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The return of the visible hand

Social dialogue and the making of 21st-century industrial policy

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Abstract

Industrial policy has returned amid geopolitical rivalry, supply-chain fragility, and contemporary grand transitions, but its performance hinges less on ideology than on governance and design. By examining three comparative cases (Germany, Republic of Korea, South Africa), this paper argues that structured social dialogue improves targeting, monitoring, and legitimacy. The mechanism reduces information asymmetries, aligns incentives via reciprocal accountability, and anchors commitments beyond political cycles, reducing capture and execution risk. For these potentials to be realized several conditions are crucial: institutional permanence; social partners that possess both capacity and legitimacy: and patient and pragmatic engagement by stakeholders.

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Acronyms

AFC	Asian Financial Crisis
AFI	Alliance for the Future of Industry
AFL-CIO	American Federation of Labor□Congress of Industrial Organizations
COSATU	Congress of South African Trade Unions
DTIC	Department of Trade, Industry and Competition
GFC	Global Financial Crisis
GJCM	Gwangju Job Creation Model
ILO	International Labour Office
ISI	Import Substitution Industrialization
MBRJCI	Mutually Beneficial Regional Job Creation Initiatives
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
R&D	Research and Development
RCFTL	Retail-Clothing, Textile, Footwear and Leather

▶ Introduction

Few topics have been more discussed in economics than the determinants of economic growth, structural transformation, and the role of the state in a market economy. Industrial policy is intertwined with all three. It is a controversial topic in which views diverge. In theory, industrial policies either distort efficient market outcomes, or they improve them, depending on one's view on the ideal role of the state in the economy. In practice, industrial policies have both succeeded and failed. What is certain is that there is presently a resurgent interest in industrial policy.

The resurgence is most surprising since there is an impressive record of failure of industrial policies. Some governments have "picked losers" rather than winners, while others have allowed rent-seeking self-interest to "capture" government resources. Furthermore, even when industrial policies work as they are supposed to, there are a range of questions concerning fairness to be considered. Is free trade fair trade if exports receive government support? How far can a government go to protect domestic industries from competition? When does temporary support become life support for uncompetitive firms? And, since wealthy countries can afford to spend more shoring up their markets than poorer countries, does industrial policy frustrate development efforts and entrench between-country inequality?

Despite these lingering questions, the astonishing speed with which some countries, such as those in East Asia during the late 20th century—using industrial policies—were able to accelerate economic growth and increase standards of living is often seen an endorsement of industrial policy. Proponents of industrial policy thus argue that a more active approach to economic development yields better results than the free market because markets sometimes fail, and such failures can be fixed. Others, including Juhász, Lane and Rodrik (2024), argue that this binary debate between proponents and detractors is flawed, because all countries have used the visible hand of the state to assist the invisible hand of the market at one point or another. For these observers, the real issues concern what kinds of policy support work best and how governments can best deliver it. As Rodrik (2008) notes: "most governments do carry out various forms of industrial policy already, even if they call it by other names ("export facilitation," "promotion of foreign investment," "free-trade zones," and so forth). Consequently, it is far more productive for the discussion to focus on how industrial policy should be carried out than on whether it should be carried it out at all" (p.2).

The discussion of industrial policy has become an increasingly empirical one. The success or failure of an industrial policy depends on whether it has been rightly targeted, how it is designed and how it is implemented. This paper explores these questions, and in particular, how industrial policies are informed. Since industrial policy seeks to guide the allocation of capital and labour, the central question is whether that guidance is more effective when informed by the representatives of those most likely to be affected, that is, workers and employers.

The paper proceeds as follows. Following this introduction, section 2 defines industrial policy and provides a brief overview of structural transformation toward economic development itself and the role of the state. Section 3 looks at the reasons for the decline and resurrection of interest in industrial policies at the present time. Section 4 then considers the theory and potential role for social dialogue in industrial policy. In section 5, we dissect three contemporary case studies of social dialogue in industrial policy and then discuss them through comparative analysis. Section 6 draws conclusions and identifies several policy implications.

▶ 1 Industrial policies reimagined

1.1 Industrial policy: A definition

We define industrial policy as a multi-stage process in which the government provides various incentives designed to guide the behaviour of private economic actors toward the attainment of an objective deemed a public good[1] that the market alone would likely fail to produce. It is important to distinguish between "horizontal" and "vertical" policies, where the former refers to the state's investment in physical and social infrastructure of common use, such as highways or education or research and development. Industrial policy of this sort provokes little disagreement, as many in the economics profession regard state intervention of this nature as appropriate and efficient. Despite the near consensus on horizontal industry policies, however, even they are not without industrial bias. As Chang (2002) observes, it matters whether a government invests in roads or railroads or ports. This notwithstanding, most criticisms of industrial policy are focused on vertical policies.

Vertical industrial policy refers to government support of specific industries. It is immediately apparent why such criticism might occur a priori. First, these are policies that intervene directly in competitive markets, rather than less controversial and more broadly shared public goods (e.g. infrastructure or research and development). Second, they are "exclusive" to the extent that they are not economy-wide, meaning that they target some industries and exclude others.

A second, broad classification of industrial policies is whether they are predominantly protective—that is, offering "infant industry" protection against imports from established competitors—or export-promoting, the latter being the hallmark of the Asian "miracle" economies. Both are in the service of economic development, understood here as changes in the allocation of capital and labour in the pursuit of sustained and inclusive growth.

1.2 Industrial policy addresses market failure

It is standard economic theory that the free market efficiently allocates resources that can produce economic growth, jobs, and higher standards of living. At the same time, it is widely recognized that the gains from market forces are not evenly distributed. Consequently, delegating economic development to the market alone will, in many cases, result in a low-level equilibria that permits widening inequality. Addressing inequality thus becomes a post hoc matter of the state's tax and transfer policies that adjust the income distribution toward greater equality. While such action does not constitute intervening in markets per se, it does reflect that many states already act to correct undesirable outcomes.

Industrial policies have as their primary objective to fix market failures. Markets can fail, ironically, for the same reasons they succeed—the pursuit of self-interest. For example, one should not expect millions of rational decisions at the microeconomic level to add up to an outcome equally in the interest of all, even if markets are better at allocating resources in an economy

[1] In economics, a public good is a good that is both non-excludable and non-rivalrous. Users cannot be barred from accessing or using such goods for failing to pay for them. Also, use by one person neither prevents access by other people, nor does it reduce availability to others.

than alternative arrangements. Similarly, one should not expect individual actors in competitive markets to internalize the cost of actions from which they might not benefit. For instance, addressing climate change is a public good favoured by most. Mazzucato (2015) elaborates: "governments intervene to 'fix' markets by investing in areas with 'public goods' characteristics (such as basic research or drugs with little market potential) and by devising market mechanisms to internalize external costs (such as pollution)" (p.3).

Early industrial policies operated principally through trade tariffs that protected domestically significant sectors such as agriculture or, as in Latin America, infant manufacturing industries. Infant industries face high initial costs because they learn by doing, which means that without protection, they are likely to fail when exposed to more cost-competitive firms. The main market failures addressed by industrial policies are listed in table 1.1.

▶ **Table 1.1. Key market failures addressed by industrial policy**

Type of Market Failure	Description
Coordination Failures	A situation where the inability of agents to coordinate their behaviour leads to an outcome where all agents are worse off. For example, a critical mass of investment may be needed for a new industry to be viable, but no single firm is willing to be the first mover.
Information Asymmetries	When one party in a transaction has more or better information than the other. In research and development (R&D), for instance, the high uncertainty and risk of failure may deter private investment, even if the potential societal benefits are large.
Externalities	Costs or benefits of an economic activity experienced by an unrelated third party. Climate change is the quintessential negative externality, where the social cost of carbon emissions is not borne by the polluter.

Source: Authors.

1.3 Economic development as the reallocation of capital and labour and the role of the state

Industrial policy is about guiding the allocation of capital and labour toward specific ends. Of course, economy-wide, the (re)allocation of capital and labour serves the broader end of economic development. Economic development occurs through the continuous process of (1) moving labour and other production factors from lower- to higher- productivity sectors (structural transformation); and (2) within-sector productivity growth. The movement of labour and capital from lower productivity to higher-productivity activities (labour reallocation), and an increased sophistication and complexity of tasks and jobs within sectors are the key drivers of economic development and job creation.

Nonetheless, these processes are neither automatic nor guaranteed. Structural transformation can in fact be productivity-reducing when the reallocation of resources across sectors takes place from higher-productivity activities to lower-productivity activities (McMillan and Rodrik, 2011). In several low-income countries, much of the labour reallocation has occurred from agriculture to traditional market services (such as trade and hospitality sectors), which contribute only modestly,

if at all, to aggregate productivity growth and are often characterized by poor working conditions and widespread informality (Dasgupta and Singh, 2006; Dasgupta, Kim and Pinedo Caro, 2017).

Sustaining productive structural transformation requires continuous increases in productivity through innovations, improved technology and production methods, finding new market niches and graduating out of low-cost production to technology and knowledge-based production with higher value added. To this end, smaller economies often pursue specialization to exploit competitive niches, while larger economies tend toward diversification. Some rely more on manufacturing, others on modern services. Yet, beneath this diversity lie common imperatives: achieving competitiveness, producing tradable goods and services, moving up the technology ladder and the product cycle, and reducing transaction costs. The transition from extensive to intensive development is notoriously difficult—hence the notion of the "middle-income trap." Navigating the trap requires strategic coordination to direct capital, labour, and innovation toward higher-productivity activities. In this context, the role of the state—particularly through well-designed industrial policy—becomes pivotal in steering economies toward sustained, innovation-led growth.

1.4 Industrial policies: An ideological era of decline

A variety of recent publications refer to the return of industrial policy, which begs two obvious questions: Where did it go? And why is it back? The decline of interest in industrial policy has some factual basis (i.e. failure) but it was also propelled by a shift in ideological winds. Each deserves separate discussion, although the two are not entirely unrelated. As Eichengreen (2023) notes, the empirical basis for industrial policy effectiveness has been limited and instances of rent-seeking were not hard to find. If a beneficiary of government spending is not closely monitored and held accountable for the use of the public funds, then public funds are often wasted propping up inefficient companies. A property of effective industrial policies is that they are temporary and performance-monitored, with support continuing only until beneficiaries become self-sustaining, or withdrawn once it is evident that firms are unproductive (Rodrik, 2008).

By the 1980s, it had become clear that import substitution industrialization (ISI)—an industrial policy model harnessed by many Latin America countries—had for the most part failed, culminating in and partially contributing to the debt crisis and "lost decade." The 1980s debt crisis in Latin America seemed to serve as an example of "government failure", its industrial policies of ISI waning in support. In fact, as Williamson (2004), the author of the Washington Consensus, would later explain, the "consensus" was intended to refer to Latin America and what not to do to further development. Among other lessons to conclude from these failures was the inward-looking policy of ISI, as highlighted by Prebisch (1964) as quoted in Irwin (2020): "The relative smallness of national markets. . .has often made the cost of industries excessive and necessitated recourse to very high protective tariffs; the latter in turn has unfavorable effects on the industrial structure because it has encouraged the establishment of small, uneconomical plants, weakened the incentive to introduce modern techniques, and slowed down the rise in productivity" (p. 22).

The ISI model, directed toward the development of domestic manufacturing, could only be achieved through the import of intermediate industrial goods. Latin American exports were concentrated in agricultural products, the sector in which the region had comparative advantage. But the revenue gains from the agricultural exports were inadequate to make up for the revenue loss of more expensive imported industrial inputs, resulting in chronic current account deficits. Moreover, domestic manufacturers came to rely on subsidies without which they could not survive.

The mistrust of industrial policy was broadly contemporaneous with the resurgence of laissez-faire, free market ideology, as reflected, for example, in the election of Margaret Thatcher and Ronald Reagan. Over the 1980s, policymakers across the world embraced the primacy of the market and a more circumscribed role of the state. As Campbell (1991) highlights, it is not coincidental that the word "globalization" entered mainstream usage at the end of the 1980s, marking the diffusion of market-centric policy and cross-border integration. The dissolution of the Soviet Union and the birth of several independent states, each with fledgling private sectors, reinforced this shift. In Asia, Viet Nam's Doi Moi (1986) and China's post-1978 reforms institutionalized market mechanisms within socialist governance, while Mongolia and Cambodia embarked on market transitions. These developments in Asia, which coincided with pro-market reforms in the United Kingdom and the United States, underscored a period of growing policy alignment across the world.

The Berlin Wall fell within a year of the codification of the ten principles constituting the "Washington Consensus", which framed development policy around state retrenchment, that is, a state that would divest itself of participation in the economy through the privatization of state-owned enterprises; confine itself to the prudent macroeconomic management of a stable exchange rate; aim for responsible fiscal budget; promote trade and foreign direct investment; trim the state bureaucracy; and deregulate the economy—all remedies to "government failure" in short. Collectively, these changes signalled a "primacy of the market" moment: the centrality of the market economy as the source of a nation's growth with the state's role redefined and narrowed across many policy domains. Interestingly, policy debates in both the Soviet Union and advanced economies increasingly converged on common themes of "too much state" and "too little market".

The ideological endorsement of a limited role for the state in the market economy, an endorsement shared by both the World Bank and the International Monetary Fund, helps explain the mistrust of industrial policy – epitomized by claims that the "the best industrial policy is none at all" (Becker, 1985). As Menocal (2004) observes: "The disillusionment(s) that led to the abandonment of state-led development in favour of the neoliberal model of economic recovery seems to have generated a process of learning by negative association: manipulating market forces, the state creates unsustainable distortions, and it must therefore be curtailed" (p.766).

In the era of deregulation, the ascendency of the market was relatively widespread. Many markets, including labour markets, were being deregulated. "Eurosclerosis", for example, attributed to labour market "rigidities" was identified as a priority problem in Europe. Command economies dwindled to a relative few globally. States redefined their role in the market.

While neo-liberal "market fundamentalist" ideology and structural adjustment programs promoted by international financial institutions such as the International Monetary Fund (IMF) and World Bank pushed industrial policy to the margins of policy discussion—they did not eradicate it from practice. In an important counterpoint to the failures of Latin American ISIs, the state remained central in the previously discussed development state-led economic "miracles" of East and Southeast Asia.

Furthermore, even as ideology undermined the rationale for industrial policy, horizontal policy was alive and well. The United States Defense Advanced Research Projects Agency, a R&D agency responsible for the development of military technologies, is credited with its contribution to the creation of the internet, global positioning system, Silicon Valley and advances in artificial intelligence among other forefront technologies, illustrating state roles in pre-commercial risk-taking with large knowledge spillovers (Mazzucato, 2013). The argument supporting industrial policy often centres on knowledge spillovers: markets do not provide sufficient incentives for private

investment in research because of the non-appropriable, public-good, intangible character of knowledge and its risky nature (i.e. failure). New knowledge arising from R&D is non-rivalrous and only partially non-excludable: others may learn and use the knowledge, without necessarily paying for it.

Some studies have commented on the curious disconnect between industrial policy's poor reputation in academic and policy circles and its widespread usage, revealing a gulf between ideology and practice (Chang, 2009; Cherif and Hasanov, 2019). This dissonance between policy and practice dissonance over the revivification of industrial policy appears in more recent literature, and is alluded to in the title of one study: "The return of the policy that shall not be named: Principles of industrial policy" (Cherif and Hasanov, 2019).

1.5 The devil might be in the detail – not in the concept

With reference to one country's expensive and rather flawed social protection system, the American economist, Richard Freeman, once asked whether we should conclude that social protection simply does not work—or that the country had grossly mishandled its design and implementation. So, too, it might be said of industrial policy. Since industrial policies can work, the message is not necessarily to do less, but how best to undertake them (Rodrik, 2008). In short, failure happens: many industrial policies were costly failures, and mistrust of the governments that promoted them was sometimes well-founded. Public investment in guiding the private market does not always yield sustained advantages. Latin American ISIs did increase output and employment over the duration of subsidies—but, once the subsidies were removed, industrial competitiveness and growth regressed significantly. But to conclude that industrial policy does not work would be an unwarranted extrapolation. As Juhász, Lane and Rodrik (2024) note, "it is no longer appropriate, if it ever was, to identify industrial policy with inward-looking, protectionist trade policies; contemporary industrial policies typically target outward orientation and export promotion" (p.214).

A reasonable conclusion is thus that it is less about the theory of state intervention and more about practice. Simply put, it is hard to engineer industrial policy success. Critiques, instead, should "rely on practical rather than principled objections" (Juhász, Lane and Rodrik, 2024; p.214). That the economics profession has spent excessive amounts of time focusing on the "whether" rather than the "how" may have more ideological than practical roots.

1.6 "Embeddedness" in industrial policies

Clearly, the governance of industrial policy matters a great deal. Not only does it help to avoid the capture of policies by rent-seeking elites, but it can also ensure that policies are successfully designed, implemented, monitored in a manner that is economically and fiscally sound. In fact, discussions in the literature seem to give as much, if not more, attention to how policy was implemented than what the policy was. Scholars of East Asian development emphasize that governments were up to the task of getting things right. For example, Evans (1995) notes that "the state's ability to facilitate industrial transformation…has been fundamentally rooted in coherent, competent bureaucratic organization" (p.51) but also how such competent and autonomous bureaucracies are embedded in society through a dense network of ties with a business elite. This ensures a storehouse of market knowledge by which the government policy is informed, as well as ensuring compliance or commitment to an objective. In practice, this results in a continuous public-private relationship in which strategies can be dynamically shifted, refined and improved according to new information.

A "market-informed", meritocratic or "technocratic" government played a central role in the design and implementation of industrial policy in the Asian development states. In this way, the competent state was "embedded" in the real world of economic decisions. Elite business ties are central in this model. Intelligence gathering from employers increased the likelihood industrial policies would not result in failure. It is, however, notable that structured ties to workers' organizations and broader civil society—also economic actors—are often absent, limiting the inclusiveness of information flows and the legitimacy of discipline. Kucera, Schmidt-Klau and Weiss (2020) for example analyse five industrial policies and find little involvement of workers' organizations. These limitations—and the institutional channels needed to address them—are taken up in later sections.

1.7 Industrial policy returns to the forefront

The contemporary resurgence in industrial policy is being driven by new and compelling set of rationales, including geopolitical competition, supply chain vulnerability and the "grand challenges."

Geopolitical competition: The strategic rivalry between the United States and China is arguably one of the most significant factors. Policies such as the United States CHIPS and Science Act and the European Chips Act are responses to China's policies to become a global leader in high-tech industries, including through the "Made in China 2025" Strategy. More recently, the United States has reshaped its trade policy and prioritized reshoring of strategic industries—especially chips for artificial intelligence—using a carrot-and-stick approach: steep tariffs on imports, but exemptions or incentives for firms investing in domestic manufacturing. Chipmakers have been drawn into negotiations linking export licenses to U.S. revenue-sharing or in equity stakes by the government. Industrial policy has thus been transformed from a tool of development to also include an instrument of national security. Irwin (2023) notes that: "Geopolitics is rapidly changing the landscape of world trade. The policy environment of just a few decades ago seems like a distant memory…Now policymakers debate the future of globalization. They worry about the fragmentation of the world economy…Trade interventions are on the rise, in the form of industrial policies and subsidies, import restrictions based on national security and environmental concerns, and export controls to punish geopolitical rivals and ensure domestic supply" (p.13). Similarly, Tyson and Zysman (2023) argue that twenty-first-century industrial policy must respond to new global realities by pursuing two main objectives: ensuring a competitive and reliable supply of key products and technologies necessary for economic prosperity and security, and securing a strong position in the development and deployment of next-generation technologies critical to both national security and the transition to a carbon-neutral economy.

Supply chain vulnerability: The COVID-19 pandemic and subsequent geopolitical shocks, such as the war in Ukraine, exposed the risks of global supply chains that are concentrated in a few geopolitical locations. Shortages of goods from personal protective equipment to semiconductors forced strategic reassessment, fuelling a drive to mitigate future risks of disruption by diversifying supply chains away from single points of failure. The de-risking to build more resilient and diverse supply chains is being pursued through policies that incentivize "onshoring"/ "reshoring" (bringing production home) or "friendshoring" (relocating production to allied countries), affecting value chains deemed strategic, such as semiconductors, advanced batteries, pharmaceuticals and critical minerals. As such, Agarwal (2023) summarizes: "In a world facing challenges such as the COVID-19 aftermath, vaccine nationalism, global supply-chain instability, net zero transitions, and geopolitical competition, there is renewed debate about the role of industrial policy and government support for firms and industries deemed strategically important" (p.50).

An era of "grand challenges": Industrial policy is also re-entering the policy agenda as an essential framework for addressing a number of "grand challenges" (Foray, Mowery and Nelson, 2012; Mazzucato 2018). As noted earlier, these complex, systemic challenges are characterized by deep uncertainty, pervasive market failures and the magnitude of their externalities, rendering solutions delegated to the market alone to be inadequate. While the green transition and the digital transformation are the most frequently cited examples, the scope of these challenges is broader, also encompassing significant demographic shifts and the fundamental imperative to generate a sufficient number of decent jobs to foster inclusive development, particularly for the fast-growing populations in many developing countries.

The green transition requires a systemic shift away from a fossil fuel-based economy. The social cost of carbon emissions is a classic negative externality that individual firms have little incentive to internalize. Similarly, the digital transformation generates positive externalities through network effects and knowledge spillovers, but can also significant negative externalities, including labour displacement due to automation and the risk of market concentration. Furthermore, many societies face profound demographic shifts, particularly aging populations in advanced economies. This trend presents long-term structural challenges, placing immense strain on social security and healthcare and systems, while potentially creating labour shortages. Addressing this requires strategic, forward-looking investments in lifelong-learning, age-friendly infrastructure, preventative health technologies, and the care economy—investments whose societal benefits and long-time horizons exceed the typical planning scope and risk appetite of individual private actors. In developing countries, there often exists the persistent structural challenge of creating inclusive growth and decent work through productive structural transformation. For many countries, market forces alone have proven insufficient to absorb rapidly growing labour forces into formal, productive employment. This results in high rates of informality and working poverty, which represent a massive coordination failure and a loss of human potential that only a strategic, economy-wide push can overcome.

Addressing these multifaceted challenges effectively requires a strategic departure from traditional, top-down state intervention. The complexity and scale of all the rationales necessitate the formation of coordinated and inclusive public-private partnerships built on an effective flow of information. Such information flow and collaborations are essential to mobilize the necessary capital, knowledge, and entrepreneurial capabilities from across the economy. Crucially, for these partnerships to be legitimate and effective, they must be inclusive, embedding a process of social dialogue that involves not only government and business, but also labour unions, academia, and civil society to ensure that the direction of economic change is both sustainable and equitable. We explore these issues in greater detail in the sections that follow.

▶ 2 Social dialogue and industrial policy in theory

Social dialogue often features in the high-level direction of economic and social policy. Almost 90 per cent of ILO member States, for example, have peak-level tripartite arrangements that help to shape the broad direction of economic and social policy (ILO 2024). These include the participation of the social partners in national development plans (NDPs) and deliberations in statutorily established economic and social committees. These arrangements are, however, upstream, at the strategic level of policymaking. As we have discussed, it is downstream—at the substantive level—that industrial policies succeed or fail. Consequently, "embedding" the participation of the social partners would seem a logical procedural step. To this end, this section explores the theoretical case for social dialogue in industrial policy, arguing that it provides significant opportunities to enhance the effectiveness and inclusiveness of structural economic transformation.

2.1 The multi-layered benefits of social dialogue

There is a distinction between the "foundational benefits" and "transformative benefits" of social dialogue (ILO, 2024). The former refers to more basic and intangible benefits (e.g. good governance and social cohesion), while the latter refers to grander endeavours (e.g. combating high labour income inequalities and enabling just transitions). Applied in the context of social dialogue and industrial policy, foundational benefits can refer to industrial policy competencies, such as enhanced capacity of social partners and growing trust between key economic stakeholders. Transformative benefits refer to downstream outcomes of effective industry policies, such as job creation, investment attracted, or sectoral expansion. Any analysis of social dialogue and industrial policy should thus be mindful of both benefits.

2.2 Addressing information asymmetries to improve policy design and implementation

A substantial literature on the "economics of information" discusses how information asymmetry can result in an inefficient allocation of resources either by misdirecting or withholding resources. Information asymmetry is defined as a state when one party possesses more information than the other. In the present context, it is useful to think of such asymmetry as being when parties possess purposeful and relevant, but also unique, information. Theory does not violate common sense: the more relevant information brought to bear on a decision makes for a better decision.

Information is critical to the effective implementation of industrial policy. As noted earlier, technocratic government officials devising economic plans must have information of adequate quality to design successful industrial policies. This cannot be taken as a given in every context, and as the failure of some industrial policies can be attributed to poor decisions, it is likely that some of these decisions were poor because they were poorly informed.[2] Furthermore, the implementation phase of industrial policy often encounters unforeseen impediments. In such situations,

[2] Other poor decisions might be for reasons mentioned earlier relative to government failure, i.e. cronyism, corruption, rent-seeking. Institutionalizing independent and representative social partners in the design of policy could conceivably be a check on government failures of this sort.

the discovery and provision of industrial information by those closest to its source, that is, the social partners, can lead to corrective action that saves public resources.

Theorists of the beneficial effects of social dialogue relate these to the commitment engendered through having a say in the design of an objective, referred to by Hirschman (1970) and Freeman (1994) as properties of "voice", the latter being a legitimate and acknowledged right to participate in a decision-making process. In Exit, Voice, and Loyalty, Hirschman contrasts the ability to participate in a decision ("voice"), with the absence of having a say, the latter of which can lead participants to "exit" or quit a process. Hirschman was referring to consumer behaviour, but the theory is transferable to labour market decisions. In the context of industrial and economic policy, for example, "exit" commonly refers to the absence of commitment from those whose "voice" was not taken into account. This situation is particularly problematic when the abstaining actors are critical to policy delivery and implementation, as is often the case with social partners and industrial policy.

The primary value of the "voice mechanism" thus lies is its inclusion of the social partners in the design, implementation and delivery of industrial policy. In the absence of industry and worker endorsement, a government's commitment to industrial policy might be limited to an election cycle, whereas decisions grounded in the participation of relevant representatives of civil society can encourage a longer-term commitment to an objective. Such participation therefore "anchors" a course of action against shifting political exigencies and helps to ratify "buy in" from key economic stakeholders—a process which ultimately enables structural economic changes to occur and be sustained.

2.3 Social dialogue allows social partners to mitigate negative externalities

If an objective deemed important by everyone entails job losses, the latter is a negative externality of pursuing the objective. One party to the decision might simply dissociate itself from the process, disowning the negative consequences and seeking instead to mobilize public opinion against the decision. This strategy can be effective if it compels the government to abandon or rethink its decision entirely. Abstention also allows parties to avoid being tainted by association. For example, if a trade union is convinced that a more collaborative approach will not deliver acceptable outcomes or concessions, non-participation ensures that the decision cannot be attributed to them in any way and allows worker representatives to maintain moral clarity.

Another party equally disturbed by the prospect of job losses might, however, attempt to mitigate the negative consequences by committing to the policy on the condition that affected workers are compensated. This would be an effort to "internalize" the negative consequences of an otherwise agreed-upon objective. This second scenario applies to the concept of a "just transition", as it sees affected workers attempt to internalize the negative costs of the environmental transition.

The latter approach is far more conducive to effective industry policy. Without the endorsement of social partners, and especially employers, industrial policies are unlikely to stimulate their desired levels of private market activity. Furthermore, as previously discussed, social dialogue can better enable effective industrial policy by integrating valuable information into policymaking and securing buy-in from the social partners. Thus, the key for government is to persuade the social partners that they are best served by staying "inside the tent." In this regard, industrial policy is well-suited to more collaborative forms of industrial relations.

Unlike wage bargaining, which deals with the distribution of existing resources, industrial policy allocates new revenue and investment into targeted sectors. Consequently, participation in the policy process can be worthwhile for both workers and employers. For employers, policy collaboration can ensure that public funds are implemented effectively to support their operations. Meanwhile, trade unions can use social dialogue to advocate for pro-worker provisions, such as decent wages, working conditions, and lifelong learning opportunities, to be included in industrial policy projects.

▶ Box 2.1. CHIPS and Science Act (2022): Improving stakeholder buy-in

The CHIPS and Science Act (2022) represented a return to "vertical" industrial policy in the United States. Despite its success in encouraging private sector investment in the domestic semiconductor industry, industry experts argued that a mounting shortage of factory workers could prevent its effective implementation—an example of a "market coordination" market failure.[3] To ensure that these vacancies could be filled by U.S. citizens, the President's Council of Advisors on Science and Technology recommended a comprehensive focus on domestic vocational education training – including a specific focus on social partner participation and implementation.[4] To this end, the eventual Act authorized US$10 billion to "[bring] together state and local governments, institutes of higher education, labour unions, businesses, and community-based organizations to create regional partnerships to develop technology, innovation, and manufacturing sectors" (United States White House, 2022).

While the delivery of the CHIPS and Science Act ultimately remains in the hands of the state, it is still an industrial policy that conditions the disbursement of public funds on the creation of public-private partnerships involving the social partners. It is also an indication of how integrating the social partners within industrial policies can build support for them. For example, the American Federation of Labor-Congress of Industrial Organizations (AFL–CIO)—the leading U.S. trade union confederation—welcomed the stipulations in the bill that facilitated the growth of a well-trained, highly skilled workforce, arguing that "working people deserve a voice and a seat at the table in every step of the [industrial policy] process, and when we have one, we will build a more competitive America" (AFL–CIO, 2022).

Source: Authors; United States White House (2022); AFL–CIO (2022).

2.4 Social dialogue can drive employment and economic stability

The scope and role for social dialogue in industrial policies follows primarily, but not exclusively, from the pivotal role of employment in productive structural transformation and therefore in the design and implementation of industrial policies. All industrial policy can be argued to constitute de facto employment policy, as all industrial policy has direct employment implications. Many industrial policies, such as the CHIPS and Science Act (see box 2.1) have good job creation as an explicit, rather than merely implicit, objective of public spending. Social dialogue can also help to shape longer term economic and employment planning. For example, most countries have NDPs which discuss industrial sectors that the government proposes to support—a process in

[3] The Semiconductor Industry Association and Oxford Economics (2023) estimated that 67,000 jobs (58 per cent of the 115,000 jobs that would be created by 2030) were at risk of going unfilled at current degree completion rates.
[4] See United States White House (2022).

which the social partners often participate. In their selection of industries, many NDPs are mindful of decent jobs.

Social dialogue can also permit countries to effectively respond to crises. For example, an ILO review of G20 countries' responses to the 2008 Global Financial Crises (GFC) found that economic recoveries with lower social costs were more common for countries that incorporated the participation of the social partners in their national recovery plans (ILO, 2010). Social dialogue can also offer temporary protection to industries during turbulent times. The "bail out" from bankruptcy of General Motors and Chrysler following the GFC is illustrative of this. Following coordinated advocacy from employers and the United Auto Workers (UAW), the U.S. government intervened to protect the auto industry, prevent millions of jobs losses directly and indirectly, and avoid prolonging and deepening the economic recession (MacDuffie, 2018). Following the intervention, both companies returned to self-sustaining health—a common measure of industrial policy success.

▶ 3 Social dialogue and industrial policy in practice

This section explores the role of social partners in three contemporary case studies of social dialogue and industrial policy around the world. In these cases, our effort is to isolate key characteristics that favour or impede social dialogue over industrial policy, as well as points of comparison between them. Considerable scholarship in history, in industrial relations and political economy lies implicit behind this discussion – and, for the most part, will remain so. One is mindful nonetheless that each case emerges from very different historical experiences, contemporary issues, and institutional arrangements. The form, quality and purpose of social dialogue varies greatly, as the case studies below reflect.

3.1 Case study 1: The Republic of Korea, social dialogue and demographic trends[5]

3.1.1. Social dialogue and industry policy in the Republic of Korea (1950s–2019)

During the Republic of Korea's era of military dictatorship, trade unions and civil society played no discernible role in industrial policy, let alone policymaking in general. However, following democratization and the creation an independent trade union movement, genuine social dialogue emerged. In January 1998, the country established the Tripartite Commission—a national-level tripartite social dialogue institution—to advise the President during the Asian Financial Crisis (AFC). Just one month later, in February 1998, the Commission signed a comprehensive social pact—which discussed macroeconomic issues including industrial policy—recommending a range of policy actions such as stricter corporate accountability for big businesses, corporate restructuring to boost competitiveness, the lifting of limitations on temporary forms of employment, and significant expansion of freedom of association and the right to bargain collectively both in the private and public sectors (Rychly, 2009). Since the AFC however, social dialogue has played a limited role in the country's industrial policy while industrial relations have remained grounded at the enterprise level.

3.1.2. Gwangju Job Creation Model (GJCM)

The Moon government's (2017 - 2022) move to integrate social dialogue with industrial policy in the auto industry was a significant contemporary development for social dialogue over industrial policy. Designed to bring new jobs and investment into regions of the country that were rapidly depopulating due to an aging demography and the migration of younger people to urban areas, the Moon government piloted and then expanded a regional model of social dialogue called the Gwangju Job Creation Model (GJCM). GJCM was inspired by a successful case of job creation in Germany in 2001, which created 5,000 new jobs during a high unemployment period by having social partners agree to reduce wages (by about 20 per cent) in exchange for Volkswagen

[5] The discussion of this case study draws extensively on Bae (2023), a background paper commissioned by the ILO in preparation of ILO (2024).

setting up a new car assembly factory with decent jobs in Germany instead of elsewhere in Europe (Eurofound, 2001; Sohn, 2019).

The GJCM is based on "tripartite plus" social dialogue—which refers to social dialogue between tripartite actors and other civil society groups—among four local parties: the regional government, investing firm(s) and their suppliers, regional trade unions, and local people's representatives (e.g. civic experts or other interested parties). As local social partners had no previous experience of industrial policy, there were large capacity gaps that were plugged by civic experts and/or other interested parties. The fifth key player in GJCM is the central government, which facilitates dialogue, bridges capacity gaps, and offers financial assistance to participating firms.

Like the Volkswagen case, the GJCM aimed to attract investment and create decent jobs by lowering the wage floor for car assembly workers. After two years of tense negotiations with regional stakeholders, automaker Hyundai Motors agreed to partner with Gwangju City and its social partners in January 2019. Under this investment agreement, a new final car assembly corporation valued at US$513.3 million would be created through joint investment from Hyundai Motors, Gwangju City, regional banks and firms, and public institutions. Crucially, the wage level for factory workers was set at 35 million won. This figure is roughly half the average auto worker wage in highly unionized plants but remains above those in subcontracted auto parts firms (which employ roughly half of Korean autoworkers). The new car assembly plant was the first plant built in the country since the 1990s and production of Hyundai's "Casper" model started in September 2021 (Komoro, 2021). By April 2024, 650 workers were employed and nearly 117,000 units had been sold (Song, 2024). On a qualitative level, participating social partners developed valuable economic policymaking capacities (Bae, 2023).

It should also be noted, however, that the GJCM is not without controversy. To secure Hyundai's investment, the Gwangju agreement stipulated that the factory workers could not unionize nor take legal strike action until 350,000 cumulative units of the Casper model had been sold—causing major industrial tensions ever since (Song, 2024). As a result, the Korean Confederation of Trade Unions, one of largest trade union confederations in the country, has remained opposed to the model.

3.1.3. Mutually Beneficial Regional Job Creation Initiatives (MBRJCIs)

Motivated by the success of the GJCM, the Moon government launched a new regional social dialogue policy, the Mutually Beneficial Regional Job Creation Initiatives (MBRJCIs) in late 2019. The MBRJCIs were a significant expansion of the GJCM, reflecting that the initial model had generated considerable interest from other regional areas (Kim and Kim, 2019). Like the GJMC, MBRJCIs were collaborative regional processes that sought to find consensus between local social partners before approaching investors, with support from the central government. To receive central government subsidies, firms and regions needed to progress through a strict multiphase process:

Phase 1 (Model development): Regional social partners, the regional government, and other interested parties prepare and agree to a regional job creation business model. This phase is supported by the Ministry of Employment and Labour.

Phase 2 (Firm identification): Regional social partners work with the central government to find an investing firm(s) for the agreed investment model. This process is supported by the Ministry of Industry, Trade and Energy.

Phase 3 (Production): After an investment agreement is signed, the central government begins to provide subsidies to the investing firm(s). Subsidies continue to be provided if the investing firm(s) meet investment obligations and create jobs as intended.

By the end of 2022, 35 regions had received funding and support through the MBRJCIs. Of these, 13 had signed investment agreements with firms, but only 7 were formally approved. These 7 regions required 22 separate sponsorships from the two ministries—reflecting repeated negotiation failures and reconvening by the central government—highlighting the challenge of securing mutually acceptable solutions for all stakeholders. The seven approved MBRJCIs attracted US$738 million in regional investment and created 1,300 jobs, while several additional applications were still under final review (Bae, 2023).

3.2 Case study 2: Germany's collaborative model of social dialogue and industrial development[6]

3.2.1. German industrial policy and social dialogue (1950s–1990s)

Germany has effectively crafted industrial policies in a model of social partnership since the middle of the 20th century. Central to the German model is the strong influence of trade unions and employer organisations at sectoral level, particularly in industries with a high memberships rates (e.g. mining, energy, steel, automotive). In facilitating dialogue between the social partners, German industrial policy seeks to strike a balance between social justice objectives on the one hand, and a dynamic market economy on the other. Sustained German industrial policy has been a key factor in the country's manufacturing sector, which accounted for approximately 17 per cent of gross value added in 2020—higher than in other industrilaized economies, where manufacturing has declined markedly over recent decades (Brandt and Kramer, 2022).

Two key features of the German industrial relations model (often referred to as the "dual model") are regarded as preconditions for the success and effectiveness of the German economy. The first is a coordinated system of collective bargaining between trade unions and employer organizations at sector level; the second is the strong system of information, consultation and co-determination rights enjoyed by employees at the company level, institutionalized through works councils and employee representation in larger companies. Workplace co-determination constitutes a significant source of worker power in Germany, as it legally entitles employees to parity representation on the supervisory boards of major companies (with more than 2000 employees) and to factory-level representation through workplace councils in individual establishments (DGB, 2025a). These two pillars are established and maintained through the Collective Agreements Act, which came into force in 1949, and the Works Constitution Act, which came into force in 1952, respectively.

German industrial policy has long been used, *inter alia*, to provide temporary protection for industries adjusting to new competitive pressures. As early as the 1950s, crises in the coal mining sector prompted substantial state subsidies aimed at strengthening domestic competitiveness against imports of coal, oil and gas, while securing the national energy supply. Similar state aid programmes were implemented in the shipbuilding sector during the 1960s and 1970s, and in the steel industry in the 1970s and 1980s. In each case, overall employment still declined, yet the

[6] The discussion in this case study draws extensively on Voss (2023), a background paper commissioned by the ILO in preparation of ILO (2024).

extensive aid programmes mitigated the social consequences for workers while allowing time for specialised segments of these industries—which remain competitive today—to emerge. These targeted, vertical industrial policy measures were largely responses to campaigns and industrial action by German trade unions—particularly in the mining and steel sectors— which leveraged their co-determination powers in large companies to safeguard their members' interests.

3.2.2. Social dialogue and industrial policy (2000s–Present)

Social dialogue has remained central to German industrial policy in the 21st century. Across a range of sectors, Germany's willingness to involve social partners in economic policy has allowed the country to retain a higher degree of social consensus, relative to many of its European peers, when tackling controversial policy issues. Three policy initiatives, described below, are illustrative of social dialogue's enduring relevance to German industrial policy.

Just transition away from coal: German social partners have shaped and participated in several policy processes related to the country's industrial transition away from coal. In 2007, following an agreement between the federal government, two state governments, *Industriegewerkschaft Bergbau, Chemie, Energie* (IG BCE, the trade union for mining, chemicals and energy industries), and mining company Ruhrkohle AG, Germany adopted a law to withdraw state subsidies and greatly reduce hard-coal mining and hard-coal fired power plants by 2018. This phase-out agreement offered generous early retirement options and reskilling policies that cost an estimated 14.8 billion euros to national and state government and the European Union (Stutzman, 2025).

In 2018, the social partners participated in the Growth and Structural Change Commission, which was established by the central government to find a consensus approach for phasing out coal (Schmidt and Braga, 2025). Following extensive dialogue, all major trade unions in Germany supported the "coal consensus" set out in the commission's final report. The final report explicitly reinforced Germany's social partnership model of industrial policy, instructing the government to maintain the country's social partnership and co-responsibility approach during the green energy transition: "binding collective agreements must be made between the two sides of industry, e.g. to ensure placement in skilled jobs and compensation for lower wages, apprenticeships and further training, compensation for financial losses or for early retirement…" (German Ministry of Economic Affairs and Coal Commission, 2019; p. 70).

"Revierwende" Project: The social partners have also taken a leading role in Germany's industrial transition policy initiatives. For example, in December 2021, the German Trade Union Confederation (DGB)—the country's largest trade union confederation—launched the "Revierwende" Project (Project on the Turnaround of Coalfields). Supported by the Federal Ministry of Economic Affairs and Energy, the project established six offices in coal-affected regions to build capacity and enable local trade unions to engage effectively with the green transition. By May 2025, *Revierwende* had reached more than 36,000 people through 800 events, fostered strong networks of works councils, and empowered local actors—including trade unions, industry representatives, municipal authorities, and young people—to shape regional transformation processes in a collaborative and democratic manner (DGB, 2025b).

Alliance for the Future of Industry (AFI): The Alliance for the Future of Industry is a joint alliance between 18 leading workers and employers' organizations and the Federal Ministry for Economic Affairs and Energy (AFI, 2025). While the AFI is primarily a bipartite organization, the Ministry regularly co-leads, funds studies, and co-hosts conferences, reinforcing its tripartite character. Established in 2015, AFI seeks to develop national bipartite positions that support and strengthen Germany's industrial competitiveness. AFI also aims to improve coordination between

sector-specific industrial policy initiatives and to identify important areas for research and funding that can further strengthen industrial competitiveness policy (AFI, 2025).

In its 10 years of existence, AFI has become a significant actor in the German industrial policy landscape, issuing over 100 joint recommendations, hosting 7 national industry conferences, and supporting dozens of regional initiatives—all of which call on the government to maintain and grow Germany's industrial base (AFI, 2025). One significant contribution came in 2023, when AFI published a policy paper calling on the federal government to develop a new industrial policy that combined ecological responsibility with strategic investment in German industry (AFI, 2023). Among its priorities, AFI proposed a model of industrial strategy that prioritized the establishment of reliable energy supply at affordable prices, the acceleration of the transition in energy production and transport as well as increasing public investments.

3.3 Case Study 3: South African Masterplans driving more effective policy delivery[7]

3.3.1. South African industrial policy and social dialogue (1994-2010s)

South Africa delivered industrial policy through a range of frameworks from 1994 to 2018. Developed in consultation with social partners via the tripartite National Economic Development and Labour Council (NEDLAC), as well as periodic sectoral summits, these industrial policies sought to drive economic development in a range of sectors (e.g. clothing and textiles, mining, automotive) through negotiated sector strategies, localization measures, and support packages. However, in practice, each policy suffered from recurring shortcomings: agreements were often too general and lacked binding commitments; implementation capacity within government and among some social partners was insufficient; processes were fragmented and disconnected from operational delivery; and the broad, national-level focus diluted sector-specific ownership. Combined with a persistent gap between policy design and implementation, pre-Masterplan industrial policies often failed to achieve their intended developmental and employment objectives (Godfrey, 2023).

3.3.1. Masterplans (2018–Present)

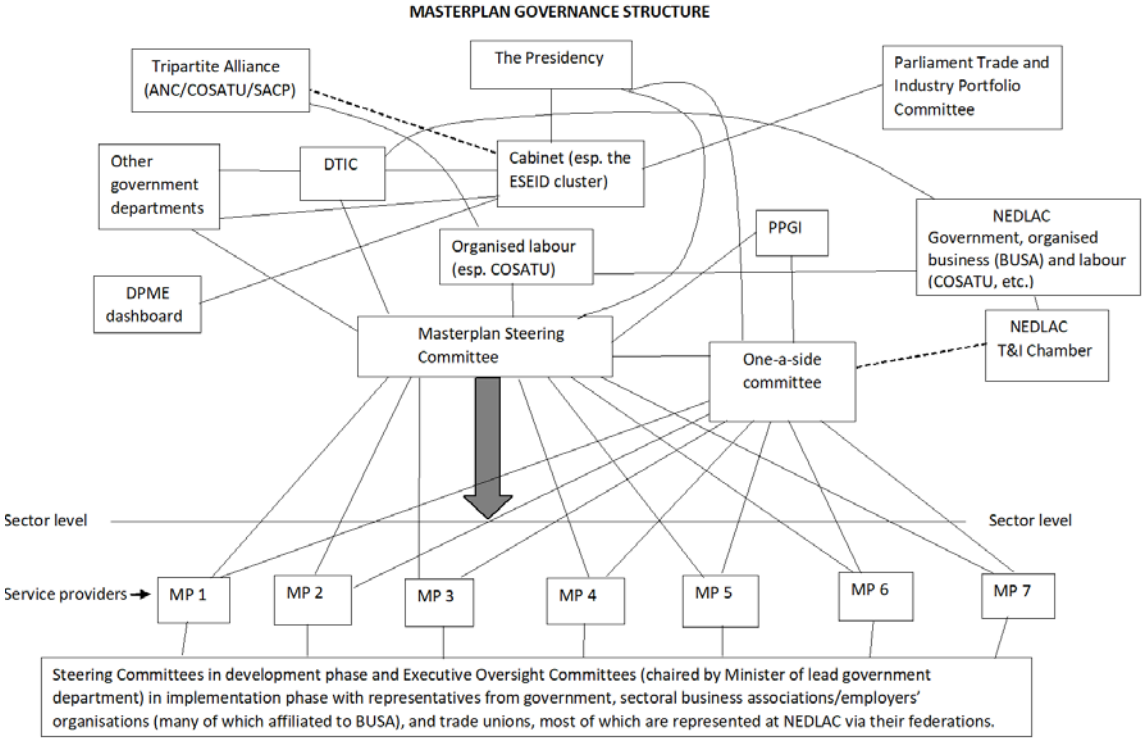
Industry-based "Masterplans" began to emerge in South Africa in 2018. Stemming from the view that previous industrial policies had been overly focused on supply side dynamics and were insufficiently connected to implementation, Masterplans adopted a new approach that focused on value chains at the sectoral level. A primary focus of the Masterplans is to identify what are described as 'binding constraints,' 'impediments' or 'blockages' to growth and efficiencies in key economic sectors. Prioritization of the most important binding constraints is key to the development and implementation of Masterplans. In this process, social partners—who have a proximity to policy implementation—play an essential role in ensuring the Masterplans translate into actionable outcomes.

Social dialogue is integrated within Masterplans. The Masterplan Toolkit, a document that acts a template for Masterplans, emphasizes the requirement of social dialogue (DTIC, 2022). In sections

[7] The discussion in this case study draws extensively on Godfrey (2023), a background paper commissioned by the ILO in preparation of ILO (2024).

on the establishment of the Steering Committee (for the development phase) and the Executive Oversight Committee (for the implementation phase), the Toolkit spells out that its members include representatives from Government, Labour and Business. Furthermore, governance is divided into two levels—both of which have a tripartite foundation (see Figure 1). At the overarching level, the key governance bodies are the One-a-Side Body, which comprises of one representative each from the Presidency, the Public-Private Growth Initiative (a collection of business leaders), and the Congress of South African Trade Unions (COSATU), the country's largest trade union confederation. The other major governance body is the Masterplan Steering Committee (MSC). This tripartite group is much larger than the One-a-Side Body and meets quarterly, with the chairperson rotating between government, business and labour.

▶ **Figure 3.1. South Africa's Masterplan Governance Structure**



Source: Godfrey (2023).

3.3.3. Participation and capacity

With tripartism deeply integrated in both the formulation and implementation of the Masterplans, social partners and government departments are expected to contribute significant resources to their delivery. Among the tripartite actors, business groups—given their more extensive pool of capital—are best positioned to meet the demands of sustained policy engagement. Trade unions, by contrast, have faced greater challenges. Thanks to NEDLAC and their proximity to economic policymaking, the South African labour movement has developed considerable capacity to participate in policy processes (Makgetla, 2024). Yet, declining union membership in recent years has highlighted the importance of COSATU, which holds the core policymaking capacity within the labour movement. COSATU plays a critical role in identifying areas where labour influence is weak within Masterplans and in coordinating trade union responses to address these

gaps. As a result, the labour movement—despite its capacity challenges, can engage pragmatically with the Masterplans, incorporating decent work elements to safeguard workers' interests.

3.3.4. Impact

Since their launch in 2019, the Masterplans have coincided with a series of major global economic headwinds, including the COVID-19 pandemic, post-pandemic inflation and surging energy prices, making it difficult to isolate their overall impact (Makgetla, 2024). Nevertheless, existing literature and qualitative research suggests that one key advantage of the Masterplans is their ability to operate effectively in contexts of limited government capacity, particularly with regard to implementation (Godfrey, 2023). For example, in the Retail-Clothing, Textile, Footwear and Leather Value Chain (RCTFL) Masterplan, social dialogue helped economic stakeholders overcome a longstanding issue in the textile and clothing sector: retailers had resisted committing to local sourcing, while manufacturers were reluctant to invest without guaranteed demand. By bringing stakeholders together, and conditioning government fabric rebates on local sourcing, the RCTFL Masterplan ultimately led to expanded production and the re-opening of two woven textile factories (Godfrey, 2023). By July 2024, the RCTFL Masterplan had created 24,000 jobs and approved 1.87 billion rand of investment for 154 businesses (DTIC, 2024). Furthermore, other reports have noted that "new [social dialogue] structures helped to improve communications and to strengthen the voice of established business and organized labour in policy development at industry level" (Makgetla, 2024; p. 3).

3.4 Reflections

The three case studies speak to the potential of embedding social dialogue within industry policy. On one hand, the cases reflect that social dialogue can positively impact industrial policies in a wide range of industries, sectors and contexts. Indeed, across the case studies, social dialogue—in various forms and structures—helped to: attract regional investment to combat demographic shifts (Republic of Korea), facilitate a more inclusive and effective national transition away from fossil fuels (Germany) and enable the implementation of value-chain based sectoral industrial policies (South Africa). On the other hand, these cases also demonstrate that social dialogue is a resource-intensive process that does not necessarily deliver results deemed satisfactory to all stakeholders. This was evident in the Republic of Korea, where many MBRJCI applications were unsuccessful, and Germany, where the Future for Industry Alliance is not certain to influence high level policy making, despite its sustained advocacy. However, seemingly modest early results—such as those delivered by South Africa's Masterplans and the MBRJCIs of the Republic of Korea—should be viewed in their country contexts. As was detailed previously, South Africa had not effectively implemented industrial policies for several decades, while the Republic of Korea has faced persistent challenges in regional job creation and had not established a new automobile manufacturing plant for two decades.

Perhaps the most striking point of alignment across the cases is the central role of the state. In each case study, government support was essential for the functioning of the industrial policies. This is particularly evident in the Republic of Korea, where the central and local governments played a highly active role in facilitating dialogue between the social partners, negotiating deals with investors, and awarding funding to successful applicants. In this context, the government serves as the apex actor, with social partners playing a complementary role. In South Africa, the state remains central despite social partners having a comparatively greater influence. The Masterplans were endorsed and established by the President, and the government ultimately provides their funding. In Germany, which boasts the most well-resourced social partners of

the three countries, the state continues to play a key role. Although German social partners can organize independently—through initiatives such as the Alliance for Future Industry and the *Revierwende* Project—these efforts still rely on government endorsement and funding. Industrial policy is therefore fundamentally state-driven, yet it decisively benefits from the active involvement and inputs of social partners.

Variations in the state-social partner relationship also reflect the different legal frameworks that govern these industrial policies. For example, Germany and South Africa[8] provide stable, statutorily backed institutions that mandate involvement of social partners over economic policy (and industry policy), while in the Republic of Korea social partners engage more on an ad-hoc and consultative basis. These differences reflect the willingness of the state to relinquish policymaking power—a factor that is key for effective social dialogue (ILO 2022, ILO 2024). In Germany, the social partnership model provides workers and employers a genuine voice in shaping economic policy, which in turn encourages buy-in. The country's coal transition plan, for example, received strong support from social partners—an impressive outcome compared with the political challenges many other industrialized countries have faced during coal closures. In the Republic of Korea, however, influence over policy was not guaranteed while engagement on ad-hoc and consultative basis may have led the social partners to deprioritize effective participation. The relatively low application success rates, limited scalability and the lack of unanimous endorsement from the labour movement reflect this pattern.

The capacity of trade unions to engage with industrial policy is another key point of comparison. German trade unions, for example, possess substantial institutional knowledgeable. This is unsurprising given the roles they play, are expected to play, and are legally mandated to play in Germany's economic policy sphere. Their capacity is reinforced by central government support to participation, enhancing their influence in policy processes. By contrast, the evolution of industrial policy in South Africa has sometimes strained unions' ability to participate meaningfully. This reflects several factors, including the emergence of new social dialogue platforms (Masterplans), declining union membership in key sectors, and the absence of comparable government support.

The benefits of building social partner capacity represent another key and related lesson. In the Republic of Korea, historically limited social dialogue in industrial policy created capacity gaps among social partners— particularly trade unions—requiring other actors (i.e. government and civil society) to assume more substantial roles in the policymaking process. However, following the experience gained in the GJCM and MBRJCIs, social partners are better prepared to engage with and support future industrial policies. In this sense, social dialogue functions as an investment in state capacity. The South African and German cases similarly demonstrate the long-term advantages of well-capacitated social partners. In South Africa, the central and institutionalized role of trade unions within economic development and governance has yielded dividends during the Masterplans. Even where smaller unions face capacity gaps, COSATU's strong core capacities—developed over decades of policy engagement—have enabled the government to implement industrial policy more effectively. Likewise, Germany's robust social partner capacity has been instrumental in executing its green transition.

[8] While Masterplans and their governance structures are not legislated in the same way that NEDLAC is, there is broad consensus that the governance structures and guideline are to be strictly enforced, meaning that Masterplans in effect operate with the similar level of legitimacy as a legislated body.

▶ Conclusions: Enhancing industrial policy through social dialogue

State commitment is the essential starting point for any industrial policy. Without a government prepared to fund, design, and drive such strategies, they cannot be realized. However, as the history of failed industrial policies demonstrates, state support alone is insufficient. Success hinges on how policy is designed and implemented. This paper has argued that social dialogue—as a dynamic and inclusive model of economic governance—can be an important ingredient for success. It has also argued that social dialogue is a crucial mechanism for reducing information asymmetry. Governments often lack the granular, sector-specific knowledge that employers and workers possess. This reciprocal exchange of information does more than just create better policies; it builds the trust and mutual commitment necessary to identify and overcome barriers and secure broad "buy-in" for transformative changes.

For these potentials of social dialogue to be realized, however, several conditions are crucial. A foundational element of this framework is **institutional permanence**. In the Republic of Korea, the more ad-hoc nature of social partner engagement in industrial policy is subject to changing political cycles and can discourage long-term investment from these actors. By contrast, stable, legislated roles—as seen in Germany and South Africa—anchor industrial policy beyond a single administration. This institutionalization secures social partners a continuing seat at the table, fostering the trust and confidence necessary for sustained, good-faith participation and enabling longer-term structural transformation processes to occur and be sustained.

Beyond structure, the social partners themselves must possess both **capacity and legitimacy**. Capacity ensures meaningful participation. While employers are often well-resourced, trade unions may require capacity-building initiatives—not as a cost, but as an investment in more effective governance. Legitimacy, meanwhile, concerns the recognized right to participate. In contexts like the United States, where labour laws and public opinion often confine unions to an enterprise-level role, their potential contribution to national economic policy is curtailed. This contrasts with corporatist models, where social partners are viewed as legitimate representatives of broad societal interests, possessing democratic mandates and unique information that strengthen policymaking.

Finally, success demands **patient and pragmatic engagement** by all tripartite constituents. Social dialogue is a time-consuming process that, by definition, delivers outcomes unaligned with the starting position of each stakeholder. To engage in this process thus requires a preparedness to negotiate in good faith, an approach justified by the view that an imperfect outcome is usually better than no result at all. Pragmatism in industrial policy, however, looks different for the tripartite groups. For governments, this means a political will to decentralize aspects of decision making to the social partners. For workers and their unions, pragmatic engagement means acting as constructive and inclusive economic stakeholders who do not inhibit policymaking. For employers, pragmatism means looking beyond short-term market pressures to invest in better wages and conditions. This tripartite trust is best cemented by a capable, technocratic state that acts as an honest broker. By making public funding contingent on compelling business cases and decent work standards, the government can align private-sector incentives with public goals for productive and sustained structural transformation.

The resurgence of industrial policy is a response to the defining challenges of our time: the climate crisis, digitalization, and geostrategic competition, among others. Left to their own devices,

markets will produce outcomes, but they cannot be relied upon to deliver just or optimal transitions. Industrial policy is an acknowledgement that market forces must be harnessed and directed toward socially desirable goals, including the productivity and productive employment growth. This paper's central conclusion is that social dialogue is an effective mechanism for this task. By embedding principles of institutional permanence, capacity, and pragmatic engagement, governments can build the broad-based consensus and gather the vital information needed to navigate complex structural transformations.

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