

Industrial Policy & Trade:

Key developments

Kick-off remarks

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Sustainable Development

Context: What policies are we talking about?

The industrial policies of interest: sectorally focused, discriminatory, the subject of trade and investment rules.

Subsidies (various types, including conditional on local content: grants, below-market-rate loans, tax benefits, purchase at above market rates, specific provision of infrastructure, provision of below-market-rate inputs, export credit, etc.)

Government procurement

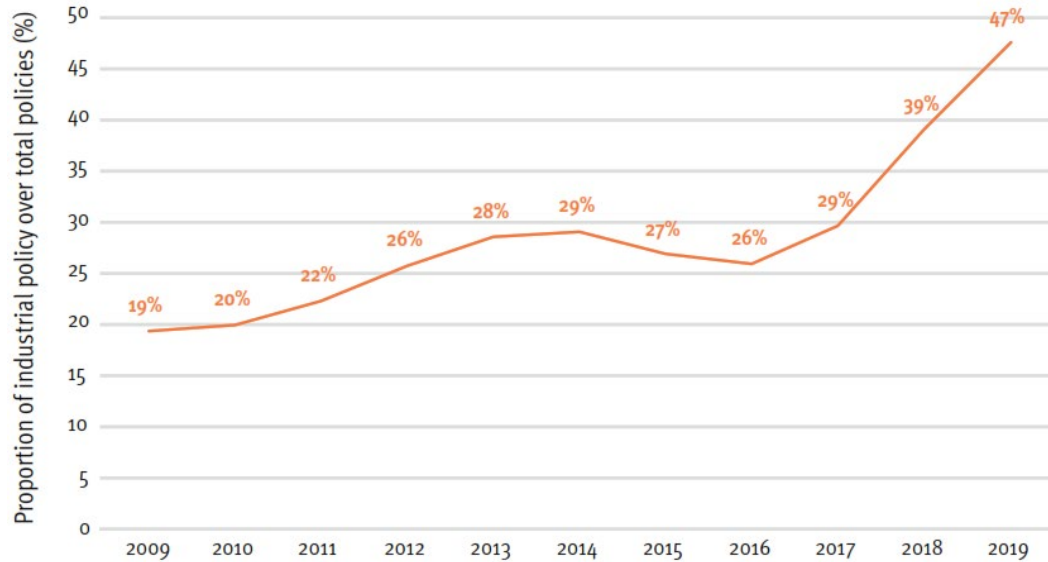
Export restrictions

Conditions of investment: Local employment, local processing, joint venture, tech transfer

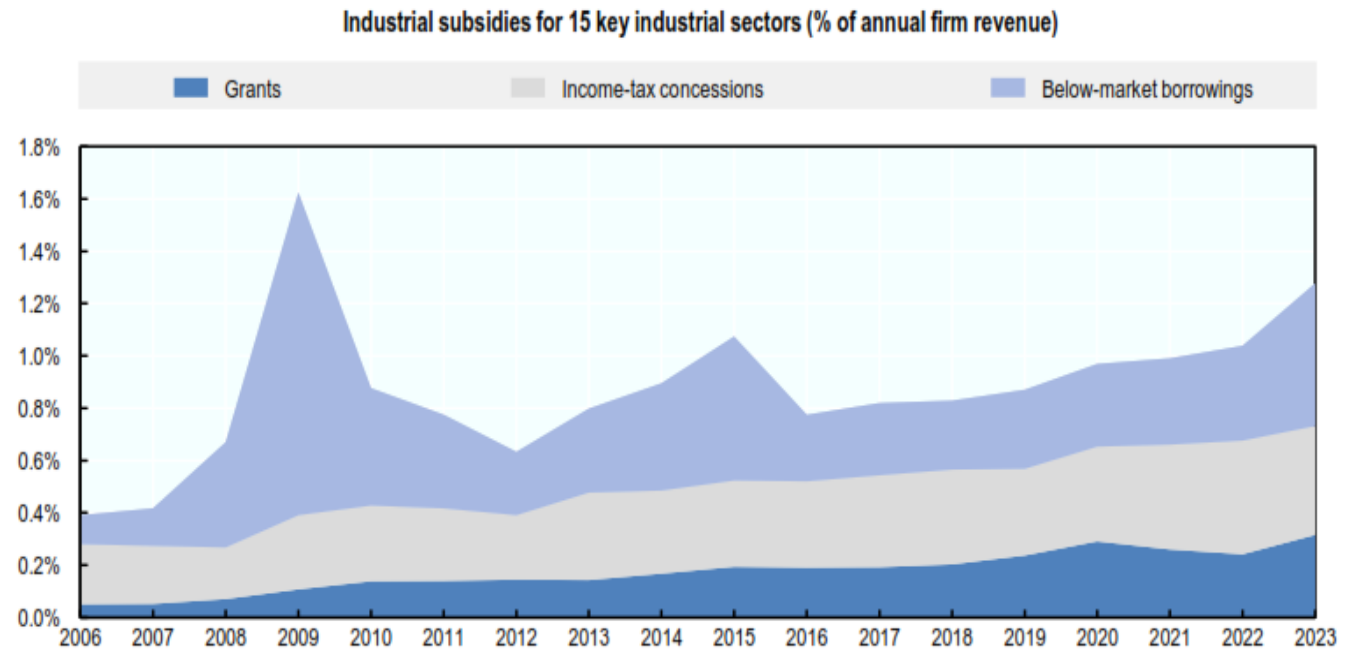
Tariffs

Regulatory discrimination

Industrial policy on the rise



Juhász et al. 2023. *Global Industrial Policy: Measurement and results*. (UNIDO). (Based on Global Trade Alert database.)



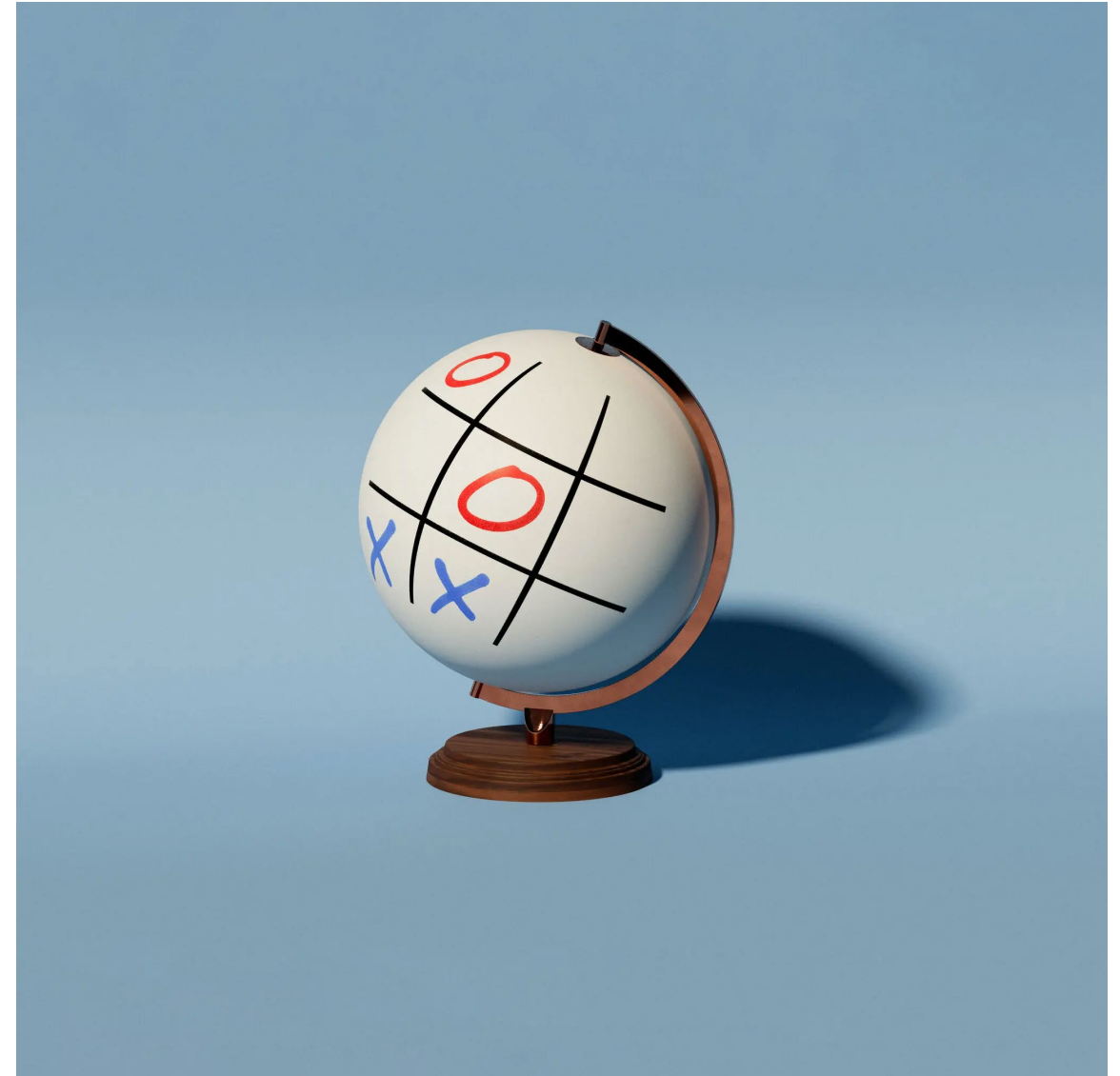
OECD. 2025. *The State of Play of Industrial Subsidies as of 2023*. (Based on MAGIC database)

Multiple Drivers: The rise will continue

- Increasing recognition of **the need for deep economic transformations** to tackle decarbonization and other environmental challenges. Markets alone won't do it.
- Increased **value put on strategic autonomy**. Supply chain vulnerability highlighted by: COVID and other disasters (including climate-caused), erosion of the reliability of the multilateral trade system, rising geopolitical frictions.
- Increasing belief in **techno-nationalism**: that prosperity and security are linked to national dominance in key technologies. Demands targeted government support.
- Expanding **zero-sum opportunities** for national prosperity: rise of sectors with increasing returns to scale, network effects in the information economy, strategic opportunities for digital infrastructure lock-in, combined with high early-stage returns to innovation.
- Industrial policy at the global scale is seen as a race, so becomes self-perpetuating. Actions by some lead to actions by others. (e.g., US IRA arguably led to EU Clean Industrial Deal).

Challenges

- **Inefficiency:** Support that is not removed when no longer needed to address market failure creates over-capacity, crowds out efficient firms, may destroy innovative capacity.
- **Zero sum game:** Industrial policy support may simply shift location of activity that would have taken place anyway.
- **Widening inequalities, rising industrial concentration:** Only the largest economies, fiscally healthy, with strong bureaucratic capacity, can successfully employ many industrial policy tools. Market dominance by few firms.
- **Dependency:** Modern industrial policy may seek to create dependencies (e.g., AI stack) – perpetuates inequality and creates vulnerability.
- **Geopolitical tensions:** Successful industrial policy leads to tensions among lead countries, and between leaders and rest of world. Trade and investment restrictions, retaliatory tariffs, etc. undercut growth & development.



But we *need* [good] industrial policy

- Evidence is that, *when successful*, industrial policy can be an engine for development and poverty alleviation. It is not enough simply to build fertile ground for investment and await its arrival.
- The crisis of climate change demands a transition more fundamental and rapid than can be delivered by the market alone, even when guided by incentives like carbon pricing. Needs targeted intervention to foster and disseminate disruptive new technologies. Successful green industrial policy delivers critically important global spillover benefits.



In an ideal world ...

Trade and investment rules would align in finding the proper balance between policy space and discipline. To find that balance, as a starting point, need to answer some basic questions:

- When does industrial policy create positive spillovers for trading partners and the global economy? When does it create negative spillovers?
- How can governments tackle those difficult cases where there might be positive impacts of a policy domestically but negative impacts abroad?
- Do the current international trade rules require adjustments to accommodate the pursuit of good green industrial policies by countries, or to rein in unhelpful policies not currently covered by the rules?
- What policy structures would help ensure developing countries can access clean technologies, but are not marginalized in the global green markets of the future?

Thank you

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