

ADB WORLD BANK TRADE FORUM 2026

Industrial Policy:

The Wager and Its Consequences

1. Industrial policy is a wager on the corporation
2. Root cause analysis, not conceptual shortcuts
3. Define success in precise terms and measure it
4. The instruments must fit the country
5. Industrial policy will change during global upheaval

Industrial Policy Is a Wager on the Corporation

THE PROPOSITION

Industrial policy is a qualified vote of confidence in companies.

The private sector's response is a necessary condition for success, but not sufficient.

Corporations are the agents with their own strategies, objectives and capabilities.

Governments must understand how corporations will actually respond, not how they hope they will.

THE STRUCTURE



THE STATE

Principal



THE CORPORATION

Agent



GROWTH & JOBS




Objective

If policymakers have not asked how corporations will respond, they should ask whether industrial policy is the right course of action at all.

Root Cause Analysis, Not Conceptual Shortcuts

THE RIGHT QUESTION TO ASK

Why is the horse not running at the pace its owner requires?

-  Is the jockey at fault?
-  Is the horse being fed the wrong diet?
-  Is the ground the source of the problem?





TAKING THE ANALOGY FURTHER

1. If an industry is not growing, it does not have enough customers. Why is its value proposition not one that customers find worth accepting?
2. How does a firm take the resources of society and produce something of greater worth, and why is that process failing here?

WHAT IS NEEDED

Business Analysts

Not economists with their “first principles”, people who can:

-  Assess a firm's value proposition
-  Understand how a firm creates value from society's resources
-  Identify factors that support or weaken a business model
-  Determine the capabilities firms need over the medium and long term

This capability is absent from most ministries and international organisations.

Define Success in Precise Terms and Measure It

01



WHAT DOES SUCCESS LOOK LIKE?

If an industry needs to grow employment by 50%, has that been achieved anywhere at a comparable stage of development? Objectives that are not within reach must be revised.

02



HOW IS IT TO BE BROUGHT ABOUT?

Every official holds a view, stated or not, about how the private sector will respond. Failure to state that reasoning makes the failure of the policy a near certainty. The reasoning must be made explicit and evaluated.

03



HOW WILL PROGRESS BE MEASURED?

Governments must measure the rate at which firms use incentives on offer. In trade policy, we have decades of data on preference utilisation. For industrial policy incentives, we have almost nothing. This gap must be closed.

The ADB and the World Bank are in a position to lead the collection of evidence on incentive take-up. That contribution would be of the first order.

The Instruments Must Fit the Circumstances of the Country



NOT AVAILABLE TO SMALLER ECONOMIES

Import barriers

Domestic markets too small to build firms to the scale required.

Import substitution

A viable course only for economies of several hundred million people.

Subsidies as inducement

Multinational corporations treat subsidy offers as a signal that framework conditions are deficient, not as a reason to proceed.



WHAT ROOT CAUSE ANALYSIS REVEALS



Address binding constraints

Gaps in infrastructure, skills, and regulation are often less costly to fix than anticipated.



Fix framework conditions

If conditions require a subsidy to attract investment, the right response is to fix the conditions, not to make the payment.



Find sectors where success is feasible

Differentiate instead. Copycat strategies place your firms in direct competition with best-in-class locations and that is a contest they will not win.

Industrial Policy Will Change During Global Upheaval

TECHNOLOGICAL



AI and digital disruption are changing how firms create value and which capabilities matter.

GEOECONOMIC / GEOPOLITICAL



Geoeconomic rivalry and the return of protection are redrawing the conditions in which firms operate.

CLIMATE



Disruption and opportunity are being produced in parallel, both alter the sectors governments can viably support.

DEMOGRAPHIC



Ageing populations are a source of both possibility and disruption in a number of countries in this region.

Policy Set

Based on today's conditions

Conditions Change

Technology, geopolitics, climate, demography

Policy Must Evolve

Or it describes a world that no longer exists

Consequence: Governments and corporations need a bilateral exchange on a schedule, one that can evolve as technological, geopolitical, and demographic forces alter the

Three Tangible Steps

Industrial policy is a wager on the corporation. Many governments have committed resources and political capital on the basis of arguments that bear little relation to how businesses actually make decisions. The firms that do not grow, the jobs that are not created, and the incomes that do not rise are the measure of what a poorly conceived industrial policy costs.

01

Root cause analysis conducted by in-house business analysts

Any government designing an industrial policy should commission a root cause analysis of the sector, conducted by people with direct experience of how firms in that sector operate.

02

ADB and World Bank: close the evidence and capabilities gaps

Begin collecting data on the rate at which firms make use of industrial policy incentives, and support the development of a cadre of business analysts within government.

03

A bilateral exchange, built to evolve

Governments and firms should establish an exchange that meets on a schedule, addresses real business problems, and has the capacity to evolve as the forces of global upheaval alter the conditions in which both must operate.