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Diane Coyle*

The Relationship Between Competition Policy and Industrial Policy in an Era of Structural Change

For decades, industrial policy and competition policy have been viewed as inherently conflicting, particularly where state intervention may distort markets. However, the current era of geopolitical uncertainty, technological transformation and fragile global supply chains calls for a rethinking of this dichotomy. This paper argues that competition policy should be seen as a key component of modern industrial strategy, especially for economies seeking to build strategic capabilities. It proposes greater institutional coordination between competition authorities and industrial policymakers to support more effective, forward-looking economic planning. By integrating market analysis and technology foresight into strategic policy design, governments can better navigate the challenges of structural change without repeating the mistakes of past industrial activism.

For many decades, industrial policy and competition policy have been seen as conflicting with each other. State aid rules, for example, exclude numerous government interventions to support companies or sectors even when many people consider them nationally important. Similarly, competition law often excludes from its remit sectors such as media and defence, where other types of national interest (plurality, security) are explicitly stated to be more important than economic efficiency or consumer welfare. This traditional view is well founded: a large empirical literature concludes that vigorous competition goes hand in hand with economic growth, while at the same time, history offers many examples of failed state support for national champions and political vulnerability to industry lobbying. The policy presumption in favour of competitive markets was cemented after 1980, in part in reaction to the experience of declining industries and stagnant growth in the 1970s.

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* The author is currently a member of the UK Government's independent Industrial Strategy Advisory Council and was in 2019 a member of the Furman Panel.

Diane Coyle, University of Cambridge, UK.

Yet there are contexts in which competition policy should be considered a core element of an industrial strategy, broadly understood in the sense of intentional policy interventions to shape the supply side of the economy. The two sets of policy instruments need not always be in tension. Although some traditional trade-offs will always remain – such as the fact that regulations can sometimes act as entry barriers, or that public investment in one company will disadvantage (potential) competitors – the current context of technological transition and geopolitical uncertainty will demand tough enforcement of competition policy in strategic markets where "middle powers", such as the European economies, do not have significant production capabilities and presence. In these cases, competition policy *is* industrial policy. And in practice, the policy pendulum has clearly swung away from insistence on "free" markets and towards industrial policy activism.

This new activism will stay. The later 2020s and 2030s will be a period of structural change in the advanced economies, almost regardless of the political environment. The reason? Digital technologies, and a range of other technologies enabled by computation and artificial intelligence (AI) such as materials and drugs discovery, seem set to continue to advance significantly. Generative AI is a general-purpose technology whose use will spread across all economic sectors in time. The second transformation will be energy production and distribution, for economic as well as environmental reasons, as energy demand increases rapidly in the short to medium term. In addition, there is likely to be some significant reshaping of extensive global production networks as countries

respond to newly apparent supply chain vulnerabilities at a time of rising tension and unpredictable new tariffs. This context means that policy decisions taken now by governments will have very long-lasting effects in shaping the production capabilities of their economies, and hence the future trajectory of productivity and growth. Getting the right policies in place is an urgent challenge.

This paper proposes an approach to competition policy in relation to industrial policy aims in the context of structural transformation, arguing for explicit co-ordination between traditionally separate policy domains. First, it sets the scene on both industrial policy and competition policy fronts, before describing when and how greater co-ordination is needed.

The new approach to industrial policy

The term industrial policy (or strategy) embraces a wide range of potential instruments, making it useful to start with a definition. Several recent papers provide alternatives. Juhász et al. (2023) define industrial policy as "those government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal" (p. 4). Criscuolo et al. (2023) define it as "interventions intended to improve structurally the performance of the business sector". The definition used by Evenett et al. (2024) is broader: "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" (p. 6). In this paper, I take a fairly broad view as it is most useful for policymakers to understand how their decisions might affect the growth potential of the national economy structurally, and hence over the medium to long term. In other words, I include policies that go beyond the private business sector (funding research in public institutions would be one example) but focus on enhancing the capabilities of the supply base of the economy, i.e. on domestic production and inputs such as skills and infrastructure.

Under any definition, the use of industrial policy tools has clearly increased in recent years. Supply-side policies did not vanish even during the height of the free market approach to policy. For instance, the UK has long and consistently supported key sectors such as finance, creative industries and pharmaceuticals (Coyle & Alayande, 2025). Evenett et al. (2024) document an acceleration in discussions of industrial policy in the major business media from the mid-2010s.

The European debate dates back at least to the proposed Siemens-Alsthom merger, blocked by the EU Commission in 2019 on state aid grounds. The Commission has more recently responded to US industrial policy activism under the Biden Administration, and to extensive Chinese state aid to its exporters, by loosening the state aid framework with its 2023 time-limited Temporary Crisis and Transition Framework in the context of evidenced trade distortions and the General Block Exemption Regulation with regards to the green transition. Several sources of evidence now point to a substantial acceleration in the use of industrial policies. For example, Juhász et al. (2023) document a further upward ratchet post-pandemic in their sample of 15 industrialised countries. This work, and the OECD's Quantifying Industrial Strategies database (Criscuolo et al., 2022), show great heterogeneity among countries in terms of their choice of policy instrument as well as the scope of state intervention.

In summary, the new evidence makes it clear that advanced market economies plus China are engaging far more in industrial policy intervention than in the past, whether measured by fiscal spending or the number of interventions. What is unclear is the extent to which the type of policies being adopted differ – if at all – from the state-led interventions before 1980. Some examples, such as the Biden-era Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Inflation Reduction Act (IRA) subsidies for manufacturing, seem to be straightforwardly borrowing from the old playbook. Other examples are more novel, such as those justified as accelerating the green transition; although activities such as battery manufacturing have benefited from subsidies, instruments such as consumer subsidies or local content rules are more common (Barwick et al., 2024). There is some evidence in the extensive literature about which types of intervention are more effective in boosting productivity in the targeted activities. Tax credits fare well by this measure, for instance (Competition and Markets Authority, 2025).

However, to avoid repeating the mistakes of the past, and ensure that new-wave industrial policies contribute to productivity and growth through intervening in the supply-side capabilities of the economy, competition policy needs to be considered a key weapon in the industrial policy armoury. Sectors or technologies identified by governments as key strengths need careful market analysis to understand where national comparative advantage lies, which will depend on the geographic scale and scope of markets and their dynamic characteristics. This will vary with context, which underlines the importance of co-ordination through the lens of market structure and opportunities between the two policy areas.

Why competition policy needs to change

The previous section described the new activism in industrial policy, motivated by changing technological opportuni-

Table 1
The relationship between industrial policy instruments and competition policy

Aligned with competition policy	Some implications for competition policy	Potential conflict with competition policy
• Advance market commitments	• Public R&D	• Regulation (entry barriers)
• Infrastructure/utility regulation	• Specific infrastructure	• Public investment
• Regulation (standards, interoperability)	• Tax expenditures	• Public procurement, e.g. complex rules/ financial requirements act as barrier to entry
• Skills policy, input markets	• Subsidies/taxes	• SME policies, e.g. subsidies to individual companies
• Public procurement, e.g. scope for new entrants to bid	• Loans	• Consumer behaviour
	• Export guarantees	• Industry groups/data sharing
	• Intellectual property policies	
	• SME policies, e.g. tax credits for specified activities	

Source: Coyle (2024).

ties and needs. The practice of competition policy has, to date, changed somewhat less, but it will need to evolve. The policy questions facing governments at a time of structural change have not been adequately addressed by the standard microeconomic welfare analysis of competition policy in recent decades. Structural changes in the economy being brought about by technological transformations involve normative choices about dynamic paths for the economy, rather than technical analysis of a given economic structure.

As described in Coyle (2024), competition policy has become an increasingly technocratic domain since around 1980. Expert economists and lawyers undertake a complex analysis and reach a determination (for their jurisdiction) about the likely effects of a merger or the operation of a market in terms of an economic welfare criterion, often "consumer surplus" – that is, whether consumers are likely to be better off, often measured by prices for goods and services. This approach implicitly assumes that there is a "correct" answer to this question; in other words, that a determination in terms of the specified welfare standard is possible, although it might be contested or have incomplete evidence.

Competition authorities have also become more independent from the political process, in parallel with other institutional developments such as independent central banks or fiscal councils (Tucker, 2018), as political decision-makers were seen to be overly vulnerable to industry interests or the short-term imperatives of the electoral cycle. So even though the analysis involves carrying out an explicit economic welfare evaluation, the implementation of competition policy had widely come to be seen as an expert domain, largely free from political influence (Coyle & Dahmen, forthcoming).

This technocratic consensus has begun to disintegrate. The existence of competing "schools of thought" in competition analysis, after a long period of a settled core analytical framework, is in itself a signal that normative or political choices are being acknowledged. Lina Khan, chair of the Federal Trade Commission during the Biden Administration, was explicit about the need to take considerations of power into account in anti-trust policy (Khan, 2017). However, competition agencies are – understandably – reluctant to give up their claim to expertise in determining enforcement. Additionally, there is not enough debate in competition circles about how policy and the institutional framework need to adapt to take account of the market-shaping and market-tipping consequences of decisions in sectors such as digital and green technologies. There has been too little acknowledgement of the implication that rapid technological transitions are reintroducing normative considerations into competition policy, something that could safely be ignored in more stable times.

Industrial policy instruments and their implications for competition policy

In Coyle (2024), I argue for a novel classification (see Table 1) of specific industrial policies in terms of their relationship with competition: do they enable or encourage competition, or do they conflict with it? For example, intervention to set technical standards can derisk investment in novel technologies by both producers and consumers. The EU's brokering of the GSM (Global System for Mobile Communication) standard for mobile telephony helped mobile penetration advance faster in Europe than in the US and paved the way for huge economies of scale and the global spread of wireless technology. Public

investment in R&D is a classic industrial policy tool addressing the "market failure" of the non-rivalry of ideas – and hence private underinvestment – as not all the returns to innovation can be appropriated. But it could at the same time benefit some producers ahead of others if not appropriately shared or licensed. Still other policy tools are problematic for competition, not only regulation as an entry barrier but also, for example, encouraging industry data sharing for other purposes (such as digitising supply chains).

This framework can provide a basis for an integrated policy function analysing market dynamics and opportunities in those sectors that governments have identified as industrial policy targets. These are generally sectors in which the country has some form of comparative advantage, based perhaps on R&D strengths or an existing engineering base, or alternatively sectors in which political decision-makers consider a national presence to be of strategic importance. Digital technologies and AI are increasingly seen as an example of the latter, despite the dominance of American and Chinese companies, because they have become so essential to almost all economic activity. The idea of the state providing in effect a business intelligence function will seem much less natural to some countries (like the UK) than to others that have a stronger history of planning. Institutionally, this would be new in many cases given the recent independence and technical specialism of competition agencies. But without co-ordination across the two types of supply side policy, they will, at best, each fail to achieve all they could.

To make this concrete with an example from the UK, the Government's recently published Modern Industrial Strategy identifies eight high value target sectors (the IS-8: advanced manufacturing, clean energy industries, creative industries, defence, digital and technologies, financial services, life sciences, professional and business services). It proposes a large number of specific policies supporting each sector. These are widely agreed to be existing strengths of the economy, or (as in defence and clean energy) imperatives for other strategic reasons.

The strategy document, along with other recent policy statements, acknowledges the importance of competitive markets but states that competition enforcement must be "proportionate". Ministers have explicitly described competition policy as a form of regulation. The remit of the Competition and Markets Authority (CMA) has recently been revised, following the sacking of its previous Chair, to support "growth and international competitiveness in the industrial strategy's 8 key sectors" and to enforce "the new DMCCA Digital Market Competition regime flexibly, proportionately and collaboratively" (Department for Business and Trade, 2025) in the specific context of AI. Symbolically, the former head of Amazon in the UK was appointed Chair of the CMA to implement the new remit.

While this might seem like an example of policy co-ordination, in practice it makes it likely that the government's competition policy will undermine its own industrial strategy for the digital sector. The new Digital Market Competition regime was introduced (following the Furman (2019) Review) because digital markets in the UK (as in other European countries) are generally winner-takes-all and dominated by large US tech companies. The Furman Review, along with what is now a large literature, identified a number of behaviours by the dominant companies that prevented new entry and innovation in digital markets. It advocated a pro-competition regime of scrutiny and regulation, which was largely implemented in the subsequent legislation.

How, in the context of markets with a dominant incumbent enjoying huge scale advantages, can the UK grow its domestic AI and digital sector? This can only happen if there is scope for entry and growth by the many UK start-ups emerging from the strong research base. At present, the only exit for early-stage investors is a trade sale to a big US tech company. One of the necessary ingredients for a successful industrial strategy for AI and digital technologies is strong enforcement of the new competition powers.

This conclusion arises from the existence of a large fringe of small AI and digital start-ups, including those specialising in fintech. These could form the basis of a growing domestic industry, given the UK's research strengths and its active venture capital industry. But to grow they will need headroom in markets that are currently almost impossible to enter. The same will be true in digital markets in other middle power economies with a strong research and skills base. However, in other sectors, the interaction between industrial policy aims and selection of interventions and competition will be different. In advanced manufacturing, for instance, in an economy with an existing large player that is successful in export markets, a rounded policy analysis might focus on ensuring continuing innovation in the context of dynamic global markets.

Conclusion: Integrating industrial and competition perspectives

The UK example well illustrates the renewed play of politics and power in economic policy. It also aims to make the point that effective policy co-ordination requires market assessment (and indeed technology and market foresight) of a kind that integrates two previously largely separate policy domains. The new approach to industrial

policy involves making choices, such as selecting key sectors and technologies to promote. If this is to avoid the old-style mistake of "picking winners" which turn out in fact to be losers, it needs an integrated assessment of competition dynamics in the relevant markets. Competition authorities have the expertise to analyse markets – a much more granular exercise than is typical in developing industrial strategies. But it is this kind of analysis involving taking a view about how technology and market structures might evolve that is still, for the most part, outside the comfort zone of technocratic competition authorities.

This is an institutional challenge. Neither obvious alternative – on the one hand, asking economic regulators to make judgements about strategic choices and on the other hand, expecting politicians to adopt a technically informed perspective while avoiding special interest capture – seems feasible. The expertise to analyse market dynamics clearly exists in competition authorities, so it seems sensible to take advantage of this and develop coordination mechanisms between this analysis and industrial policy choices.

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