

Preface

Policy advice is central to the Asian Development Bank's (ADB) partnership with its developing member countries. Demand for policy advice increases with income per capita. The governments of countries that achieve middle-income status, and of those that are close to high-income, often approach ADB for advice on a wide range of issues. In recent years, we have engaged policymakers from many countries in discussions about how to achieve inclusive growth, how to avoid the middle income trap, how to participate actively in the global knowledge economy or how to diversify and upgrade the economic structure and modernize industrial policy programs. Governments are also keen to learn from the experiences of other countries. Providing answers to these questions in the form of policy advice, in particular as countries seek to implement policies and develop institutions that facilitate the structural transformation of their economies, requires research.

This interaction with our member countries is especially relevant today, as the development landscape of the twenty-first century will be different from that in which a number of countries thrived during the second half of the twentieth century. Obvious examples of this are the opportunities and challenges posed by the full incorporation of India and the People's Republic of China (PRC) to the world economy, the emergence of new labor-saving technologies, the push for low-carbon growth paths in the face of climate change, the fact that developed countries will not be keen to run current account deficits and facilitate developing countries' export-led growth or the fact that the World Trade Organization places severe restrictions on developing countries' space to conduct industrial policies. These ongoing changes make it increasingly important for policy makers from developing countries to understand their options.

In 2011, the Government of Kazakhstan requested policy advice from the Asian Development Bank (ADB) on how to further diversify the economy and modernize its industrial policy. The government was keen to learn from the experience with diversification and industrialization policies of both developed and developing economies, including Australia, the PRC, the European Union, the Republic of Korea, Malaysia and the United States, with a focus on insights on the probable outcomes of Kazakhstan's own efforts at diversification and industrialization.

To shed light on these issues, the ADB commissioned a series of studies on specific issues in industrial policy and country experiences, under a technical assistance project of the Economics and Research Department.¹ Our work was intellectually supported by the Government of Kazakhstan. Kazakhstan is an emerging economy with a clear strategy to become a modern industrial and service economy in the coming decades. I am especially grateful to H.E. Kairat Kelimbetov (Deputy Prime Minister of the Republic of Kazakhstan), Erbolat Dossaev (Minister of Economy and Budget Planning of the Republic of Kazakhstan), Madina Abylkassymova (Vice-Minister of Economy and Budget Planning of the Republic of Kazakhstan) and the staff of the Economic Research Institute in Astana, for their interest and collaboration in this project.²

While the project led to a detailed 'Report to the Government of Kazakhstan,' we decided to extend it and write a book on modern industrial policy for a wider audience, as we realized that many of the issues that appeared during our discussions on Kazakhstan are also relevant for other countries with which we have had similar discussions about development and planning.³ The result is this book.

I am deeply grateful to Changyong Rhee, ADB's Chief Economist at the time the project was conceptualized and during its initial stages, for his enthusiasm and belief in the importance of this work. Our many discussions on the subject led to a common understanding about key development ideas that became the basis of this book. One was that developing countries will not reach high-income status without applying elements of modern industrial policy. This is reflected in our two coauthored chapters. A second agreement was that structural transformation, in particular achieving a certain level of industrialization, is fundamental for achieving high-income status. Some of these ideas were presented in the special chapter 'Asia's economic transformation: where to, how and how fast?' of ADB's *Key Indicators for Asia and the Pacific 2013*. I am also grateful to the colleagues and friends who agreed to collaborate in this project and to provide their views and experiences on different aspects of industrial policy. I am indebted to my assistant, Maan Magadia, who did an excellent job helping me organize the material and coordinating with all authors. Alastair McIndoe provided editorial assistance.

¹ Background studies were commissioned by the ADB in 2012 under 'Technical Assistance 8153: Policies for Industrial and Service Diversification in Asia in the 21st Century'. The authors met in Seoul to discuss the contents of this book in September 2012.

² These were their positions in the government at the time the project was conceived.

³ Felipe, J. and C. Rhee (2013), 'Report to the Government of Kazakhstan: policies for industrial and service diversification in Asia in the 21st century', Asian Development Bank, Manila.

I hope this book becomes a reference in discussions and policy analyses. Taken together, the 13 chapters provide a coherent, comprehensive and in-depth assessment of key issues in modern industrial policy, in particular *how* to undertake industrial policy in the twenty-first century. They also provide country studies that discuss experiences from which other countries can learn *what to* and, perhaps more important, *what not to do*.

Finally, the views and opinions expressed in this book are those of the authors and do not necessarily reflect those of ADB, its Board of Governors or the countries they represent.

Jesus Felipe
Advisor, Economic Research and
Regional Cooperation Department
Asian Development Bank