

The revival of industrial policy: State support must stand up to market scrutiny

Issue 08, 14 October 2026 // Author: Wolfgang Krieger (DEG), Editor: Heide Kühlken

Industrial policy is undergoing a renaissance worldwide. OECD data show the 525 largest industrial groups received subsidies totalling USD 108 billion in 2024. This represented 1.3 per cent of their turnover and the second-highest value since the beginning of the survey. The EBRD also records more than 31,000 industrial policy measures across some 150 economies for the period 2009 to 2022. The crucial question is no longer whether governments pursue industrial policy, but how. Developing and emerging economies outside China cannot hope to outspend the large economies in the subsidy race. This issue of Development in brief shows how targeted support can still succeed.

Industrial policy in transition

As early as the 18th and 19th centuries, tariffs, infrastructure investments and state subsidies were supposed to enable the development of domestic industries. After 1945, many developing countries relied on import substitution, while East Asian states tied their support more closely to export performance and international competition. Import substitution often produced inefficient and permanently protected industries. Some East Asian economies, on the other hand, were able to initiate technological learning processes and new export industries.

From the 1980s onwards, selective interventions took a back seat. The prevailing view was that the state should provide a stable policy framework, while markets decided on investment and production structures. The financial crisis, the pandemic, climate change and geopolitical tensions have once again sent the pendulum swinging towards state intervention. Today, industrial policy is intended not only to promote growth, but also to secure supply chains, reduce

technological dependencies and enable the transition to climate neutrality.

The new subsidy race

China is at the heart of this development. The 'Made in China 2025' strategy, launched in 2015, marked the beginning of the country's rise in strategic high-tech sectors. The 15th Five-Year Plan continues this course for 2026 to 2030, with a stronger focus on technological self-reliance, resilient supply chains and future-oriented sectors such as semiconductors, robotics and biotechnology. Between 2005 and 2024 Chinese industrial firms received three to eight times as much in subsidies relative to turnover as firms in OECD countries, the OECD finds.

Subsidies demonstrably shift market share: according to the OECD, around 22 per cent of the global market share gains of growing companies between 2005 and 2023 are attributable to the subsidies received. By contrast, subsidies have little or even negative effects on investment and productivity. The resulting overcapacity and distortions of competition exacerbate trade tensions. The US and the EU are responding with tariffs and other trade defence measures, while ramping up their own subsidy programmes. For example, the US government's pledge of CHIPS Act subsidies to Intel resulted in a 9.9 per cent stake in the company in 2025. This threatens a spiral of subsidies, protective measures and counter-subsidies.

Support must prove its worth

This does not mean that developing and emerging economies should abandon industrial policy. However, they must use their scarce resources more selectively. Indonesia's export ban on nickel ore shows the trade-offs: the measure

attracted foreign investment and boosted domestic processing, but also deepened dependence on Chinese capital, technology and offtake. Morocco, on the other hand, opted for the export-orientated route. Investment in infrastructure, training and supplier networks connected foreign manufacturers with the domestic economy. In 2025, automobile production reached around one million vehicles. Four out of five vehicles are exported.

This implies three conditions for successful subsidies:

1. Support must be grounded in a specific market failure and limited to a few realistic priorities.
2. Success criteria must be defined in advance. Market testing means that those who are supported must survive without protection after a set period, win subsequent private investment and, if possible, hold their own in export markets.
3. Funding rules must include binding sunset clauses. Many programmes continue to run not because they are successful, but because the beneficiaries are well organised and the costs are widely spread.

Conclusion

The renaissance of industrial policy is more than another swing of the pendulum. When subsidies, tariffs, supply chain security and state holdings interact in a lasting way, it changes the operating system of economic policy. Developing and emerging economies will not win this competition through larger-scale programmes. Their opportunity lies in a more judicious selection of bottlenecks and in support that catalyses private investment, facilitates technological learning and consistently stands up to market scrutiny. ■