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The World Trade Organisation (WTO) put to the test of geostrategic tensions and the upsurge of industrial policies

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The World Trade Organisation (WTO) put to the test of geostrategic tensions and the upsurge of industrial policies

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Abstract

According to the prevailing paradigm at the end of the Cold War, the opening of markets and international cooperation were not only vectors of prosperity but also of systemic rapprochement in both economic and political terms. Among other factors, this Zeitgeist sustained the momentum that led to the creation of the World Trade Organisation (WTO) in 1995, which China and Russia also joined.

In recent years, we have seen a shift towards a new paradigm. The political discourse has been peppered with expressions such as “strategic autonomy”, “de-risking” and “self-reliance”. The main players share the same fear that the control of trade flows may be used as a means of pressure. Diversification of supply sources is also advocated to reduce the risks inherent in the strong interdependencies resulting from economic globalisation.

Restrictions on trade and foreign investment as well as massive support have already been deployed to varying degrees in different countries. However, the rearrangement of international trade subsequent to these policies has not so far led to a breakdown of globalisation or a collapse in trade flows.

This essay focuses on one aspect of the issue: the consequences for the WTO of the upsurge of industrial policies. It happens all too often that the WTO rules currently in force no longer fulfil their role as guardrails, either because they are disregarded or because they are not adapted to the new situation.

To reinvigorate the WTO, we propose the terms of an initiative designed to support a new modus vivendi by means of modernised rules. The aim would be to minimise the damaging trade effects of industrial policies, while identifying the situations and conditions in which they could be envisaged. The analysis will, inter alia, address direct and indirect state support (subsidies), the instruments most frequently used by interventionist governments.

Unfortunately, cooperative approaches do not have the wind in their sails. The fate of the outlined suggestions is therefore very uncertain. They are mainly intended to liven up discussions and should be weighed with a touch of critical thinking. Aware of the pitfalls of a complicated situation, we also sketch out, if not quick solutions, then at least avenues conducive to constructive dialogue.

1. Introduction

Geopolitics played a pivotal role in shaping post-war intergovernmental economic cooperation. The founders, led by the United States, shared the long-held belief of the fathers of political economy that international trade increased wealth and employment, and bolstered the prospects for peace among stakeholders. The General Agreement on Tariffs and Trade (GATT) was designed to prevent protectionist backslides and contribute to the recovery and growth of countries shaken by the conflict. In the midst of the Cold War, the project also pursued the highly political objective of coalescing and revitalising capitalist countries to

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supplant the bloc dominated by the Soviet Union, the strategic rival deprived of the GATT's benefits.

The multilateral trading system flourished in the second half of the 20th century, culminating in the creation in 1995 of the World Trade Organisation (WTO), an institution with a universal vocation. The clouds began to gather at the start of the 21st century. Despite some tangible progress², the WTO negotiations have slowed to a crawl and the Doha Round launched in 2001 became lethargic. The dispute settlement system has been disrupted since December 2019. The cumulative value of imports of goods subject to restrictions has risen steadily since 2009³. In addition, import substitution policies and state interventionism are enjoying a revival. However, these setbacks have not yet led to a crumbling of globalisation or a collapse of trade flows.

The concerns raised by China's economic dirigisme as well as the unilateral tariff response by the United States also affect the WTO's credibility. Although the Sino-American confrontation causes the greatest disturbances, tensions are also flaring on other fronts. Many observers argue that the current trade clashes stem from deeper antagonisms between rival systems. Economic leverage is seen as a means to achieve geostrategic objectives in a race to control emerging technologies such as artificial intelligence, essential inputs, next-generation microprocessors, and digital connectivity.

Ideally, the crisis should be resolved through a negotiated agreement. However, this optimistic scenario remains hypothetical as it depends on the vagaries of the major players' trade policies and their willingness to compromise. Moreover, managing the system has become much more complex since the inception of WTO in 1995. Reconciling the multiple and often divergent interests of 165 Members is a daunting challenge in a forum where decisions are made by consensus. Given these difficulties, the necessary reform of the Organization will, in many instances, proceed through plurilateral agreements involving a critical mass of WTO Members whose objectives converge.

This essay addresses one aspect of the topic: the consequences for the WTO of the upsurge of industrial policies. It discusses the measures being applied and the new paradigm underlying them, which are heightening inter-state tensions. It happens all too often that the WTO rules currently in force no longer fulfil their role as guardrails, either because they are disregarded or because they are not adapted to the current conditions.

To reinvigorate the WTO, we are suggesting the terms of an initiative designed to support a new *modus vivendi* through modernised rules. The goal would be to minimise the detrimental trade effects of industrial policies while identifying the situations and conditions in which they might be resorted to. The analysis will focus primarily on direct and indirect state support (subsidies), which are the instruments most frequently used by interventionist governments.

Given the present state of international cooperation, the task seems an especially tall order. Recognising the pitfalls of a complicated situation, we will also sketch out, if not quick solutions, then at least avenues conducive to constructive dialogue.

2. A paradigm shift

² Among the most tangible achievements are the conclusion of multilateral agreements on trade facilitation (2013), on the elimination of agricultural export subsidies (2015), and on fisheries subsidies (2022), as well as plurilateral agreements on public procurement (2011) and on the elimination of tariffs on information technology products (2015). Additionally, an amendment to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) came into force in 2017, facilitating access to affordable medicines for developing countries. This instrument was clarified by a decision adopted in 2022 to improve access to COVID-19 vaccines.

³ Cf. WTO (World Trade Organization). *Trade Policy Review Body - Report of the TPRB from the Director-General on trade-related developments - Mid-October 2022 to mid-May 2023*, WT/TPR/OV/W/17, 14 July 2023, [directdoc.aspx\(wto.org\)](https://directdoc.aspx(wto.org)): 19.

Brief historical overview

During its first decades, the GATT enabled market economies to coalesce and to reap the rewards of international trade. Its success was partly due to the fact that US foreign policy was shaped by the Cold War. Indeed, the GATT system was also a response to the Communist economies, which had walled themselves off from foreign competition. Additionally, the latter's access to capital and technology was limited by the financial and commercial restrictions that Western bloc countries imposed under the leadership of the United States. The economic apparatus served security and strategic imperatives⁴. In this ideologically divided bipolar world, transactions between the opposing blocs were reduced to a strict minimum. On the other hand, this period was marked by a boom in trade between Western countries thanks to the liberalisation policies they adopted and the rapid post-war recovery.

Apart from strategic aims, one of the primary concerns at the time was to avoid a depression and to create enough employment in the civilian sector to redeploy the surplus workforce of the war industry and to occupy the many demobilised troops. To borrow a term now very much in vogue in Washington, it was the "worker-centered" policy of the immediate post-war period⁵. Ironically, seven decades later, in an obviously different political and economic context, the phrase "worker-centered" will refer to trade policy measures of a wholly different nature

In the 1990s, with the fall of the Soviet Union and the liberal reforms carried out in the former centrally planned economies, including China, security concerns took a back seat. According to the dominant Western paradigm, the opening of markets and international cooperation, at both state and corporate levels, were not only vectors of prosperity but also of systemic rapprochement in economic and political terms. Among other factors, this new *Zeitgeist* contributed to the momentum that led to the creation of the World Trade Organisation (WTO).

The inception of WTO on 1 January 1995 broadened the scope of the GATT and underpinned its legal force. The inclusion of trade in services and intellectual property protection adapted the system to a rapidly expanding knowledge-based global economy. Gradual and incomplete, liberalisation was modulated according to the contingencies of Members who consolidated, by means of legally binding commitments, the degree of market opening that they deemed useful or which resulted from a profitable bargain. Multilateral liberalisation was further enhanced by the conclusion of a large number of preferential bilateral or plurilateral trade agreements.

In fact, the semantics peculiar to trade talks seem intriguing from an economic theory perspective⁶: measures eliminating rents detrimental to the general interest are usually presented as "concessions". Beyond simple negotiating tactics, the diplomats' jargon is far from accidental. It reflects the fluctuating requirements of the political order.

Hyperglobalisation: economic and political impacts

Today, the WTO has 165 Members, including China and the Russian Federation, which joined in 2001 and 2012 respectively.

Advances in science and transportation have greatly amplified the impact of intergovernmental framework conditions and liberally-minded domestic reforms. In the 1990s, continuous improvements in information and communication technologies facilitated the remote control of

⁴ Cf. Paulsen, Mona (2023), *The Past, Present, and Potential of Economic Security* ([researchgate.net](https://www.researchgate.net)).

⁵ Cf. Wolff, Allan (2023), *Revitalizing the World Trading System*, Cambridge University Press: 23-26.

⁶ Cf. Krugman, Paul (1992), 'Does the New Trade Theory Require a New Trade Policy?', *The World Economy* 15 (4): 423-442; Krugman, Paul (1997), 'What Should Trade Negotiators Negotiate About?', *Journal of Economic Literature*, 35: 113-20.

complex manufacturing processes⁷ and provided a phenomenal impulse to trade and the internationalisation of production methods.

The ratio of total trade to GDP in real terms experienced an unprecedented increase and the structures of the world economy changed significantly. This phase saw the rise of China, which made the most of hyperglobalisation to assert itself as a major economic power. Since the financial crisis of 2008, globalisation slowed down and remained stagnant at a high level. On the whole, and in constant prices, exports of goods grow somewhat less than GDP while exports of services increase faster. The inflection since 2008 does not herald a deglobalisation process but rather a transformation of globalisation, where the share of trade in goods is tending to decrease from the record level reached more than 15 years ago and where trade in services is intensifying⁸.

For several decades, international trade has supported growth by stimulating competition, economies of scale, efficiency gains from specialisation, a better allocation of resources, and the dissemination of technology⁹. Average living standards improved significantly in the many countries¹⁰, both developed and emerging, that seized the new opportunities and joined the global economy. In average, poverty and global North-South inequalities declined sustainably¹¹. Furthermore, lower prices for imported goods benefited consumers, particularly low-income earners in advanced economies¹².

The speed and scale of changes have also triggered upheavals and resulted in the rise of a vast protest movement, particularly in developed countries. Activities were created and destroyed in all sectors involved in international trade, not just in sectors competing with imports. Modern economies must constantly readjust while workers prefer stability.

In the European Union¹³ and the United States¹⁴, the manufacturing sector declined significantly, including in terms of jobs. At the same time, innovations increased recruitment in the service sector¹⁵ so that the overall balance for rich countries turned out to be positive, both in terms of purchasing power and jobs created, which were more numerous and of better quality than the lost jobs. Also, it seems that technological change, rather than trade, is the main driver of growing inequalities within a country even though trade promotes technological changes¹⁶.

In recent years, the economic recovery from the COVID-19 crisis has been faster than expected within the OECD, where unemployment rates are approaching their historic lows in

⁷ Cf. Baldwin, Richard (2016), *The Great Convergence*, Harvard University Press.

⁸ Cf. Baldwin, Richard, Rebecca Freeman, and Angelos Theodorakopoulos (2024), '[Deconstructing Deglobalization: The Future of Trade is in Intermediate Services](#)', *Asian Economic Policy Review* 19: 18–37; Factual Friday with Richard Baldwin, 5 April 2024, [When did deglobalization start?](#) LinkedIn; Factual Friday with Richard Baldwin, 10 May 2024, [Is it for real? Two facts about the world's trade-to-GDP ratio](#), LinkedIn; Setser, Brad (2024), [The Dangerous Myth of Deglobalization: Misperceptions of the Global Economy Are Driving Bad Policies](#) ([foreignaffairs.com](#)).

⁹ Cf. Gopinath, Gita (2023), [Cold War II? Preserving Economic Cooperation Amid Geoeconomic Fragmentation](#) ([imf.org](#)).

¹⁰ Cf. Irwin, Douglas (2022), [Globalization has helped raise incomes almost everywhere since the 1980s](#) | [PIIE](#)

¹¹ Cf. Patel, Dev, Justin Sandefur, and Arvind Subramanian (2021), '[The new era of unconditional convergence - ScienceDirect](#)', *Journal of Development Economics*, 152 (4).

¹² Aiyar, Shekhar, Ilyina, Anna, and others (2023), [Geoeconomic Fragmentation and the Future of Multilateralism](#), IMF Working Paper.

¹³ Cf. Dorn, D. and Levell, P. (2021), 'Trade and inequality in Europe and the US', *IFS Deaton Review on Inequalities*.

¹⁴ Cf. Autor, D., Dorn, D., and Hanson, G. (2013), 'The China Syndrome: Local Labor Market Effects of Import Competition in the United States', *American Economic Review*, 103(6): 2121–2168.

¹⁵ Cf. OECD (Organization for Economic Cooperation and Development) (2019), [OECD Employment Outlook 2019: The Future of Work](#), OECD Publishing, Paris.

¹⁶ Cf. Helpman, Elhanan (2016), *Globalization and Wage Inequality*, NBER Working Paper Series No. 22944, National Bureau of Economic Research, Cambridge, MA.

2023¹⁷. Lately, sustained growth in nominal wages and falling inflation contributed to a recovery in real household disposable incomes in many OECD nations¹⁸. According to a recent study, after the pandemic, the rapid growth in low incomes in the United States offset 40% of the increase in wage inequality that had occurred since 1980 (ratio of the 90th to the 10th percentile)¹⁹.

But while progress and positive trends are indeed real, the fact remains that the economic well-being of households within a single country can vary widely²⁰. The gains from trade are unevenly distributed across individuals in the economy²¹. Some sections of society (especially low-income earners, less-skilled workers and small business owners) may be at a loss when it comes to adapting to the opportunities offered by globalisation and technological change, including the digitalisation of the economy. Many workers laid off as a result of import competition are unable to take up newly created skilled jobs and reluctantly accept poorly paid occupations²².

The social consequences of trade shocks can be mitigated through appropriate government measures. Thus, passive labour market policies (e.g. unemployment benefits and other income support systems) alleviate the negative effects on purchasing power²³. Similarly, active labour market policies (e.g. training, job search assistance, on-the-job training, and wage insurance programmes²⁴) facilitate and shorten the transition to reemployment.

In reality, it is not uncommon for social security and professional retraining schemes to be insufficient, unaffordable or assumed as such and for the gains from globalisation to be inadequately redistributed. The new precariousness has generated legitimate frustrations. Moreover, the public outcry caused by a job destroyed through international competition will always be louder than the celebration of new recruitment - or its promise - in thriving sectors. A political backlash was thus likely. It however appears that this reaction did not result from major shifts in public opinion but rather from the increasing political exploitation of existing (and very real) anti-globalisation attitudes²⁵.

Moreover, the poorest developing countries, many of which lack the capacities to engage in significant industrial operations, were unable to integrate into the new economic structures and benefit from them. As well, the most acute phase of the globalisation process coincided with the awareness of world-wide ecological problems - starting with climate change - which call for action from the international community, including in areas related to trade and economic policies.

¹⁷ Cf. OECD (Organization for Economic Cooperation and Development) (2024), *OECD Economic Outlook, Volume 2024 Issue 1 : An unfolding recovery*, OECD Publishing, Paris: 14.

¹⁸ Cf. OECD (Organization for Economic Cooperation and Development) (2024), *OECD Economic Outlook, Volume 2024 Issue 1 : An unfolding recovery*, OECD Publishing, Paris: 15.

¹⁹ Cf. Autor, David, Arindrajit Dube, and Annie McGrew (2024), *The unexpected Compression: Competition at Work in the low Wage Labor Market*, NBER Working Paper Series No. 31010, National Bureau of Economic Research, Cambridge, MA.

²⁰ For instance, according to the *Report on the Economic Well-Being of U.S. Households in 2023 - May 2024: 27-34* surveying the financial lives of American adults and their families, "Seventeen percent of adults said they did not pay all their bills in full in the month prior to the survey."... "Seven percent of adults said that members of their household sometimes or often did not have enough to eat in the prior month."... "Twenty-seven percent of adults went without some form of medical care in 2023 because they could not afford it."

²¹ Cf. WTO (2024) *World Trade Report 2024 - Trade and inclusiveness: How to make trade work for all* : 66-95.

²² Arni, P., P. Egger, K. Erhardt, M. Gubler, and P. Sauré (2024), 'Heterogeneous Impacts of Trade Shocks on Workers', CEPR Discussion Paper No. 19017, London (UK): Centre for Economic Policy Research (CEPR).

²³ Cf. Bacchetta, M., E.M. Milet, and J.-A. Monteiro (2019), *Making Globalization More Inclusive: Lessons from Experience with Adjustment*. Geneva: World Trade Organization (WTO).

²⁴ Cf. Hyman, B., B. Kovak, and A. Leive (2024), 'Wage Insurance for Displaced Workers', FRBNY Staff Report No. 1105, New York: Federal Reserve Bank of New York (FRBNY).

²⁵ Cf. Walter, Stefanie (2021), '*The Backlash Against Globalization*', *Annual Review of Political Science*, Volume 24.

Another fundamental transformation is that globalisation has created unprecedented interdependencies when it comes to procuring goods considered essential, such as medical protective equipment, active pharmaceutical ingredients, critical minerals, cutting-edge microprocessors, hydrocarbons, or several agricultural commodities and fertilisers. The COVID-19 pandemic, conflicts in Ukraine and the Middle East as well as climate disruptions have exposed a number of bottlenecks. Excessive concentration of production in a very small number of countries has become a problematic, not to say indefensible, vulnerability. This type of dependency is even more difficult to accept if the dominant supplier is a strategic rival, especially at a time of geopolitical stresses. Such situations were much rarer during the Cold War.

Shift towards a new paradigm

Against this backdrop, we are witnessing a shift towards a new paradigm that breaks with the doctrine prevailing at the end of the Cold War. The responses peppering political discourse borrow from a semantic register that is constantly expanding: "strategic autonomy", "relocation", "friend- or near-shoring" and finally, in the narrative of the United States and the EU, "de-risking"²⁶ and, in the version of the Chinese leaders, "self-reliance"²⁷ or "self-sufficiency"²⁸. The main protagonists share the same fear that the control of trade flows will be used as a means of pressure.

Trade and investment policies are thus an integral part of security strategies *lato sensu*, where the national and economic dimensions are inextricable²⁹. The notion of security *lato sensu* therefore covers a much wider and deliberately more nebulous operational field than national defence or the fight against terrorism. In its broadest extension, it can include food security, energy supplies, climate change, the protection of health and employment, the development of the digital economy, and so on. The same applies, of course, to the transfer of high technologies that lend themselves to dual use, such as microelectronics, quantum computing, artificial intelligence, and biotechnology.

This extensive understanding of security, where economic and strategic objectives are often closely intertwined, is not really new. It was already in place during the Cold War³⁰, although under radically different circumstances were the interdependencies generated by economic globalisation did not exist.

Restrictions on trade and foreign investment as well as massive support measures have already been deployed in line with the new paradigm and to varying degrees depending on the country. The imposition by the United States of additional customs duties on a wide range of products, especially Chinese, is one of the most obvious examples. The measures applied have often provoked retaliations from the affected countries, notably from China, which has resolutely responded to the American tariffs.

That being said, the major powers assert that the defence of their vital interests can be ensured without causing excessively harmful economic decoupling. They wish to preserve diplomatic

²⁶ Cf. Sullivan, Jake (2023), [The Sources of American Power \(foreignaffairs.com\)](https://www.foreignaffairs.com); [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution | The White House, 2023](#); [Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre, 2023](#); Fleck, Jörn, Josh Lipsky, and David Shullman (2024), [Ursula von der Leyen set Europe's 'de-risking' in motion. What's the status one year later? - Atlantic Council](#); [An EU approach to enhance economic security \(europa.eu\)](#).

²⁷ Cf. de Soyres, François, Dylan Moore (2024), [Assessing China's efforts to increase self-reliance, VoxEU.org](#).

²⁸ Cf. [Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization \(Adopted at the third plenary session of the 20th Central Committee of the Communist Party of China on July 18, 2024\)](#): 14.

²⁹ Cf. Pinchis-Paulsen, Mona (2022), 'Let's Agree to Disagree: A Strategy for Trade-Security.' *Journal of International Economic Law*, 25(4), 527-547.

³⁰ Cf. Paulsen, Mona (2023), [The Past, Present, and Potential of Economic Security \(researchgate.net\)](#).

relations and an open dialogue. While these good intentions have not produced many concrete results to date, it is important that the doors remain open and that systemic rivals work towards a new *modus vivendi* and seek to ease geoeconomic tensions.

How did trade policies translate into reality so far? The question is made all the more difficult and complex by the lack of hindsight and the fact that other very powerful factors (COVID-19, the fight against inflation, technological change) can have a great impact on the direction and volume of trade flows. Nevertheless, the many studies devoted to this subject enable preliminary conclusions to be drawn. As mentioned earlier, globalisation cannot be said to be collapsing or dwindling at world level. However, the aggregates mask regional trends that have become apparent since trade tensions between major partners were exacerbated.

From 2018 onwards, i.e. since the start of the tariff conflict between the United States and China, there has been a reallocation of trade, compounded by the consequences of the Russia-Ukraine war. A recent study suggests that, compared to the period 2012-2017, trade flows are tending to fall between geopolitical rivals, while rising between aligned countries³¹. In other words, there appears to be a trend towards “friend-shoring”, the scale of which varies greatly from one country to another. This development is mainly the result of the growing decoupling between China and the United States³². The latest customs statistics show that the United States reduced its dependence on China for all types of manufactured goods imported between 2018 and 2023³³.

A separate study³⁴ also reveals symptoms of trade and investment fragmentation along geopolitical lines since the start of the Russian-led war against Ukraine. The authors note

“...that trade flows and the number of announced FDI³⁵ projects between a U.S.-centered and a China-centered bloc is declining by 12 and 20 percent more than trade and investment between countries within the same bloc...”³⁶.

They point out, however, that the scale of the phenomenon remains limited and a far cry from the severe decoupling that occurred during the Cold War.

Moreover, the aggregate impact of geoeconomic fragmentation is mitigated by the reorientation of part of trade and investments towards so-called “connector” third countries, mainly Vietnam and Mexico. Indeed, it appears that, since 2017, an increase in Chinese exports or investments in a “connector” country is associated with an increase in that country's exports to the United States. The decline in direct trade may not, at this stage, have translated into any real diversification of many imports, including for certain strategic products³⁷ whose supply chains remain linked to China. The United States, in collaboration with Mexico, has taken steps to prevent these practices from being used to circumvent US trade restrictions on Chinese steel and aluminium³⁸.

³¹ Cf. Bosone, Costanza, Ernest Dautović, Michael Fidora, and Giovanni Stamato (2024), [How geopolitics is changing trade](#), VoxEU.org.

³² China is no longer the United States' leading trading partner. According to the U.S. Census Bureau, its share of U.S. imports fell by 8 percentage points between 2017 and 2023, from 22% to 14%. Over the same period, the US share of Chinese exports fell by around 4 percentage points.

³³ Cf. Lovely, Mary E. and Jing Yan (2024), [While the US and China decouple, the EU and China deepen trade dependencies](#), Peterson Institute for International Economics, Realtime Economics.

³⁴ Cf. Gopinath, Gita, Pierre-Olivier Gourinchas, Andrea F. Presbitero, and Petia Topalova (2024), [Changing Global Linkages: A New Cold War?](#), IMF Working Paper.

³⁵ Foreign Direct Investment.

³⁶ Cf. Gopinath, Gita, Pierre-Olivier Gourinchas, Andrea F. Presbitero, and Petia Topalova (2024), [Changing Global Linkages: A New Cold War?](#), IMF Working Paper: 3.

³⁷ Cf. Freund, Caroline, Aaditya Mattoo, Alen Mulabdic, and Michele Ruta (2023), [US-China decoupling: Rhetoric and reality](#) | CEPR.

³⁸ Cf. [Biden Announces Tariffs on Chinese Metals Routed Through Mexico - The New York Times \(nytimes.com\)](#).

Companies are not lagging behind. Many are seeking to diversify and secure their supply chains, particularly following unfortunate experiences during the COVID-19 crisis. Input flows are less tight and buffer stocks³⁹ - sometimes pooled to achieve economies of scale - are experiencing a resurgence. The private sector is adapting willy-nilly to the vicissitudes of trade policies and geopolitical contingencies.

For example, a survey of 14,000 firms in Spain, Italy, and Germany shows that many of them have already used - or intend to use - strategies to reduce the risks associated with sourcing from China⁴⁰. They are reportedly seeking to increase the resilience of their supply chains, usually by relocating part of their activities to the EU, even if this restricts the optimisation of manufacturing processes and increases costs⁴¹. That being said, the intentions attributed to entrepreneurs have not yet been reflected in the trade statistics, which indicate that the EU and China have maintained or increased their mutual dependence for almost all imported goods since 2018⁴².

Globally, the semiconductor industry is the one most affected by "friend-shoring". Among other things, the CHIPS Act in the United States encourages the relocation of microprocessor manufacturing to allied countries such as Japan and South Korea in order to distance itself from China and Taiwan⁴³.

Are we on the verge of globalisation unravelling? Will the multilateral system embodied by the WTO and its multi- and bilateral derivatives born out of geopolitics at the end of the Second World War succumb to contemporary strategic imperatives and socio-political constraints? We do not claim to have the answers to these thorny questions. We will confine ourselves here to examining the effects of the new paradigm on the industrial policies that have expanded steadily over the last decade or so.

It appears, however, that a radical reshaping of international trade structures is unlikely in the short term. Such a process would be prohibitively expensive and would require pronounced and sustained government intervention. The adjustments to supply chains mentioned above did not reduce world trade as a whole. Today, more goods are crossing borders than before the pandemic:

“Despite the downturn in 2023, merchandise trade and output have been remarkably resilient in recent years, bouncing back from several severe economic shocks, including the COVID-19 pandemic. Despite these disruptions, merchandise trade volume at the end of 2023 was still up 6 per cent compared to its pre-pandemic peak in 2019, and 19 per cent compared to its average level in 2015⁴⁴”.

Moreover, international trade in services is booming and has partially offset the decline in trade in goods recorded in 2023.

Upsurge of industrial policies

³⁹ Cf. Zhang, Hongyong, Thi Thanh Ha Doan (2023), From just-in-time to just-in-case: Global sourcing and firm inventory after the pandemic, VoxEU.org; Czégé, Sára, Camilla Erencin, Simon Evenett, Felix Reitz, and Adam Novak (2024), 'Just-in-Time' to 'Just-in-Case': COVID-19's legacy of higher inventories and lower profitability, Crux of Capitalism, Insight #25.

⁴⁰ Cf. Balteanu, Irin, Marco Bottone, Alejandro Fernández-Cerezo, Demosthenes Ioannou, Ambre Kutten, Michele Mancini, and Richard Morris (2024), European firms facing geopolitical risk: Evidence from recent Eurosystem surveys | CEPR.

⁴¹ Cf. Alfaro, Laura, and Davin Chor (2023), Global Supply Chains: The Looming "Great Reallocation", NBER Working Paper No. 31661, National Bureau of Economic Research, Cambridge, MA.

⁴² Cf. Lovely, Mary E. and Jing Yan (2024), While the US and China decouple, the EU and China deepen trade dependencies, Peterson Institute for International Economics, Realtime Economics.

⁴³ Cf. Gupta, Manya, Arnav Sharma (2024), 'Friendshoring and Reshoring Semiconductor Supply Chains: US CHIPS Act and the Multilateral Trading System', *Global Trade and Customs Journal*, Volume 19, Issue 3: 160-171.

⁴⁴ Cf. Cf. WTO (2024) WTO Annual Report 2024: 16-19.

Widely used policies

Industrial policies are widely used and have long been adopted by many countries. Until the mid-1980s, they frequently took the form of protectionist or import-substitution measures to encourage the growth of infant industries or national champions. The East Asian tigers (South Korea, Taiwan, Hong Kong, and Singapore) used a composite recipe, where policies were clearly designed to galvanise exports and consisted of a mixture of openness and protection⁴⁵.

During the subsequent phase of trade liberalisation and up until the 2010s⁴⁶, numerous governments relied on less interventionist practices, even though some advanced economies never abandoned measures to promote innovation or national security⁴⁷. After this low point, industrial policies began to pick up again, with a major acceleration from 2018⁴⁸ onwards. In the wake of China's economic dirigisme, large-scale projects focusing on energy and digital transitions have been drawn up by the United States with the Inflation Reduction Act and the Chips Act, and by the European Union with the Green Deal Industrial Plan and the Digital Europe Programme⁴⁹. Other countries have also joined the chorus.

Ideally, government assistance should remedy market failures, which occur when the free market on its own does not lead to optimal economic or societal outcomes. The definition of these situations is not unanimously agreed and could, among others, cover the following objectives:

- Creating positive externalities that benefit a wide range of economic agents, such as the diversification of supply sources or the learning spillovers obtained, for example, by subsidising the introduction of a more productive technology that can be used by other manufacturers. The same logic applies to the reduction of negative externalities such as environmental damage. This objective can also be achieved through demand-side instruments such as carbon pricing or regulatory measures to incentivise low-carbon behaviour.
- State interventions in the event of under-investment in the provision of activity-specific public inputs, for example building a port infrastructure close to a steel complex or a green hydrogen plant.
- Addressing coordination or agglomeration failures occurring when the profitability of a sector depends on the provision of complementary services or goods by other companies located downstream or upstream. For example, electric vehicles require a network of recharging stations. State intervention here consists of encouraging simultaneous and mutually compatible investments in the relevant sectors.

The industrial policies inspired by these good intentions have been largely decried by many economists on the grounds that the allocated resources arouse the covetousness of influential lobbies who all too often succeed in channelling governmental support towards the interests they represent. Secondly, unlike market players, the state does not have sufficient information to identify future champions and the most promising sectors. These sub-optimal situations may lead to a poor allocation of resources, overcapacity and overproduction, or to the capture of

⁴⁵ Cf. Cherif, Reda and Fuad Hasanov (2019), *The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy*, IMF Working Paper.

⁴⁶ Cf. Cherif, Reda Marc Engher, and Fuad Hasanov (2024), '*Crouching beliefs, hidden biases: The rise and fall of growth narratives*', *World Development*, Elsevier, vol. 173(C).

⁴⁷ Cf. International Monetary Fund (2024), *Industrial Policy Coverage in IMF Surveillance—Broad Considerations*, IMF Policy Paper: 4.

⁴⁸ Cf. Juhász, Réka, Nathaniel Lane, Emily Oehlsen, and Verónica Pérez (2022), *The Who, what, When, and How of Industrial Policy: A Text-Based Approach*, Structural Transformation and Economic Growth (STEG) Working Paper; Juhász, Réka, Nathan Lane, and Dani Rodrik (2023), *The New Economics of Industrial Policy*, NBER Working Paper Series No. 31538, National Bureau of Economic Research, Cambridge, MA.

⁴⁹ Cf. Terzi, Alessio, Monika Sherwood, and Aneil Singh (2023), 'European industrial policy for the green and digital revolution', *Science and Public Policy* 50(5): 842-857.

rents to the detriment of the general interest and economic efficiency. Finally, the possible use of discriminatory requirements (such as local content obligations), trade restrictions or subsidies that distort international competition may prompt injured countries to impose similar retaliatory measures. The nations involved could become locked in a vicious circle that is difficult to break.

Conversely, proponents of industrial policy point to the results of recent research showing that clientelist abuses are not inevitable and that the state's information deficit is not insuperable. Current measures are allegedly more transparent, better informed and targeted by using sunset clauses, repayable subsidies, and monitoring and evaluation mechanisms. Furthermore, a re-examination of industrial policies in East Asia would lead to more positive conclusions than previous analyses and would help identify best practices that could be implemented in other contexts.

The point here is not about debating the merits of these policies or the efficiency criteria they should meet to achieve the set objectives. It is a vast field of controversy that has already generated a plethora of economic research⁵⁰. We are primarily concerned with the effects of state interventionism - especially when deployed on a large scale - on the economic interests of WTO Members and the credibility of the multilateral trading system.

The scope and developments of industrial policies have not been systematically and coherently inventoried until now. A new instrument, the “New Industrial Policy Observatory” (NIPO) launched by the University of St. Gallen with the support of the IMF, could fill this gap. To identify and list the relevant measures, the analysts use the IMF⁵¹ definition and

“...consider as industrial policies any targeted government intervention aimed at developing or supporting specific domestic firms, industries, or economic activities to achieve national economic or noneconomic (e.g., security, social, or environmental) objectives”⁵².

It is therefore necessary to distinguish these interventions from horizontal framework conditions that benefit all sectors (reliable infrastructure, sound public finances, high legal security, ease of doing business, etc.) and which are not considered, according to the IMF definition, as targeted vertical support measures falling within the scope of industrial policies.

The NIPO database catalogues industrial policy measures based on the motives cited by governments: national security, geopolitical concerns, resilience and security of non-food supply, promotion of national competitiveness or innovation in strategic sectors, and mitigation of climate change or transition to a low-carbon economy. This list includes many elements of the new prevailing paradigm in international economic relations.

⁵⁰ Cf. Juhász, Réka, Nathan Lane, and Dani Rodrik (2023), ‘The New Economics of Industrial Policy’, *Annu. Rev. Econ.* 16: 213 - 42; Rodrik, Dani, and Joseph Stiglitz (2024), [A New Growth Strategy for Developing Nations](#), Initiative for Policy Dialogue, Columbia University; Spence Michael (2023), [In Defense of Industrial Policy - Project Syndicate \(project-syndicate.org\)](#); Irwin, Douglas (2021), ‘The rise and fall of import substitution’, *World Development*, Elsevier, vol. 139(C); Krueger, Anne and Baran Tuncer (1982), ‘An Empirical Test of the Infant Industry Argument’, *American Economic Review* 72, no. 5: 1142-52; Krueger Anne (1995), ‘East Asian experience and endogenous growth theory’, *Growth Theories in Light of the East Asian Experience*, Vol. 4; Krueger, Anne (2023), [America’s Industrial Policy Is Counterproductive - Project Syndicate \(project-syndicate.org\)](#).

⁵¹ Cf. International Monetary Fund (2024), [Industrial Policy Coverage in IMF Surveillance—Broad Considerations](#), IMF Policy Paper: 4.

⁵² Cf. Evenett, Simon, Adam Jakubik, Fernando Martín, and Michele Ruta (2024), [The Return of Industrial Policy in Data](#), IMF Working Paper, Strategy, Policy, and Review Department: 6.

NIPO's experts⁵³ also note that high-income nations give priority to the most sophisticated products, while emerging economies favour simpler goods. Motives relating to national security and competitiveness are more often stated for measures targeting higher-end products than for interventions relating to climate change or the resilience of production chains. Finally, policies tend to favour the import of foreign high technology and limit the export of similar domestically manufactured products.

NIPO's taxonomy and method may not meet with the approval of all experts and will evolve as the scientific debate progresses. However, they are useful for initially approximating the scope and main characteristics of the observed trend. The findings presented below only cover the year 2023, but they are already revealing.

The Observatory recorded 2,500 industrial policy measures implemented or announced from 1 January 2023, more than two-thirds of which distort trade.

Subsidies to companies were the most frequently used means. The key economies - China, the European Union, and the United States - account for the bulk of activism, with 48 per cent of recorded measures. Advanced economies were more interventionist than emerging and developing countries. However, the latter made more frequent use of import and export restrictions. In terms of motivations, more than a third of measures relate to strategic competitiveness concerns, 28% to climate change, 15% to supply chain resilience and around 20% to national security and geopolitical tensions combined.

Ongoing programs involve considerable sums and sometimes pursue multiple simultaneous objectives, some of which may be contradictory. For example, achieving the energy transition as quickly as possible and on a large scale, a key priority of the United States' Inflation Reduction Act, could be delayed by the concurrent imperative to reduce heavy dependence on electric batteries and their critical mineral components from China. Indeed, China dominates these areas⁵⁴. Here, the security logic of "de-risking" deliberately prevails over technical and economic efficiency. The remarks of Jake Sullivan, National Security Advisor to President Biden, are crystal clear:

"...more than 80 percent of critical minerals are processed by one country, China. Clean-energy supply chains are at risk of being weaponized in the same way as oil in the 1970s, or natural gas in Europe in 2022. So, through the investments in the Inflation Reduction Act and Bipartisan Infrastructure Law, we're taking action."⁵⁵

The Chinese case

In this concert, China deserves a special mention. Traditionally dirigiste, Chinese economic policy underwent a more liberal phase from the late 1970s to the early 2000s, when the government relied on market forces and private initiative to promote growth and productivity⁵⁶. Even though the state never completely gave up guiding the economy and sought to influence the allocation of resources among industrial sectors. However, the impact and coherence of planning remained highly variable and the country's spectacular development was primarily

⁵³ Cf. Martin, Fernando (2024), *Decoding Industrial Policy Complexity: How Income Levels and Geopolitical Blocs Shape Economic Strategies*, [Global Trade Alert, report 151](#); Martin, Fernando (2024), *Which Industrial Policies Target High-End Goods? An Economic Complexity-based Approach*, [Global Trade Alert, report 149](#).

⁵⁴ Cf. Sanderson, Henri (2024), [The Problem With De-Risking: Transitioning to Clean Energy Requires Trade With China \(foreignaffairs.com\)](#).

⁵⁵ Cf. [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution | The White House, 2023](#).

⁵⁶ Cf. Branstetter, Lee and Guangwei Li (2024), 'The Challenges of Chinese Industrial Policy', *Entrepreneurship and Innovation Policy and the Economy*, Volume 3, University of Chicago Press Journals.

driven by the market and the private sector⁵⁷. Large-scale intra-sector microeconomic liberalisation and the hopes placed by the international community in the sustainability of reforms opened the WTO doors to China in 2001.

At the time, government authorities aimed to develop a wide range of sectors such as automobiles, steel, cement, coal, aluminium, electric power, shipbuilding, and textiles⁵⁸. The goal was to absorb technologies developed abroad, often with the active involvement of multinational companies looking for cheap labour. These companies also helped integrate Chinese production into global value chains, thereby boosting exports. China thus became a manufacturing giant.

A major shift occurred from 2006 onwards. The state turned gradually more activist and defined increasingly intrusive, precise, and ambitious industrial policy objectives. This trend was accentuated around 2009/2010 after leaders were bolstered in their interventionist convictions by the success of the massive stimulus package implemented to overcome the great financial crisis of 2008. The authorities did not scale back after the recession and resorted to a wide array of generous supports for targeted industries. The “Made in China 2025” program adopted in 2015 is a continuation of this effort, which, unlike the initiatives of the 1990s, aims to transform China into a leading innovative economy and free it from dependence on foreign suppliers in high-tech sectors⁵⁹. This orientation was confirmed during the session of the National People's Congress held in March 2024⁶⁰ and during the third plenum of the 20th Central Committee of the Chinese Communist Party, which concluded in July 2024⁶¹.

The results of the reforms undertaken over the last few decades are spectacular and unparalleled. In 2020, the Chinese economy generated 29% of the value added by all manufacturing industries, almost twice as much as the United States, which ranked second on this index. In the same year, China's share of value added in world merchandise exports rose to 20% from just 3% in 1995⁶².

China's industrial policy makes use of a wide range of tools, including non-monetary ones, to supplement the government's direct cash payments to producers⁶³. The variety and complexity of the processes are also shaped by the frequent intermingling of state and private enterprises⁶⁴, the influence of the authorities in the management of business, a banking system that offers below-market financing, the granting of regulatory advantages altering competitive conditions, the imposition of technology transfers as a prerequisite for the creation of joint ventures, and the granting of contributions in kind. In addition, the measures are sometimes opaque and difficult to document precisely for the purposes of applying compensatory

⁵⁷ Cf. Naughton, Barry (2021), *The Rise of China's Industrial Policy, 1978 to 2020*, Boulder, CO: Lynn Reiner.

⁵⁸ Cf. Wu, Jinglian, Tatsuo Hatta, and Qingtai Chen (2016), 'Rethinking Industrial Policy', *Comparative Studies*, no. 6.

⁵⁹ The Made in China 2025 promotes ten priority sectors, including Information Technology (AI, IoT, smart appliances); Robotics (AI, machine learning), Green Energy and green vehicles (energy efficiency, electric vehicles), Aerospace equipment, Ocean Engineering and high-tech ships; Railway equipment, Power equipment, new materials, Medicine and medical devices, Agriculture machinery. Cf. FDI China (2022), Made In China 2025: The Plan To Dominate Manufacturing And High-Tech Industries.

⁶⁰ Cf. Full Text: Report on the Work of the Government-Xinhua (news.cn).

⁶¹ Cf. Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (Adopted at the third plenary session of the 20th Central Committee of the Communist Party of China on July 18, 2024).

⁶² Cf. Baldwin, Richard (2024), China is the world's sole manufacturing superpower: A line sketch of the rise | CEPR.

⁶³ Cf. Branstetter, Lee, Guangwei Li, and Mengjia Ren (2022), *Picking Winners? Government Subsidies and Firm Productivity in China*, NBER Working Paper Series No. 30699, National Bureau of Economic Research, Cambridge, MA.

⁶⁴ Cf. Mazzocco, Ilaria (2024), Unpacking Linkages Between the Chinese State and Private Firms - Big Data China (csis.org).

measures, supporting arguments in a negotiation or substantiating a complaint under the WTO dispute settlement mechanism⁶⁵.

While planning guidelines are set by the central authority, their implementation is devolved to local authorities, which have wide latitude in allocating resources. They are also empowered to pursue industrial policies that differ from those proposed by central agencies to take account of their respective advantages and competences. However, it appears that provincial governments are increasingly exercising less discretion and tend to align their objectives with those of the central authority⁶⁶. The result is an excessive standardisation of policies, leading to redundant investments and possible surpluses in the priority sectors designated by Beijing⁶⁷.

Given the sheer size of the Chinese economy and its deep integration into global value chains, industrial policy measures have far-reaching international repercussions and may lead to significant market share losses for competitors. This has been observed, for example, in the fields of steel, shipbuilding⁶⁸, batteries⁶⁹, electric vehicles, and photovoltaic cells where China has gained a dominant position. Consequential overcapacities⁷⁰ have emerged or are likely to develop in the short to medium term⁷¹.

The Chinese government has expressed its intention to address the identified shortcomings. It has recognised issues related to “a lack of effective demand” and “overcapacity in some industries”⁷². The third plenum of the 20th Central Committee of the Chinese Communist Party reiterated the authorities’ commitment to “see that the market plays the decisive role in resource allocation”⁷³, to stimulate growth by boosting domestic demand, an objective to which the announced improvement of the social security system⁷⁴ could contribute by increasing transfers to households. However, in most cases, the specific measures necessary to achieve these objectives are not detailed.

⁶⁵ Cf. Bown, Chad (2023), Modern industrial policy and the WTO, Peterson Institute for International Economics Working Paper No. 23-15.

⁶⁶ Cf. Xiao, Shiyang, Yilin Hou, Mary Lovely (2024), The Dilemma of Political Control: Top-Down Inspection and Its Impact on Bureaucrats' Use of Discretion in Policymaking, conference-paper.pdf (iamshiyangxiao.com).

⁶⁷ Cf. Liu, Zongyuan Zoe (2024), China's Real Economic Crisis | Foreign Affairs.

⁶⁸ Cf. Kalouptsi, Myrto (2018), Detection and Impact of Industrial Subsidies: The Case of Chinese Shipbuilding, The Review of Economic Studies, Volume 85, Issue 2: 1111–1158.

⁶⁹ Cf. Kennedy, Scott (2024), The Chinese EV Dilemma: Subsidized Yet Striking | Trustee China Hand | CSIS; Barwick, Panle Jia, Hyuksoo Kwon, Shanjun Li, and Nahim Zahur (2024), ‘Drive Down the Cost: Learning by Doing and Government Policy in the Global Electric Vehicle Battery Industry’, Mimeo.

⁷⁰ The notion of overcapacity is difficult to define and is subject to controversy. Does it refer to a situation where the utilisation rate of production capacity falls significantly below the average, or to a situation where national supply considerably exceeds domestic demand (in which case the United States and the EU would have overcapacity in long-haul wide-body aircraft)? Should the definition of overcapacity be based solely on current facts, or should future projections also be taken into account? Wouldn't it be wiser, rather than seeking to clarify the simple notion of “overcapacity”, to focus the debate on “problematic overcapacity”? The following article offers a nuanced analysis of this issue: Song, Lynn (2024), China's overcapacity debate and how to avoid a collision course | articles | ING Thinks.

Another approach is to identify as suffering from overcapacity those sectors where the effect of state aid results in an increase in exports and a fall in prices. From this point of view, establishing the causal link between subsidies and overcapacity still poses thorny methodological problems and economists will have to refine their analyses to draw more reliable conclusions. This is why the authors of the following article, which offers a preliminary approximation of the impact of Chinese subsidies on export quantities and prices for various strategic sectors, exercise great caution in their conclusions : Rotunno, Lorenzo, and Michele Ruta (2024), Trade Implications of China's Subsidies, IMF Working Paper.

⁷¹ Cf. Boullenois, Camille, Agatha Kratz, and Daniel Rosen (2024), Overcapacity at the Gate – Rhodium Group (rhg.com).

⁷² Cf. Report on the Work of the Government Delivered at the Second Session of the 14th National People's Congress of the People's Republic of China on March 5, 2024: 9.

⁷³ Cf. Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (Adopted at the third plenary session of the 20th Central Committee of the Communist Party of China on July 18, 2024): 3.

⁷⁴ Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (Adopted at the third plenary session of the 20th Central Committee of the Communist Party of China on July 18, 2024): 36.

A number of observers⁷⁵ are wondering how and whether a marked change of course can be envisaged in the near future. The government will have to show determination and great political skill to overcome inertia and challenge the vested interests created by decades of economic policy focused on industrial production growth and infrastructure development. The caution of analysts is also explained by the Plenum's decision⁷⁶ to promote “new quality productive forces” with the aim of making China a leader in technological innovation, an aspiration that favours increasing supply as a driver of growth. However, it must be acknowledged that the Chinese leadership is capable of promptly changing course in response to incentives, just as they did when they suddenly ended the ‘zero COVID’ policy.

In these circumstances, China has been criticised for pursuing a strategy excessively focused on increasing supply and exporting⁷⁷ rather than seeking to absorb surpluses by boosting domestic demand⁷⁸. Its partners - both developed and developing countries - fear that Chinese overproduction, stimulated by state support, will be dumped on their own markets, thereby displacing their manufacturers⁷⁹. Several nations have already taken measures or initiated procedures to limit imports of products deemed critical from China⁸⁰. Among other goods, Chinese exports of electric vehicles, batteries, and solar panels, which grew strongly in 2023, are in the crosshairs of competitors⁸¹. It is true that the imposition of corrective tariffs (anti-dumping, countervailing or other duties) could relieve companies that are suffering from Chinese competition, but it would, at the same time, slow down the spread of innovations that the planet urgently needs⁸².

The United States and Canada have chosen to unilaterally impose prohibitive 100% tariffs on electric vehicles from China. In this area, the EU has taken a markedly different path.

Following an anti-subsidy investigation, the European Commission imposed provisional countervailing customs duties on July 4 July 2024 on imports of electric vehicles made in China, ranging from 17% to 37% depending on the producers⁸³. This instrument is authorised by WTO rules when the stipulated conditions are met. The imposition of definitive measures

⁷⁵ Cf. Liu, Zongyuan Zoe (2024), [China's Real Economic Crisis | Foreign Affairs](#); Chorzempa, Martin (2024), Chorzempa, Martin (2024), [China's updated playbook for reviving growth risks more tensions with the world](#), Peterson Institute for International Economics, Realtime Economics; Wright, Logan, Camille Boullenois, Charles Austin Jordan, Endeavour Tian, and Rogan Quinn (2024), [No Quick Fixes: China's Long-Term Consumption Growth – Rhodium Group \(rhg.com\)](#); Rosen, Daniel, and Matthew Mingey (2024), [China Pathfinder: Q2 2024 Update – Rhodium Group \(rhg.com\)](#).

⁷⁶ In the section devoted to “new quality productive forces”, the Plenum decision stipulates that “(a) stronger push will be made to pursue innovation in key generic technologies, cutting-edge technologies, modern engineering technologies, and disruptive technologies, and institutional supply will be boosted in new areas and arenas. We will establish a mechanism for ensuring funding increases for industries of the future, improve the policy and governance systems for promoting the development of strategic industries such as next-generation information technology, artificial intelligence, aviation and aerospace, new energy, new materials, high-end equipment, biomedicine, and quantum technology, and steer emerging industries toward sound and orderly development.”, Cf. [Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization \(Adopted at the third plenary session of the 20th Central Committee of the Communist Party of China on July 18, 2024\)](#): 10.

⁷⁷ Cf. Setser, Brad, Michael Weilandt, and Volkmar Baur (2024), [China's Record Manufacturing Surplus | Council on Foreign Relations \(cfr.org\)](#).

⁷⁸ Cf. Rosen, Daniel, and Logan Wright (2024), [China's Economic Collision Course | Foreign Affairs](#); [Remarks by Secretary of the Treasury Janet L. Yellen at the Economic Club of New York \(ECNY\) | U.S. Department of the Treasury](#), 2024.

⁷⁹ Cf. Rosen, Daniel and Logan Wright (2024), [China's Economic Collision Course | Foreign Affairs](#).

⁸⁰ Cf. Boullenois, Camille and Charles Austin Jordan (2024), [How China's Overcapacity Holds Back Emerging Economies \(rhg.com\)](#).

⁸¹ Cf. [Global Trade Alert \(2024\), Trade Barriers Rise in Response to China's Export Surge](#).

⁸² Cf. Wagner, Gernot, and Shang-Jin Wei (2024), [The Right Response to China's Electric-Vehicle Subsidies - Project Syndicate \(project-syndicate.org\)](#).

⁸³ Cf. [Commission imposes provisional countervailing duties on imports of battery electric vehicles from China while discussions with China continue](#).

could occur no later than four months after the provisional duties. Meanwhile, consultations between the two parties have intensified with a view to reaching a mutually satisfactory solution. The EU seems intent on avoiding a potentially damaging confrontation and seeks to preserve the interests of its producers who have invested heavily in China. As well, some EU Member States are encouraging Chinese companies to locate operations in their territory in order to leverage their expertise and prospective synergies with the European carmakers' areas of excellence⁸⁴.

China has categorically rejected the allegations and the measures at issue on the grounds that they are unfounded and essentially protectionist. Concerning electric vehicles, China's comparative advantage is said to stem from a combination of economies of scale, the availability of cheaper, state-of-the-art batteries, expertise in computer science and artificial intelligence, lower labour costs, and intense competition in the Chinese market, where dozens of domestic and foreign producers operate. So, the arguments and invectives are flying back and forth. This is nothing new. But this spat could exacerbate already incandescent trade tensions and conflicts, many of which have not yet been resolved.

The recent industrial policy activism of the United States may stem from frustration at the impossibility of disciplining Chinese economic dirigisme by means of WTO rules and mechanisms⁸⁵. By domino effect, the European Union and other countries have followed suit and thus fuelled a subsidy race.

Trade restrictions are no panacea

This is not the place to discuss the merits of industrial policies or the efficiency criteria they should meet in order to achieve the stated objectives. This is a vast field of reflection and controversy that has already been the subject of extensive economic research. We are primarily concerned with the effects of state interventionism - especially when deployed on a large scale - on the economic interests of WTO Members and the credibility of the multilateral trading system.

We will, however, depart from this resolution to point out that numerous analyses conclude that industrial policy measures based on trade restrictions are ineffective. An in-depth examination of the main US industrial policy instruments since 1970 concluded that protection against imports was rarely profitable, increased the costs of downstream industries, contributed little to technological progress, and generally failed to improve the international competitiveness of beneficiary firms. The cost to the consumer per job saved can sometimes be very high⁸⁶.

One of the stated objectives of the additional tariffs levied by the American governments since 2018, mainly on products from China, was to create jobs or recover lost ones. This has not yet occurred. A recent study⁸⁷ has shown that, in regions where economic sectors have been protected, the expected job gains have not materialised. Conversely, in regions whose exports

⁸⁴ By applying the lowest countervailing duties to BYD, which dominates the market and is the most feared competitor of EU manufacturers, the European Commission has shown that it is basing its actions on facts. Cf. Kirkegaard, Jacob (2024), The EU chooses engagement, not confrontation, in its EV dispute with China, Peterson Institute for International Economics, Realtime Economics.

⁸⁵ Cf. Bown, Chad (2023), Modern industrial policy and the WTO, Peterson Institute for International Economics Working Paper No. 23-15: 19-20. It is also true that WTO arbitration bodies have condemned corrective trade measures (e.g. anti-dumping or countervailing duties) applied by the United States against China, thereby provoking bipartisan ire in Congress.

⁸⁶ Hufbauer, Gary and Euijin Jung (2021), Lessons learned from half a century of US industrial policy, Peterson Institute for International Economics, Realtime Economics.

⁸⁷ Cf. Autor, David, Anne Beck, David Dorn, and Gordon Hanson (2024), Help for the Heartland? The Employment and Electoral Effects of the Trump Tariffs in the United States, NBER Working Paper Series No. 32082, National Bureau of Economic Research, Cambridge, MA.

have been affected by retaliatory tariffs from abroad, there has been a decline in employment, mostly in agriculture. In addition, prices have risen because many imported goods are more expensive. American buyers had to bear the costs⁸⁸. However, the manoeuvre yielded undeniable political dividends. Citizens in protected regions became more likely to vote for Donald Trump in 2020 and to elect Republicans to Congress.

The United States is not the only country where consumer gains from international trade do not resonate with large swathes of the electorate. The Pew Global Attitudes Survey⁸⁹ conducted in 2018 helped to understand the evolution of attitudes towards trade in developed countries. While most economists support that international trade offers consumers a greater choice of cheaper products, only 20 to 40% of respondents stated that trade lowers prices. One could infer that many people are unaware of or dispute the favourable impact of trade on prices.

It is therefore understandable that former President Trump has committed, in the context of the 2024 presidential campaign, to increasing tariffs by 60 percent on all Chinese products and by 10 to 20 percent⁹⁰ on all products from the rest of the world. Paradoxically, the project would penalise the least well-off American consumers more severely and would amount to a regressive tax levy⁹¹. The Tax Foundation, a non-partisan think tank, has estimated that a 10% across-the-board tariff increase and a 60% tariff on all imports from China would raise taxes, lower GDP, and reduce employment⁹².

Note also that President Biden was careful not to dismantle the tariffs imposed by his predecessor and that he drastically increased customs duties on a range of Chinese products (electric vehicles, solar cells, semiconductors, certain steel and aluminium products, and batteries)⁹³.

Local content requirements belong to the same category as tariffs and have often resulted in long-term consequences running counter to expectations through reducing household income and employment, and through limiting opportunities to achieve economies of scale and innovate⁹⁴.

4. The Role of the WTO

Industrial policies frequently rely on measures that fall within the scope of WTO rules. This includes export and import restrictions, trade defence instruments, domestic subsidies (including tax rebates), export incentives (including export subsidies), restrictive measures related to foreign direct investment, requirements for companies to source inputs from local

⁸⁸ Cf. Fajgelbaum, Pablo, and Amit Khandelwal (2022), 'The Economic Impacts of the US–China Trade War', *Annual Review of Economics*, Volume 14.

⁸⁹ Cf. PEW Research Center (2018), [Americans, Like Many in Other Advanced Economies, Not Convinced of Trade's Benefits](#).

⁹⁰ Goldfarb, Sam (2024), [Specter of Trump Tariffs Hangs Over Markets - WSJ](#).

⁹¹ The effect of these measures is regressive because low-income households purchase a larger proportion of imported goods (made more expensive by additional tariffs) than wealthier consumers. Cf. Clausing, Kimberly, and Mary Lovely (2024), [Why Trump's Tariff Proposals Would Harm Working Americans](#), Peterson Institute for International Economics, Policy Brief, 24-1.

⁹² According to the Tax Foundation estimates, the tariff hikes would increase taxes by \$524 billion annually, reduce GDP by at least 0.8%, and decrease employment by 684,000 full-time equivalent jobs. And this is without accounting for the effects of retaliation that these tariffs would inevitably trigger. Cf. [Trump Tariffs & Biden Tariffs: Economic Impact of the Trade War \(taxfoundation.org\)](#).

⁹³ Cf. Dadush, Uri (2024), [Rippling out: Biden's tariffs on Chinese electric vehicles and their impact on Europe \(bruegel.org\)](#); Goodman, Matthew (2024), [Weighing Biden's China Tariffs](#), Council on Foreign Relations.

⁹⁴ Stone, S., J. Messent, and D. Flaig (2015), 'Emerging Policy Issues: Localisation Barriers to Trade', *OECD Trade Policy Papers*, No. 180, OECD Publishing, Paris; Gourdon, K., and J. Guilhoto (2019), 'Local content requirements and their economic effect on shipbuilding: A quantitative assessment', *OECD Science, Technology and Industry Policy Papers*, n° 69, OECD Publishing, Paris.

producers, etc. While WTO provisions prohibit certain measures such as export subsidies or local content requirements, they also allow for the possibility of supporting economic sectors under certain conditions.

Generally speaking, and to simplify, the rules aim to minimise the negative impact on trade partners. This involves a balance of negotiated rights and obligations that encourages restraint in the choice of industrial policy tools. Monitoring mechanisms, corrective tariff measures authorised by the WTO (including countervailing or anti-dumping duties), and the dispute settlement system are also designed to generate dissuasive effects and foster moderation.

It is hard to see how WTO Members could avoid a concrete and thorough debate on industrial policy, particularly on the underlying measures. The stakes are real and finding a *modus vivendi* offers benefits for all. The task, however, seems almost insurmountable in the current context, to the point that it was not possible to include, in the declaration concluding the latest WTO ministerial conference (February 2024), even a cautious formulation on how to address the issue. The subject had already been raised by the European Union⁹⁵ and the African Group⁹⁶ in 2023. The lack of follow-up on their proposals shows that multilateral discussions are still in their infancy and would certainly have benefited from political impetus.

The current situation is certainly not conducive to cooperative approaches. How could programmes that have been the subject of complex political bargains be questioned or adjusted to comply with a new international regime? Are Members willing to compromise towards a new *modus vivendi* against a backdrop of geopolitical tensions?

We will not venture to answer these fundamental questions. The fate of the following suggestions is therefore very uncertain. They are mainly intended to liven up discussions and should be weighed with a touch of critical mind. The author of these lines is indebted to the pioneering contribution of Chad Bown, whose approach to the subject in his article entitled “Modern Industrial Policy and the WTO” provides a seminal analytical framework⁹⁷.

Prerequisites

Ideally, the international community should seek ways to curb a costly and suboptimal escalation and to frame current or, at least, future industrial policies. The aim would be to draw up modernised rules designed both to contain the most damaging measures and to allow Members a degree of flexibility in pursuing their industrial policy objectives.

Assuming the operation is not illusory, it would require a strong dose of realism and pragmatism as reflected in the prerequisites listed below.

- (i) Acknowledge that industrial policies are experiencing an upsurge and can have lasting effects.
- (ii) Assume that the terms of a new *modus vivendi* should allow for the well-ordered coexistence of different economic systems.
- (iii) Recognize that rapid progress is unlikely and that a gradual and unprejudiced approach will be necessary.
- (iv) Given that the multilateral path seems fraught with obstacles, if not impracticable at this stage, initiate the process within a plurilateral framework involving interested WTO Members (hereinafter, the participants). The implementation of a plurilateral

⁹⁵ Cf. [directdoc.aspx \(wto.org\)](#).

⁹⁶ Cf. [directdoc.aspx \(wto.org\)](#).

⁹⁷ Cf. Bown, Chad (2023), [Modern industrial policy and the WTO](#), Peterson Institute for International Economics, Working Paper No. 23-15.

arrangement (pending a prospective multilateral settlement) is normally predicated on the participation of a “critical mass” of countries in order to remove or significantly lessen the risk of free riding by non-signatories. This constraint is case-dependent and eventually a pragmatic matter. Possible solutions will have to be addressed once the results of a potential initiative and their effects are known. The same applies to the modalities of its implementation within the WTO institutional structure or an *ad hoc* arrangement.

(v) Ensure the participation of the main protagonists (the United States, China, and the European Union) since otherwise any effort would be in vain.

(vi) Favour a political and economic approach to the debates and avoid legal deliberations that are unlikely to lead to progress on the underlying concepts of industrial policies (see following points).

(vii) Do not seek to define the notion of “industrial policy” and, consequently, confer legal or regulatory effects on an abstract concept that will never be delineated with sufficient precision to prevent contentious interpretations and uses. Moreover, the endeavour would be so arduous that it would most likely lead to a deadlock from the outset.

(viii) Refrain from defining new exceptions or new general and abstract relaxations under what we have termed “security *lato sensu*” (economic, food, military, etc.). This is for the same reasons as those mentioned above regarding the notion of “industrial policies.”

(ix) Beware *a fortiori* of reviewing and/or revising the current notion of “national security” as set out in Article XXI of the General Agreement on Tariffs and Trade 1994 (‘GATT 1994’), Article XIV of the General Agreement on Trade in Services (‘GATS’), and Article 73 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (‘TRIPS Agreement’). The issue is so sensitive that such a project promises to remain sterile.

These precautions stem from the current constraints of *Realpolitik*. They do not mean that the issues mentioned above, including those related to security concerns, should be forever excluded from the scope of intergovernmental reflection and cooperation. We simply believe that the timing is not right.

A situational approach

The general approach proposed here is to design a balance of disciplines and flexibilities with the dual aim of minimising the negative impact of industrial policies on international markets and defining the situations in which state intervention is permitted.

Initially, participants would agree on clearly formulated overriding policy objectives that cannot be achieved without state intervention because of market failures. The primary focus would be on the appropriateness of government action to remedy situations that give rise to high societal costs. This would include global externalities such as climate change and pandemics.

Special attention would also be paid to the resilience of international supply chains given that their disruption is increasingly frequent and costly for a large number of countries. The COVID-19 and geopolitical crises have highlighted the need to guarantee the delivery of key products and inputs as well as the dysfunctions arising from high spatial concentrations in the manufacturing of these goods. Various governments are working to reduce supplier risk, including by subsidising alternative sources. Private players also have a clear interest in minimising disruptions to their production processes. Many have already taken steps to this

end. Here, subsidiary state intervention would be justified where private incentives for enhancing resilience are insufficient⁹⁸.

Other situations characterised by market failures could be envisaged depending on the convergences that emerge from the debate. The exceptions to the disciplines on subsidies mentioned below, which have already been the subject of an agreement (albeit short-lived) during the Uruguay Round, should also be taken into account.

Instruments

Consequently, the reflection would focus on the instruments, conditions, and modalities of subsidiary state intervention. Priority would be given to subsidies, the versatile instrument that, when optimally structured and targeted, can be effective in addressing market failures or negative externalities. Moreover, certain forms of subsidies generate little or no trade distortions. For example, transparent and non-discriminatory incentives encouraging the consumption and pre-commercial development of clean technologies are more likely to generate gains for all provided they do not result in overcapacities. Finally, subsidies are often critically scrutinised by political decision-makers as they are subject to budgetary constraints.

Participants could rely on the initial classification of the WTO Agreement on Subsidies and Countervailing Measures (ASCM), which comprised a category of authorised or “green box” subsidies. These instruments, intended to promote public interest objectives, were not actionable, i.e. they were permitted and shielded from action under the WTO dispute settlement system when strict conditions and criteria were met. Nor was it lawful to impose additional corrective tariffs (countervailing duties) on products benefiting from “green box” subsidies. The “green box” existed for five years, until 31 December 1999, and was not extended. It contained subsidies

“involving assistance to industrial research and pre-competitive development activity, assistance to disadvantaged regions, or certain type of assistance for adapting existing facilities to new environmental requirements imposed by law and/or regulations”⁹⁹.

Participants could discuss the appropriateness of these now lapsed rules and whether they should be reinstated with the necessary adjustments and additions to take into account recent developments in industrial policies. This would involve setting out the requirements that subsidies in this category should meet in order to minimize their commercial impact and address market failures.

In the interest of balance, the ASCM disciplines applying to other types of aid should also be reviewed, particularly to determine whether the category of prohibited subsidies should be specified or expanded. The latter, like export subsidies, are presumed to distort markets. The same question would be posed about the category of actionable subsidies¹⁰⁰ for which there was a rebuttable presumption of serious prejudice¹⁰¹. As well as the “green box”, this measure applied on a provisional basis was not extended and expired on December 31, 1999.

Moreover, the concept of subsidy covers a wide range of direct or indirect support, in kind and pecuniary, including below-market financing, and needs to be clarified in the light of experience over the last few decades. This would entail determining whether the definition contained in

⁹⁸ Grossman, Gene, Elhanan Helpman, and Hugo Lhuillier (2023), *Supply Chain Resilience: Should Policy Promote Diversification or Reshoring?* Working Paper Series No. 29330, National Bureau of Economic Research, Cambridge, MA.

⁹⁹ Cf. [Legal texts: the WTO agreements \(wto.org\)](https://www.wto.org/).

¹⁰⁰ For actionable subsidies, adverse trade effects - serious prejudice, injury to another Member's industry, or nullification or impairment of multilaterally negotiated benefits - must be demonstrated before remedies can be applied (elimination of the adverse effects or withdrawal of the subsidy).

¹⁰¹ For example, when the total ad valorem subsidization of a product exceeds 5% or when the subsidies are intended to cover operating losses sustained by an industry. Cf. Article 6 of the [ASCM](#).

Article 1 of the ASCM is still adequate in a context where different economic models coexist within a single multilateral system.

In this context, participants would specify, among other things, how state-owned enterprises, as recipients and relays of public aid, would be included in the scope of the ASCM¹⁰². The objective would be to establish a level playing field, irrespective of the ownership and control structure of companies operating in a market. Where appropriate, the relevant provisions of recently negotiated regional treaties such as the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) and the Comprehensive Agreement on Investment (CAI) between the EU and China¹⁰³ could serve as inspiration.

Governments do of course have other industrial policy tools at their disposal, such as incentive taxes, which are certainly one of the optimal means to steer markets towards the provision of goods they would neglect under normal conditions. Various countries have introduced incentive measures - including national or regional emissions trading systems (ETS) - to combat climate change. Such a policy obviously raises the question of border adjustments aimed at countering avoidance strategies (carbon leakage) by taxing imports based on their CO2 content. After a transitional phase (2023-2025), the EU's Carbon Border Adjustment Mechanism (CBAM) is expected to be fully operational as from 2026. The CBAM is already the subject of lively discussions at the WTO and it might be useful to agree on the modalities for implementing comprehensive incentive instruments.

Participants will have to promptly agree on the scope of the exercise and to determine which measures should be addressed first. The role of intellectual property protection, export restrictions, investment-related measures, trade defence mechanisms (anti-dumping and countervailing duties), etc. has also been highlighted. In a complicated geopolitical context, it may be preferable to establish the order of priority without making overly ambitious plans.

In contrast, regulatory measures hold real potential and should be prioritized, especially if they have public-good character and stimulate international cooperation. In this regard, the COVID-19 crisis has highlighted the need to promote the interoperability of cross-border services and activities to ensure the functioning of supply chains and the provision of essential goods such as medicines and agricultural products.

The same applies to the collection and dissemination of information that is essential for shaping trade policy decisions, particularly with a view to combating shortages and excessive hoarding during disorders resulting from natural disasters, armed conflict, transport failures, or large-scale lockdowns. Trade can be an effective means of overcoming supply crises by diversifying risks and offering businesses and households alternatives when faced with critical scarcity¹⁰⁴.

The WTO would thus participate in market surveillance and help prevent untimely and counterproductive decisions, such as unnecessary export restrictions and rationing. For example, the Organization could help mitigate critical shortages of inputs for vaccine production that often occur at the beginning of a pandemic. It would cooperate with the World Health Organisation (WHO), the competent authorities of its Members and industry experts to locate shortages, collect data on the capacities of vaccine manufacturers and key suppliers of essential inputs. It would moreover identify components that could be stockpiled in advance to respond to emergencies and enable scarce inputs to be managed more effectively¹⁰⁵.

¹⁰² The following book by the Centre for Economic Policy Research contains some interesting analyses on this subject: Hoekman, Bernard, Tu Xinquan, and WANG Dong (2021), Rebooting Multilateral Trade Cooperation: Perspectives from China and Europe, CEPR.org.

¹⁰³ Negotiations on a Comprehensive Agreement on Investment (CAI) between the EU and China were concluded on 30 December 2020. The agreement has not yet been ratified.

¹⁰⁴ World Trade Report 2023 (wto.org): 50-66.

¹⁰⁵ Cf. Bown, Chad (2023), The WTO and Vaccine Supply Chain Resilience During a Pandemic, Peterson Institute for International Economics, Working Paper No. 22-15.

In a way, the aim would be to adapt to other sectors the FAO's Agricultural Market Information System (AMIS)¹⁰⁶, which provides precise, timely and comparable data regarding the supply and demand position and its probable short-term development. Furthermore, AMIS collects national policy developments that could impact the market outlook. The System also monitors critical market conditions to encourage the coordination of policies and the development of common strategies.

Special and differential treatment

Finally, it would be useful to outline the flexibilities that developing countries (DCs) should be entitled to in order to meet their needs. In this regard, it is worth remembering that developing country status at the WTO is the result of a "self-declaration": a Member that attributes this status to itself is legally recognised as a developing country. This is not the case for the category of least developed countries (LDCs), which is defined based on objective UN criteria. The group of DCs benefits from uniform special and differential treatment (SDT). Thus, advanced and competitive economies such as China and the Republic of Korea theoretically enjoy the same flexibilities as Côte d'Ivoire or Pakistan. This situation is untenable and it is essential to thoroughly rethink the application of SDT.

It is highly unlikely that the negotiation of criteria designating the Members who should renounce SDT would be successful. The proposal put forward by Norway in 2019¹⁰⁷ seems more realistic. It advocates differentiating the commitments of developing countries without asking them to renounce SDT *a priori*. The contribution of each developing country should be modulated on a case-by-case basis according to its development needs and capacities. This approach also involves voluntary and responsible renunciation of SDT. For example, the Republic of Korea has decided not to request SDT in future WTO negotiations. For its part, China has announced that it will forego the flexibility available to developing countries as of 2022 to derogate from patent protection for COVID-19 vaccines. It stands to reason that the initiative we are talking about here, modest though its results may be, will only come to fruition if China and other DCs with a comparable international competitiveness level do the same concerning industrial policies.

5. Conclusion: for want of a rapid solution, prepare the ground

To date, geopolitical tensions and efforts to reduce vulnerabilities arising from economic interdependencies have not led to a large-scale process of deglobalisation. There are more goods crossing borders than before the pandemic and international trade in services is booming. However, aggregate indicators mask regional trends that emerged since trade tensions escalated between major partners. Reconfigurations in supply chains and adjustments in trade flows have indeed occurred, particularly in respect of transactions between the United States and China.

The upsurge of industrial policies stems in part from the new paradigm underpinning international economic relations. This approach, among other things, emphasises measures justified by security *lato sensu*, which, in its widest extension, can include national defence, food security, energy supply, climate change, health and employment protection, the development of the digital economy, etc.

Industrial policies often use instruments that fall within the scope of WTO rules. These include subsidies, customs duties, export restrictions, obligations to source inputs from local producers, etc. In many cases, the implementation of these measures - some of which are clearly prohibited by the WTO - contributes to fuelling trade tensions and erodes the credibility

¹⁰⁶ Cf. [Agriculture Market Information System \(AMIS\) Terms of Reference](#).

¹⁰⁷ Cf. Pursuing the Development Dimension in WTO Rule-making Efforts: Communication from Norway, WT/GC/W/770, 26 April 2019.

of the multilateral trading system. The stakes are real and the search for a new *modus vivendi* offers advantages for all.

The general approach proposed in this essay is to design a balance of disciplines and flexibilities with the dual aim of minimising the negative impact of industrial policies on international markets and defining situations in which state intervention is permitted. And this for a limited number of instruments and situations.

This is why the menu set out in section 4 might appear incomplete to an observer keen on addressing all the industrial policy measures deployed today. In fact, it is highly likely that such an agenda is already over-ambitious given the current state of cooperation within the multilateral trading system, including in the context of a plurilateral initiative. It is therefore essential to proceed in stages and, as a first step, to lay the foundations for future regulatory work. Initial discussions would focus on the following topics:

- (i) Review of existing rules and disciplines. As we have seen, there are already WTO rules and disciplines relating to industrial policies. A review of these to assess their relevance and potential shortcomings would help articulate the needs for action and structure subsequent analyses and deliberations.
- (ii) Exchange of experiences. The long history of industrial policies has undoubtedly enabled governments to evaluate the effectiveness of the policies implemented and to identify the most appropriate measures. Participants would share their respective experiences and submit their findings to a collective critical examination. Views will undoubtedly diverge on a number of points. Nonetheless, it is reasonable to hope that convergence will emerge on situations in which state intervention has proven necessary and produced the desired results, while safeguarding the interests of trade partners. Similarly, it would be appropriate to characterise the most effective instruments and the duly circumstanced conditions of their implementation. These analyses would prepare the regulatory phase proper.
- (iii) Improving transparency. The notoriously poor compliance with WTO notification requirements has led to large gaps in knowledge of subsidy practices¹⁰⁸. The proportion of WTO Members submitting mandatory notifications fell from 75 to 35 per cent between 1995 and 2021¹⁰⁹. In addition, the completeness and accuracy of the information provided is contested. A major effort is needed in this area to enable a better understanding of industrial policy measures, their impact on trade, and the correction of market failures. It is crucial to obtain complete and accurate data on the subject under discussion before embarking on regulatory work. This prerequisite also applies to trade policy measures other than subsidies.

It would also be advisable to compare the various WTO transparency requirements and to draw inspiration from best practices. The possibilities of borrowing elements from the notification system set up by the WTO Agreement on Technical Barriers to Trade (TBT Agreement)¹¹⁰ should also be weighed up. Under this system, Members are required to give advance notification of draft new regulations or standards before their final adoption. This gives trading partners the opportunity to submit comments and ask questions. The notifying Member will then have the opportunity to take account of the comments received with a view to improving the quality of its draft.

¹⁰⁸ 164 WTO Members were required to submit new comprehensive notifications of the subsidies they maintain by June 30, 2023. As of October 27, 2023, 30 Members (the EU counts as one Member) had notified measures, and 9 Members had indicated that they did not maintain any subsidies that needed to be notified. Cf. [directdoc.aspx \(wto.org\)](#).

¹⁰⁹ Cf. [Subsidies, trade, and international cooperation](#) / prepared by staff of IMF, OECD, World Bank, WTO, Washington, DC, International Monetary Fund, 2022.

¹¹⁰ Cf. [OMC | Online Bookshop \(wto.org\)](#).

Of course, if circumstances permit, participants in a plurilateral (or ideally multilateral) initiative could undertake more ambitious work aimed at establishing an international framework governing industrial policies. This would involve identifying situations where state intervention is justified to address market failures and defining the most appropriate tools to minimize negative impacts on trade partners. Initially, the exercise would focus on disciplines governing the use of subsidies, the most frequently applied measure, as well as on provisions aimed at improving the resilience of supply chains and mitigating climate change.

As we saw in section 3, trade restrictions are a dubious and very often ineffective means of achieving industrial policy objectives. They also have the ill-fated consequence, especially when they contravene WTO agreements, of triggering retaliation from the adversely affected Members. Sooner or later, it would be appropriate for the parties involved to consider whether and how to de-escalate. Such an outcome will probably only be possible if tangible progress is made in drawing up a new regime applicable to industrial policies. At this stage, it is virtually impossible to predict how long the additional tariffs imposed by different WTO Members will remain part of the trade landscape, i.e. how long it will be necessary to contend with this factor in efforts aimed at advancing inter-state cooperation.

Geneva, September 2024