The Return of the State: Industrial Policy in the Modern Day

by Meher Bhunia

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The latter half of the twentieth century witnessed a decisive shift in advanced economies away from state-directed industry toward market-based allocation. Amongst other things, the Second World War institutionalised methods of resource allocation, and economic management necessary for the "conduct of the war and in the construction of a postwar world" (Dupont-Kieffer et al., 2024, 2). Wartime mobilisation had demonstrated that the government could coordinate production and distribution on an extraordinary scale. Yet the very success of emergency planning exposed its limitations as a permanent model for long-term economic growth in peacetime economies.

The critique of industrial policy was articulated most clearly by Friedrich Hayek, who argued in "The Use of Knowledge in Society" that economic coordination depends on "dispersed" (Hayek, 1945, 12) and tacit knowledge that no central authority can aggregate effectively. Prices, he contended, function as signals that condense countless local decisions into a mechanism of adjustment. Without these signals, any central authority would face insurmountable informational and processing constraints and would struggle to allocate resources effectively.

By the late twentieth century, this reassessment had crystallised into a policy consensus favouring trade liberalisation, and limited sector specific interventions. However, recent disruptions — pandemic-induced supply chain breakdowns to heightened geopolitical competition — have prompted advanced economies to reconsider state involvement in strategic sectors. Measures such as the CHIPS and Science Act (Hufbauer & Hogan, 2025) and policy frameworks including the European Green Deal Industrial Plan (Vandenberghe, 2025) reflect a renewed willingness to employ targeted industrial intervention for economic resilience and technological leadership. This article argues that the contemporary revival of industrial policy represents not a return to command economies, but a recalibration of the state's role in response to systemic risk. Rather than rejecting markets, it reflects a world where geopolitical disruption has exposed the fragility of supply chains optimised solely for efficiency. The long-term success of these interventions will depend on whether they strengthen resilience without eroding competition, fiscal discipline, or the openness of the global trading system.

The globalisation era that followed reflected this intellectual shift. Between 1990 and 2010, global trade as a share of world GDP rose from 38% to peak at 61%, as reported by the World Bank (Hoffman et al., 2026). Production fragmented across borders as firms optimised cost structures through global value chains. Advanced economies specialised in high-value design and services, while manufacturing clustered where scale and lower costs prevailed. Yet this system also embedded

concentration risks. By 2022, Taiwan accounted for "over 60% of global [semiconductor] foundry revenue," with the Taiwan Semiconductor Manufacturing Company, producing "more than 90% of leading-edge chip manufacturing" (United States Government, 2025, para. 1). Because semiconductors are essential to most electronics, their concentration, efficient under stability, creates deep systemic exposure to geopolitical disruption.

From a microeconomic perspective, firms optimise expected returns based on predictable risks and short-term incentives. Low-probability, high-impact geopolitical shocks are difficult to price ex ante. This creates a divergence between private efficiency and social resilience leaving the globalised model vulnerable to disruptions exceeding corporate-level risk calculations.

A Documented Structural Break: Evidence Since 2009

The shift away from market-led orthodoxy is one that has been studied extensively by the IMF. Using large language model techniques, their work documents widespread industrial policy adoption across both advanced and emerging economies between 2009 and 2023, primarily through subsidies and trade restrictions. Its central finding is a clear "structural break around 2020" (Evenett et al., 2025, i) defined by a sharp acceleration in policy activity accompanied by a fundamental change in the motivation behind it. While earlier interventions were primarily driven by competitiveness and climate objectives, the post-2020 wave introduced a new justification — one "trigger[ed]" (Evenett et al., 2025, 17) by supply chain resilience, national security and geopolitical concerns. Policies have increasingly targeted advanced technology sectors, as well as critical raw materials and minerals. The IMF also finds that geopolitical risk and "tit-for-tat" (International Monetary Fund, 2025, 20) retaliation have played a greater role in driving industrial policy after 2020, and that support has extended into new strategic domains. The IMF's October 2025 World Economic Outlook, drawing on the same body of evidence, confirms that countries are increasingly using industrial policy to "support strategic… industries" (International Monetary Fund, 2025, 78), reduce import dependency and enhance resilience. What began as a set of exceptional responses to exceptional circumstances appears to have become a durable feature of the policy landscape.

The Covid-19 pandemic made the underlying vulnerabilities undeniable. When supply chains were disrupted in 2020 and 2021, shortages of semiconductors cascaded through industries ranging from electronic devices to automobiles. According to AlixPartners, the chip shortage cost the global automotive industry roughly "$210 billion in revenues", with the loss of "7.7 million units" (Yost, 2021, para. 2) of production. What had appeared to be a system optimised for predictability under normal conditions failed to absorb any systemic shock, sending entire industries to a grinding halt.

New Industrial Policy: Responses around the World

The response of the United States has been substantial. The CHIPS and Science Act of 2022 committed "over $52 billion" in federal funding "for supporting the semiconductor industry". As of late 2024, the United States was also on track to produce nearly 30% of the "global [semiconductor] capacity by 2032" (Peterson, 2024, para. 2), up from "0% in 2022" (Peterson, 2024, 2), when the act was signed. These federal investments have been furthered by "over 140 projects across 30 states," totalling "more than $640 billion dollars in private investments" (Semiconductor Industry Association, 2026, para. 1). It is further estimated that the "Real investment… is projected to reach at least $356 billion" (Barbiero, 2024, para. 2) between 2023 and 2028, with semiconductor and green energy manufacturing investment projected to account for an estimated "15%" (Barbiero, 2024, para. 4) of real investment growth in 2024 alone.

The European Union has pursued a parallel course. The European Chips Act entered into force in September 2023 and targets a doubling of Europe's global semiconductor market share from 10% to 20% by 2030, accompanied by €31.5 billion (European Commission, 2026) in both public and private investment. The EU's Green Deal Industrial Plan requires approximately €520 billion in annual investment from 2021–2030, with an additional €92 billion from 2023 to 2030 (Speck & Paleari, 2023) specifically to boost EU manufacturing capacity in net-zero technologies.

The theoretical case for these interventions is well established. Activities that generate positive externalities, for instance knowledge spillovers, national security benefits, or the anchoring of supply chains that benefit entire industrial ecosystems, will always attract less private investment than their social value warrants, because individual firms cannot capture the full return. "The New Economics of Industrial Policy" finds that the debate has shifted from "whether" governments should pursue industrial policy to "how" (Juhász, et al., 2023, 3) to do so effectively. Drawing on evidence from East Asia, Europe, the United States, and Latin America, they show that carefully designed industrial strategies targeting coordination failures and externalities can successfully restructure economic activity and boost long-term productivity.

Intervention, Efficiency and its Limits

The case for intervention is real, but so are the costs. Onshoring strategic production requires high initial expenditure, which may translate into higher consumer prices for a prolonged period. At a time of high public debt, the fiscal burden is not trivial. Even when other outcomes may be positive, industrial policy can generate "negative cross-sector spillovers" (International Monetary Fund, 2025, 77) and reduce overall productivity by utilising resources inefficiently. A parallel strand of IMF research suggests that the relationship between industrial policy and firm performance "varies by instrument, firm and industry characteristics, value chain position, and time horizon" (Parente. et al., 2025, para. 1), making advance targeting far harder than it appears in policy announcements.

The informational problem posed by Hayek thus persists in a modern form. Governments must identify which sectors merit support, at what scale, and for how long, all in advance of the outcomes that would reveal if their judgement was correct. History offers cautionary precedents. Japan's Ministry of International Trade and Industry, long celebrated as the model of strategic industrial policy, backed several sectors, notably the shift to heavy and chemical industrialization, that failed to achieve a sustained competitive advantage.

The Global Trading System and the Emerging Market Contrast

There also remains the asymmetric effect of industrial policy revival on the global trading order. While advanced economies have turned increasingly inwards, several large emerging economies have pursued the opposite strategy — strengthening trade engagement precisely at the moment when their larger counterparts are erecting new barriers.

When it comes to electric vehicles, the contrast is particularly sharp. The work of Mazzocco and Featherston documents how emerging market governments face a fundamental trade-off between two pathways for increasing the domestic supply of affordable EVs: "trade policy to facilitate imports and industrial policy aimed at increasing domestic production" (Mazzocco & Featherston, 2025, 6). While trade provides a faster pathway to electrification, it risks displacing existing and emerging domestic industries. While industrial policy is slower and potentially more costly, it carries a higher political payoff if successful.

A further report finds that countries with existing manufacturing capacity and expertise, notably Brazil, Indonesia, India, Mexico and South Africa, have "clear comparative advantage in moving up the

value chain" (Mazzocco & Featherston, 2025, 6), whereas countries lacking an existing industrial base are far less likely to succeed in developing a domestic industry, and instead ought to weigh the costs of "protection policies" (Mazzocco & Featherston, 2025, 11). This is especially important to note in the context of advanced economies, as it suggests that industrial policy is not a universal substitute for comparative advantage, rather it works to amplify existing productive capacity. Where this capacity is thin, as in the case of the American semiconductor industry, the path from subsidy announcement to operational factory is longer and more expensive than is generally acknowledged.

India offers a particularly nuanced counterpoint. In January 2026, after nearly two decades of negotiations, the EU and India concluded a free trade agreement described both by European Commission President von der Leyen and the Indian Prime Minister Modi, as the "mother of all deals" (Al Jazeera, 2026, para. 3). The deal covers a combined market of approximately "25 percent of the global gross domestic product," (Al Jazeera, 2026, para. 6) and aims to eliminate or reduce tariffs on over 96% of EU goods exports to India. According to EU trade data, bilateral goods trade between the two has already reached "€120 billion in 2024" (European Commission, 2026, para. 4). India's Production Linked Incentives schemes, covering 14 sectors, had by November 2024, attracted real investments of "₹1.61 lakh crores," or $17.5 billion, and generated production and sales of "₹14 lakh crore" (Dayal & Narayanan, 2025, para. 1). More importantly however, this framework is explicitly designed to integrate the country more deeply into global value chains rather than withdraw from them — a contrast to the more domestically-oriented reshoring ambitions embedded in the CHIPS Act and the EU green deal.

This asymmetry exposes a structural irony at the heart of the current industrial policy moment. Industrial policies designed by the US and EU to reduce strategic dependencies may, in practice, accelerate the reorganisation of global value chains rather than simply reshoring production. As new domestic content requirements and supply chain restrictions divert investment, emerging economies positioned to serve as alternative production nodes, namely Vietnam, Mexico and India, stand to benefit from the investment flows that follow.

The Path Forward

The central question that remains is whether the current industrial policy moment represents a durable recalibration or a politically contingent reaction that will be difficult to unwind. But perhaps that framing misses something. The revival of industrial policy may less be a triumph of new economic thinking over old, and more a reflection of a world whose conditions have come to resemble those of the

mid-twentieth century when industrial policy was not an ideological choice but a practical response to existential disruption.

The late twentieth-century consensus against state intervention emerged in a period of relative geopolitical stability following the Cold War. Trade liberalisation flourished partly because the systemic shocks, like wars, that would have disrupted it were absent. Industrial policy receded not merely because of the intellectual persuasiveness of Hayek, but because the world was, for a time, calm enough to let markets work with the state stepping in to manage risks. This is perhaps best cemented by Anne Krueger's work on the Washington Consensus, where she went so far as to recommend that growth would come as a result of "non-interventionist government[s]" (Tan, 2024, 10).

It is, however, safe to say that the calm has since been disrupted. The Covid-19 pandemic, the largest global health emergency in a century, demonstrated that supply chains optimised merely for peacetime efficiency could collapse rapidly. Those firms unable to operate with "flexible production lines" found themselves suffering from "financial loss" (Schatteman et al., 2020, 12). Russia's invasion of Ukraine in 2022 shattered European assumptions about energy security and the stabilising power of economic interdependence, an error identified as a "major strategic miscalculation", suggesting that EU dependence on Russian oil proved costly for Europe's "climate ambition" (Falkner, 2023, 20). Conflict in the Middle East has repeatedly threatened the maritime corridors through which global trade flows, and has been recognized as a possible cause of a "downturn", "disadvantage[ing] weaker regional producers" (Young, 2025, 1). On Taiwan, the IMF's own research (Evenett et al., 2025, i) documents that the structural break in industrial policy activity was driven by geopolitical risk, national security, and the management of strategic dependencies. These are not peacetime economic concerns. They are, in character if not in legal designation, wartime ones.

This reframing matters for how we assess the current moment. The observation that the Second World War institutionalised new methods of resource allocation that shaped the postwar world, was the description of a pattern that repeats: emergency conditions create the political permission and institutional capacity for interventions that markets, left alone, will not deliver. The question for the twenty-first century is not whether industrial policy is theoretically superior to market allocation in peaceful conditions. The question is whether the conditions of the early twenty-first century are peaceful enough for such an ideology to govern policy. A world of active wars, recurring pandemics, and intensifying geopolitical rivalry may simply not be that world.

On this reading, the revival of industrial policy is neither a restoration of a failed model nor a confident new paradigm. It is a contingent response to a contingent emergency, justified to the extent that the emergency is real, and dangerous to the extent that emergency becomes the permanent alibi of the state. The conclusion of the EU-India free trade agreement in January 2026, at a moment of renewed tariff pressure from Washington, is a reminder that the impulse toward openness has not been extinguished. The state has reasserted its role in shaping strategic industries. Whether it retreats when the emergencies of the twenty-first century pass, between wars and pandemics, or finds reasons to stay, is the question on which the long-term health of the global trading system depends.

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