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Industrial Policy's Comeback: From Free Markets to National Survival

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For years, Western countries trusted globalization to deliver efficiency and prosperity, allowing industrial policy to fade into the background. Factories relocated overseas, supply chains spanned continents, and economies came to rely on services. That complacency is now over. The U.S.-China trade war, pandemic-driven shortages, and Russia's war in Ukraine have all exposed the dangers of relying on global markets for vital goods. Add to that the escalating tech and defense race with China, and it's no surprise that capitals from Washington to Brussels are rediscovering a once-unfashionable tool: industrial policy. No longer dismissed as economic interventionism, it has re-emerged as a matter of national survival—shaping industrial strength, technological leadership, and strategic autonomy.

From Historical Disputes to New Geopolitical Battlefields

Industrial policy is shorthand for government strategies to promote key sectors through tools such as subsidies, investments, and regulations. The IMF calls it a way to shape an economy's structure and boost productivity. For the World Bank, it's about nurturing growth in vital industries. The WTO, meanwhile, stresses fair competition, but tacitly accepts subsidies as a support for home-grown champions. Ultimately, industrial policy isn't just about competitiveness, it is also designed to drive innovation, create jobs, and fuel sustainable growth.

While government support may appear attractive, industrial policy was long criticized in the U.S. and Europe as inefficient intervention, leading both to favor free-market principles from the 1970s onward. Such a

paradigm shift was rooted less in Keynesian economics than in neoliberal and free-market thinking, which emphasized allowing markets to dictate outcomes with minimal state intervention. It is believed that "[t]he free market is what works, and having the state help it is usually a contradiction in terms," and "[t]he best industrial policy is none at all." That stance is shifting: intensifying geopolitical competition in semiconductors and AI has compelled governments to realign industrial development with strategic objectives. Recent measures such as the U.S. CHIPS Act and the EU's AI initiatives illustrate a renewed embrace of industrial policy as a tool to strengthen economic resilience and secure technological leadership.

Learning from Mistakes: Costly Failures vs. Economic Triumphs

For decades, U.S. and European policymakers distanced themselves from industrial policy, pointing to the inefficiencies and high-profile failures of past government-led initiatives. Economic liberals argued that state intervention distorted markets, stifled innovation, and wasted public resources. One often-cited example is the U.S. Synthetic Fuels Corporation (SFC), born in the 1970s to combat the oil crisis, fueled by government cash, and dead by 1985, having missed every target. SFC's collapse reinforced the widespread belief among policymakers that government-backed initiatives often end in costly failure. Another recent case that illustrates the failure of government intervention is Solyndra, a solar energy company that received over $500 million in U.S. federal loans but eventually declared bankruptcy in 2011. Solyndra's failure not only resulted in substantial taxpayer losses but further embedded concerns about the government's incompetence in managing industrial policy effectively. These high-profile failures had a negative impact on public and political attitudes toward government involvement in economic matters, thus reinforcing skepticism about the efficacy of industrial policy.

However, industrial policy was not entirely a failure to all. On the contrary, countries such as South Korea, Singapore and Taiwan have demonstrated the effectiveness of industrial policy in driving significant economic growth and technological advancements. South Korea's policy to promote the development of its heavy industries in the late 20th century, ultimately positioned the country as a global leader in the steel production and shipbuilding sectors. The focused investment in the semiconductor industry also transformed South Korea into a leader in chip manufacturing. Singaporean government initiatives centering on high-tech and financial services have also made the country a hub for technology and finance in Southeast Asia. Similarly, Taiwan's effort in nurturing semiconductor manufacturing and fostering companies like TSMC and UMC, has positioned it as a global leader in chip production. These successful cases of industrial policy directly challenge the free-market, laissez-faire approach long championed in Western economic governance.

A Tightrope Walk: Balancing Trade Laws and National Ambition

Despite the success in certain nations, industrial policy was still abandoned by most. Beyond the influence of free-market economics, this reluctance also stemmed from the development of international trade rules, particularly those of the WTO. The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), are rooted in Keynesian theory, but their rules focus mainly on reducing non market influences that distort competition. Government measures that distort or restrict markets are generally discouraged, and in many cases, prohibited. Countervailing duties and anti-dumping measures were introduced to offset subsidies and dumping, but they also unintentionally constrained WTO members' ability to pursue

industrial policies. Moreover, fearing legal challenges to their industrial policies by other members before the powerful WTO dispute settlement mechanism, countries that favor industrial policy are often reluctant to admit it openly and instead pursue such measures under different labels.

In addition, domestic political constraints add another layer of complexity to the implementation of industrial policy. In democratic nations, politicians are subject to scrutiny from their constituents. While politicians face pressure to propose policies that will foster economic growth and garner public support, the risks and fear of failure also deter them from clearly defining their goals. This paradox often results in governments making vague policy announcements that lack detail or specificity which undermines the potential impact of intended interventions. More critically, whenever thinking of introducing industrial policy, politicians still confront the enduring questions: to what extent should governments intervene? How to intervene? How should winners be chosen? What remedies should be provided to those affected? And how can social and distributive justice be ensured?

Building Shields, Not Just Factories: Industrial Policy's New Mission

The return of industrial policy is no longer theoretical, it is evident in the surge of government funding, new legislative frameworks, and a global race for technological sovereignty. Landmark policies such as the U.S. CHIPS and Science Act, the Inflation Reduction Act, and the European Union's AI Strategy and AI Act exemplify this renewed commitment. President Trump's "Make America Great Again (MAGA)" campaign, which emphasizes rejuvenating American manufacturing as a fundamental step in restoring the nation's industrial capacity, is also an example of how national security shaped a country's attitude towards industrial policy.

With the major power leading the pathway, almost every country is now reviewing their industrial strategies through the lens of resilience and self-sufficiency. This perspective change marks a departure from purely economic rationales to a more complex interplay of national security and economic interests. Investments in critical technologies and industries are no longer seen merely as paths to economic prosperity but as imperative for safeguarding national interests and maintaining competitive advantages and power. This recalibration demonstrates how states are re-embracing industrial policy not merely as an economic tool but as a national imperative, illuminating the renaissance in government involvement in industrial developments. While historical perspectives highlight the challenges, risks, and inefficiencies associated with government intervention, successful cases from other nations suggest that thoughtfully crafted industrial strategies can yield considerable benefits. In the face of the irreversible resurgence of industrial policy, what remains unknown is how far this change will reach and what impact it will have.

The renewed embrace of industrial policy represents both a response to historic failures and a recognition of new global realities. As states seek to balance economic efficiency with national security, the lines between government and market become increasingly blurred. While risks of inefficiency and unintended consequences persist, the potential rewards—economic resilience, technological leadership, and strategic autonomy—are compelling. Moving forward, the success of this new era of industrial policy will depend on sound policy design, transparent governance, and responsive collaboration between governments and industries. Ultimately, how nations navigate these opportunities and challenges will determine not only their economic futures but

also the shape of global trade and international cooperation in the years ahead. Equally important will be how industries respond to and leverage these policies, shaping competition and securing advantages at both national and global levels.

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