



By: Tomorrow's Affairs Staff

State support is altering the balance of power in global industries



Industrial subsidies have returned to the centre of the global economy, but this time not as a temporary measure to rescue companies in crisis.

New data from the **OECD**, the Organisation for Economic Co-operation and Development, show that government support for large industrial firms has reached its highest level since the global financial crisis.

This is no longer an episode of emergency measures; it is a new model of competition.

According to the **OECD's MAGIC database**, which tracks subsidies in 15 key industrial sectors, total support reached \$108 billion in 2024.

Relative to company revenues, subsidies amounted to 1.3%, the second highest level since 2005, just behind 2009, when the fall in revenues during the financial crisis mechanically increased the share of subsidies.

The distinction is important. Then, the state was addressing a crisis. Today, states are building industrial advantage.

Most attention is focused on China, and with good reason. The OECD estimates that between 2005 and 2024, Chinese industrial firms received on average three to eight times more government support than firms in OECD countries.

This support is not limited to direct grants; it also includes loans on terms more favourable than the market, capital injections, tax benefits, and other forms of public intervention that are often less visible than traditional budgetary subsidies.

This is a problem for the global economy because it is no longer only about countries supporting their own companies. State support is now altering the balance of power in global industries.

China is not an exception, but the most developed example

It is a mistake to reduce this issue to a simple accusation against China. **Industrial policy** has returned everywhere.

The United States provides subsidies through the **Inflation Reduction Act**, the **CHIPS and Science Act**, and other programmes for semiconductors, green industries, batteries, and the energy transition.

The European Union is responding with its own funds, more flexible state aid rules, and programmes for critical technologies.

Japan, South Korea, and India are also strengthening industrial support in strategic sectors. The difference lies in scope, continuity, and structure.

China has long used the state as a central instrument of **industrial development**. Its advantage lies not only in the scale of subsidies, but also in their integration within a broader system.

Western economies often introduce subsidies in response to crises or to compensate for lost industrial capacity

Cheap capital, local government support for production capacity, state-owned banks, controlled energy costs, public procurement, and political priorities all work together.

Western economies often introduce subsidies in response to crises or to compensate for lost industrial capacity. China uses them to secure long-term market positions.

This is why the OECD finding is politically significant. It shows that China's growth in certain industries is not only due to cheap labour, efficient production, or aggressive exports. Government support has had a measurable effect on the global market share of Chinese firms.

The OECD estimates that about 22% of the growth in the market share of expanding firms over the past two decades can be directly

attributed to subsidies. For Chinese companies, that share reaches 60%.

This does not mean that Chinese companies are not competitive; it means that competition is not governed by the same rules.

Sectors shaping future power

The most significant consequences of subsidies are not seen in established industries, but in sectors that will shape economic and technological power over the next decade.

The OECD specifically highlights solar equipment, semiconductors, aluminium, steel, and shipbuilding as sectors that, relative to company revenues, receive some of the **largest subsidies**.

These are not peripheral industries; they are areas where the energy transition, national security, export competitiveness, and control of supply chains converge.

The solar industry has already shown how this process develops. Europe once had a technological and manufacturing base but lost a significant share of the market due to competition from cheaper Chinese products and mass production.

The winners are not necessarily the most efficient; they are often those that the state can support for the longest

Today, similar concerns are being raised about electric vehicles, batteries, chips, wind power, steel, and critical components.

The problem for the West is not just the price of Chinese products. The issue lies in the industrial dynamics that arise when subsidised firms can sustain low margins for longer, capture the market, drive out competitors, and later profit from a dominant position.

Classical free trade theory assumes that the most successful firms win because they are more productive. The OECD's findings suggest something more troubling.

In some **sectors**, the winners are not necessarily the most efficient; they are often those that the state can support for the longest.

The West is late because it believed its own rules

The European Union is particularly vulnerable to this issue.

The **United States** can respond more rapidly because it has greater fiscal capacity, a deeper financial market, and a political culture more open to strategic industrial intervention when linked to national security. **China** has state capitalism and a centralised political system.

Europe has strict state aid rules, slow coordination between member states, and a deep-rooted belief in the regulatory power of the market.

For a long time, this seemed an advantage. Today, it appears increasingly to be a limitation.

The issue of subsidies will create new divisions within the EU

Europe wants open trade but does not want to lose its industry. It wants a green transition, but not total dependence on Chinese components.

It seeks technological sovereignty but lacks a sufficiently rapid mechanism to finance large industrial projects. It wants a single market, but the wealthiest members have a much greater capacity to subsidise their own companies.

As a result, the issue of **subsidies** will create new divisions within the EU. Germany and

France will seek greater scope for state aid, while smaller members will fear that such a policy will undermine the balance of the internal market.

The European Commission will attempt to maintain control through common instruments, but national governments will become increasingly unwilling to wait for Brussels regarding chips, batteries, the defence industry, or energy.

The WTO can no longer handle this dispute

The **World Trade Organization** is not designed for this level of industrial policy. Its rules may recognise certain forms of prohibited state aid, but today's subsidies are often more complex, indirect, and politically significant than they were when global trade rules were established.

Loans from state banks on preferential terms, local support for land and infrastructure, tax incentives, discounted energy, public procurement, and capital investments from state funds hardly fall into the straightforward category of classic subsidies.

The conflict will increasingly be managed not through global rules, but through national and regional defensive measures

As a result, the conflict will increasingly be managed not through global rules, but through national and regional defensive measures.

The **European Union** will continue to use anti-subsidy investigations, tariffs, and measures against foreign subsidies. The United States will persist with tariffs, export controls, and domestic subsidies. China will respond with its own investigations, export restrictions, and political pressure on companies dependent on the Chinese market.

This will not be a traditional trade war limited to one sector; instead, there will be a

permanent state of **industrial competition**.

Subsidies have become a new weapon in competition

The most significant change is not that states are spending more money; states have always intervened when there was sufficient political motivation.

The change is that industrial policy is no longer regarded as an exception to market rules; it is becoming a regular instrument of global competition. This has serious consequences.

Competition is increasingly between national industrial policies, not just between companies

In this environment, market logic is no longer the only factor determining the winners. The price of a product is also influenced by the fiscal strength of the state supporting the producer.

Competition is increasingly between national industrial policies, not just between companies.

Even supply chains, once organised almost exclusively around cost and efficiency, are now increasingly shaped by political and security considerations.

The next step will not be fewer subsidies

The outlook is relatively clear; the OECD report will not lead to a reduction in subsidies; it will provide political justification for them.

Western governments will use the Chinese model to justify their own interventions. China will reject the accusations and claim that the West is trying to hinder the legitimate

development of Chinese industry.



The OECD report should therefore not be read as a technical analysis of subsidies. It is a warning that global industrial competition has already changed

The European Union will attempt to balance market protection with concerns about open conflict with Beijing. The United States will continue to treat industrial policy as part of national security.

The result will not be a return to pure market competition. Instead, every major economy will increasingly and openly finance sectors it considers strategic.

The greatest risk for Europe is not that it will have to subsidise more, but that it will do so more slowly, unevenly, and with less discipline than its competitors.

China has a system that can mobilise capital quickly, though often at the cost of inefficiency and overcapacity. The US has the financial resources, capital markets, and the political reflex to link strategic industries to security.

Europe has the expertise, industrial base, and regulatory power, but lacks a sufficiently rapid political mechanism for decisions of this scale.

If this does not change, Europe will not lose the industrial race because it refuses state intervention, but because it intervenes too late, in a fragmented way, and without a clear choice of the sectors it truly wants to defend.

The OECD report should therefore not be read as a technical analysis of subsidies. It is a

warning that global industrial competition has already changed.

The free market is no longer the only rule of the game. In some of the most important sectors of the future economy, it may no longer even be the main rule.