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Towards an institutional setup for industrial policy in late industrialization in the 21st century

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Towards an Institutional Setup for Industrial Policy in Late Industrialization in the 21st Century

Vienna, November 2019

Jan Grumiller, Werner Raza

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List of Abbreviations

ISID	Inclusive and Sustainable Industrial Development
NGOs	Non Governmental Organizations
SDGs	Sustainable Development Goals
SOEs	state-owned enterprises
SSA	Sub-Saharan Africa
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

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Abstract

Political and scholarly debates on the potentials and constraints of inclusive and sustainable development in the global periphery are at the core of the developmental discourse. This paper argues that discussions on the effectiveness, inclusiveness and sustainability of economic development need to take the political economic contexts of specific peripheral countries into account. The paper highlights that the more recent literature related to the developmental state debate provides valuable insights to this end, but needs (i) further conceptual extension, in particular with respect to the role of social inclusion and hegemony, and (ii) operationalization in order to be useful from a policy perspective. This paper aims to add to these two gaps in the literature.

Keywords: developmental state, institutional regime, hegemony, inclusiveness, strategic-relational approach

1. Introduction

It is now more widely recognized that the institutional framework is key in order to implement effective industrial policies and promote structural change (Rodrik 2009). The institutional framework of industrial policy does however not exist in a vacuum, but is an outcome of and is highly intertwined with specific political economy contexts. Understanding interest and power constellations within and among different social actors is therefore important to assess why certain institutional frameworks occur in the first place, why they are effective or not in industrial policy making, and how they can be changed. This is even more important in the context of industrial policy (as compared to other policy areas), which aims at proactively promoting structural change, i.e. supporting those economic activities, which are seen as beneficial for achieving core development objectives. In doing so, industrial policy inevitably changes the distribution of economic benefits and costs, and thus will be contested among social groups.

Besides the traditional objectives of achieving structural transformation and economic growth, industrial policy in the 21st century also has to take into account the imperatives of social inclusion and ecological sustainability. This is emphasized in Goal 8 of the Sustainable Development Goals (SDGs) and also by UNIDO's concept of "Inclusive and Sustainable Industrial Development" (ISID).¹ "Inclusive" in this context means that industrial development must benefit from and offer equal opportunities to all peoples and countries, which makes the inclusion of a large variety of stakeholders such as the private sector, civil society organizations and more a necessity. The term "sustainable" addresses the need to decouple the prosperity generated through industrial development from excessive natural resource use and negative environmental impacts. Both of these objectives pose important demands on late industrialization projects. In terms of governance and institutional framework, they require in particular a broader consultation with and participation of social actors compared to traditional conceptions of the developmental state with its focus on exerting strong top-down leadership by political authorities and technocratic bodies.

Against this background, this paper introduces an alternative conceptualization of institutional setups for industrial policy in late industrialization and discusses the challenges and trade-offs of its operationalization. Thereby, we draw upon recent debates associated with the developmental state literature (e.g. Fine et al. 2013; Haggard 2015; Wylde 2017) and particularly debates in these literatures on Sub-Saharan Africa (SSA) as arguably the latest region to enter late industrialization (e.g., Behuria et al. 2017; Kelsall 2013; Routley 2014; Whitfield et al. 2015). Our conceptual framework draws on neo-Gramscian and materialist state theory (Jessop 1990, 2016; Offe 1980; Poulantzas 2002), the developmental regime approach (Pempel 1999; Wylde 2017) and other contributions on the necessary conditions for effective industrial policy of late industrializers (e.g., Schneider/Maxfield 1997), in particular in SSA contexts (e.g., Whitfield et al. 2015).

We conceptualize the peripheral state as a social relation (Jessop 1990) and go beyond the developmental regime approach by linking our framework to literature that particularly takes into account the characteristics of peripheral states (e.g., Becker 2008; Evers 1977; Khan 2010, 2018b). Based on this framework, we introduce and operationalize the concepts of strategic selectivity, hegemony and embedded autonomy in the context of industrial policy making in the global periphery. Four key dimensions for institutional setups are developed, including the degree of inclusiveness, decentralization, managerialism and state-led production, and potential trade-offs within and between these dimensions discussed. Our contribution to industrial policy debates consists in providing a conceptual framework for industrial policy setups taking into account the practical political and institutional challenges for implementing industrial policy that

¹ For more info on ISID see: <https://isid.unido.org/about-isid.html>

is both inclusive and sustainable. Hence, we aim to be more policy relevant than most of the current approaches that have serious limitations when applied to develop concrete policy recommendations for designing institutional setups of industrial policy. Our framework is thus able to provide guidance to policy-makers when identifying the main challenges and assessing the trade-offs to be made during the design of an institutional setup for industrial policy-making.

The paper concludes that there clearly exists no blue print for an optimal institutional setup but that this depends on specific state-society relations and in particular the interests of and power relations among social actors. Not only material interests, but also important hegemonic elements are necessary for the emergence and long-run stabilization of an industrialization project. Regarding the concrete setup, the ability of policy makers to identify and mediate the trade-offs within and between the different key dimensions of an institutional setup for industrial policy is key. However, the formation of a broad-based industrialization project in the context of a 'developmental state' that has the resources, capabilities and policy space to promote large-scale structural transformation via a comprehensive set of industrial policies is particularly challenging in the contemporary political economy context of countries in the global periphery (cf. Becker 2008). Hence, countries may need to rely on a more selective industrial policy approach in terms of substance and institutional setup, which entails the promotion of pockets of efficiency in the state bureaucracy in order to support transformation processes in specific economic activities and sectors, which may eventually lead to cumulative effects.

The paper proceeds as follows: Section 2 gives an overview of the debates on the developmental state and its recent critiques and reformulations, respectively. Section 3 presents the conceptual framework of this paper. Section 4 operationalizes the conceptual framework in order to increase its policy relevancy. Section 5 concludes.

2. The debate on the developmental state and its recent critiques

Developmental state theory, and its different spin-offs, has been the most influential heterodox approach in analyzing the political economy of and the institutions related to industrial policy. Developmental state theory argues against the pessimism of dependency theory regarding the potential of the periphery to catch-up with the core by pointing to the success of late-industrializers in the second half of the 20th century, on the one hand, and by arguing against economic orthodoxy highlighting the importance of the state and industrial policy for the success of late-industrializers, on the other hand (Fine 2013). In general, the literature can be differentiated between the 'economic school' and the 'political school' (Fine 2013; Fine/Stoneman 1996). The economic school mainly focuses on the policies necessary to promote economic development, that is, to foster capability building, productivity growth, economic upgrading and structural transformation. The political school focuses on the structures and institutions of the state and their relations to civil society and particularly the private/business sector in the context of pro-developmental industrial policy. While it is particularly influenced by Weber's theory of the bureaucracy, the political school does not build on a uniform and fully elaborate theory of the state, which explains its often-criticized state-society dichotomy.

The apprehension of what constitutes a developmental state varies and has changed over time, but there is a consensus that a state needs to be free of capture by particular interests in order to implement effective industrial and also broader developmental policies. Evans (1995) argues – partially parting from a neo-Weberian conceptualization of state-society relations – that a developmental state is characterized by a highly capable bureaucracy with a meritocratic culture and well-developed capacities, which is not only relatively 'autonomous' from corporate interests, but also 'embedded' in civil society in order to provide "[...] *institutionalized channels for the continual negotiation and renegotiation of goals and policies*" (ibid. 12). Other key characteristics of a developmental state highlighted in the literature include a political leadership

oriented towards development and a mutually beneficial and symbiotic relationship between key industrial policy institutions and industrial capitalists (cf. Routley 2012: 8).

In the contemporary literature, the embedded autonomy concept is criticized for being too general in terms of explanatory power (Ovadia/Wolf 2018), or too reductionist in terms of its conceptualization of power and its strong focus on state-business relationships, disregarding large parts of society (Wylde 2017). But the central critique of the developmental state literature has been its partial 'sympathy' towards authoritarianism (Johnson 1987; Leftwich 1993, 1995), because, as it has been argued, authoritarian regimes are more likely to achieve and sustain the autonomy and long-term stability necessary for successful catch-up development. This perspective has its roots in the success of bureaucratic-authoritarian industrialization regimes in Latin America and (South-)East Asia (Cumings 1999).

State-business relations approaches depart from the often prevalent state-centrism of the developmental state literature and focus on the role of private sector and its relation to the state (Doner 1992; Doner et al. 2005; Schneider/Maxfield 1997; Seekings/Nattrass 2011; Sen/Te Velde 2009). This body of literature highlights the problem of collusive behavior between state and businesses actors, culminating in unproductive rent-seeking, and stresses the need for collaborative relations in order to promote investments. Schneider and Maxfield (1997), for example, characterize effective collaborative relations between the bureaucracy and business elite in terms of information exchange, reciprocity, credibility and trust, which has much in common with a Weberian view of the state. Doner et al. (2005), for example, explain emergence of collaborative relations (and thus developmental policies) between the bureaucracy and the private sector through the political elites' coalition building dynamics. When political leaders are pressured to broaden their coalition to sustain their political survival, they often stabilize such broad coalitions with side-payments. In case revenues are scarce, the ruling elite might be forced to enter collaborative relations with the private sector and implement growth-generating economic policies to stabilize and consolidate the ruling coalition (ibid.).

The conceptualization of political survival has some similarities with Khan's (2010, 2018a, 2018b) political settlements theory, which seeks to explain the emergence and effectiveness of institutions given the country specific relative power of organizations.² The "[...] *distribution of organizational power is a political settlement if it reproduces itself over time*" (Khan 2018b: 641), implying a balance between the organizations' expectations on what they should receive and what they are actually receiving given the country specific political and economic context. The emergence, sustainability, and change of institutions, on the other hand, is explained with autonomous changes in organizational power, driven by the agency of governments or other actors, and does not automatically reflect the societal distribution of power (ibid.: 643f.). Given this potential mismatch, various institutions or policies may be implemented at different points in time. For Khan, the main question is how these changes have an impact on the allocation of rents, in how far they will be implemented effectively or distorted by powerful organizations supporting or opposing these changes, and whether or not they will be sustainable in the context of the specific societal distribution of power (ibid.: 643f.).

From this perspective and with respect to industrial policy in peripheral countries, the key challenge is to implement institutions and policies that transform low productivity organizations to higher productivity ones (ibid.: 650). This has to be achieved primarily by way of implementing complex checks and balances to manage rents (Khan: 2000b, 2018b). For this reason, Khan criticizes both proponents of new institutional economics (e.g., Acemoglu/Robinson 2012) and developmental state theorists, when they argue in favor of more inclusive or, alternatively,

² The power of organizations is defined as 'holding power', that is, the ability of organizations to hold out and outlast competitors in contests (Khan 2010).

authoritarian institutions to promote economic development without taking into account the specific country's context and distribution of organizational power (Khan 2018b: 644, 646).

Whitfield et al. (2015) combine concepts of developmental state theory and state-business relations approaches and an adapted version of Khan's political settlements theory, presenting a framework for understanding the institutional conditions for effective industrial policy institutions. They argue that three conditions need to be met at the same time for effective industrial policy (ibid.: 17ff.): First, the emergence of mutual interests between the ruling elites and capitalist firms, and thus a situation in which both parties expect to gain from collaboration. Second, the creation of pockets of efficiency in the state bureaucracy, which has sufficient support from ruling elites to create a certain degree of autonomy from particularistic demands in the ruling coalition and, in the best case, is also embedded in the relevant economic sector. Third, learning for productivity, a situation in which bureaucrats are successful in linking policy-generated rents to increases in productivity. The framework explains the emergence of such conditions by linking the 'micro-level of industrial policy outcomes' to an adapted version of Khan's political settlements theory, by focusing on the power relations of ruling coalitions, the political elite, and (domestic) capitalists (ibid.: 17ff.).

The development regime approach first developed by Pempel (1999) and further elaborated by Wylde (2012, 2014, 2017) applies a strategic-relational approach (Jessop 1990, 1999, 2016), which is supplemented by a neo-Marxist (Gramsci 2011a, 2011b; Poulantzas 2002) and neo-Pluralist (Smith 1990, 2009) understanding of power. The developmental regime framework builds on a tripod image involving "[...] *a sustained fusion among the institutions of the state, particular segments of the socioeconomic order, and a particular bias in public policy orientation*" (Pempel 1999: 157), in order to take account for different countries' developmental paths and their common threads in the context of today's neoliberal global political economy (Wylde 2017: 71ff.). Wylde (2017: 17f., 28f., 79ff.) suggests to replace the embedded autonomy concept with the mutually reconstitutive concepts³ of (relative) autonomy and capacity in order to broaden its analytical focus on other civil society actors.

We build on these debates and concepts, but also highlight major limitations that we try to address with our conceptual framework developed in the next section. We fully subscribe to the critique that the embedded autonomy concept as applied within the developmental state literature is too reductionist, and strongly argue that any institutional setup for industrial policy in the 21st century must be inclusive and should promote stakeholder participation. The central insight of the importance of "embedded autonomy" of the developmental state and of the importance of a meritocratic bureaucracy however is still valid, but must be extended to include not only the business sector, but civil society at large as well as international actors. The state-business relation literature has broadened the perspective to some extent, but a large share of this literature falls in a trap by focusing too much on the political survival of the ruling elite in explaining collaborative behavior. We think that for stabilizing an industrialization project by way of ensuring fair benefit and cost-sharing, collaborative relations must include other social actors as well, e.g. trade unions, representative organizations of other social groups, the media or churches.

The political settlements approach and its reinterpretation and operationalization by Whitfield et al. (2015) are important contributions to the debate on the emergence and effectiveness of industrial policy, but the approach falls short of fully taking into account the legitimacy of a project of late industrialization, which given the importance of social inclusion is a key requirement for contemporary purposes. Industrialization projects do not only depend on material elements like e.g. employment creation, wage increases or social policies, but must also include ideational elements. The latter include in particular forms of political participation and consultation, but

³ Samuels (1987) developed a similar conceptualization.

beyond that extent into educational and cultural practices, for instance the promotion of rationality, science and a culture of learning and achievement based on meritocratic principles. In other words, industrialization requires a social contract between citizens and the state that establishes a political society based on political participation and accountability. Only the combination of both material and ideational elements can lead to a form of social cohesion uniting a bloc of social forces to support a project of late industrialization over a longer period, which can be conceived as a hegemonic project in the Gramscian sense.

The development regime approach is an important contribution to the debate on the inclusiveness and legitimacy of industrial policy institutions since it (re-)introduces a materialist and neo-Gramscian conceptualization of the state, but it has three important shortcomings. First, neo-Gramscian and materialistic state theories have their roots in industrialized core countries and, therefore, need to be adapted in order to more thoroughly take into account the political-economic context of the global periphery. Second, the theoretical framework remains on a relatively abstract level and thus lacks the concepts to analyze the implications of institutions and their trade-offs in much detail. Third, given its analytical perspective and high degree of abstraction, the framework lacks a clear policy perspective. Hence, in the following section, we present a conceptual framework that builds upon the developmental regime approach, but seeks to operationalize it for practical policy analysis.

3. Conceptualizing interests, stakeholders and their articulation in industrial policy

In building and elaborating on the literature discussed above and particularly the developmental regime approach, this paper's conceptual framework aims at developing and operationalizing industrial policy-related institutional setup decisions for policy purposes. In doing so, this section first develops our underlying approach before we operationalize concrete institutional setup dimensions in the next section. First, based upon neo-Gramscian and materialist state theory, we present a typology of social actors relevant for industrial policy. Next, we discuss their articulation of material interests by employing two core concepts: strategic selectivity and hegemony in the context of the global periphery. Finally, we present a heuristic framework to analyze the necessary institutional conditions for effective industrial policy in the context of peripheral states' strategic selectivity through an adapted conceptualization of embedded autonomy. The specific articulation in a given socio-economic context determines the possibilities and constraints for industrial policy, in particular the degree of comprehensiveness, an industrial policy project might assume, which is why we stress the particular importance of pockets of efficiencies in peripheral contexts.

3.1. Social actors and interests for industrial policy

The developmental regime approach argues that understanding the state is important to promote industrial development, by heavily drawing on a neo-Marxist and neo-Pluralist understanding of power and the state (Wylde 2017: 15ff.). Materialist state theory (Offe 1980; Poulantzas 2002) emphasizes that societies are constituted by different classes with contradicting and competing materialist interests. Neo-Marxists stress that the materialist interests of social groups are deeply connected to their role in the productive system of an economy, e.g. labor, landlords, industrial or financial capital. The state is understood as a social relation and not a neutral terrain for the articulation of social interests. The specific configuration

of the state therefore has to be considered as a result of historical struggles between social forces, that is, the material condensation of a relationship of forces (Poulantzas 2002: 159).⁴

In order for industrial policy to be implemented by 'the state', there must be social forces driving the development and implementation of industrial policy. Following the Gramscian (2011a, 2011b) conception of the 'integral state', which upholds the dialectical unity of the core state and civil society, this paper identifies five key social actors (or groups) relevant for industrial policy: Firstly, **the political elite**, which is composed of those groups, parties and networks that compete for and hold political power and office, respectively, in a political society. Secondly, **the state bureaucracy**, which is composed by a heterogeneous body of government agencies and organizations with different funding and areas of responsibilities, varying degrees of capacities and capabilities and often representing diverging political and economic interests. The political elite and state bureaucracy comprise the *core state*. Relations between the two are intimate, but we consider their distinct analytical treatment important, considering their specific roles of mediating social interests and translating them into political programs and strategies on the one hand, while the bureaucracy is largely concerned with the implementation and management of programs and policies on the other hand.

The *civil society* consists of a variety of organizations that represent different and often class-based interests of social forces. The **capitalist class** and related interest organizations, thirdly, can be divided in different fractions depending on how they derive their income (e.g. industrial, rentier, merchant, financial capitalists), if they are bound nationally or act transnationally, and whether they operate in the formal or informal sector of the economy. These fractions of capital have certain interests that may be aligned in certain areas or diverge. Hence, the power constellations among these different fractions is important in assessing potential interest in, support for and opposition to industrial policies. **Other civil society organizations**, fourthly, include a range of actors – in particular trade unions and other workers' representations, farmers and their organizations, NGOs in diverse areas, churches and other faith-based groups, academia and the media. The role of trade unions is controversially assessed in the literature. While part of the literature argues that the weakness of trade unions has been instrumental to the late industrialization of East Asian countries (cf. Johnson 1985; Amsden 1989), the neo-corporatist literature that emerged in the context of a variety of Western core countries considers organized labor, both in its role as recognized counterpart to capital and its inclusion into policy processes as conducive to industrialization and economic development (cf. Katzenstein 1985; Schmitter/Lehmbruch 1979).

In addition to national stakeholders, fifthly, in contemporary capitalism **international actors and organizations** play an important role for an industrialization project, including inter-governmental organizations like the World Trade Organization, the World Bank, the International Monetary Fund, bilateral or multilateral donors, as well as private international organizations, e.g. NGOs, standardization organizations like ISO, think-tanks, or philanthropic foundations. Donors have a crucial role in developing country policy-making, given the lack of domestic public revenues and technical capacities. Recently their role in funding and advising on industrial policy has increased again. Donors have their own agendas, their experience and what they see as effective policy-making. Similar applies to other international organizations. While they provide technical advice and support capacity-building, organizations like the WTO may limit the policy-space of developing country governments by providing a framework of international law and regulations, which needs to be honored by developing country governments. In addition, they are also often protagonists of particular ideas and principles for policy-making, which need to be contemplated by developing country governments.

⁴ Poulantzas (2002) conceptualizes the state as a material condensation of a relationship of force; Offe (1980), in contrast, argues that state institutions may also have a relative autonomous rationality.

Actors that have material interests in certain industrial policies, in particular industrial capitalists, the political elite or others, will therefore try to push for these policies. The national interests that promotes developmental policies can thus be articulated by different patterns of social relations (Wylde 2017: 215). In any case, to be able to enforce their interests, actors in favor of industrial policy need to have the capacity to influence state power in this way. The interests of one social group may, however, go against the interests of other groups that do not favor industrial policy, e.g. merchant or rentier capitalists, or clientelist networks that rely on unproductive rents from e.g. commodity extraction (cf. Evans 1995; Khan 2000b, 2018b). Industrial policy-making hence is subject to social struggle and depends on power constellations among social forces with different interests towards industrial development and policy.

3.2. Strategic selectivity and hegemony: challenges in the global periphery

Whether or not different social forces and actors are able to enforce their (material) interest is best analyzed by a strategic-relational approach, which draws on the idea that the state is a social relation and highlights the dialectical relation between structure and agency (Jessop 1990, 1999, 2016). The approach seeks to examine how a given state structure privileges some social forces, actors and strategies over others, and in how far social forces act strategically in a given state structure. The state is thus characterized by a pattern of strategic selectivity that reflects and modifies the balance of social forces, and, in other words, delineates which interests, strategies and policies can be enforced in a given context (Jessop 1999: 50ff.). Institutions, from this perspective, never exist outside of specific action contexts, but in terms of their structurally inscribed strategic selectivity, they select behavior and privilege certain policies – and thus social interests – over others (Jessop 2001: 1226).

Although state power relies on coercion for the enforcement of its fundamental norms and regulations, the legitimacy and thus stability of political rule ultimately rests upon elements of consent or hegemony. This is particularly true for political governance that aims at social inclusion. Hegemony is a set of beliefs, values and social and cultural norms that are accepted by a majority of the citizens as legitimate principles of society underpinned by material compromises (e.g. labor, social and distribution policies) (cf. Gramsci 2011b: §88). Hence, hegemony has a material and non-material component with the latter being reflected in cultural practices and normative principles that are shared by a majority of citizens and thus define the general public interest. The establishment of hegemony in turn fosters social cohesion and provides the ‘order of discourse’ (Foucault 1971), i.e. delineates the space for rational political debate. A project aiming at political, intellectual and moral leadership can be defined as a hegemonic project (Jessop 1983: 100). Not only the core state, but particularly civil society plays a central role in the struggle for hegemony between different hegemonic projects in a political society. The particular forms of inclusion of social actors in any process of industrial policy is thus an issue of particular concern for industrial policy-makers, an issue taken up in section 3.3. below.

Even though there have been many examples of varying models of late-industrialization in the (semi-)periphery in different historical and (global) political economic contexts (Komlosy 2012), the emergence, effectiveness and sustainability of industrialization projects in the global periphery can be regarded as particularly challenging given the specific patterns of strategic selectivity in peripheral states’ (cf. Becker 2008). First, many peripheral economies in SSA are characterized by primitive accumulation, which Marx defines as “[...] the historical process of divorcing the producer from the means of production” (1909 [1867]: 786). For Khan (2004: 97), “[p]rimitive accumulation refers to the *non-market* transfer of assets from non-capitalist classes to pre-capitalist classes who may become capitalists over time” (*emphasis in the original*). This process, which often goes hand in hand with huge social costs, may result in the creation of an asset-owning and potentially productive capitalist class, but this must not necessarily be the

case. Many peripheral states in SSA are thus characterized by a lack of or weak (industrial) capitalist class, which is often not engaging in productive activities.

Primitive accumulation is closely connected to the peripheral societies' structural heterogeneity (Becker 2008; Evers 1977), which often results in a weak and disarticulated civil society, in particular in states with productive structures based upon resource exploitation, agriculture and commerce. The lack of a capitalist class, a fragmented political elite, distinct ethnic and religious identities, limited autonomy vis-à-vis foreign (capital) interests, a large urban population active in informal sector activities, and pockets of pre-capitalist economies (subsistence agriculture in particular) often characterize societies in the global periphery and explain why it is difficult to achieve hegemony and why coercion continues to play an important role in exercising power in the global periphery. Instead, at best limited hegemony has been achieved, including particular segments of society, not infrequently via clientelist practices, while excluding others (Becker 2008). The weak industrial base and class, and the limited access of industrial capitalists to state power, is thus the key constraint for the emergence and enforcement of (hegemonic) industrialization projects. The political elite and different fractions of capitalists (potentially including industrial capitalists), in addition, often have a preference towards clientelist networks or non-productive rents (cf. Khan 2000b, 2018b) instead of furthering productive investments in the context of the peripheral states' weak civil society. As a result, the overall 'rationality' of industrial policy institutions in the periphery is often severely constrained, hampering efforts to support industrialization processes.

Second, states in the global periphery are, by definition (cf. Wallerstein 2004), characterized by their historically grown subordinated integration in the (neoliberal) global political economy, which structurally limits their capacity to implement (comprehensive) industrialization projects. The main constraints in this regard are the structural import dependencies and associated chronic current account deficits, over-indebtedness and limited access to foreign exchange. In addition, the material basis of peripheral states, fiscal income, is also often dependent on multinational organizations and foreign (capital) interests that are often not aligned with industrialization projects, e.g. because debt-restructuring programs or the dependence on foreign aid opens the door for foreign political demands (cf. Becker 2008: 12ff.). Many peripheral states also continue to have weak administrative capacities because of their colonial past, which can limit their ability to implement and formulate demanding industrial policies.

3.3. Embedded autonomy and pockets of efficiency

Evans (1995) argues, as mentioned in the second section of this paper, that for industrial policy to be effective the state needs to dispose of embedded autonomy. The embeddedness of the state reflects a connection to particular social groups with whom the state shares a joint project of transformation, while the autonomy allows the state to act with some independence in relation to particularistic societal pressures (ibid. 59). There is a clear similarity to the neo-Marxist concept of relative autonomy (Jessop 2016; Offe 1980; Poulantzas 2002) as applied in the developmental regime approach (Wylde 2017). From a relative autonomy perspective, the state needs different degrees of autonomy vis-à-vis social forces opposing and supporting industrial policy, and a certain degree of autonomy needs to be sustained so that the industrial policies are not diluted.

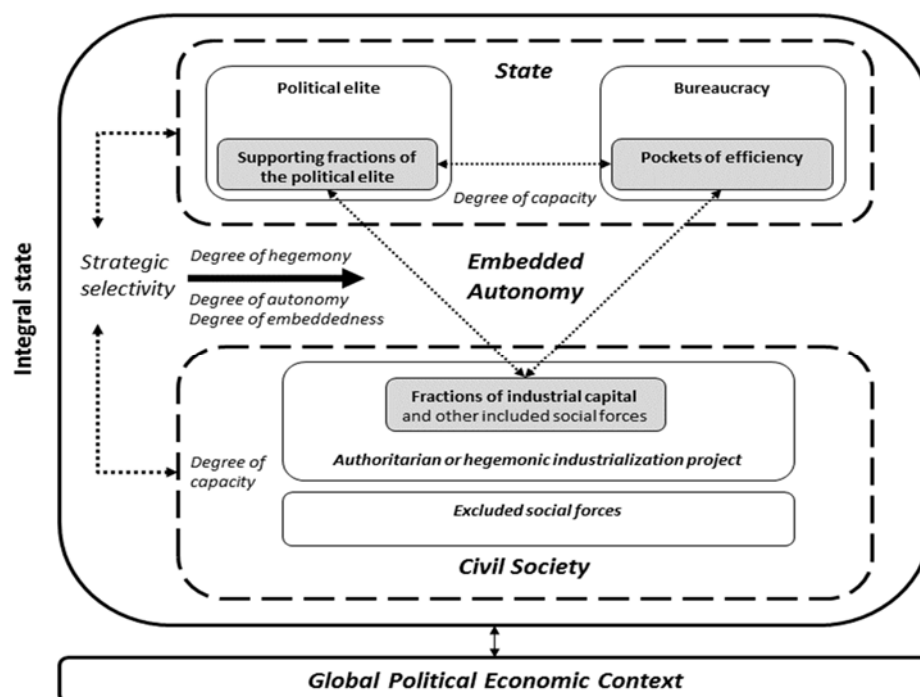
This paper interprets embedded autonomy as a specific case of strategic selectivity, indicating that the state has a certain *degree of capacity* to implement industrial policy effectively. For industrial policy to be effective, relevant fractions of the political elite and the state bureaucracy should not only be knowledgeable about the needs and interests of different civil society groups, and in particular the productivity constraints of targeted industries (*degree of embeddedness*), but also have sufficient and different *degrees of autonomy* vis-à-vis of supporting, opposing or specific clientelist social forces and the targeted fractions of capital (*degree of autonomy*).

Embedded autonomy is thus a situation, in which ‘functional’ degrees of autonomy vis-à-vis different social forces capacitate the state to design industrial policy in such a way that policy-generated rents (cf. Whitfield et al. 2015: 22) are linked to increases in productivity and upgrading. Besides, the social costs of industrial policy must be mediated between social groups so that overall support for industrial policy remains intact. Lack of autonomy vis-à-vis specific social forces, on the other hand, will negatively affect the capacity to implement industrial policy effectively, since industrial policies might become captured and diluted, and lack sufficiently broad support. In strictly economic terms, embedded autonomy materializes in a ‘functional’ management of rents (Khan 2000a), a carrots and sticks approach (Rodrik 2009), learning for productivity (Whitfield et al. 2015: 17ff.) and more (cf. Schneider/Maxfield 1997).

Although embedded autonomy is likely to include some coercive characteristics, we argue that a certain *degree of hegemony* is important for the long-term viability of effective industrial policy. More specifically, the strengthening of certain elements of a meritocratic culture in public administration, a social and political culture and day-to-day practices that value learning, rational debate and mutual respect for divergent political views, commitment to conflict-resolution via negotiated settlements, as well as the gradual pushing back of corruption and clientelism, are not only necessary with respect to the efficacy of industrial policy, but for its political legitimacy and social acceptance over the long run.

The emergence, sustainability and effectiveness of a comprehensive and potentially hegemonic industrialization project in the global periphery, however, is relatively unlikely given the often limited political support and institutional capacities for implementing industrial policy. Instead, experience shows that industrialization projects were often initiated through pockets of efficiency (cf. Daland 1981; Geddes 1990; Leonard 1991, 2010; Whitfield et al. 2015) that effectively implemented industrial policy. Pockets of efficiency are segments within the state apparatus that have, on the one hand, the necessary political support and autonomy vis-à-vis opposing or specific clientelist political forces, and, on the other hand, the requisite autonomy and embeddedness vis-à-vis civil society and targeted fractions of capital as well as strong capacities and capabilities in conducting industrial policy. Bureaucrats in these pockets are often highly qualified and incentivized (“meritocratic culture”) to support industrialization projects and implement industrial policies effectively, which does not necessarily imply that patron-client networks are absent. If successful, and depending on the relative power of social forces in favour of industrialization projects, pockets of efficiency may be the starting point to broaden a selective industrial policy project towards a more comprehensive approach. Figure 1 provides a graphical illustration of the conceptual framework outlined in this section.

Figure 1: State society-relations and their articulation



Source: own elaboration.

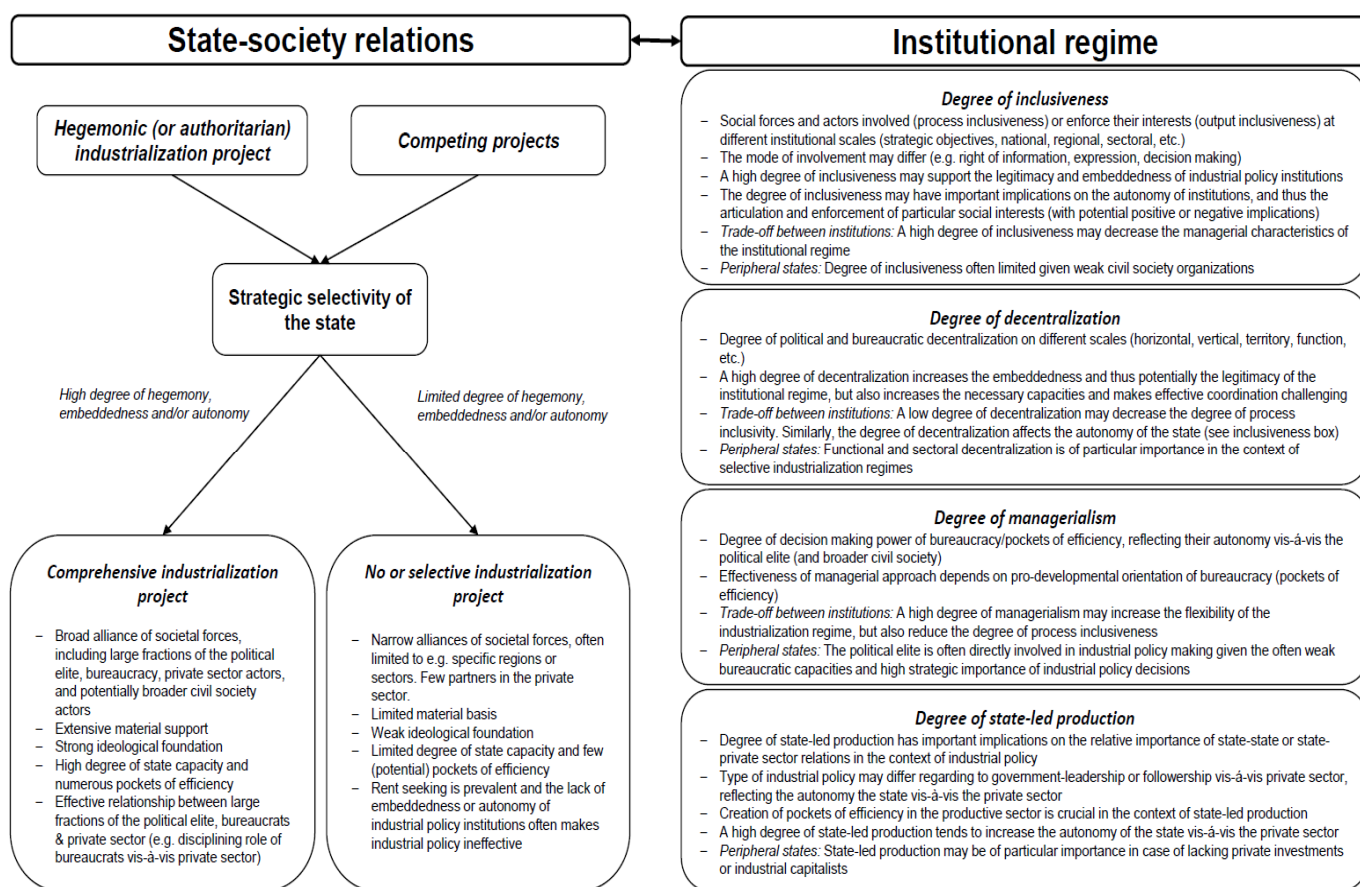
4. Operationalizing inclusive industrial policy institutions in the global periphery

After discussing the actors and their articulation and the possibilities for a comprehensive or selective industrial policy project, we now turn to further operationalize the inclusiveness of industrial policy institutions in the context of peripheral states. The operationalization exercise is policy relevant, because it more clearly highlights crucial questions that specific social forces (and related policy-makers) reflect upon when they try to enforce or block industrial policy institutions.

From a pro-developmental policy perspective, i.e. social forces that support a specific industrialization project, the crucial question thus is how the relevant institutions in the global periphery should be designed in order to implement industrial policy effectively. More specifically, the key institutional questions to implement an industrialization project are: Which social actors and actors' interests should be included in which way? How should the political and administrative authority be structured and on what principles should it function? Which actors have (or could have) the interest, capacity and capability to engage in production activities to promote industrialization? Since institutions reflect political-economic relations, and, as we have argued, institutions do not matter outside of specific action contexts, we will adopt a strategic policy perspective when we reflect on different 'institutional design options' and their trade-offs in the context of the global periphery, thereby offering alternative perspectives on institutional setups. Since the specific country contexts and the strategic selectivity of peripheral states differ, there cannot be a one-size-fits-all option. Instead, and based upon the key institutional questions posed above, we identify and then discuss the following four key institutional dimensions: (i) the degree of inclusiveness of industrial policy institutions, which captures the implications of inclusiveness of industrial policy institutions vis-à-vis different social actors within the integral state. (ii) the degree of decentralization, which highlights different

decentralization dimensions and their implications, (ii) the degree of managerialism in the public administration, which discusses the relationship between the political elite and the bureaucracy, and (iii) the degree of state-led production, which highlights the potential different emphasis on private sector- and state-led production in industrialization processes. Figure 2 presents a summary of our operationalized framework and highlights that the analysis, development or enforcement of industrial policy institutions for specific country contexts has to take into account that every institutional setup has strengths and weaknesses and thus faces various trade-offs. From a policy perspective, the recognition and pro-active management of these trade-offs and challenges is an important task, and has the potential to reduce negative effects arising from particular setups in specific political, economic and social relations.

Figure 2: State-society relations, comprehensiveness of industrial policy approach and institutional setup



Source: Own elaboration

4.1. Institutional setup dimensions and their trade-offs

(i) Degree of inclusiveness

A fundamental concern of any industrial policy setup is its degree of inclusiveness vis-à-vis different social forces and actors. The character of inclusiveness can take many different forms. In general, we can distinguish (cf. Rocha Menocal 2017) between different degrees of process and outcome inclusivity. Process inclusivity can be divided into horizontal (inclusion of actors at a similar hierarchy level) and vertical inclusivity (e.g. inclusion of broader civil society groups).

The scope of inclusiveness will refer to political parties, government agencies, and various civil society groups as elaborated in section 3.1.

Process inclusivity refers to the extent to which specific social forces are included in decision-making processes. In this context, a key question is whether or not included social forces have decision-making powers, that is, how the state's political and bureaucratic authority is divided, which is closely related to the question of political and bureaucratic decentralization as well as degree of managerialism as discussed in the next chapters. Outcome inclusivity, on the other hand, refers to the extent specific social forces' interests are reflected in industrial policies and outcomes.⁵

A high degree of process inclusiveness, in particular vertical process inclusivity, is likely to increase the legitimacy, and thus hegemony, as well as the embeddedness of an industrialization project and industrial policy institutions. Such a project will aim to include the interests of a wide range of social groups, including broader civil society actors, and thus must include institutionalized mechanisms that enable different social actors and groups to articulate and negotiate their interests. Process inclusivity can support the legitimization and the embeddedness of an institutional setup, because it gives included social groups ownership and is likely – assuming that included actors not only articulate their interests, but are also able to shape the policy outcome – to lead to a higher degree of outcome inclusivity and reduce negative externalities often affecting weaker and excluded social groups. An inclusive, and potentially hegemonic, industrialization regime could thus be the basis to secure that industrial policy is undergoing checks and balances and does not develop into an elite project with limited output inclusiveness or be taken over by corruption.

The key problem of inclusive institutional setup, however, is that inclusiveness could reduce the necessary autonomy of state institutions from social forces that oppose industrial policies. This is particularly problematic in states with a weak industrial class, which is often the case in the global periphery. Since a higher degree of inclusiveness also needs more time and finance, there could be further trade-offs with regard to the flexibility and resource intensiveness of decision-making processes in the context of limited capacities.

Various core and semi-peripheral countries such as Austria, Sweden, Norway and – during neo-developmentalism in the 2000s to a certain degree (Kupfer et al. 2013: 330) – Brazil are examples with more inclusive industrialization regimes that incorporated trade unions and employers' associations, which have played central roles in policy formulation within a corporatist tripartite structure (Chang 2003: 63ff.). This requires that centralized trade unions and business associations exist, that they represent a large share of and are respected by workers and the business sector, respectively, and that there are institutions and processes in place that enable debates, mediation and decision-making processes. Process-inclusivity in high-level industrial policy institutions in the global periphery, however, is rare and more often achieved at lower-level or more decentralized institutions (e.g., agencies supporting sector specific or regional development) (e.g., see Khan 2018a; Evans 1995; Oqubay 2015; Whitfield et al. 2015 for examples of industrial policy institutions on various levels and peripheral contexts).

A lower degree of process inclusivity, on the other hand, is likely to decrease the autonomy vis-à-vis included social groups and increase autonomy vis-à-vis excluded social groups and broader civil society actors. The key question is, thus, which social forces' interests materialize in the industrial policies, and which interests are marginalized. Process exclusivity is more prone to be captured by particular interests and non-productive clientelism, and thus decrease the overall embeddedness and legitimacy of an industrialization regime. But process exclusivity in a pro-developmental context could also lead to a higher degree of flexibility and speed-up

⁵ Within our framework, output inclusivity is conceptually closely related to a lack of autonomy vis-à-vis included social forces.

decision making-processes, as is the case for example in China, with all its positive (e.g. rapid industrialization) and negative effects (e.g. environmental damage, increasing income inequality, etc.).

For instance, in the catch-up development of Japan, Korea and Taiwan, achieving process inclusivity was not a predominant factor in the industrial policy regime. Instead, a small circle of experts within the bureaucracy was able to gain a dominant role in influencing the industrial policy design and the development path of their respective countries (ibid.). This in turn made industrial policies also effective as this dominant group could push through policies and reforms that may not have been possible in a more democratic context. The limited process inclusivity and some degree of outcome inclusivity in early phases was to some extent caused by the lack of a powerful civil society as a potential stakeholder in the context of authoritarian states. Only with the development of a more diversified and well-organized civil society, process inclusivity became more important. If in such situations policy-makers do not respond to demands for more inclusion, chances for contestation of the industrialization project are high, particularly in phases when output legitimacy tends to decline. The situation in Korea in the 1980s is a case in point (Amsden 1989).

In sum, a higher degree of (institutionalized) process inclusivity is likely to support the embeddedness and hegemony of an industrialization regime, but whether or not the inclusion undermines the autonomy of the state depends on the specific social actors included in specific institutions. While it is certainly pertinent that a high degree of inclusivity must not come at the expense of the necessary autonomy, we would maintain that the higher danger for many peripheral countries is state capture by particularistic social interests in a situation of process exclusivity. The real problem in peripheral contexts often is the lack of a pluralist and articulate civil society. From a policy perspective in these circumstances, the promotion of civil society organizations, both in the corporate sector and beyond, acquires particular significance.

(ii) Degree of decentralization

A key question related to the embedded autonomy of industrial policy institutions is their degree of (de-)centralization. On the political and bureaucratic level, the degree of decentralization can take different forms. There are many different types, mechanism and locations of decentralization (Pollitt 2005): (i) political and bureaucratic decentralization (division of political and administrative authority); (ii) the division of authority along different lines, such as territory, function, target groups (e.g. ethnicity, patron-client networks, capability), etc.; (iii) the location of division: external or internal decentralization (outside or within an organization); (iv) two types of internal decentralization: horizontal or vertical decentralization; (v) and non-competitive (allocation) as well as competitive (e.g. tender) mechanisms of decentralization. In the following, we will discuss selected key strategic aspects of decentralization.

The degree of horizontal, vertical, functional or territorial bureaucratic decentralization are important dimensions of industrial policy institutions that are related to trade-offs regarding the inclusiveness, resource intensiveness and flexibility of an institutional setup (cf. Pollitt 2005: 377ff.). A key benefit of a vertically/horizontally centralized bureaucracy, which often emerges as a result of a high degree of political centralization (cf. Bardhan 2016: 874ff.), is its low resource intensiveness, since centralization enables organizations to benefit from economies of scale and allows for tighter financial control. Furthermore, centralization might enable organizations to retain a critical mass of experts to obtain and process the available information. Centralization also makes the coordination of policies and programs less challenging, potentially benefitting a holistic approach to industrial policy. Similar arguments apply for political and bureaucratic centralization on the sub-national and territorial dimension, that is, in how far authority is parceled out from larger territorial units to smaller ones. The major drawback of a highly centralized bureaucracy, on the other hand, is that it may go hand in hand with a lack of process inclusivity or embeddedness, potentially limiting the legitimacy and effectiveness of

industrialization projects. Historically, most authoritarian developmental states of the 20th century with a comprehensive industrialization strategy were characterized by highly centralized industrial policy institutions, which is why these types of pockets of efficiency or pilot agencies (such as the Ministry of International Trade and Industry in Japan, or the Economic Planning Board in South Korea) are often associated with catch-up development (cf. Evans 1995; Johnson 1987).

The key benefit of bureaucratic decentralization along the above mentioned dimensions is that it has the potential to increase the embeddedness of industrial policy institutions, since it takes decision makers (or advisors) closer to the recipients and enables them to have more detailed knowledge about specific sectors, regions, externalities and more. As such, a higher degree of decentralization can also go hand in hand with a higher degree of process and output inclusiveness, and thus legitimacy of industrialization processes. Territorial decentralization may be of particular importance in peripheral countries, e.g. due to regional heterogeneity and different socio-economic contexts, or conflicts along ethnic lines and territories. One of the main problems of bureaucratic decentralization, on the other hand, is the need for larger capacities and coordination of policies, since the alignment of different institutions must be ensured, which is particularly challenging in the (semi-)periphery. Political decentralization, in addition, often goes hand in hand with bureaucratic decentralization, and it has been argued that a higher degree of political decentralization increases the local accountability of policies in the context of democratic rule, potentially increasing the degree of outcome inclusivity since ruling politicians are driven by electoral sanctions on the local level as well (cf. Bardhan 2016: 874ff.). Bardhan (2016), however, shows that the empirical literature suggests that decentralized governance is prone to local capture by collusive elites.

Functional decentralization is of particular importance in the context of industrial policy institutions, but the functional differentiation highly depends on the respective policy goals. The developmental state and related literature highlights a variety of potentially important functionally decentralized institutions in addition to the centralized 'pilot agencies'. Development banks, for example, play a particular crucial role in mobilizing and allocating financial resources to strategic economic activities and sectors (Amsden 1989; Diamond 1957). Sector specific industrial policy institutions, in addition, are crucial to implement selective industrial policy that focus on supporting strategic sectors (e.g. Oqubay 2015; Whitfield et al. 2015). Depending on the policy goals of industrial policy, a variety of institutions like export promotion agencies, investment or industrial zone commissions and more may also play important roles. Institutions that ensure a certain degree of inclusiveness (e.g. a tripartite-system) may also be captured within this framework.

In the global (semi-)periphery, a high degree of decentralization in the context of comprehensive industrialization regimes are relatively rare and particularly challenging given peripheral states' limited state capacities. The high degree of bureaucratic decentralization of Brazil's comprehensive institutional regime during the period of neo-developmentalism, for example, resulted in a certain cacophony of decision making, because the policies of different government agencies were not aligned (Schapiro 2013: 35ff.). In the case of Brazil, the high degree of vertical decentralization in the context of limited capacities also led to the inclusion of bureaucrats that were not specialized in industrial policy (ibid. 36). Instead, historically grown pockets of efficiency like the Brazilian development bank (cf. Willis 2014) were important drivers of development and industrialization in the context of a decentralized industrialization regime as well. Similarly, pockets of efficiency at vertically higher institutional-levels characterize the comprehensive industrialization regime of Ethiopia, but lower-level industrial policy institutions often suffer from limited capacities, coordination and autonomy vis-à-vis the private sector (cf. Grumiller 2019; Oqubay 2015: 275f.).

Instead, as has been indicated in the previous section and given the strategic selectivity and limited capacity of peripheral states', effective industrial policy in the global periphery is

particularly associated with some degree of functional decentralization and the emergence of function-specific industrial policy institutions that can be characterized as pockets of efficiency. In Sub-Saharan Africa, for example, comprehensive industrialization regimes only rarely developed, but selective industrial policy was nonetheless often successful in cases where function-specific pockets of efficiency emerged (e.g. the support of a specific economic sectors) (Whitfield et al. 2015).

Decentralization processes also need to be understood from a strategic viewpoint since they reflect and affect power relations. Regional decentralization, for example, likely reflects the regional power basis of specific social forces and may be a cause of conflict. Another example is the case of internal and external bureaucratic decentralization, that is, in how far the authority to conduct specific functions of industrial policy is distributed to external 'non-state' organizations. A stronger role of external organizations in implementing industrial policies is often supported to increase the efficiency of policy-making in case state-capacities are weak, or to reduce direct influence of state actors. External decentralization might for example be a strategy of the political elite to bypass a corrupt bureaucracy (or vice versa), thus increasing the state's degree of autonomy. On the other hand, external decentralization might be a strategy for the corporate sector to increase its influence on industrial policy, causing the state to lose autonomy. There might also be further trade-offs in terms of inclusiveness as discussed in the previous chapter.

In sum, a higher degree of decentralization is likely to support the embeddedness and legitimacy of an industrialization project, but the key question is whether or not the decentralization process undermines the necessary autonomy of the state in case it provides the entry point for non-productive clientelist or opposing social forces. A higher degree of decentralization along the different dimensions should thus only be pursued as long as the necessary autonomy and policy coherence can be sustained or achieved, which are particular challenges in peripheral states. In addition, the initial focus in peripheral contexts often will be on functional or territorial decentralization and the establishment of pockets of efficiency that support specific, for example sectoral or regional, industrial policy goals. The question of broader decentralization thus only gains in importance when a more comprehensive industrialization project has emerged. A key challenge for highly decentralized comprehensive industrialization projects will be to establish effective coordination mechanisms with the national level in order to establish policy coherence and align industrial policies in order to avoid a decision-making cacophony.

(iii) Degree of Managerialism

A key interrelated question that affects the embedded autonomy and inclusiveness of industrial policy institutions is how the authority between the political elite and the bureaucracy is divided. In general, the goal of pro-developmental social forces should be to establish and protect relatively autonomous pockets of efficiency, but they require – assuming specific developmental goals – a pro-developmental bureaucracy that is supported by pro-developmental fractions of the political elite and civil society. In this context, a key question is how much discrete decision-making power the bureaucracy should have – reflecting the autonomy of the specific bureaucratic industrial policy institutions vis-à-vis the political elite, other bureaucratic institutions and civil society. The implications of their relative autonomy on the effectiveness of industrial policy, in turn, depends on their developmental-orientation.

We define a higher degree of bureaucratic decision-making power – reflecting a higher degree of autonomy vis-à-vis the political elite – as the managerial approach⁶ to industrial policy. The emergence of pockets of efficiency are a prerequisite for a managerial approach to be successful. In this case, bureaucrats are in a position to manage industrial policies in a more

⁶ It is important to note that this conceptualization of 'managerialism' differs from the New Public Management literature that seeks to decrease the role of government and the state bureaucracy (cf. Meier/Hill 2005).

flexible manner as they have more autonomy to adapt instruments according to changes in circumstances, emerging challenges, new insights or the needs of recipients. The political elite only provides the general framework, objectives and targets for industrial policy, while bureaucrats have the decision-making power to make and implement changes necessary to reach these goals. Even though a managerial approach allows for more flexible policy-making, it also – depending on the frameworks' degree and institutionalization of process inclusivity – may leave limited time and processes for inclusive and democratic consultation and discussions on such changes, indicating a potential trade-off between flexibility and process inclusiveness.

A lower degree of decision-making power of the bureaucracy, which we define as the rule-based approach, on the other hand, generally reduces the adaptability of instruments and institutions. The bureaucracy needs to consult and negotiate with the political elite before implementing changes, limiting the flexibility and potentially also the effectiveness of industrial policy institutions. Depending on the degree of process inclusivity, various civil society groups may also be in- or excluded in these processes. A rule-based approach may thus be an important strategy of specific fractions of the political elite or social actors to reduce the autonomy of the bureaucracy, which may have different implications on the effectiveness of industrial policy depending on the respective fractions' developmental-orientation.

Historical experience suggests that political leaders in peripheral late-industrializer countries' were often directly involved in industrial policy-making in the context of pilot-agencies, thus ensuring flexible adaptations to changing circumstances as well as strong political control over high-level industrial policy decisions that often have strategic importance and distributional implications (Evans 1995; Wade 1990; Lubeck 1992). In the long-term, the strong-dependence of industrial policy institutions on political leaders may however limit the sustainability of developmental institutions, since they lack institutionalized autonomy that could shield them from non-developmental fractions that may come into power in the future. The often-cited pilot-agencies in East Asian developmental states were examples of industrial policy institutions with a particularly strong involvement of the ruling political elite in 'day-to-day' decision-making processes (ibid.), but the long-term developmental-orientation was often ensured in the context of authoritarian rule.

In sum, the promotion of pockets of efficiency in the global periphery should be at the heart of pro-developmental social actors, but the question of how much discrete decision-making power should rest within these pockets remains. The effectiveness of a managerial approach towards industrial policy institutions thus strongly depends on the power relations and hegemony towards specific developmental projects within the state apparatus, i.e. whether fractions within the political elite or bureaucracy support or undermine the effectiveness of these pockets.

(iv) Degree of state-led production

The productive sector of a country can be more state- or private sector-led. Industrial policy targeting the private sector, generally seeks to incentivize capitalists to invest in new and potentially rewarding economic activities in the context of limited investments and financial constraints due to high risk exposure. In this context, the emergence of a joint project towards transformation between pro-developmental fractions of the state and capitalists – albeit maintaining a certain degree of autonomy – is of crucial importance (embedded autonomy).

Wade (2009) distinguishes between two ideal types of government interventions: government followership aims to enhance the activities of the market whereas government leadership seeks to change the activities of firms in different directions, for example in the case of comparative advantage-defying strategies (cf. Lin/Chang 2009). Government leadership thus requires a larger degree of state autonomy vis-à-vis capitalists. The interventions focus on the overall conditions for private firms to be productive and innovative and can take a variety of forms that are generally classified into general/horizontal policies versus selective policies. They may thus include a mix of general and industry-specific infrastructure, subsidizing the costs for education,

research and development and other investments, creating networks, protecting infant industries, providing finance, and more (Chang 2003).

The state can, however, also take on a more protagonistic role in the industrialization process, in particular in the form of state-owned enterprises (SOEs), instead of relying exclusively on private capital. SOEs can be highly inefficient, but we argue that there is no a-priori reason why this should be the case. Historically, there have been examples of countries with a dynamic and competitive SOE sectors, shaping the industrialization process of a country (Chang 2003: 199ff.). In an industrialization regime with a higher degree of state-led production, 'the state' must not rely on the individual decisions of private firms to invest in new technologies or sectors, but has the potential to steer the industrialization process more directly.

Chang (2003, 2007: 8ff.) highlights four key 'justifications' for SOEs: First, natural monopolies in specific industries in which technological conditions dictate that there can be only one supplier, potentially leading to high monopoly profits and decreased output without proper regulations and/or regulated SOEs. Second, capital market failure, that is, a situation in which capitalists do not finance or invest in high risk industries with high potential returns in the long-run due to the financial markets bias towards short-termism. In such a situation, a government-run development bank could finance risky long-term projects to support capable and interested capitalists. Third, the creation of externalities and spillovers, for example by investing in industries that benefit other industries (e.g. basic inputs industries) and the provision of inputs or services below market prices. Fourth, SOEs can address broader social needs since they do not have to be exclusively profit-oriented, and, as such, can play an important role in the context of more output inclusive industrialization regimes. In addition, we argue that a stronger emphasis on state-led production maybe a strategy of pro-developmental fractions within civil society or the political elite to achieve certain developmental goals in case a joint project for transformation with capitalists is not achievable in a specific political economic context.

Industrialization processes that put a stronger emphasis on state-led production highly depend on the emergence of pockets of efficiency in the productive sector. In most cases, the key question is how state-state relations allow SOEs to be efficient or competitive vis-à-vis private firms. The main challenge in this regard is that SOEs and their managers have often very close relationships to the political and bureaucratic elite, potentially paving the way for rent-seeking behavior. This is particularly problematic in case managers are not obliged (e.g. because they are not listed on the stock market) to report their financial activities, leading to an asymmetry of information between SOE managers, controlling authorities and the ruling elite (cf. Nem Singh/Chen 2018: 1081f.). Thus, in order to secure the efficiency of SOEs, there is a need for transparency and proper controlling mechanisms.

Nem Singh and Chen (2018) differentiate between four types of corporate governance along the degree of decentralization (centralized/decentralized supervision) and ownership (minority/majority shareholder). With regard to the degree of decentralization, this typology differentiates between a centralized government agency or holding company in charge of monitoring and evaluation; or a decentralized governance system in which managers have more control over reporting and the pursuit of multiple objectives. In a majority shareholder structure, the government retains control over asset management and decision-making powers. In a minority shareholder structure, private actors gain control over the management and decision-making processes, even though their influence can be reduced by issuing golden shares. We argue that this typology needs to be extended by the degree of inclusiveness, for example with regard to process inclusiveness, in how far specific social forces such as labor unions are represented in the corporate boards of directors.

In sum, we argue that industrialization processes may be furthered by different degrees of state- or private sector-led production. Industrialization projects that focus on transforming the private sector require embedded autonomy between the state and capitalists, and in particular government leadership policies require a comparatively high degree of state autonomy vis-à-

vis industrial capitalists. Industrialization processes that put a stronger emphasis on state-led production require the emergence of pockets of efficiency in the state's productive sector. In both instances, broader civil society actors may be more or less included in the industrialization processes. A high degree of state-led production, however, has important implications on the broader political economy of the state, since it is likely to increase the relative autonomy of the state vis-à-vis the private sector.

5. Conclusions

In recent years, political and scholarly debates on the potentials and constraints of inclusive and sustainable development in the global periphery intensified. This paper argued that discussion on the effectiveness, inclusiveness and sustainability of development need to take the political economic contexts of specific peripheral countries into account. We have highlighted that the more recent literature on the developmental state provides valuable insights to this end, but that it needs both (i) further conceptual extension, in particular with respect to the role of social inclusion and hegemony, and (ii) operationalization in order to be useful from a policy perspective.

Based on the conceptual framework developed in this paper, we argue that the peripheral states' strategic selectivity often severely limits the emergence of comprehensive industrialization regimes that have extensive elements of embedded autonomy and hegemony. Instead, pro-developmental social forces are likely to be more successful in promoting selective industrialization projects in peripheral contexts. Notwithstanding the comprehensiveness of industrialization regimes, we propose to operationalize industrial policy institutions with regard to their degree of inclusiveness, decentralization, managerialism and state-led production. This may appear to be generic, however, we explicitly conceptualized the variety of different ways actors and actors' interests may be in- or excluded at different scales of industrial policy institutions. In doing so, we have moved the comparatively abstract discussion on strategic selectivity, capacity, embedded autonomy, hegemony and pockets of efficiency to a more concrete level, highlighting potential trade-offs within and between these institutional dimensions, thus increasing the policy relevancy of the debate. Based on this differentiation, a variety of different institutional setups with their respective strengths and weaknesses are thinkable. Combining the analysis of peripheral states' strategic selectivity with the operationalized institutional dimensions of industrial policy nonetheless highlights why the emergence of inclusive and sustainable industrialization trajectories in peripheral states' continue to be challenging.

From a strategic policy perspective, however, the exclusive nature of bureaucratic-authoritarian industrialization regimes of the 20th century (cf. Chibber 2005; Cumings 1999) needs to be avoided in latecomer industrialization processes of the 21st century, which is why the support of pro-developmental civil society and hegemony towards inclusive development processes continuous to be of crucial importance in peripheral country contexts. The management of the institutional setup and respective trade-offs, in addition, will involve learning-by-doing, constant monitoring and continuous adaptation. For, as argued by Rodrik (2007) and others, industrial policy-making is at least as much of an art as is it a science.

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