

COMMENTARY OPEN ACCESS

Comment on “Industrial Policy for China’s Strategic Emerging Industries From the Perspective of New Structural Economics”

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Lin and Wang (2026) argue that New Structural Economics provides a useful framework for thinking about China’s strategic emerging industries because it avoids both laissez-faire and unconstrained statism. Their core message is that industrial policy can be justified when it helps firms in sectors with latent comparative advantage overcome coordination failures, infrastructure gaps, and first-mover externalities. They also argue that policy should be dynamic and differentiated: governments should support industries in ways that match local factor endowments, avoid both overreaching and excessive conservatism, and shift from broad subsidy-led support to more precise, market-oriented, efficiency-based governance. A second key message is that China’s industrial policy for strategic emerging industries has had real successes—especially in scale, innovation capacity, and industrial upgrading—but that these successes have come alongside familiar problems of duplication, overcapacity, weak policy precision, and blurred government-market boundaries.

We find Lin and Wang’s (2026) broad framing attractive and on-the-point. It is right to reject the simple dichotomy between “state versus market,” and it is also right that the relevant question is not whether industrial policy exists, but what kind of industrial policy is consistent with efficient upgrading (Rodrik 2004, 2009). The emphasis on factor-endowment evolution, differentiated policy design, and the role of the “facilitating state” is useful. Lin and Wang (2026) is also strongest when it warns against two symmetric mistakes: first, pushing too aggressively into sectors that exceed local capabilities, and second, being so conservative that policy fails to support new sectors once endowments have

shifted enough to make them viable. That is a nice contribution. Below we make five comments.

First, Lin and Wang (2026) should say more clearly how to limit the role of government to be facilitating rather than over-intervention. At present, Lin and Wang (2026) repeatedly invoke the “facilitating state,” but the operational boundary remains vague. In practice, this distinction is the *entire* issue. Once governments move beyond provision of public goods and coordination services into direct financial support, land allocation, credit guidance, procurement favoritism, and selective entry restrictions, the line between *facilitation* and *intervention* becomes blurry. What is meant to compensate market failure may instead result in government failure. Lin and Wang (2026) would be stronger if they specified more explicitly what the government should and should not do. For example, a facilitating role might include investment in general-purpose infrastructure, support for basic research, better intellectual property protection, open standards, neutral industrial parks, and regulatory reforms that reduce transaction costs for all firms in a target ecosystem. By contrast, direct firm-level picking of winners, politically driven subsidized lending, or administrative quota-setting are much closer to heavy-handed intervention. Lin and Wang (2026) gesture in this direction, especially when it calls for a move away from extensive subsidy-oriented support, but they should define the boundary more concretely.

A related semantic but important question is whether a government role that is neutral across industries should still be called industrial policy, rather than simply good economic policy.

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Second, Lin and Wang (2026) should distinguish genuine market failures from distortions created by other government policies. In China, preferential credit may appear necessary because banks favor state owned enterprises (SOEs) and established borrowers; talent subsidies because Hukou restrictions impede labor mobility; and preferential land supply because land markets are administratively distorted and locally monopolized. Industrial policy may offset such distortions, but as a second-best response to problems created elsewhere in the policy system, not because an undistorted market would underprovide the activity. Fang et al. (2026) make this point clearly. Without this distinction, the case for industrial policy becomes too elastic: one intervention can justify another even when the first-best solution is institutional reform.

Third, Lin and Wang (2026) correctly warn against local duplication, waste, fragmentation, and overcapacity, but understate the political-economy problem: how can duplication be avoided in China's hyper-competitive promotion system? Local officials have incentives to imitate national priorities because career incentives reward visible investment, short-run growth, and alignment with central priorities (Fang et al. 2026). Over-entry is therefore institutional, not merely informational. Lin and Wang (2026) should discuss realistic constraints on duplication, such as harder budget constraints, national coordination of capacity expansion, ex post accountability for failed industrial parks, or less weight on visible industrial investment in cadre evaluation. Otherwise, the recommendation to avoid duplication remains institutionally incomplete.

Relatedly, Lin and Wang (2026) treat "government" largely as a unitary actor, although China's industrial policy operates through a hierarchy in which central and local governments have different roles, information, and incentives. The center tends to set strategic priorities and coordinate across regions and sectors, while local governments implement policy and may put greater weight on growth and short-term performance. Blind duplication, overcapacity, and mismatches with local endowments may therefore reflect central-local tensions, not simply government-versus-market tensions. Because Lin and Wang (2026) emphasize policy precision and local factor endowments, they should discuss how responsibilities should be divided between central and local governments.

Fourth, Lin and Wang (2026) should grapple more directly with the knowledge problem in top-down industrial policy. New Structural Economics is most persuasive for catch-up, when candidate sectors can be identified from more advanced economies as domestic endowments evolve. Frontier leadership is harder. In AI, advanced chips, biotech, or frontier energy, there is no external template, and bureaucrats may be much less able to identify the right sub-sectors, standards, or technologies. Good top-level design cannot eliminate this uncertainty. Lin and Wang (2026) should acknowledge that the framework may be strongest for latecomer upgrading and less decisive at the frontier, where decentralized experimentation, broad enabling institutions, and tolerance for failure may become more important than targeted direction.

Fifth, Lin and Wang (2026) could learn from Japan's Ministry of International Trade and Industry (MITI) experience. MITI is associated with successful coordination, technology upgrading, and industrial deepening during Japan's catch-up, but its later record was less impressive. In a New Structural Economics

interpretation, industrial policy works better when it supports sectors broadly consistent with evolving comparative advantage and the technological path is reasonably visible; it works less well when the state preserves incumbents or tries to identify frontier technologies under greater uncertainty. Japan suggests three lessons: tools that accelerate catch-up may weaken near the frontier; bureaucratic coordination can become inertia; and support that initially solves coordination failures can later entrench incumbents and weaken market discovery. These lessons are directly relevant to Lin and Wang's (2026) call for more precise, market-oriented, efficiency-driven policy.

More broadly, Lin and Wang (2026) should push harder on the tension between first-best and second-best policy. Industrial policy sometimes appears as the natural solution to any bottleneck facing a strategic industry, yet many bottlenecks may be better addressed through horizontal institutional reform. If financial repression, segmented labor markets, local protectionism, weak intellectual property (IP) enforcement, or distorted land allocation are the underlying constraints, targeted support may only mask them. New Structural Economics is strongest when it identifies viable sectors and asks which public goods or coordination mechanisms are needed for their emergence, not when it becomes a blanket justification for selective intervention.

We would therefore encourage Lin and Wang to: define "facilitating only" more concretely; distinguish genuine market failures from state-created distortions and industrial policy from institutional reform; address the political incentives behind duplication and overcapacity; acknowledge the harder knowledge problem as China moves from follower to frontier leader; and use Japan's MITI experience to clarify when industrial policy is effective and why its effectiveness may decline as an economy matures.

Overall, Lin and Wang (2026) ask an important question and offer a useful organizing framework. Its main value is not an argument for more industrial policy, but an effort to identify conditions under which industrial policy can remain disciplined, adaptive, and consistent with market allocation. To strengthen that contribution, Lin and Wang (2026) should be more explicit about the institutional and political constraints that make "facilitating state" governance difficult in practice, especially in China's current environment.

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