

The use of industrial policy has risen in recent years

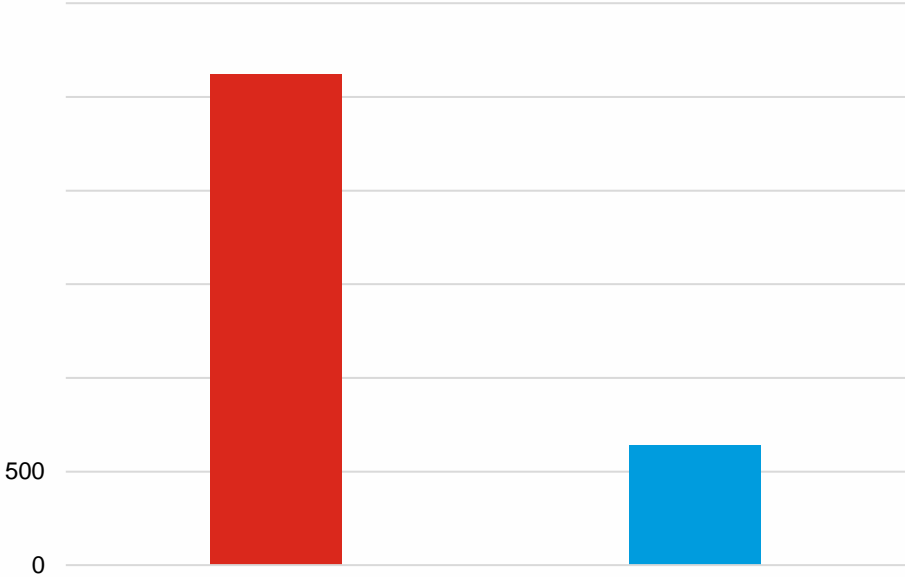
Working definition of Industrial Policy: Any targeted government intervention aimed at developing or supporting specific domestic firms, industries, or economic activities to achieve national economic or non-economic (such as security, social, or environmental) objectives.

Number of New Restrictive Trade Measures



New Industrial Policy Measures

(based on implemented measures in 2023; sample of 70 countries)



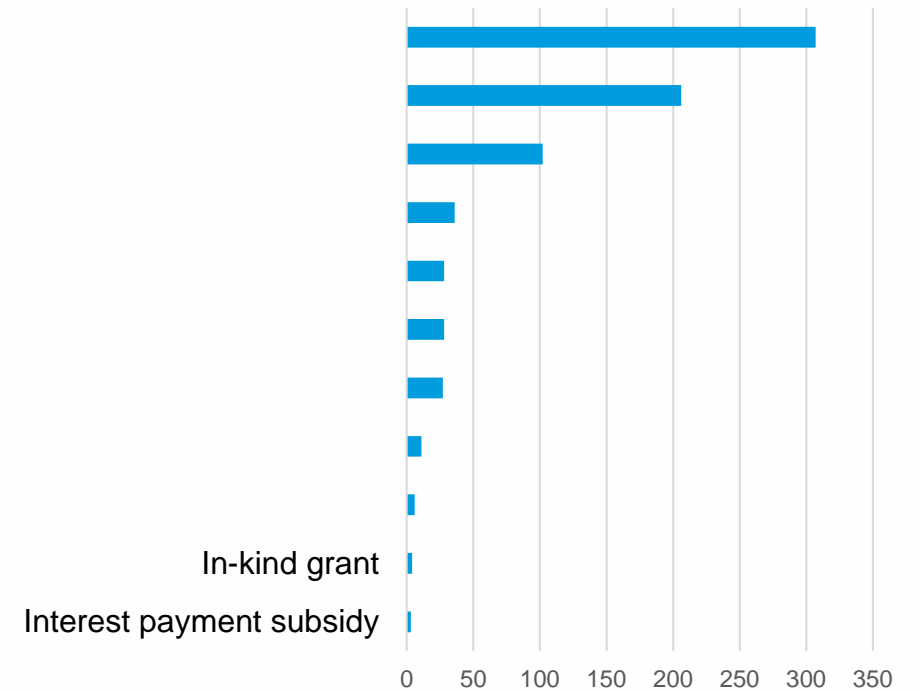
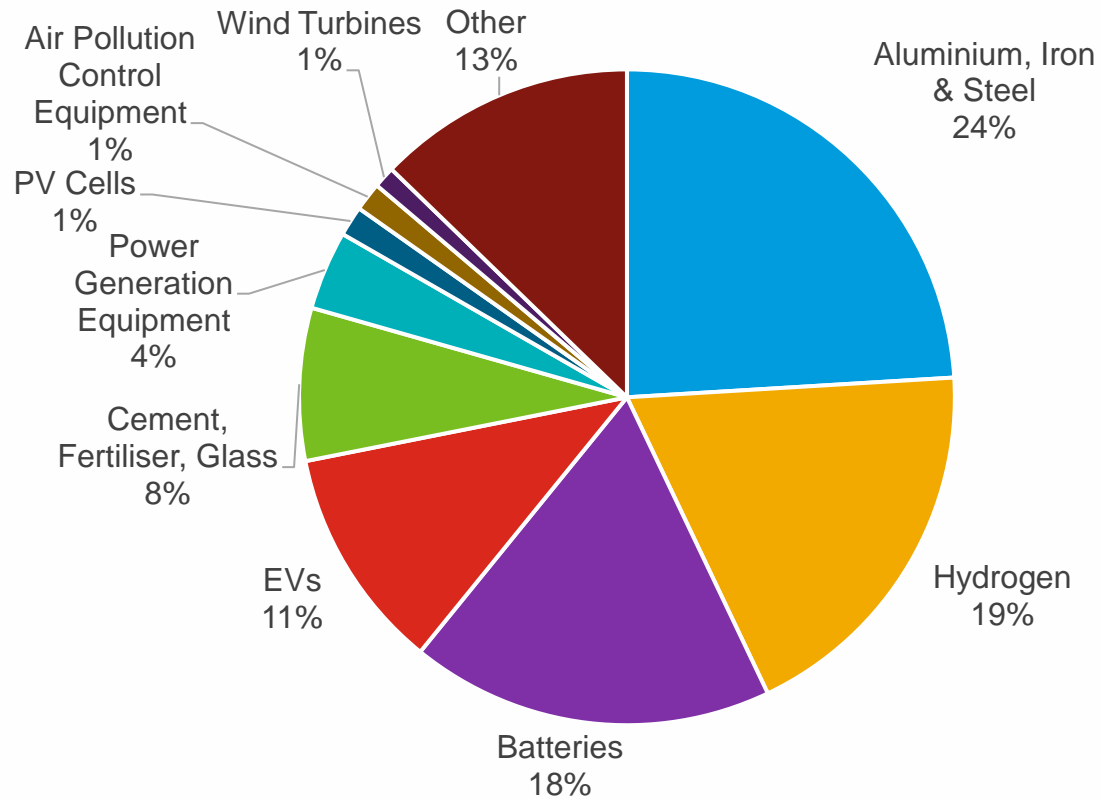
Note: Compilation process introduces judgement in some borderline cases and judgement-based approaches reduce comparability.
 Source: Staff calculations based on Evenett, Jakubik, Martin and Ruta (2024)

Climate change mitigation is an important motive
for recent industrial policies

Green subsidies target a variety of products and use a range of instruments

Green Subsidies, by Product

(share of measures classified as subsidy and with climate change mitigation motive, 2023)



Guidance to IMF staff on industrial policy

When to cover Industrial Policy in IMF surveillance

- ✓ **Macro-criticality.** Staff are required to cover industrial policy where they are assessed to significantly influence present or prospective balance of payments or domestic stability.
- ✓ **Significant cross-border spillovers.** Staff should discuss spillover effects of policies that have a significant impact on other members or the International Monetary System.

How to cover Industrial Policy in IMF surveillance

Justification

- Does it aim to address macro-critical market failures?
- Is industrial policy the best way to achieve these objectives?

Design

- What is the best choice of policy instruments?
- Is there a robust governance framework?

Cost-Benefit Assessment

- What are the expected net benefits (ST and LT) for the country?
- Are there potential cross-border spillovers and spillbacks?

Implementation

- Is the industrial policy discriminatory?
- Is it consistent with WTO and other international legal commitments?

Specific guidance for green industrial policy

- Complements decarbonization policies (carbon pricing)
- Minimizes adverse spillovers
- Ensures support is time-bound, cost-effective, and transparent
- Uses appropriate
-

tiizple

Ftpreffectivn(e

Trade spillovers of domestic subsidies

Domestic subsidies can have significant effects on international trade flows.

Risk of policy escalation

Large players tend to respond to each others' measures, leading to a tit-for-tat dynamic. On average there is a 74 percent probability a subsidy for a given product by one major economy is met with a subsidy for the same product by another within one year.

Initial Implementing Jurisdiction	Form of subsequent policy intervention	Responding jurisdiction								
		China			EU-27			USA		
		Within 6 months	Within 12 months	Within 24 months	Within 6 months	Within 12 months	Within 24 months	Within 6 months	Within 12 months	Within 24 months
China	Introduce new subsidy	-	-	-	0.84	0.93	0.98	0.71	0.82	0.93
EU-27	Introduce new subsidy	0.48	0.66	0.74	-	-	-	0.65	0.72	0.79
USA	Introduce new subsidy	0.37	0.55	0.60	0.70	0.74	0.79	-	-	-

Note: Data covers measures implemented between January 2021 and December 2023. Potential cross-country differences in transparency, data availability and policy preferences should be considered when interpreting this data. Compilation process introduces judgement in some borderline cases and judgement-based approaches reduce comparability.

Source: Evenett, Jakubik, Martín, and Ruta (2024)

Thank you

Recent and forthcoming IMF work

IMF, WTO, World Bank, OECD (2022). Subsidies, Trade and International Cooperation.

IMF (2024). Industrial Policy in IMF Surveillance – Broad Considerations. Policy Paper No. 2024/008.