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Article

The new era of industrial policy: Evidence and implications

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Policy Debate of the Hour

The New Era of Industrial Policy*

Evidence and Implications

Key Messages

- Industrial policy interventions have surged since 2020, increasingly driven by geopolitical concerns
- The New Industrial Policy Observatory reveals over 36,000 interventions globally since 2009, enabling a systematic analysis of patterns and impacts
- Industrial policies can improve products' competitiveness in some cases, but the impact is short-lived and there is no evidence of self-sustaining virtuous cycles
- Effective industrial policy requires careful design, strong governance, and multilateral cooperation to manage spillover effects



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While it is commonplace to say that industrial policy is back, comprehensive data on industrial policy is not readily available. The New Industrial Policy Observatory (NIPO), an initiative launched by the International Monetary Fund (IMF) in collaboration with the Global Trade Alert (GTA), monitors

industrial policies in 75 countries worldwide and aims to fill this gap (Evenett, Jakubik, Martín and Ruta 2024). This monitoring exercise defines industrial policy as any targeted government intervention aimed at developing or supporting specific domestic firms or industries to achieve national economic or non-economic (e.g., national security, public health, or environmental) objectives (IMF 2024).

* The views expressed in this article are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

According to NIPO data, 4,179 and 3,820 such measures were implemented in 2023 and 2024, respectively. Although measures are sometimes discovered with a lag, the first six months of 2025 already revealed 1,611 measures.

Looking Back in Time with the Help of AI

One important question that remains largely unanswered is how industrial policies have evolved over time. A new IMF working paper explores industrial policy developments since the great financial crisis (GFC) with the aid of large language models (LLMs), a type of generative artificial intelligence (AI) specialized for text-based tasks. First, the LLM techniques are trained on NIPO data for the years 2023 and 2024. Then, they are used to identify measures from the GTA database between 2009 and 2023 with conventional and new industrial policy motives: global value chain (GVC) resilience, national security or geopolitical concerns, climate mitigation, and strategic competitiveness. Measures targeting products from predefined lists of “strategic” sectors are also classified as industrial policy.

These criteria yield a total of 34,248 industrial policy interventions in the period 2009–23. Advanced economies (AEs) account for 52 percent of measures, while emerging markets and developing economies (EMDEs) make up the remaining 48 percent. China, the European Union, and the United States together account for around 53 percent of

interventions. This brings the overall coverage of the NIPO to nearly 36,000 state interventions between January 2009 and October 2025.

Several new stylized facts about the post-GFC industrial policy landscape are revealed:

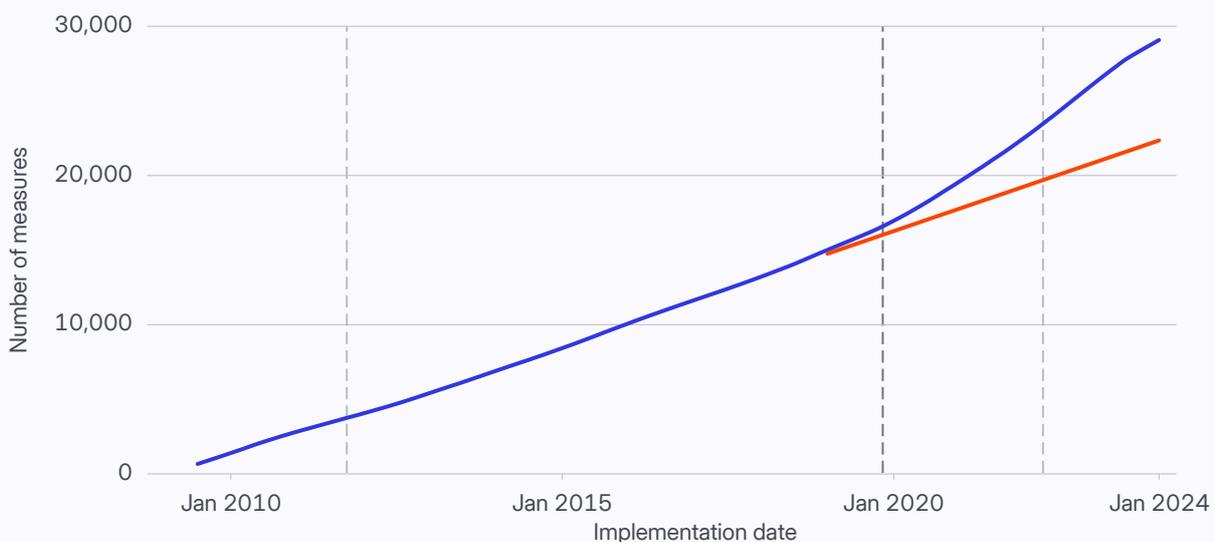
- First, 2020 marks a structural shift in the number of industrial policy interventions (Figure 1). The COVID-19 pandemic, commencing in January 2020, was clearly catalytic, but policy activity still remains elevated well after countries have exited the pandemic.
- Second, during and after the onset of the GFC, the most frequently cited industrial policy motives were competitiveness and the climate. Since 2020, however, new-style industrial policy motivations such as supply chain resilience, national security, and geopolitical concerns have come to the fore (Figure 2).
- Third, the share of countries implementing such trade policies, in particular subsidies, has risen markedly since the GFC.

An econometric analysis of countries’ actions at the level of specific products confirms that the notable shifts around 2020 are not merely present on an aggregate level:

- First, exposure to imports from geopolitically distant trading partners shifts from a negative correlation to

Figure 1

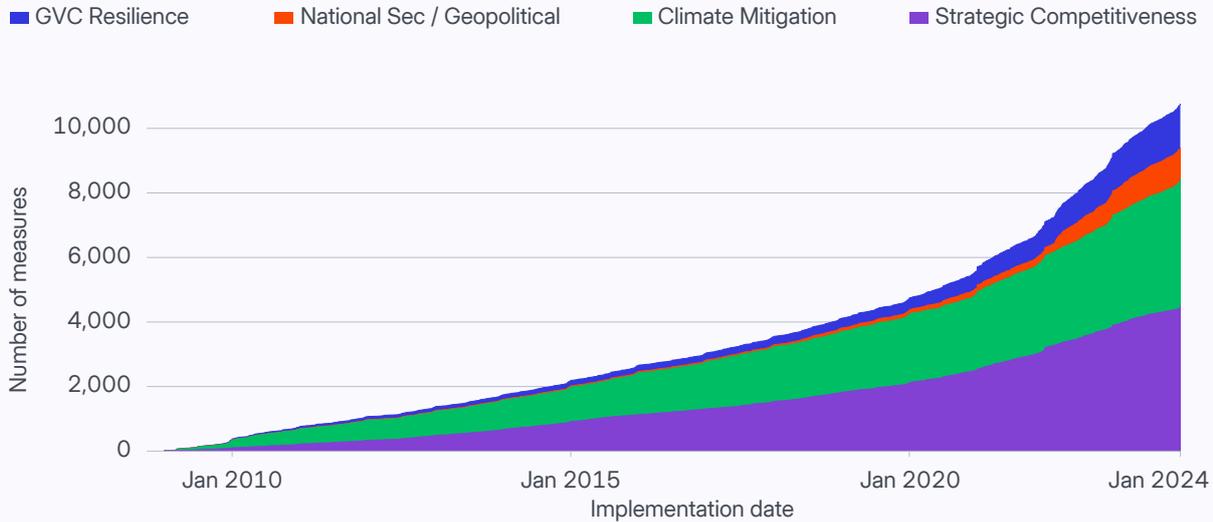
2020 Marks a Turning Point in Industrial Policy Activity



Notes: Cumulative stock of trade-distorting industrial policy measures. The orange line represents the pre-2020 trend. Source: Evenett, Jakubik, Kim, Martín, Pienknagura, Ruta, Baquie, Huang and Machado Parente (2025).

Figure 2

New Industrial Policies with LLM-Assigned Motive



Notes: Cumulative stock of trade-distorting industrial policy measures with motive. For measures with multiple motives, each motive is given equal weight.
Source: Evenett et al. (2025).

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a positive correlation with policies targeting a given product. In other words, prior to 2020, countries implemented relatively fewer industrial policies targeting products imported from geopolitical rivals, but this has since reversed, suggesting growing interest in reducing geopolitical risks from dependencies.

- Second, industrial support by other countries for a given product turns from a negative to a positive driver of intervention, which is consistent with inefficient tit-for-tat dynamics.
- Third, correlation with comparative advantage switches from positive to negative. In other words, prior to 2020, countries implemented relatively more industrial policies targeting products in which they already had a strong global market presence, but this has since switched, implying a shift in focus to new and less established sectors. An example would be a country that previously supported firms in heavy industries refocusing its support to downstream, higher value-added manufacturing.
- Finally, the correlation of new industrial policies with the existing stock of industrial policies targeting a given product changes from negative to positive. The more a product has received support in the past, the more likely it is to receive additional support. This is consistent with the aggregate trends showing an acceleration in interventions, as well as a growing sectoral concentration of support.

Does Industrial Policy Work? Assessing the Economic Impact

The question that arises is how this widespread expansion of industrial policy activity has influenced trade and the economy more broadly. Recent IMF research has adopted two complementary approaches: a product-level approach and a firm-level approach.

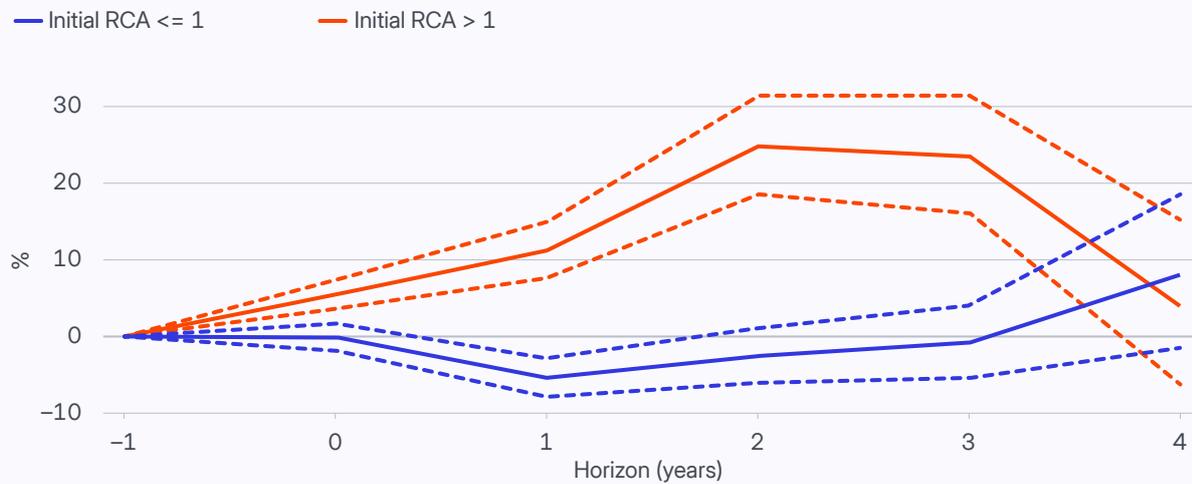
The product-level approach by Huang et al. (2025) explores the impact of industrial policies on country-product revealed comparative advantages (RCAs) based on customs data.¹ This covers 156 countries and 5,018 products between 2009 and 2022. The main findings can be summarized as follows:

- On average, there is a positive link between industrial policies and an improvement in the competitiveness of targeted products, but this effect is generally short-lived, with significant variations observed across products and policy instruments.
- The boost to RCA is mostly driven by products that were already competitive to begin with rather than

¹ RCA is defined by the Balassa Index for a given product and country as the export share of the product in the country's total exports, divided by the world's export share of the product. RCA with a value greater than 1 implies that the country exports a relatively higher share of the product compared to the world average, suggesting that the country is competitive in the product.

Figure 3

Difference in the Effects of Industrial Policy by Initial Competitiveness



Notes: The solid lines represent the average estimated percentage change in revealed comparative advantage (RCA) (plus a small constant to avoid losing zeroes). The (solid) orange line corresponds to the average effect for products with $RCA > 1$ (initially competitive) and the (solid) blue line correspond to the average effect for products with $RCA \leq 1$ (initially uncompetitive). In both cases, the dashed lines represent the 90% confidence intervals. Standard errors are clustered at the country-product level.

Source: Huang, Baquie, Jaumotte, Kim, Lu, Machado Parente and Pienknagura (2025).

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- by making previously uncompetitive products more competitive (Figure 3), although effects are short-lived.
- Products associated with the green transition experience larger medium-term improvements in RCA than other products.
- Industrial policies targeting the performance of green products further upstream in the value chain yield relatively stronger improvements in RCA than policies targeting products at more downstream stages of production. This points to potential cross-product spillovers from alleviating capacity constraints and reduced input costs.

Earlier work by Rotunno and Ruta (2024), also at the product level, focused on the trade effects of subsidies. Their analysis found that, while subsidies boost both exports and imports of targeted products, they generally fail to persistently improve comparative advantage. However, G-20 emerging markets are an exception; here, subsidies have had a sustained impact on export dynamics.

Machado Parente, Baquie, Huang, Jaumotte, Kim and Pienknagura (2025) take a firm-level approach to examine the impact of industrial policies on firms' value added, total factor productivity (TFP), payroll, and capital. They studied two million firms from 38 countries over the period 2011–18, including both public and private firms, using the ORBIS dataset. They then matched firms to industrial

policies using firm-level identifiers. Two main categories of industrial policies are examined: domestic subsidies and export incentives. The analysis revealed three main findings.

First, there is a dynamic relationship between domestic subsidies and firm-level outcomes. On average, an additional subsidy is associated with a sustained one percent increase in capital stock. In contrast, the effects on value added, TFP, and payroll are short-lived and turn negative in the medium term.

Second, there is a mildly positive medium-term association between export incentives and the productivity of the average firm. However, there are short-term costs: an additional export incentive is associated with 0.5 percent lower productivity for the average firm in the targeted industry in the first two years after implementation. Overall, the results suggest only a weak link between export incentives and average firm performance.

Third, the presence of pre-existing market distortions matters. Policies targeting industries with higher levels of distortion (defined as high markups and high external financial dependence) are associated with stronger performance by the average firm in the industry.²

² The authors compute sector-level measures of distortions that aim at stripping country-specific policies. This is done to capture sectoral characteristics, such as economies of scale, that could be drivers of industrial policies

Policy Implications

The key message that emerges from these recent studies is that industrial policy should be handled with care (IMF 2024; Ilyina, Pazarbasioglu and Ruta 2024; Baquie, Huang, Jaumotte, Kim, Machado Parente and Pienknagura 2025). While well-targeted industrial policies that address existing market failures can be effective, good governance and implementation capacity are essential for success. The choice of policy instrument matters: subsidies, import or export policies, and localization measures have different economic ramifications, potential for domestic distortions, and spillovers on trading partners. Such spillovers can be a major irritant in trade relations, driving trade tensions and countermeasures. Finally, the fiscal sustainability of subsidy programs must be considered. Although certain non-economic considerations, such as climate, health, and national security, play an increasingly important role in determining the target and generosity of state support, a thorough cost-benefit analysis is still recommended before embarking on new interventions.

One of the most difficult challenges of the return of industrial policy is managing the cross-border spillover effects. The global economy may be heading toward a *cul de sac*. Unilateral policies, such as tariffs, can offset the effects on domestic markets of industrial policies implemented by exporters. However, these measures generally relocate rather than resolve the problem of spillovers to other markets through trade diversion, potentially triggering contagious protectionism. In principle, multilateral rules can help mitigate the costs associated with harmful spillovers, inefficient subsidy races, and escalating trade tensions. Yet the proliferation of industrial policies and tariffs undermines the very trust among countries needed to strengthen and clarify multilateral rules. In this regard, there is no efficient alternative to reigniting cooperation to govern industrial policies. •

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