(De)Globalisation and the New Industrial Policy

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Abstract

The processes of economic and political cooperation since the Second World War have stimulated economic growth and improved living standards and prosperity, while intensified economic integration and contributed to a better response to global challenges. Following the 2008 global financial crisis, there is a trend towards deglobalisation or slowbalisation. The article provides a comprehensive literature review and examines data sources on the situation and trends related to the globalisation of the world economy and the rise of industrial policy measures in advanced economies. It was found that the world economy is facing several challenges, including the reshaping of global supply chains, mitigating the effects of economic inequality and climate change, and the rise of economic populism and nationalism. This article consequently provides a comprehensive overview of the literature on globalisation and industrial policy, examining the interplay between deglobalisation processes and industrial policy measures and their increasing prominence in advanced economies.

Introduction

The outbreak of the COVID-19 pandemic at the end of 2019, the escalation of military conflicts worldwide, and the deterioration of relations between countries, such as the United States, China and Russia, have signalled a change in the world economy and geopolitics. Advanced economies, especially the United States, are considering reintroducing tariffs and other trade restrictions to protect their domestic (manufacturing) companies. At the same time, there is a growing body of evidence regarding companies diversifying their supply chains and moving production closer to end markets to reduce their dependence on foreign suppliers. Much of the current research work (e.g. García Herrero, 2022; Aiyar et al., 2023; Campos et al., 2023) suggests that structural changes towards deglobalisation, or slow globalisation, are occurring in the world economy.

Therefore, governments around the world have faced several challenges in recent years in relation to rising geopolitical tensions, the implementation of green and digital transition activities, and the rise of trade protectionism. Juhász, Lane & Rodrik (2024) identified state-led industrial policy (which is increasingly being linked to energy self-sufficiency and food security) as one way to stimulate the green transition, secure or maintain well-paid manufacturing jobs, and sustain industrial production, as well as to stimulate innovation activity and the development of new technologies.

This article examines the growing trend of economic deglobalisation and analyses industrial policies in advanced economies in the context of the deglobalisation of the world economy. By employing compilation and comparison methods, the article summarises and compares different findings, views and insights of the authors in the scientific literature. Our eclectic analysis shows that the process of deglobalisation is running parallel to the rise of practices involving an increasingly widespread use of industrial policy strategies and tools. This new industrial policy is gaining prominence, particularly in advanced economies, especially in industries and economic sectors characterised by the intense development of green technologies and information and communication technologies.

The remainder of the article is structured as follows: Section 2 provides an overview of the process of globalisation and indicators of globalisation of the world economy, Section 3 includes an analysis of the changes in the world economy and the processes associated with deglobalisation, Section 4 consists of a discussion of the importance of industrial policies, a review of empirical findings on the effectiveness of industrial policies and a presentation of the new industrial policy in the context of deglobalisation, and Chapter 5 concludes the article.

The Globalisation Process and Indicators of Economic Globalisation

Since the end of the Second World War, the world economy has become deeply integrated, both in terms of liberalisation of international trade and in terms of the increasingly easy cross-border movement of labour and capital, and the spill-over of knowledge and technology. Campos et al. (2023) suggested that the process of removing and reducing restrictions and barriers to international trade (i.e. trade liberalisation), supported by the development of adequate international transport infrastructure and technological advances, has led to increased productivity and consequently higher economic growth, as well as raising living standards and reducing absolute poverty. Economic globalisation involves processes shaping the current economic environment and strengthening concrete economic exchanges between countries, intensifying international trade and international economic cooperation (Heimberger, 2022).

Aiyar et al. (2023) identified five key phases of economic globalisation. The first phase covers the period between 1870 and 1914 and is linked to the globalisation processes associated with industrialisation. The second phase covers the period between the First World War and Second World War, between 1914 and 1945, characterised by an increase in protectionist measures, e.g. at first in the United States, related to the Smoot-Hawley Tariff Act. The third phase, starting after the Second World War, involves the establishment and operation of the Bretton Woods system and lasts until 1980. This is followed by a period of liberalisation between 1980 and 2008. The post-2008 period is characterised as a period of slower globalisation, or slowbalisation, associated with persistent stagnation in international trade openness.

Economic globalisation, a process of increasing integration of world markets and international economic cooperation, has brought many benefits to countries worldwide. Balaam & Dillman (2019, pp. 38–39) explained that globalisation, which began to emphasise the role of free markets without state intervention in the mid-1980s, has led to an increase in the efficiency of production, the diffusion of new technologies and the creation of jobs due to increased demand. The dramatic reduction in transport costs encouraged outsourcing and international trade. Between 1995 and 2020, according to the WTO (2024), the cost of international trade fell by around 6% to 10% across various sectors globally, contributing to a significant increase in international trade, with most of the reduction in trade costs occurring between 1995 and 2008.

For decades, deepening international trade has helped developing economies to catch up with advanced economies in terms of per capita income and to reduce absolute poverty substantially. Low-income consumers in advanced economies have also benefited greatly from lower prices (Aiyar et al., 2023). The last three decades of global economic integration have boosted productivity and improved living standards, tripled the size of the world economy and lifted 1.3 billion people out of extreme poverty (IMF, 2023a, p. 20). GDP per

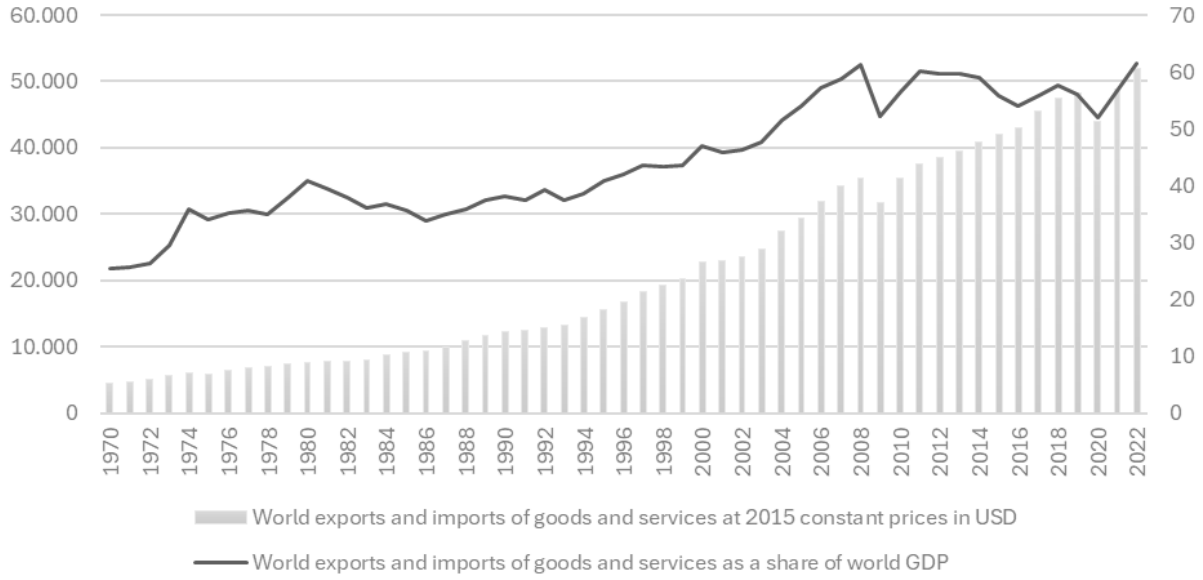
capita is a fundamental indicator of economic performance and is often used as a broader measure of average living standards or economic well-being. According to the World Bank (2024), world GDP per capita at constant 2015 prices has been increasing between 1960 and 2023, except for a few intermediate periods of crisis. The overall increase between 1960 and 2023 is 216.03%, with world GDP per capita rising from USD 3,663.80 in 1960 to USD 11,578.80 in 2023. Lang & Tavares (2024) highlighted the importance of globalisation for income gains in different countries around the world. In their study, they found that economic globalisation is driving income convergence between countries and income disparities within countries.

Between 1970 and 2022, world imports and exports of goods and services increased by USD 47,531.21 billion, or from 25.41% of world GDP to 61.53% of world GDP (Figure 1). Since 2008, world imports and exports of goods and services have continued to increase in absolute terms, while in relative terms it is possible to note that the share of world imports and exports of goods and services in GDP has started to stagnate, which indicates a process of slower globalisation and is consistent with García Herrero's (2022) findings. Campos et al. (2023) also emphasised that trade integration has slowed down considerably since the 2008 global financial crisis, and that tariff and non-tariff trade policy instruments have regained momentum. Recent examples include trade tensions between the United States, China and other major economies, trade restrictions linked to the COVID-19 pandemic, and economic sanctions imposed in response to the Russia-Ukraine war.

The trend seems to have turned towards slower globalisation, what García Herrero (2022) refers to as slowbalisation. Slowbalisation is not a new concept, but a phenomenon that has been seen before, e.g. just before the First World War. Baldwin, Freeman & Theodorakopoulos (2024), on the other hand, argued that the recent decline in trade share is not a cause for concern, as trade in services is still growing and already accounts for a fifth of international trade, showing that globalisation is evolving and adapting, rather than declining.

Figure 1

Trends in world imports and exports of goods and services between 1970 and 2022, measured in constant 2015 prices in USD billion (left scale) and as a percentage of GDP (right scale)



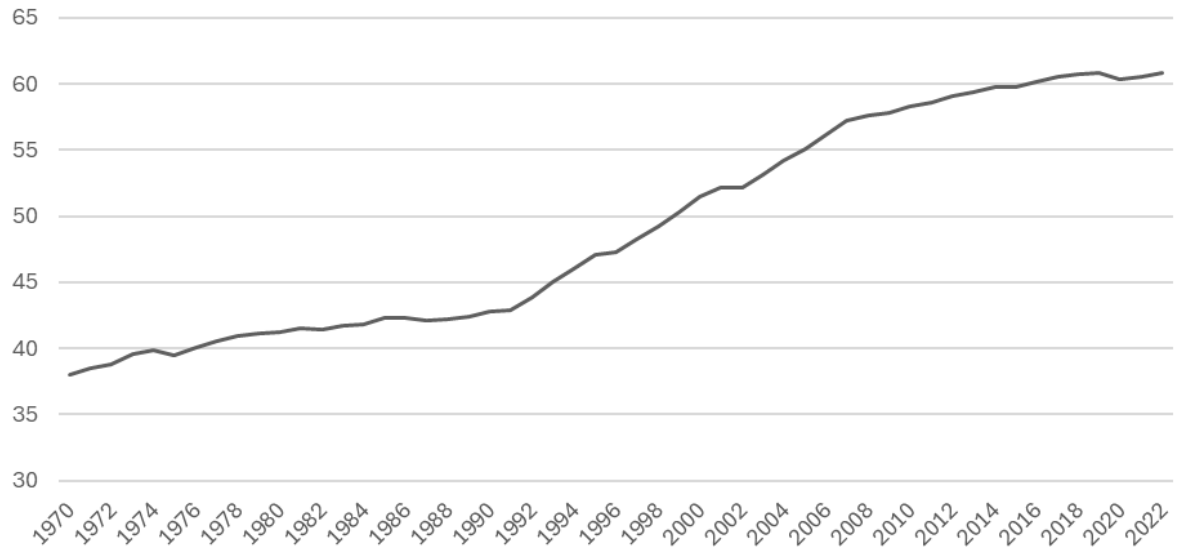
Source: Author's calculations based on World Bank (2024) data

Darvas (2023) noted that the shares of the European Union and the United States in world output are stagnating or declining, rather than increasing, due to the rapid growth of China and some other developing economies, such as India. According to the data obtained from the World Bank (2024), China's share of world GDP increased between 1989 and 2022, from 2.23% of world GDP in 1989 to 17.81% of world GDP in 2022. On the other hand, the European Union's share declined, from 25.41% of world GDP in 1989 to 16.60% of world GDP in

2022. The share of the United States remained constant throughout the analysed period. Recent trends also indicate the emergence of fragmentation of foreign direct investment and a decline in the share of net foreign direct investment inflows as a share of world GDP since 2008. World net foreign direct investment inflows declined by 3.53 percentage points of world GDP between 2007 and 2022, according to calculations based on World Bank (2024) data. IMF (2023b, p. 95) identified that several factors, such as increasing automation and geopolitical frictions, contributed to the slowdown in foreign direct investment before the COVID-19 pandemic. It is particularly important to highlight that strategic foreign direct investment flows to Asian countries started to decline in 2019, i.e. after the outbreak of the United States-China trade war, which is particularly reflected in Chinese net foreign direct investment inflows, which have fallen even more than the Asian average. By contrast, foreign direct investment flows to the United States and Europe have proved more resilient. Potrafke (2015) concluded that composite globalisation indices are one of the key tools for measuring and analysing the degree and impact of globalisation on different countries and regions. These indices combine several dimensions of globalisation, including economic, political, social and cultural interconnectedness. Composite globalisation indices, such as the KOF Globalisation Index, allow for comparisons between countries and regions, as well as monitoring changes over time (Axel, 2006). The KOF Globalisation Index for the world has risen between 1970 and 2022 (Figure 2), indicating that economic, social and political interconnectedness between countries is increasing. In this context, the increase in the KOF Globalisation Index was particularly rapid in the 1990s, which is consistent with a period of intense liberalisation processes and the establishment of the World Trade Organisation in 1995. Following the 2008 global financial crisis, the growth of the KOF Globalisation Index has moderated, suggesting the possibility of slowbalisation. Rodrik (2011) emphasised that the process of economic globalisation has been gaining momentum since the 1970s, and was particularly intense in the 1990s, which is widely recognised as the hyperglobalisation period. After the financial crisis of 2008, however, globalisation stalled due to a slowdown in the pace of economic integration, as can also be seen in the trend of the KOF Globalisation Index.

Figure 2

KOF Globalisation Index for the World between 1970 and 2022



Source: KOF Swiss Economic Institute (2024)

Changes in the World Economy and Signs of a Deglobalisation Process

Aiyar et al. (2023, pp. 10–11) argued that despite the obvious benefits, discontent with globalisation is growing around the world. Intensifying geopolitical tensions have led to greater reliance on cross-border restrictions for national security reasons and an increasing number of protectionist measures. Dadush (2022) and Zahoor et al. (2023) suggested that deglobalisation refers to the increasing disconnectedness of countries in areas such as international trade, capital flows, migration and technology transfer. This trend is reversing the economic

integration of the last century and a half, which has been interrupted only by world wars and economic crises. The world economy is therefore facing major challenges that can be broadly classified into four categories: (i) the transformation of global supply chains, (ii) the problem of economic inequality, (iii) the economic consequences of climate change, and (iv) the rise of economic nationalism and populism.

Firstly, disruptions in global value chains have led to product shortages, price increases and doubts about the resilience of global supply chains. Notably, some of the problems with supply chains in recent years have been due to unforeseen increases in demand rather than internal supply problems (Sandkamp, 2022). International trade generally helps to mitigate volatility by diversifying sources of supply and demand, but trade in key commodities, whose production is highly concentrated globally, can exacerbate crises. According to WTO (2023, p. 21), China and the United States were the main players in the supply of commodities between 2010 and 2021, where bottlenecks or supply disruptions can occur. During this period, the U.S. share has gradually decreased (by 2.1 percentage points between 2010 and 2021), while China has slightly increased its share (by 0.6 percentage points between 2010 and 2021). Between 2010 and 2021, the largest exporting countries of potential bottleneck products accounted for around 70% of the world's export value of products with the potential for supply disruptions. Bottlenecks in supply chains hamper economic activity in global value chains, and their severity depends on whether they affect upstream or downstream stages of production. Lasting negative impacts are likely to be particularly severe for goods such as semiconductors for which there are no substitutes, especially affecting countries with a large share of the automotive industry (Rees & Rungcharoenkitkul, 2021).

Cappariello et al. (2020, pp. 9–10) noted that individual countries and industries globally are becoming increasingly interconnected, not only through trade in finished products, but also as firms increasingly source intermediate raw materials and intermediate products from abroad. It appears that from 2000 to 2014, supply chains have become more interconnected, not only within countries but especially across national borders. Campos et al. (2023) estimated that fragmentation into three different trading blocs (Western, Eastern and Neutral) would have significant effects on trade between them, with trade flows potentially declining by between 22% and 57% in the most pessimistic scenarios. The welfare loss would be greatest in the Eastern bloc, where the median country in the sample would suffer a welfare loss of up to 3.4%. Javorcik et al. (2023) noted that although friendshoring can provide insurance against extreme disruptions or increase the security of supply of important raw materials, it causes a real loss of output worldwide in the medium term, which they estimate would be between 0.1% and 4.6% of world GDP. Rethinking global value chains is strongly intertwined with the broader opposition to globalisation in many developed countries. This resistance arises from complex country-specific causes, but an important factor is the decline in manufacturing jobs in advanced economies (partly due to competition from imports of manufactured goods from China). While China's share of U.S. imports of goods has declined, its share of imports of goods into Europe has increased, and China has also increased trade and foreign direct investment in Mexico and Vietnam. This may suggest that the United States remains indirectly connected to China via countries such as Mexico and Vietnam (Alfaro & Chor, 2023). The people's resistance to globalisation observed in many parts of the world reflects the economic inequalities and geopolitical tensions that have encouraged the formation of different trade (and political) blocs. However, the current trend of deglobalisation remains fundamentally neoliberal, shifting from a global to a nationalist focus, while still concentrating on multinational corporations (Ghosh, 2022).

Secondly, examining the distribution of global income and wealth from the World Inequality Database (2024), we found that the richest 10% of the world's population in 2022 received 53.15% of global income, while the poorest half of the population earned 8.00% of global income. Global wealth inequalities are even more pronounced than income inequalities, with the poorer half of the world's population owning almost no assets (1.89% of total assets) in 2022. By contrast, the richest 10% of the world's population owned 75.85% of all assets in 2022. In this case, 50.61% of the wealth of the richest decile is held by the wealthiest one per cent. The trend in the distribution of income and wealth has also not changed much between 1995 and 2022, or has remained at relatively the same levels, with only a slight decrease in the share of the richest 10%, by 3.07 percentage points in the distribution of income and by 4.63 percentage points in the distribution of wealth (World Inequality Database, 2024).

In some developing countries, income inequality remains at very high levels, especially compared to developed countries, and has increased in recent years (Kebalo & Zouri, 2024). Although the share of the

population living below the poverty line has fallen significantly, the bottom decile of the income distribution has been left behind compared to those with average incomes. Additionally, income trends for the rising middle class have stagnated, while the share of the top 10% has increased in some developing countries (Bank for International Settlements, 2018, pp. 37–39). The factors that cause income inequality are very diverse, including technological progress, inflation, international trade, the redistributive effects of fiscal policy linked to tax policy and social transfers, and demographic and social factors, such as migration and population ageing (Berisha, Dubey, & Gharehgozli, 2023; Baek, Noh, & Ahn, 2023; Malla & Pathranarakul, 2022). Globalisation might also contribute to widening inequality through changes in the relative prices of goods consumed by different income groups; since low-income consumers spend a greater share of their income on housing and food than those with higher incomes, these changes may have had a disproportionately negative impact on the economic well-being of the lowest-income groups (Fajgelbaum & Khandelwal, 2016). Moreover, Shin (2012), Berg et al. (2018) and Topuz (2022) noted that greater income inequality in a country might a result of several factors, such as credit market imperfections, constraints on investment in human capital, and political decisions on tax policy, hampering economic growth.

Thirdly, one of the main global challenges affecting people's living standards and future economic activity is also tackling the (economic) consequences of climate change. Their (negative) impact is expected to intensify in the future, especially about the financial instability they cause. Despite this uncertainty, it is possible to predict that the costs of climate change will be significant and unevenly distributed (Breckenfelder et al., 2023). A study by Waidelich et al. (2024) found that if the planet warms by more than 3°C, global GDP is projected to decline by 10%, with the most severe effects (up to 17%) in poorer countries at low latitudes. In addition, the study concludes that limiting global warming to 1.5°C would reduce the global economic costs of climate change by around two-thirds. Newman & Noy (2023) estimated the global cost of extreme weather events attributable to climate change between 2000 and 2020 at USD 143 billion per year. The costs associated with climate change therefore have significant negative impacts on individuals, businesses, communities and economies, as well as on society. Clement et al. (2021, pp. 82-83) concluded that, globally, in a pessimistic reference scenario, the number of climate migrants could reach 216.1 million by 2050, due to climate change being an increasingly important driver of migration.

According to the International Energy Agency (2024), between 2021 and 2023, annual investment in clean energy grew by 24%, while investment in fossil fuels grew by 15%. In recent years, spending on clean energy has increased, especially in certain countries, notably China, the United States, the European Union, India, Japan and countries in the Middle East. In 2022, more than 60% of investment in renewable technologies was in solar, including photovoltaics. Investment in solar photovoltaics alone has reached almost USD 300 billion. Investment in solar photovoltaics has increased significantly, coinciding with a reduction in the cost of this technology, which has fallen from USD 0.42 per kilowatt hour in 2010 to USD 0.05 per kilowatt hour in 2021. Wind energy investments worldwide amounted to about USD 174 billion in 2022, representing about 35% of total global renewable energy investments (Statista, 2024). In conjunction with the growing importance of the green transition, green financial instruments such as green bonds, which are used to finance projects with a positive impact on the environment, have also experienced significant growth in recent years (Malorgio, Teti, & Dallocchio, 2021).

Finally, the growing public perception that the (economic) losses from globalisation outweigh the gains could provoke a backlash and a transformation of the world economy towards deglobalisation. Indeed, negative attitudes towards globalisation are growing in developing as well as developed countries, and despite the potential benefits of foreign direct investment, public attitudes towards it are not as positive as might be expected. In several countries, opposition to further international cooperation and the deepening of international flows of labour and capital has also led to a political backlash, including economic nationalism and populism (Halmai, 2023). The primary driver behind the rise of populist parties is popular discontent stemming from the gradual decline in the share of labour income in aggregate income and the declining demand for low-skilled labour. Economic research indicates that those on the losing side of these developments are turning to support populist parties with protectionist and nationalist agendas (Fetzer & Gold, 2019). The increasing prominence of nationalist and populist movements worldwide is raising concerns about the future of international economic cooperation. Central to these concerns is the belief that nationalist and populist governments will restrict free trade, which is one of the key drivers of the globalisation of the world economy

(Mansfield & Pevehouse, 2022). Furthermore, the evidence of the economic harmfulness of trade restrictions and tariff wars is compelling. Barattieri, Cacciatore & Ghironi (2021) found that protectionism does not stimulate economic activity and, in the short term, mainly contributes to higher inflation and lower output. Furceri et al. (2018) examined the macroeconomic impact of tariffs between 1963 and 2014 on a sample of 151 countries and found that higher tariffs have a negative impact on productivity and output in the medium term, contributing to higher unemployment and increasing economic inequality.

Kostadinova (2024), in a study of 10 Eastern and Central European countries for the period 1996–2016, found that populist politicians in power do not reduce corruption and are no more likely to eliminate corrupt practices than non-populist governments. The study also found that there is strong empirical evidence that corruption levels increase when populists rule, primarily due to their authoritarian influence on institutions. Kleinfeld (2023) noted that even pro-business populism often prioritises political objectives over economic issues, which may have harmful consequences. Funke, Schularick & Trebesch (2023) found that populist governance significantly hinders economic growth. According to their study of populist leaders from 1900 to 2020, GDP per capita is found to be 10% lower after 15 years compared to a plausible non-populist counterfactual. On the other hand, Acemoglu et al. (2019) conducted a study on a sample of countries from 1960 to 2010 and found that democracy fosters economic growth, with its impact being both significant and substantial.

The Return of Industrial Policy in a Deglobalising World

In response to the economic turmoil of the COVID-19 pandemic and escalating geopolitical tensions, many policymakers have turned to promoting protectionism and enhancing the resilience of national economies, particularly through increasingly active state-led industrial policy (Millot & Rawdanowicz, 2024; Di Carlo & Schmitz, 2023). Whereas before the COVID-19 pandemic, the active pursuit of industrial policy was frequently met with criticism in public discourse, however, industrial policy is now openly discussed and actively pursued (Andreoni & Chang, 2019). Dissatisfaction with globalisation and the loss of manufacturing jobs in advanced economies has led to a rise in industrial policy measures and trade protectionism. Industrial policies are also driven by the need to accelerate the decarbonisation and digitalisation of economies (Terzi, Sherwood, & Singh, 2023).

The term industrial policy only came into active use after the Second World War, but even then, it was already causing controversy and problems in public discourse. While industrial policy has lost its relevance in many advanced economies, East Asian economies have used it as one of the key tools to stimulate industrial production and the subsequent increase in economic activity, and to reduce the development gap with advanced Western economies (Andreoni & Chang, 2019). Rodrik (2009, p. 3) defines industrial policy as the stimulation of specific economic activities and the promotion of structural changes within these sectors. In this context, industrial policy instruments are not only aimed at economic activities related to manufacturing. Juhász et al. (2022) noted that, as industrial policy is geared towards structural change, its key feature is that it is implemented by its promoters in a discretionary manner. Industrial policies are also often associated with innovation policies. Traditionally, industrial policy has often focused on vertical sectoral implementation of measures. Well-defined tasks or missions aimed at tackling major societal challenges set the direction for solutions, but not the precise pathways to success. Instead, missions encourage the development of different approaches and solutions to achieve the set goals (Mazzucato, 2018).

The objectives of industrial policy may include addressing market failures, fostering the transformation of the economic structure, promoting economic development and innovation, and enhancing international (export) competitiveness (Juhász et al., 2022; Juhász, Lane, & Rodrik, 2024). Andreoni & Chang (2019, p. 137) explained that the origins of industrial policy are linked to the development of the infant industry argument. The infant industry argument has its origins in the German Historical School of Economics, with reference to the German economist Friedrich List, one of the most famous 19th-century advocates of protectionism. List believed that in the early stages of industrial development, countries needed to protect their domestic industries from foreign competition to develop and consolidate infant industrial firms (Brue & Grant, 2013, pp. 210–213). Another frequently used argument to justify industrial policy interventions is the presence of sectoral externalities, where the benefits of the externalities outweigh the costs and risks of the planned activities. Therefore, for an industrial policy measure to improve welfare, it should effectively address the externality (Criscuolo et al., 2022, p. 9). Hausmann & Rodrik (2003) also developed the information externality

argument, which explains that a firm that enters a new industry before others generates new information about the desirability of entering the industry for other potential entrants, and therefore it is justified to provide support to pioneering or innovative firms in the form of targeted industrial policy measures. Governments also often seek to boost innovation to stimulate economic growth, as countries with higher R&D spending tend to be wealthier (Bloom, Van Reenen, & Williams, 2019). The expectation that public funding will achieve large social benefits is essential to legitimate both industrial and innovation policy (Laplane & Mazuccato, 2020).

Juhász, Lane & Rodrik (2024, p. 16) found that earlier empirical studies on the effectiveness of industrial policy measures have reported findings of general ineffectiveness of industrial policy measures, finding that the level of subsidies or measures related to the protection of domestic manufacturing firms were generally negatively correlated with performance measures such as industry-specific productivity (e.g. Osborn Krueger & Tuncer, 1982; Lee, 1996; Lawrence & Weinstein, 1999). On the other hand, more recent empirical studies often draw opposite conclusions. Lane (2024) examined the impact of South Korea's industrial policy measures between 1973 and 1979 on the country's subsequent industrial development and found that this temporary driving force has shifted Korean production to more developed markets and thus created lasting changes in the economy, which may explain, among other things, South Korea's rapid economic development. South Korea's industrial policy measures in the 1970s were also analysed by Choi & Levchenko (2024), who found that subsidised firms grew faster than those that were never subsidised 30 years after the subsidies ceased, and that the measures had greater benefits than costs. Many empirical studies focus on the effectiveness of industrial policy instruments supporting R&D through subsidies, such as tax incentives or government grants. Dechezleprêtre et al. (2016) analysed the impact of R&D tax incentives on innovation and found that tax changes have a statistically and economically significant impact on R&D and patenting. Appelt et al. (2023) found that the effectiveness of public incentives for R&D tends to vary across countries and firms, and is higher for early-stage, emerging and small firms than for large or multinational firms. In addition to the effectiveness of public R&D incentives, the empirical literature has also examined several examples of the use of sectoral industrial policy measures. Juhász, Squicciarini, & Voigtl (2023) examined changes in cotton spinning during the first industrial revolution in France, estimating that the productivity of French mechanised cotton spinning mills increased significantly (by 82%) between 1806 and 1840, when mechanisation had already been adopted. The sectoral effects of industrial policy have also been studied by Hanlon (2020), using the example of the international shipbuilding industry from 1850 to the period just before the First World War. Hanlon (2020) found that initial price advantages of inputs can have a long-term impact on the spatial distribution of production and trade patterns.

Global changes related to the impact of the COVID-19 pandemic, the rise of geopolitical conflicts, and climate change have raised concerns about the resilience of supply chains, economic and national security, and energy and food security. Evenett et al. (2024, p. 5) found that, on average, there is a 73.8% probability that a subsidy granted by the European Union, China, or the United States for a particular product will prompt a response from one of the other two countries in the form of a subsidy for the same product within one year. Juhász et al. (2022, pp. 15–16) noted that 25% of the economic policy measures recorded in the Global Trade Alert database can be classified as industrial policy measures in their model. This suggests that industrial policy measures are considerably widespread. Juhász, Lane & Rodrik (2024, pp. 12–13) argued that high-income countries have recently been the main implementers of industrial policy. Although industrial policy is nowadays implemented worldwide, it is more widespread in advanced economies. In emerging economies and countries of the Global South, fiscal constraints limit public spending on such policies, which is one of the reasons why the green transition is being promoted more intensively through industrial policies in more advanced economies. Evenett et al. (2024, p. 19) also examined the reasons given by the governments of the countries in the sample for implementing new industrial policies in 2023. They found that the main reason cited for implementing new industrial policy measures in 2023 was the strategic competitiveness of national economies (37.0%), followed by climate-related issues (28.1%), supply chain resilience (15.2%), and geopolitical and national security issues (19.7%), noting that the survey only includes officially stated motives, and therefore does not contain direct evidence of promoting trade protectionism (and consequently trade protectionism is not cited as a reason for implementing industrial policies). Juhász, Lane & Rodrik (2024), Di Carlo & Schmitz (2023), Aiginger & Rodrik (2020) and Reynolds (2024) noted that the use of industrial policy has changed considerably in recent years, due to several changes in the economy and in a context of intensified geopolitical tensions. The new industrial policy targets a greater number of objectives (and consequently employs a greater number of

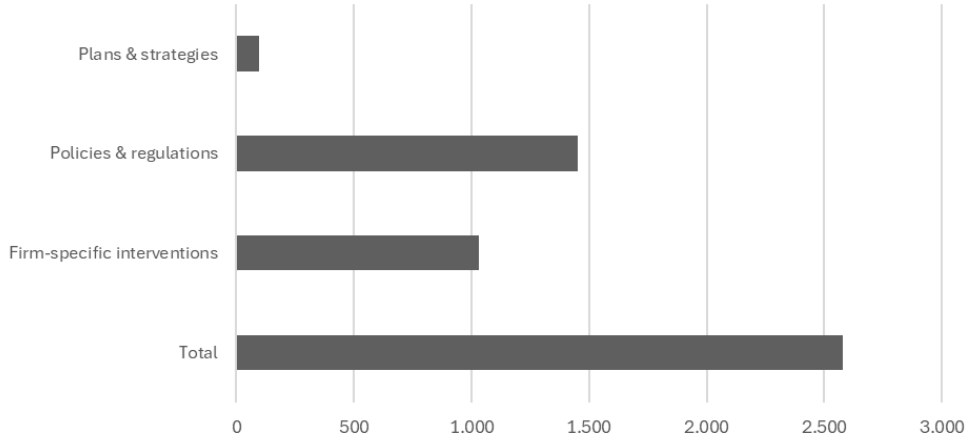
instruments) than in the past, with a greater emphasis on the green and digital transition, preserving well-paid middle-class jobs, fostering innovation (emphasizing a bottom-up approach), and stimulating small and medium-sized enterprises, rather than solely focusing on the development of national champions, as in the past.

Both the European Union and the United States are facing growing threats to their economic security from China. One of the most recent examples is the production of electric vehicles and the critical earths needed for battery production, a particularly pressing issue for the European Union and its historically significant automotive industry (Bown, 2024). In the United States, as noted by Artecona & Velloso (2022) and Millot & Rawdanowicz (2024), several industrial policy packages have been adopted in recent years, including the CHIPS and Science Act, the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Act. In March 2020, the European Commission presented a new industrial strategy for Europe, which was subsequently updated in May 2021 in view of the challenges encountered by the member states following the COVID-19 pandemic. Since 2021, the European Commission has published several legislative proposals related to the new industrial strategy, mainly in response to changes in U.S. industrial policy. Beginning in 2021 and continuing into 2022, the Horizon Europe programme, which aims to fund research and stimulate innovation between 2021 and 2027, and the REPowerEU plan, which aims to encourage a gradual reduction of Russian fossil fuel imports into the European Union, were adopted; and in 2023, the Green Deal Industrial Plan for the Net-Zero Age and the European Chips Act were approved (European Commission, 2024). García Herrero & Schindowski (2024, pp. 3–5) and DiPippo, Mazzocco & Kennedy (2022) noted that China's new industrial strategy is closely tied to the Made in China 2025 programme, a multilateral policy initiative launched in 2015, designed to propel the Chinese economy towards innovation-driven production of high value-added products and services. In addition, Made in China 2025 can also be linked to the 10,000 Little Giants initiative, which aims to support Chinese small and medium-sized enterprises. DiPippo, Mazzocco & Kennedy (2022) estimated that China's industrial policy spending in 2019 was substantial, amounting to at least 1.73% of China's GDP. The adoption of new industrial policies and their growing importance in economies such as China, the United States and the European Union has led to a response in the form of the introduction of similar measures in other advanced economies, such as Canada, South Korea, Japan and the UK (Millot & Rawdanowicz, 2024, pp. 43–49).

Evenett et al. (2024) classified industrial policy measures into three different levels of intervention in the NIPO database, ranging from plans and strategies to policies and regulations, and firm-specific interventions. An analysis of the 2023 data reveals that policies and regulations were the most prevalent, followed by firm-specific interventions, while high-level plans and strategies were the least frequent (Figure 3). Thus, in 2023, a total of 2,580 unilateral government interventions were recorded, which are classified as industrial policy measures in the NIPO database. Evenett et al. (2024, p. 16) further noted that 70.9% of all interventions in 2023 were in advanced economies, with the United States, China and the European Union accounting for 47.7% of all interventions.

Figure 3

Levels of industrial policy measures in the NIPO database in 2023



Source: Evenett et al. (2024)

Another issue that has recently emerged is the outlook for the future implementation of industrial policies. The debate on international trade and industrial policy in the United States has focused, especially after Trump's re-election, mainly on trade protectionism, with Trump advocating high tariffs. Trump's victory also raises concerns about the impact on climate policies and continued dependence on fossil fuels, including pre-election promises to repeal the U.S. Inflation Reduction Act (The Economist, 2024a, 2024b). The member states of the European Union are also confronted with significant challenges. The European automotive industry is facing several challenges, including strikes at Volkswagen over plant closures, the collapse of the Swedish start-up Northvolt, and possible disruption from tariffs that may be imposed by the new Trump administration. The European automotive industry is also being hit hard by growing competition from Chinese electric vehicle manufacturers and by declining sales in key markets such as China and the United States. The outlook for European automotive manufacturers appears unfavourable as they face overcapacity, rising costs and stagnating sales (The Economist, 2024c). Aiginger & Rodrik (2020) argued that industrial policies need to be aligned with societal objectives, and that addressing market failures is important, but that there needs to be an awareness that industrial policy objectives should be more ambitious and long-term oriented, including a mission and an intention to develop and implement new technologies.

Conclusion

The article concludes that the world economy is facing signs of deglobalisation or slowbalisation and the rise of industrial policy measures, which is particularly evident in advanced economies. There are growing geopolitical tensions between the world's major economies or economic blocs, related to the outbreak of the United States-China trade war after 2018, the COVID-19 pandemic and the large-scale disruption of supply chains, and the Russia-Ukraine conflict, which has highlighted the importance of food and energy security for European economies. At the same time, the world economy is also facing other challenges, such as the increasing negative impact of climate change on the environment and the economy, the issue of economic inequality, and the rise of economic nationalism and populism. Advanced economies have also seen a decline in the share of manufacturing in GDP in recent decades, leading to a subsequent decline in employment in traditional industries.

A notable shift in industrial policy implementation has taken place in the aftermath of the COVID-19 pandemic with the passing of the U.S. Inflation Reduction Act and the CHIPS and Science Act. The European Union has adopted several aid packages, of special relevance are the Green Deal Industrial Plan and the European Chips Act. China has continued to promote its industrial sector through initiatives such as Made in China 2025 and 10,000 Little Giants. Other advanced economies, such as Canada, the UK, Japan and South Korea, have also adopted new industrial strategies and measures related to industrial policy instruments. Although industrial policy is being implemented worldwide, it is becoming more widespread in high-income countries, as noted by Evenett et al. (2024) and Juhász, Lane, & Rodrik (2024).
While industrial policy has the potential to drive the green and digital transition, the realisation of these positive effects is not assured. A successful industrial policy requires transparency over funding and an inclusive and transparent allocation of subsidies. This raises the question of whether the current wave of industrial policies can avoid the pitfalls of the past. Governments are convinced that this is the case and are quick to highlight perceived successes. At first glance, these trends appear promising; however, the key question remains how this issue will evolve moving forward. Economic history shows that with the introduction of industrial policies in countries, the line between achieving desirable development goals and economic well-being, and a series of budgetarily expensive yet unsuccessful projects that inevitably distort the competitive forces of markets and strengthen economic protectionism, is often very thin.

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(De)globalizacija in nova industrijska politika

Izvleček

Procesi gospodarskega in političnega sodelovanja po drugi svetovni vojni so spodbujali gospodarsko rast ter izboljšali življenjski standard in blaginjo prebivalstva, hkrati pa okrepili gospodarsko povezovanje in prispevali k boljšemu odzivanju na globalne izzive. Po svetovni finančni krizi leta 2008 je opazen trend deglobalizacije ali upočasnjene globalizacije. Članek podaja pregled literature in podatkovnih virov o razmerah ter trendih, povezanih z globalizacijo svetovnega gospodarstva in porastom ukrepov industrijske politike v razvitih gospodarstvih. Ugotovljeno je bilo, da se svetovno gospodarstvo sooča s številnimi izzivi, med drugim s preoblikovanjem globalnih dobavnih verig, blaženjem učinkov ekonomske neenakosti in podnebnih sprememb ter porastom ekonomskega populizma in nacionalizma. Članek posledično ponuja celovit pregled literature o globalizaciji in industrijski politiki ter obravnava medsebojno prepletanje procesov deglobalizacije in ukrepov industrijske politike ter njihov vse večji pomen v razvitih gospodarstvih.

Ključne besede: svetovno gospodarstvo, industrijska politika, globalizacija, deglobalizacija