

Comments on *Can Industrial Policy Overcome Coordination Failure? Theory and Evidence*

Zhiyuan Chen

School of Business, Renmin University of China

@CETW December 9, 2025

Summary

- A solid and comprehensive study on the **role of industrial policy** in overcoming **coordination failures**.
- A classical economics problem with many theoretical studies but limited empirical study
- The paper combines theoretical modeling, econometric theory + math tools, and empirical analysis:
 1. Multi-equilibria with possible coordination failures in models with externalities
 2. A method of identifying ALL the possible equilibria and assigning equilibrium types (continuous vs. jumps)
 3. A quantitative framework that can be applied to the real-world scenarios of industrial policy design and evaluation
 4. An empirical analysis of India's industrial zones with meaningful numbers and policy implications
- Overall, a **seminal** paper with **clear motivation**, **solid theoretical modeling**, **rigorous econometric methods**, and **meaningful empirical analysis**.

What I Like About This Paper

- History cannot be rewritten with hypothetical scenarios (counterfactuals), but we can draw lessons from it by using realized facts.
- Challenges the conventional opinion that **industrial policy does not work** by providing empirical evidence from India's industrial zones.
- A **Mind-Changing** paper that contributes to applying quantitative/structural methods to policy analysis:
 1. Limited modelling assumptions
 2. A rigorous framework to identify and classify equilibria: researcher's pick → data-driven
 3. Suitable for fundamental (big) policy change

What Can Be Done?

- A cost-benefit analysis of industrial policies considering alternatives: Corruption? Resource wasting?
- Innovation problem: resource allocation vs. resource creation?
- Ex-post evaluation vs. Ex-ante prediction ?
- Many application scenarios in China: science and technology, innovation policy, high-tech zones, etc.
- The future of policy evaluation lies in **structural/quantitative methods** that combine **theory, econometrics/AI**, and **data**

The State-of-the-Art Policy Evaluation: Project Iceberg

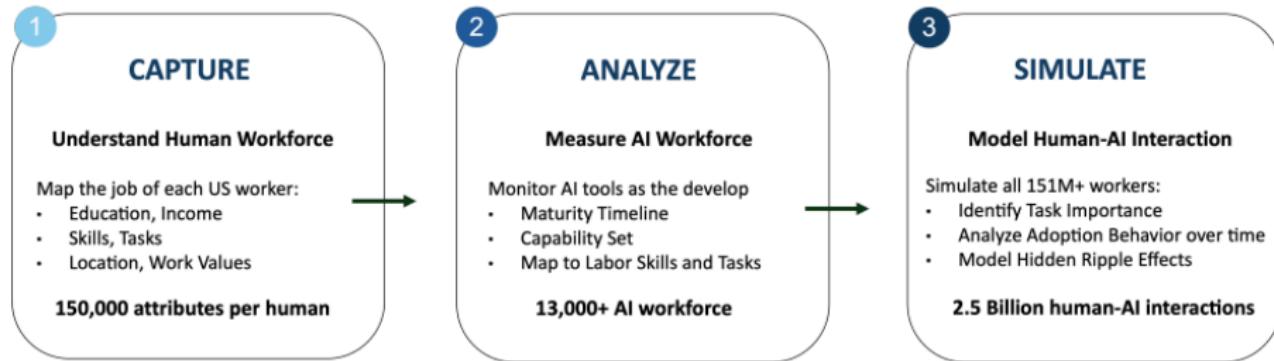


Figure 2. Project Iceberg prepares states for the AI economy. First platform to simulate human-AI workforce interactions at national scale, enabling policymakers to assess technical exposure, test workforce strategies, and target investments before committing billions to implementation.

- **Large Population Models** to simulate the human-AI labor market, representing 151 million workers as autonomous agents executing over 32,000 skills across 3,000 counties and interacting with thousands of AI tools.