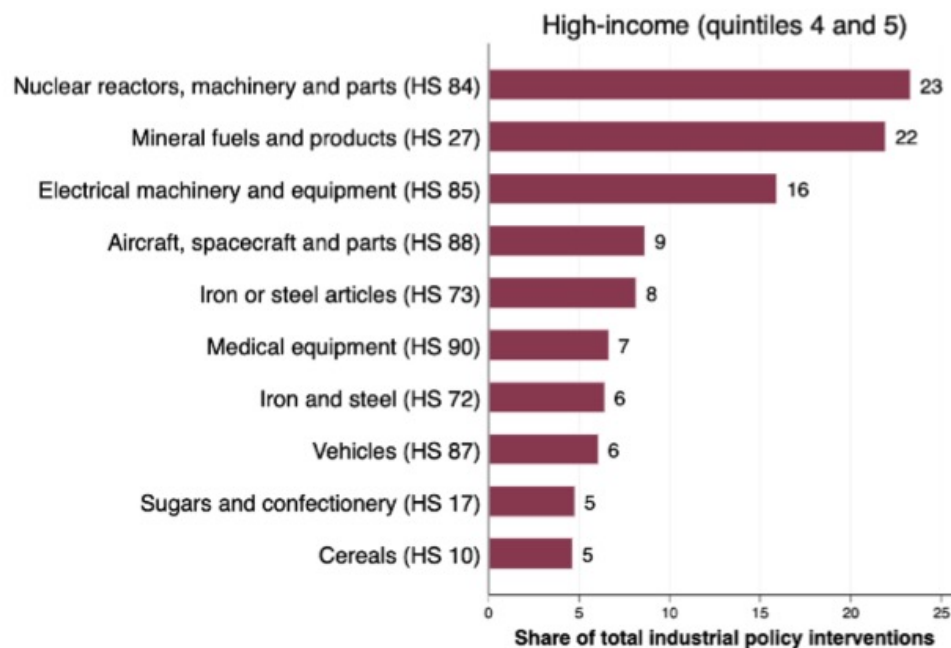
Getting the Biggest Benefits from Industrial Policy



In this context there is a potential misalignment between local and global industrial policy targets

1. In most cases, target upstream sectors (Liu 2019)
2. In patient societies, target R&D; impatient, target production (Liu and Ma, 2024)
3. Target sectors with more domestic downstream production (Chen et al., 2024)
4. Target downstream and upstream sectors (e.g., EV and batteries) if there are coordination problems (Aghion et al., 2024)

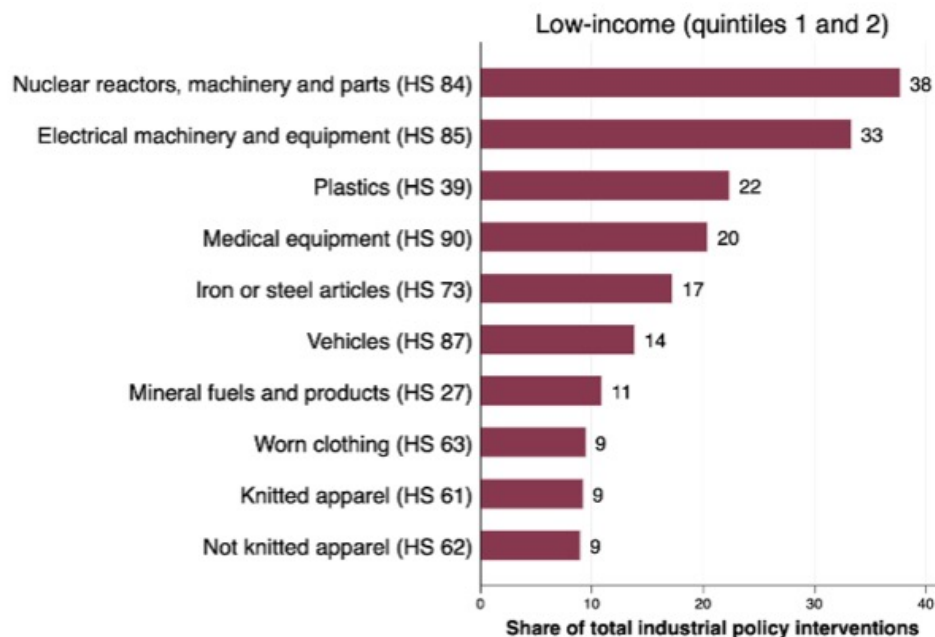
IP today: Rich Economies



- R&D: Japan, South Korea, Germany and the U.S. have the most efficiently allocated IP (Liu and Ma, 2024)
- Specific technologies: the U.S. underinvests in semiconductors by 21% (before CHIPS Act) and underinvests in green technologies by 25% (more if we account for environmental benefits)
- China and South Korea overinvest in semiconductors by ~50% and ~40%

(Figure: Rukasz et al., 2023)

IP today: Poor Economies



- Industrial policy?
 - Feasibility and benefits depends on state capacity to implement and level of domestic technology
 - Current IP often mistargets
- Joint ventures higher up on the supply chain?
 - E.g., If China wants lithium from Zimbabwe, the China should build lithium refining factories in Zimbabwe (if not iPhone assembly plants) that hire locally.
 - E.g., If Europe imports cocoa, oil and natural gas from Nigeria, it should build factories that process these products that hire locally.
 - Technology and management spillovers

(Figure: Rukasz et al., 2023)



Role for Industrial Policy and International Institutions

- Emphasize the selective use of IP
- Clarify the economic pros and cons of IP to enable fair and transparent negotiations at the country and sector level
- Create guidelines/best practices for North-South investment that emphasize thoughtfully designed joint ventures in higher parts of the supply chain.