



RIS Discussion Paper # 330

India's Push for Balancing Industrial Policy Space in WTO: A Developing Economy Lens

Pritam Banerjee, Zaki Hussain, Amit Randev,
Kanika Karwal and Riddhi Lakhiani



RIS

Research and Information System
for Developing Countries

विकासशील देशों की अनुसंधान एवं सूचना प्रणाली



CMEC
Centre for Maritime Economy
and Connectivity
समुद्री अर्थव्यवस्था व संयोजन केंद्र





RIS

Research and Information System
for Developing Countries

विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

RIS is specialises in issues related to international economic development, trade, investment and technology. Through its following centres/forums, RIS promotes policy dialogue and coherence on regional and international economic issues.



The word “DAKSHIN” (दक्षिण) is of Sanskrit origin, meaning “South.” The Hon’ble Prime Minister of India, Shri Narendra Modi, inaugurated DAKSHIN – Global South Centre of Excellence in November 2023. The initiative was inspired by the deliberations of Global South leaders during the Voice of the Global South Summits. DAKSHIN stands for Development and Knowledge Sharing Initiative. Hosted at the RIS, DAKSHIN has established linkages with leading think tanks and universities across the Global South and is building a dynamic network of scholars working on Global South issues.



ASEAN-India Centre at RIS

AIC at RIS has been working to strengthen India’s strategic partnership with ASEAN in its realisation of the ASEAN Community. AIC at RIS undertakes research, policy advocacy and regular networking activities with relevant organisations and think-tanks in India and ASEAN countries, with the aim of providing policy inputs, up-to-date information, data resources and sustained interaction, for strengthening ASEAN-India partnership.



CMEC

Centre for Maritime Economy
and Connectivity
समुद्री अर्थव्यवस्था व संयोजन केंद्र

CMEC has been established at RIS under the aegis of the Ministry of Ports, Shipping and Waterways (MoPS&W), Government of India. CMEC is a collaboration between RIS and Indian Ports Association (IPA). It has been mandated to act as an advisory/technological arm of MoPSW to provide the analytical support on policies and their implementation.



Forum on Indian
Traditional Medicine

FITM is a joint initiative by the Ministry of Ayush and RIS. It has been established with the objective of undertaking policy research on economy, intellectual property rights (IPRs) trade, sustainability and international cooperation in traditional medicines. FITM provides analytical support to the Ministry of Ayush on policy and strategy responses on emerging national and global developments.

Continued on back inner cover

India's Push for Balancing Industrial Policy Space in WTO: A Developing Economy Lens

**Pritam Banerjee, Zaki Hussain, Amit Randev,
Kanika Karwal and Riddhi Lakhiani**

RIS-DP # 330

March 2026

RIS Discussion Papers intend to disseminate preliminary findings of the research carried out within the framework of institute's work programme or related research. The feedback and comments may be directed to: Email: dgoffice@ris.org.in. RIS Discussion Papers are available at www.ris.org.in

Contents

1. Introduction	2
2. Re-emergence of Industrial Policy and Emerging Global Challenges	4
3. Developed Countries' Perspective and Response to Global Imbalance.....	9
4. Comparison of EU and US Positions: WTO Reforms and Implications for India	12
5. Developing Countries' Perspective on Global Trade Imbalances	16
6. The Development Gap and Structural Divergence: Constraints on Middle-Class Transition.....	17
7. Conclusion and Policy Recommendations.....	23
8. Proposed Flexibilities	24

India's Push for Balancing Industrial Policy Space in WTO: A Developing Economy Lens

Pritam Banerjee, Zaki Hussain, Amit Randev, Kanika Karwal
and Riddhi Lakhiani*

Abstract: The renewed prominence of industrial policy in the context of digital transformation, climate transition, and rising geoeconomic competition has revived debates on the role of state intervention within multilateral trade rules. The paper analyses recent WTO reform proposals, particularly those related to subsidy rules under the Agreement on Subsidies and Countervailing Measures (ASCM), several of which have been promoted by advanced economies including the United States and the European Union. These proposals emphasise concerns over market distortions, non-market practices, and global overcapacity. Developing countries, however, interpret these reforms in light of enduring structural inequalities in income levels, technological capabilities, and participation in global value chains. Drawing on evidence on the deployment of industrial policy, innovation concentration, and production hierarchies, the paper argues that broad tightening of subsidy rules could restrict the policy space needed for the structural transformation of late industrialisers, including India. The paper therefore proposes development-sensitive flexibilities within WTO disciplines that link subsidy regulation to objective indicators of development status and sectoral dominance.

Keywords: Industrial Policy, WTO Reform, Subsidy Disciplines (ASCM), Policy Space for Development, Global Value Chains.

1. Introduction

The debate on industrial policy and WTO reform has intensified amid growing geoeconomic competition, technological shifts, and the renewed centrality of state intervention in strategic sectors. As industrial policy

* Pritam Banerjee is Professor and Head, Centre for WTO Studies (CWS), Indian Institute of Foreign Trade (IIFT), New Delhi; Zaki Hussain, Senior Research Fellow (Economics), CWS, IIFT; Amit Randev, Consultant (Legal) CWS, IIFT; Kanika Karwal, Young Professional (Economics), CWS, IIFT; and Riddhi Lakhiani is a Research Assistant at RIS, New Delhi. Views are authors' own. Usual disclaimers apply.

instruments increasingly shape trade outcomes, questions regarding the scope of permissible state support and the adequacy of existing WTO disciplines have moved to the forefront of the reform agenda. For developing countries, this debate is intrinsically linked to the preservation of policy space flexibility necessary for structural transformation.

Two distinct perspectives frame the current discourse on industrial policy and global trade imbalances. The first, largely articulated by developed countries, interprets persistent imbalances primarily as the result of unfair trade practices and market distortions. It emphasizes the role of state subsidies and non-market interventions in undermining competitive neutrality, generating surplus production, and disadvantaging firms operating under market-based conditions. This approach supports stronger subsidy disciplines, enhanced transparency, and stricter enforcement within the WTO framework.

The second perspective, rooted in developing country experience, views global imbalances through the lens of structural inequities in the international economic system. Persistent disparities in capital, technology, productive capacity, and integration into global value chains constrain meaningful participation in higher value-added activities. From this standpoint, industrial policy is not a distortion but a legitimate and necessary instrument for economic diversification, technological upgrading, and development catch-up.

This divergence of views on the causes of global imbalances and the associated policy prescription, i.e., prioritizing the correction of market distortions versus addressing structural inequities, lies at the heart of the contemporary debate on WTO reform. In order to find a balanced way forward acceptable to all parties, any initiative that attempts recalibration of rules governing subsidies and state intervention to address market distortions must therefore, also account for differentiated development realities and avoid constraining the policy tools required for structural transformation.

Historical and structural examination of global production patterns is essential to understand the persistence of contemporary imbalances. Enduring asymmetries in economies of scale, technological capability, and early industrial specialization have enabled certain countries to secure more favourable terms of trade, while others remain concentrated in lower value-added segments of production, resulting in structural trade deficits. These disparities reflect cumulative processes of capability formation and differentiated integration into global production networks. Consistent with Raymond Vernon's Product Life Cycle (PLC) theory¹, early innovators consolidated durable competitive advantages during critical stages of industrial expansion, frequently supported by strategic policy intervention. For present-day developing countries, this underscores the importance of timely industrial upgrading and sufficient policy space to avoid structural lock-in at lower tiers of production.

During the 1980s and 1990s, prior to the conclusion of the Uruguay Round, most advanced economies and early industrializers in East Asia deployed active industrial policy instruments, including subsidies, local content requirements, and coordinated state support, to build industrial scale and technological depth. These strategies facilitated their consolidation in high-value "alpha" industries². With the establishment of the WTO and the adoption of the Agreement on Subsidies and Countervailing Measures (ASCM), however, stricter subsidy disciplines were introduced. Export and import-substitution subsidies were prohibited, and special and differential treatment (S&DT) flexibilities were progressively narrowed. By the time, several developing economies were positioned to expand their manufacturing base, the available policy space had significantly contracted.

Since the 1990s, China has implemented extensive state support measures to strengthen manufacturing capacity, with an increasingly intensified focus on advanced sectors. The firm-specific and often non-transparent character of these interventions has complicated multilateral

scrutiny, while enabling the development of substantial scale economies across a wide range of manufacturing sectors³.

The unique nature of the Chinese governmental system allows for a range of firm specific interventions that are difficult to identify. In many cases, the intervention may be through informal arrangements or guidance to banks, state-owned enterprises, private firms where public banks hold sizable stake, or local administrations, and therefore, completely invisible. This opacity makes holding Chinese policies accountable to WTO rules prohibitively complicated, if not impossible.

At the same time, although tariffs have declined in many advanced economies, increasingly complex non-tariff measures have affected effective market access. In certain systems, administrative influence over key sectors has further reinforced domestic preference structures.

Against this historical and structural backdrop, a systematic examination of industrial policy space within the WTO framework becomes essential from a developing country perspective. Persistent disparities in productive capacity, technology, and value-chain integration necessitate adequate policy flexibility to enable structural transformation and industrial upgrading. This study, therefore, situates the debate within the contemporary re-emergence of industrial policy and evolving global challenges, analyses the developed countries' interpretation of global imbalances and their policy responses, and articulates the developing country perspective. It further examines the development gap and structural constraints confronting late industrializers, underscoring the need for calibrated policy space, and concludes with considerations for a balanced and development-oriented approach to WTO reform.

2. Re-emergence of Industrial Policy and Emerging Global Challenges

Industrial policy has re-emerged as a central instrument of economic strategy, particularly among large advanced economies, in response to digital transformation, climate transition, and heightened geopolitical contestation. The renewed and aggressive deployment of subsidies, state financial support, investment controls, and regulatory instruments has

intensified state intervention in strategic sectors. This resurgence has generated significant trade distortions and contributed to the emergence of overcapacity in capital-intensive industries such as steel, aluminium, shipbuilding, and renewable energy equipment. Systemic subsidies have enabled production levels that are frequently unsustainable under standard competitive market conditions, thereby, amplifying global trade imbalances. Even where manufacturing activities are geographically dispersed, advanced economies continue to retain control over intellectual property, standards, technology, and post-production services, ensuring that the bulk of value addition accrues to them.

A key concern in recent years has been the expanding wave of protection-oriented industrial policies in advanced economies and their implications for global trade governance. Industrial policy has evolved from traditional infant-industry rationales to address contemporary challenges linked to geopolitical rivalry, climate change, and technological disruption.⁴ The pandemic, global supply chain disruptions, and rising economic insecurity have further reinforced the case for proactive state intervention. Governments are increasingly compelled to secure critical industries, enhance economic resilience, and address perceived market failures. Ilyina et al. (2024)⁵ report that more than 2,500 industrial policy measures were implemented in 2022 alone, nearly two-thirds of which were trade-distorting and detrimental to foreign firms. Developed economies, including the United States and the European Union, accounted for almost half of these measures, frequently relying on subsidies and protectionist instruments that have raised concerns regarding WTO consistency (WTO, 2024)⁶. Trade-related instruments such as Section 301 of the U.S. Trade Act of 1974, the European Union's Carbon Border Adjustment Mechanism (CBAM) and Deforestation Regulation (EUDR), as well as retaliatory tariff actions in 2025, illustrate the expanding interface between industrial and trade policy. A recent (2026) study by Global Trade Alert⁷ highlights that the state support interventions now benefit from a refined taxonomy⁸ that distinguishes direct government subsidies from those channelled through financial intermediaries. This differentiation improves analytical precision by

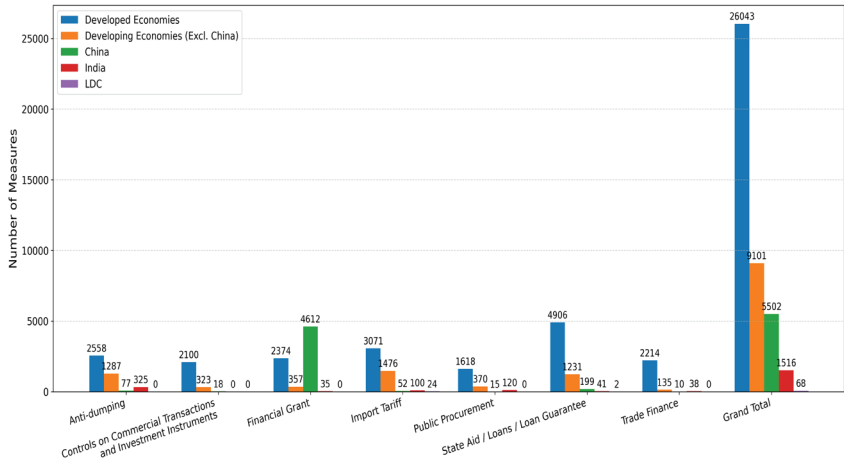
clarifying not just the volume of support, but the institutional mechanisms through which it is delivered. The analysis shows that annual subsidy activity has quadrupled since 2020 and that approximately 68 per cent of all recorded subsidy programmes since 2009 were implemented from 2020 onwards, indicating a pronounced resurgence of state capitalism among major economies.

This shift marks a significant transformation in the global industrial policy discourse. Rather than developing economies seeking policy flexibility for catch-up, advanced economies are now at the forefront of expansive industrial intervention. It is observed that developed countries not only implement a greater number of industrial measures but also commit substantially larger financial resources⁹. Chang (2002)¹⁰ underscores the historical paradox whereby developed countries advocate market liberalization for developing economies despite having relied extensively on protectionist and interventionist policies during their own industrialization. This asymmetry persists in contemporary trade governance.

Based on the NIPO–GTA Database (2008–2025), the scale and distribution of distortive industrial policy tools are reflected in Figure 1 and Figure 2. Figure 1, covering all products, indicates a substantial gap between developed economies and developing economies (excluding China) in the deployment of major industrial policy instruments. The disparity is particularly pronounced in financial grants, state aid, and related support measures. India’s use of such instruments remains modest in comparison. Figure 2, which focuses specifically on advanced technology or “alpha” industries, reveals an even more marked divergence. In these frontier sectors, developed economies exhibit overwhelming dominance in the use of financial grants and state-backed instruments. Notably, China’s aggregate interventions—and especially its financial grants—exceed those of the developing country group as a whole, underscoring the concentration of state-driven support in strategic industries.

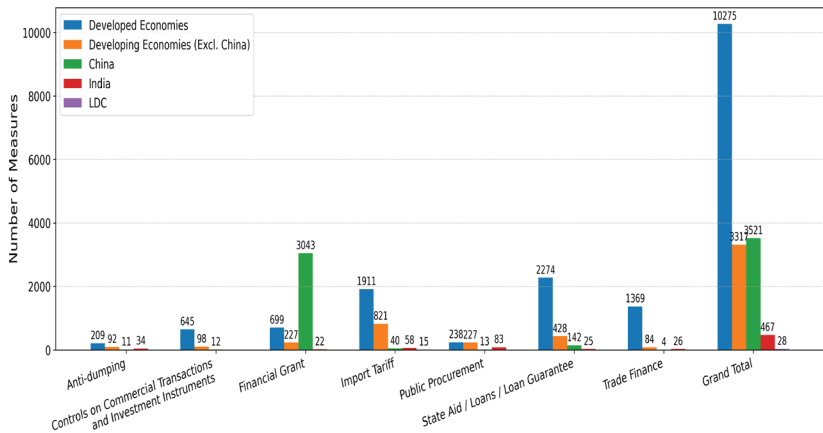
China has emerged as a central actor in shaping global trade dynamics. Since its accession to the WTO, China has combined participation in global

Figure 1: Major Distortive Industrial Policy Tools: Developed vs. Developing Economies (All Products)



Source: Authors' Compilation based on NIPO (New Industrial Policy Observatory)–GTA (Global Trade Alert) Database (2008 – 2025)

Figure 2: Major Distortive Industrial Policy Tools: Developed vs. Developing Economies (Advanced Technology Products: Alpha Industry)



Source: Authors' Compilation based on NIPO (New Industrial Policy Observatory)–GTA (Global Trade Alert) Database (2008 – 2025)

markets with a distinctive state-led development model. Its political and institutional structure permits degrees of financial direction and coordination that are unparalleled in most democratic jurisdictions. Mark Wu (2016)¹¹ underlines that the Chinese state also controls nine of the next 10 largest banks. It is just not large banks – the state controls even the smaller, regional banks. He points out, this again is done through layers. An investment bank or fund controlled by a provincial or municipal government might be one of the shareholders of such regional banks, and several such government investment funds in combination would control the majority stake of almost all commercial banks in China.

China’s industrial strategy—characterized by state-owned enterprises, targeted subsidies, and managed capital flows—has reshaped global manufacturing and competitive conditions. Rotunno and Ruta (2023)¹² document the export-enhancing effects of Chinese subsidies in downstream industries, with adverse implications for manufacturing growth in developing economies. The ITIF Hamilton Index further demonstrates China’s leadership in seven of ten high-technology sectors, representing over US\$ 10 trillion in global production¹³. Empirical evidence also indicates the pervasive nature of state support: direct subsidies to Chinese listed firms rose significantly between 2010 and 2015¹⁴, while some¹⁵ estimate that over 99 per cent of listed firms received direct government subsidies in 2022. Broader assessments suggest that China’s industrial policy expenditures amounted to at least 1.7 per cent of GDP in 2019, rising to approximately 5 per cent when government procurement is included¹⁶. Countervailing duty investigations in the United States have identified subsidy rates ranging widely, with substantial average levels (United States–China Economic and Security Review Commission, 2008). At the same time, China is transitioning from labour-intensive manufacturing toward higher-value innovation-driven sectors (Branstetter & Li, 2022)¹⁷.

Taken together, the expansive industrial policies of developed economies and the scale of China’s state-led model constitute a dual structural challenge for developing countries. Restrictive trade and regulatory measures limit market access, while the dominance

of advanced and large economies across both high-technology and traditional manufacturing sectors constrains competitive space. Reshoring and friend-shoring strategies further redirect investment and supply chains toward a narrower group of economies. Absent meaningful adjustments in global trade rules and governance structures, developing countries risk continued marginalization within the evolving industrial order.

3. Developed Countries' Perspective and Response to Global Imbalance

From the standpoint of major OECD economies—particularly the Organisation for Economic Co-operation and Development members led by the United States and the European Union—China's rapid ascent in high-technology and capital-intensive sectors since the early 2010s is viewed as inconsistent with market-driven competition and significantly enabled by state intervention. Advanced economies contend that China sustains structurally low production costs through a combination of subsidized finance, concessional lending, debt restructuring or write-offs, preferential access to land and energy, and policy-directed allocation of key inputs. Persistent access to state-supported credit is seen as generating chronic overcapacity, which in turn facilitates the sustained export of surplus output at depressed prices in international markets.

Developed countries further argue that such practices permit Chinese firms to attain scale economies and close technological gaps at a pace that would not be feasible under conventional competitive conditions. Concerns are also raised regarding weak intellectual property enforcement and opaque legal-administrative processes, which are alleged to undermine the effective operation of global trade norms. In this framing, the combination of industrial subsidies and technology-related practices is considered to circumvent obligations under the World Trade Organization agreements, particularly the Agreement on Subsidies and Countervailing Measures (ASCM) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS).

In recent communications on WTO reform, the United States has asserted that existing multilateral institutions have failed to discipline “non-market” economic systems adequately and has expressed diminished confidence in the ability of the current framework to ensure accountability. As trade relations become increasingly shaped by geopolitical rivalry, the United States anticipates more frequent deviations from established rules and has called for a fundamental overhaul of the WTO rule-book and its enforcement architecture.

The developed country response to perceived global imbalance, thus, comprises a combination of multilateral reform proposals, plurilateral coordination, and unilateral trade instruments. Central to this effort has been the Trilateral Initiative on Industrial Policy and Subsidies, launched in December 2017 by the United States, the European Union, and Japan. This initiative has focused on addressing “non-market-oriented policies and practices that lead to severe overcapacity,” and has articulated a substantive reform agenda targeting the ASCM framework.

Key proposals advanced under the trilateral process include: (i) expanding the list of prohibited subsidies to encompass unlimited state guarantees, support to ailing firms lacking credible restructuring plans, and financing directed toward sectors characterized as suffering from overcapacity; (ii) reversing the burden of proof for certain categories of actionable subsidies, including excessively large grants or support to uncompetitive firms; (iii) deeming unnotified subsidies prohibited by default where counter-notified by affected Members, thereby, strengthening transparency obligations; (iv) permitting the rejection of domestic prices in favour of constructed benchmarks in calculating countervailing duties against non-market economies; and (v) broadening the definition of “public body” to capture informal or indirect state influence, alongside stronger disciplines on forced technology transfer.

While these proposals seek to close perceived regulatory gaps and facilitate enforcement against trade-distorting subsidies, their implications extend beyond the immediate target of Chinese industrial policy. Several conceptual and legal ambiguities render the reform agenda potentially

consequential for developing countries more broadly. First, there is no universally accepted definition of a “non-market economy”¹⁸ within WTO law; the existing multilateral framework provides only limited and context-specific references. Divergent domestic interpretations—particularly in United States and European Union trade law—create scope for expansive application of the designation. Second, the concept of “overcapacity” lacks a precise and universally agreed definition, raising the possibility that legitimate industrial expansion in developing countries could be characterized as distortionary. Third, terms such as “uncompetitive firm,” “excessively large grant,” and the delineation between grants, equity infusions, and concessional loans remain contested and susceptible to broad interpretation. Fourth, an expanded definition of “public body” could implicate state-owned enterprises, public sector banks, and other developmental institutions that play a central role in financing infrastructure, utilities, and strategic sectors in many developing economies.

The strategic intent underlying the trilateral reform proposals, thus, presents a complex landscape for large developing countries, including India. On the one hand, enhanced disciplines, particularly those reversing the burden of proof or strengthening transparency, may contribute to addressing trade distortions that adversely affect developing country industries. But the conceptual and legal ambiguities around definition of a ‘non-market economy’ or ‘public body’, or what constitutes ‘overcapacity’ or an ‘uncompetitive firm’ remain matters of serious concern.

While the trilateral framework was an attempt at developing an institutional reform response to their view of global imbalance, a more direct sector-specific intervention emerged in the form of the Global Forum for Steel Excess Capacity (GFSEC). GFSEC was established in 2016 following G20 consensus to address concerns over subsidy-driven expansion and structural excess in the steel sector. It defines “excess capacity” as production exceeding demand due to government support, which is a very broad interpretation that remains

contested, particularly by developing economies with infrastructure-led growth strategies. The Forum's Berlin Principles identify market-distorting interventions, including financial support for non-viable plants, unlimited state guarantees, operating subsidies, and assistance without credible restructuring plans. These concepts have subsequently informed proposals by the United States, the European Union, and Japan to strengthen subsidy disciplines within the World Trade Organization framework. Over time, key non-OECD participants in GFSEC such as China, India, and Saudi Arabia withdrew, reflecting divergent developmental priorities and limiting the Forum's universality. Recent ministerial outcomes indicate a shift from transparency and dialogue toward coordinated trade defence actions among participating members, positioning the GFSEC as a sector-specific plurilateral template capable of shaping trade rules and collective responses outside fully multilateral processes. Such plurilateral initiatives assume importance given the recent posturing in the WTO by the US, supported by the EU, prioritizing plurilateral as opposed to multilateral solutions to global trade issues. We discuss this emerging context in the section.

4. Comparison of EU and US Positions: WTO Reforms and Implications for India

The Communication on WTO Reforms clearly underlines the common agenda of the developed wealthy nations¹⁹. While on the face of it, the EU and US proposals seem to be differentiated, they fundamentally argue for very similar solutions. Let us look at Table 1 to understand the very cosmetic difference between the US and EU position (in their respective communications).

The reform trajectory advanced by the United States and the European Union poses significant structural implications for India as a large developing economy. The increasing reliance on plurilateral arrangements risks enabling coalitions of the willing to generate de facto global rules in priority areas, such as digital trade, green transition, and advanced technologies, thereby diluting consensus-based multilateralism and reducing India's capacity to influence norm-setting within the World

Table 1: US–EU Convergence on WTO Reform: A Comparative Assessment

Issue	US²¹	EU²²	Remarks
WTO and its role	Views the WTO as ineffective in addressing current trade challenges. Argues that consensus among diverse members prevents meaningful reform. Seeks overhaul of core principles—MFN, Consensus, and S&DT—and systemic reform of key agreements.	Acknowledges the WTO’s value in providing baseline rules and predictability. However, agrees that the system must be overhauled, including reforms to MFN, Consensus, S&DT, and market access disciplines to ensure “fairness.”	Despite softer language, EU and US positions largely converge; differences are mostly rhetorical.
MFN	Outright rejection of MFN, citing (i) completely changed circumstances in the global economy (ii) sovereign right to impose differential tariffs [national security, supply chain resilience etc.]	Advocates a “conditional MFN” linked to reciprocity and levels of openness. Suggests tariff renegotiations and raises concerns about supply chains and overcapacity.	EU avoids overt national security language but relies on similar reasoning to justify MFN exceptions.
Consensus	Argues consensus among 166 members blocks progress. Promotes plurilateral agreements as the only viable path forward.	Claims consensus has been misused to create paralysis. Supports flexible approaches such as variable geometry and coalitions of the willing.	Substantively aligned with the US, though expressed in more diplomatic terms.

Table 1 continued....

Table 1 continued....

Plurilateral	Strongly supports closed plurilateral (Annex 4-type), limited to participating members, rejecting open MFN-based approaches.	Supports both open and closed plurilateral but endorses club-based approaches where benefits are limited to participants on a reciprocal basis.	EU's acceptance of open plurilateral appears selective; both ultimately legitimize closed formats.
Fairness	Frames reform around correcting "imbalances" caused by S&DT and the rise of large developing economies, especially China. Links S&DT, industrial policy, ASCM reform, and market access to restoring balance.	Presents a softer articulation of the US fairness narrative, emphasizing rule effectiveness and balance.	Positions are substantively similar, with minimal real divergence.
ASCM Reforms	Sceptical of multilateral reform within the WTO. Prefers sectoral clubs, unilateral tools, or plurilateral agreements outside the WTO framework.	More optimistic about WTO-based ASCM reform and seeks compromise, particularly involving China and other large developing economies.	US favors action outside the WTO; EU prefers reform within the WTO, though convergence remains possible.
S&DT	Seeks to limit S&DT for large developing countries based on absolute economic size (e.g., G20 status), downplaying relative development indicators and historical precedent.	Similar objective but more open to criteria-based approaches. Will seek policy space for green industrialization while limiting broad flexibilities.	EU may engage on broader formulations; US stance is more rigid.

Table 1 continued....

Table 1 continued....

<p>Overcapacity</p>	<p>Argues that certain economic systems (implicitly China) distort markets through predatory industrial policies and subsidies, resulting in structural overcapacity. References OECD and the Global Forum on Steel Excess Capacity (GFSEC) definition to frame overcapacity as a systemic, not cyclical, problem. Likely to replicate the GFSEC model—forming sectoral “coalitions of the willing” to impose coordinated trade measures (e.g., tariffs or import restrictions) against targeted countries. Such clubs would effectively set and enforce norms outside multilateral disciplines. India and some others have distanced themselves from this approach.</p>	<p>Shares similar objectives and is an active supporter of the GFSEC framework. Supports sectoral coalitions to address overcapacity and would prefer to legitimize such arrangements within the WTO framework as Annex 4 plurilateral. May seek to build “critical mass” by bringing in smaller economies, though achieving consensus for Annex 4 inclusion remains difficult.</p>	<p>Substantively aligned. The key difference is that the EU seeks WTO-based legitimacy (Annex 4), while the US is comfortable proceeding through external or informal coalitions if consensus is blocked.</p>
<p>Industrial Policy</p>	<p>Uses tariffs as proxy industrial policy, expanding national security exceptions. Opposes policy-space flexibilities for large developing countries.</p>	<p>Distinguishes between “legitimate” (e.g., green) and trade-distortive industrial policy. Open to calibrated policy space based on objective criteria.</p>	<p>Clearer divergence: EU more open to conditional flexibility; US largely resistant.</p>
<p>Market Access</p>	<p>Pursues unilateral reciprocal tariffs and closed plurilateral agreements (sector/product-based), potentially outside the WTO.</p>	<p>Supports plurilateral approaches but also favours reviving reciprocity-based NAMA-style negotiations.</p>	<p>Clear difference: US leans unilateral/club-based; EU retains some multilateral orientation.</p>

Source: Authors’ Compilation

Trade Organization. It needs to be noted that issues of green transition and digital and advanced technologies are intrinsically related to the future of industrialization and GVCs.

Both actors broadly converge on limiting Special and Differential Treatment for economically significant developing countries pre-emptively undermining their call for increased flexibilities to address developmental concerns. On the other hand, they propose to expand their own policy space through MFN exceptions that selectively limit market access, including through coordinated plurilateral sectoral initiatives.

Their proposals also seek strengthening of ASCM disciplines on state support and subsidies to address perceived unfair trade and overcapacity. Although these initiatives appear to be framed in relation to managing the so-called ‘China shock²⁰’, their design may extend to other large developing economies, including India, and constrain legitimate industrial and developmental strategies.

While the European Union adopts a comparatively more calibrated tone, including conditional openness to criteria-based differentiation, the overall reform direction suggested by the US and EU positions risks compressing policy space of large developing countries like India. Developed countries seek to legitimize the weaponization of their market power and demand dependency of developing countries on their markets while subjecting the industrial policies and subsidies of large emerging economies such as India to rigorous scrutiny under revised trade disciplines.

5. Developing Countries’ Perspective on Global Trade Imbalances

From the standpoint of developing economies, global trade imbalances must be understood within the context of persistent structural asymmetries in income, productive capacity, and technological capabilities. Despite their aggregate economic weight, major developing countries, including India, continue to lag advanced economies in per capita incomes, manufacturing depth, and participation in higher value-added segments of global value chains. The principal concern is, therefore, the enduring

development gap and the limited capacity to translate growth into sustained structural transformation.

Developing countries consequently emphasize the need for greater policy flexibility and certainty within the multilateral trading system to pursue legitimate industrialization and structural transformation objectives, as reflected in submissions such as those of the Africa Group to the WTO²³. This includes the ability to deploy measures such as local content requirements, targeted subsidies for research and development, regional development initiatives, and support for environmental transition. Such instruments are regarded as integral to late industrialization strategies and to correcting structural disadvantages.

While developing economies have been affected by distortions associated with large-scale subsidization and export expansion by major economies, they bear asymmetric adjustment costs due to their higher external dependence and limited fiscal space. Although existing WTO disciplines, particularly under the Agreement on Subsidies and Countervailing Measures, provide mechanisms to address unfair trade practices, enforcement limitations persist. Certain transparency-related reform proposals, such as treating unreported subsidies as prohibited when counter-notified, may be of relevance. However, prevailing reform approaches do not adequately confront the deeper structural imbalances and development asymmetries that shape the position of developing countries in the global trading system.

6. The Development Gap and Structural Divergence: Constraints on Middle-Class Transition

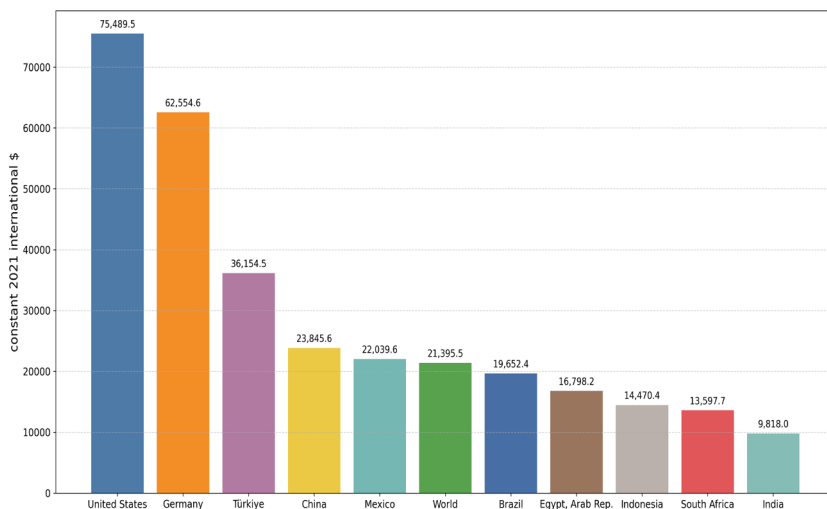
The contemporary global economy continues to be characterised by deep and persistent development divides that shape patterns of production, trade, income distribution, and institutional power. Not with standing successive rounds of multilateral trade liberalisation under the WTO framework, convergence between developed and developing countries has remained uneven and incomplete. While certain emerging economies have achieved significant integration into global markets, a substantial number of developing countries and least-developed countries (LDCs)

continue to face structural constraints that limit their ability to derive sustained gains from global trade. These asymmetries are central to understanding the fragility of middle-class formation in large developing economies.

As illustrated in Figure 3, per capita income in PPP terms in developing economies remain significantly below those of advanced economies, reflecting incomplete structural transformation and persistent productivity gaps. The COVID-19 pandemic further exacerbated these disparities, reversing decades of poverty reduction and pushing an additional 70 million people into extreme poverty.¹ the income gap between high-income and developing economies remains substantial. World Bank estimates indicate that GDP per capita (constant 2015 US\$) in high-income countries is approximately eight times higher than in low- and middle-income countries.

Poverty indicators further reveal the fragility of middle-class transition. In 2021, only 0.3 per cent of the population in high-income

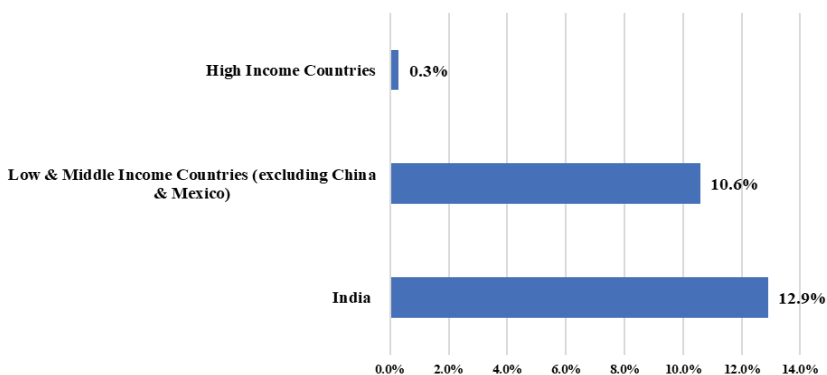
Figure 3: GDP Per Capita, PPP in 2024



Source: Authors' Compilation based on WDI World Bank.

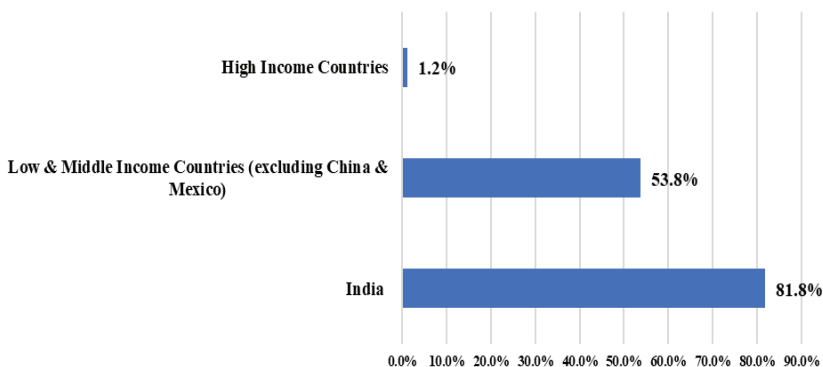
countries lived below the international extreme poverty line of US\$ 2.15 per day, compared to 12.9 per cent in India (Figure 4). At the higher threshold of US\$ 6.85 per day, more than half of the population in low- and middle-income countries—and over 80 per cent in India—had yet to attain lower middle-income living standards (Figure 5). These figures

Figure 4: Proportion of People Living on Less than US\$ 2.15 a Day (2021)



Source: Authors' Compilation based on WDI World Bank.

Figure 5: Proportion of People Living on Less than US\$ 6.85 a Day (2021)



Source: Authors' Compilation based on WDI World Bank.

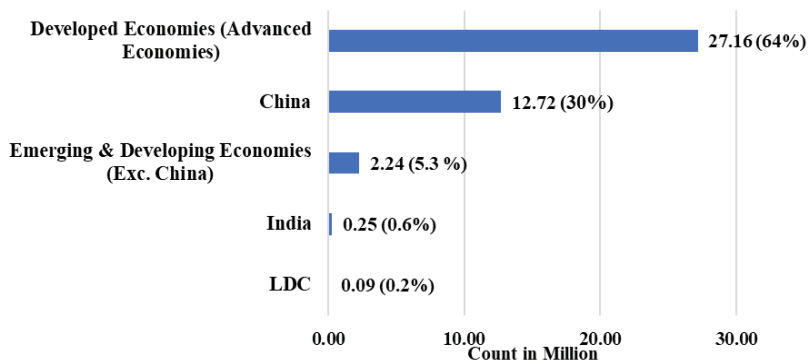
suggest that the gains from globalisation have been concentrated primarily in advanced economies and China, while much of the developing world remains structurally vulnerable.

Urbanisation patterns further reflect uneven structural transformation. High-income countries exhibit urbanisation rates of approximately 82 per cent, compared to 48 per cent in low- and middle-income countries (excluding China and Mexico) and 36 per cent in India²⁴. As Todaro and Smith (2020)²⁵ argue, urbanisation contributes to development only when supported by sustained industrial growth and productive employment expansion. While advanced economies and China have leveraged urban-industrial transitions effectively, many developing countries lack the industrial depth and policy flexibility necessary to translate urbanisation into durable middle-class expansion.

Technological capability and innovation present additional dimensions of divergence. Patent data (Figure 6) indicate that developed economies account for approximately 64 per cent of resident patent applications between 1980 and 2024, while China accounts for 30 per cent. In contrast, India and other emerging and developing economies remain at the lower end of global patenting activity, reflecting limited innovation ecosystems and weaker capacity for technological commercialisation. A similar pattern is observed in intellectual property (IP) receipts (Figure 7), where advanced economies dominate global revenue flows from innovation, with China emerging as a significant, though secondary, beneficiary. These trends highlight the concentration of technological rents within a narrow group of countries.

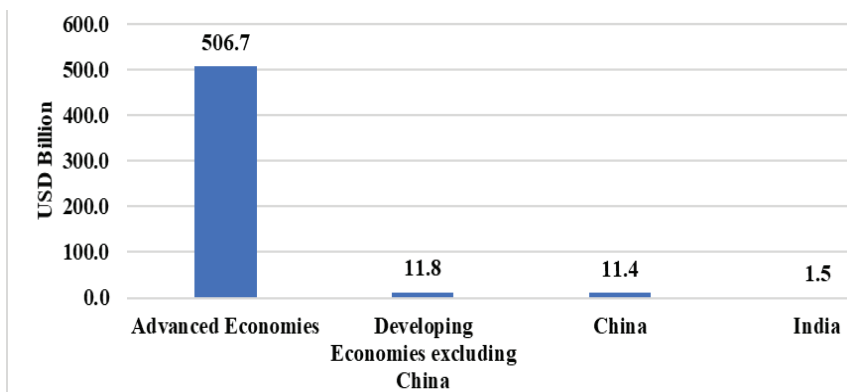
In technology-intensive sectors—including pharmaceuticals (HS 30) and engineering and electronics products (HS 84–90)—advanced economies continue to dominate global exports (Figure 8). Although their collective share declined by 18.58 percentage points between 2000 and 2024, the principal beneficiary has been China, whose share increased by 14.26 percentage points over the same period. By contrast, emerging and developing economies (excluding China and Mexico) registered only modest gains of 3.20 percentage points, with India’s share increasing by merely 1.07 percentage points. The reallocation of global

Figure 6: Patent Applications by Residents: Advanced vs Developing Economies (1980–2024)



Source: Authors' Compilation based on WDI World Bank.

Figure 7: Intellectual Property Receipts (Average 2022-24)



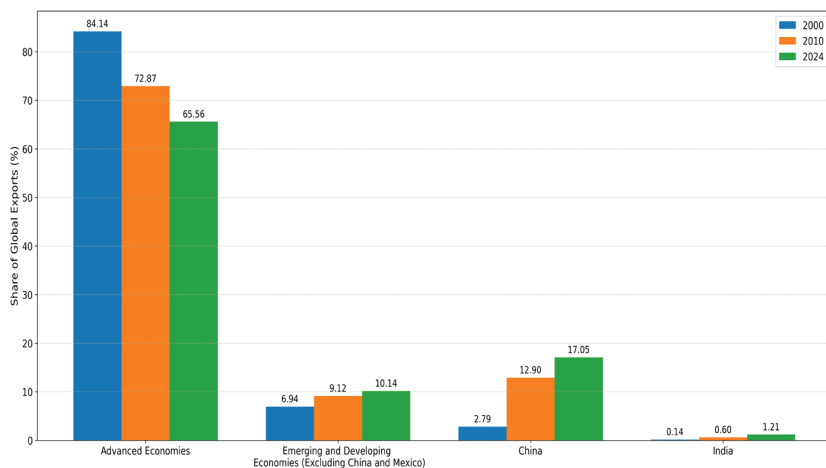
Source: Authors' Compilation based on WDI World Bank.

manufacturing exports has reinforced concentration rather than broad-based convergence. China has been the primary beneficiary across both high- and low-technology segments, significantly expanding its global share, while advanced economies have experienced relative declines. In contrast, India and most other developing countries have recorded only limited gains²⁶.

The divergence also seeps into the global value chains (GVCs), modern GVCs are highly specialised and span multiple countries. Baldwin & Lopez-Gonzalez (2015)²⁷ note that semiconductors are often produced in hubs like Taiwan and South Korea before assembly in China. The automotive industry relies on cross-border supply chains, with Germany, Japan, and Mexico playing key roles (Sturgeon et al., 2008; Sturgeon, Van Biesebroeck, Gereffi, 2008²⁸). In textiles, raw materials come from India and Bangladesh, while design and marketing remain concentrated in developed economies (Gereffi & Frederick, 2010). Services, R&D, logistics, and distribution increasingly capture more value. For example, pharmaceutical GVCs produce APIs in China, India, or Ireland, while R&D is concentrated in the US, France, the UK, Germany, and Switzerland (Gereffi, 2008; Quality Matters, 2023).²⁹

World Bank (2020)³⁰ highlights that high-income countries dominate GVCs due to advanced infrastructure, technological capabilities, and strong institutions, while developing countries face challenges like

Figure 8: Share in Global Exports of Selected Manufacturing Products (%)



Source: Authors' Compilation based on WITS Database.

inadequate infrastructure and weaker institutions. Cusolito et al. (2016)³¹ note that high-income countries' superior access to capital, technology, and skilled labour allows deeper GVC integration, whereas developing countries often participate at lower value-added stages like raw material extraction and basic manufacturing.

The development divide is rooted in structural asymmetries in research and development intensity, access to finance, technological capability, and the strength of industrial ecosystems. The UNIDO Industrial Development Report (2020)³² and the World Development Report (2019)³³ emphasize that sustained R&D investment and well-functioning financial markets underpin advanced manufacturing competitiveness and continuous industrial upgrading in high-income economies. In contrast, most developing countries operate with limited R&D expenditure, constrained financial systems, and marginal participation in advanced industrial sectors. These disparities translate into persistent differences in productivity, economic resilience, and living standards, while reinforcing structural constraints in healthcare access, educational attainment, and the generation of stable formal employment, thereby weakening the prospects for durable middle-class transition.

7. Conclusion and Policy Recommendations

While existing WTO rules provides a robust framework to check unfair trade practices that are one of the causes of unbalanced trade. In reality some WTO member states, especially regimes having greater command and control over their economy and factors of production like China, have not been effectively held accountable for their unfair trade practices³⁴. Over time, this has led to enormous concentration of production in a few geographies and imbalances in global trade. To that end, there is an urgent need to review WTO agreements related to subsidies (ASCM) and dumping (Anti-Dumping Agreement).

The focus of such a review has to be strengthening these agreements in a manner that requires much greater scrutiny and accountability from all member states, especially those member states that hold dominant shares of global manufacturing and exports in specific sectors. Some

elements in the proposals of the trilateral group (EU, US, Japan) are relevant in this context. But there is also a need to address imbalances in global trade arising out of structural developmental issues. From a developing country perspective, the only way to address these challenges are to consider flexibilities in global rules allowing policy space for industrial development that help laggard economies close the gap with the industrial leaders.

One way forward is to consider a combination of factors that take into account overall developmental status, as well as sectoral dominance that will be the basis of special and differential treatment for both flexibilities and defensive measures. The following discussion outlines three such flexibilities.

8. Proposed Flexibilities

a) Flexibility Allowing for the use of Subsidies that are 'actionable' as per ASCM for Genuinely Developmental Purposes in Order to Address Structural Imbalances in the Global Economic System

Countries that are below a certain threshold in terms of per-capita income, overall global share of manufacturing, merchandise exports and share of export in that industrial specialization (considered at the HS6 level of classification) will be allowed the following flexibilities till the time they qualify (See Table2).

These criteria are designed to ensure that only countries still undergoing a developmental transition characterized by relatively low per capita income would qualify for such policy space. In addition, the framework ensures that flexibilities are available only to countries that have not yet achieved substantive scale or competitiveness in their overall manufacturing ecosystem, as reflected in their modest share of global manufacturing output and merchandise exports. Finally, a limited share in global exports of the specific industrial product indicates that the country does not yet possess the economies of scale necessary to become a distortive force in global markets.

Table 2: Proposed Development-Sensitive Criteria for Industrial Policy Flexibilities

Criterion	Indicative Threshold (Generalized)	Underlying Rationale
Level of Development	Classified as a low-income or lower-middle-income country in nominal per capita terms according to an internationally recognized classification system (e.g., World Bank).	Indicates that the country remains in a phase of developmental transition and requires policy flexibility to advance structural transformation.
Overall Merchandise Export Share	Global merchandise export share disproportionate to GDP share (Not applicable to Small Economies)	Ensures that the country does not possess a disproportionate export presence relative to its economic size and is therefore unlikely to be a systemic source of merchandise trade imbalance.
Product-Level Export Concentration (HS6)	The country's share of global exports in the relevant product category (at the HS6 level) remains below X percent.	Demonstrates the absence of overwhelming dominance in the specific product market and reduces the likelihood of sector-specific imbalance or excess capacity.
Sectoral Manufacturing Share (ISIC)	The country's share of global manufacturing output in the corresponding industrial sector (as classified under ISIC) remains below X percent.	Indicates limited systemic influence within the broader manufacturing ecosystem associated with the product, thereby reducing the risk of structural distortion or persistent overcapacity.

Source: Authors' Compilation

Fulfilment of all four cumulative criteria would therefore indicate that a country's policy interventions are directed toward legitimate developmental objectives, including early-stage industrial expansion and the attainment of minimum efficient scale necessary for effective participation in global markets, rather than the pursuit of sustained sectoral dominance.

Accordingly, countries satisfying all four conditions may be granted limited policy flexibility in the use of certain subsidy instruments currently classified as "actionable" under the ASCM, where such measures are demonstrably directed toward developmental objectives such as early stage industrialization, capability creation and structural transformation. These countries may also be permitted to employ targeted measures incentivizing the use of domestic inputs, such as local content requirements currently proscribed under the ASCM and the TRIMS Agreement, when linked to clearly defined industrial development goals. However, no exemption would extend to other forms of subsidies categorized as prohibited under the ASCM except those directly associated with local content incentives contemplated within this development oriented framework.

This flexibility should be understood as an exceptional and conditional policy space that would arise only under special circumstances and strictly upon the fulfilment of all four cumulative criteria set out in this framework. It should not be interpreted as a default departure from existing WTO disciplines. Rather, it represents a narrowly tailored and development sensitive adjustment to the current framework for qualifying economies.

For countries that do not meet the four criteria, the proposal does not alter existing WTO disciplines. The current ASCM framework would continue to apply in its entirety, and subsidies would remain subject to the existing classifications, obligations and remedies provided under WTO rules. The proposal therefore does not seek to reclassify actionable subsidies as prohibited for non-qualifying members nor does it modify their existing rights and obligations under the ASCM. Instead, the

proposed flexibility is intended solely for qualifying developing countries undergoing structural industrial transition whose limited scale suggests minimal risk of systemic trade distortion.

b) Flexibility in the Application of Material Retardation and Threat of Material Injury in Investigations Involving Dominant Suppliers

The injury disciplines under the WTO Anti-Dumping Agreement and the Agreement on Subsidies and Countervailing Measures recognize three forms of injury: material injury, threat of material injury, and material retardation of the establishment of a domestic industry.³⁵ Although material retardation was designed to protect infant or nascent industries,³⁶ its practical significance has diminished due to the convergence of evidentiary standards with those governing material injury. Consequently, the provision is rarely invoked in circumstances where domestic production has not yet achieved commercial viability.

This constraint is particularly evident in cases involving structurally dominant suppliers. In several industrial sectors, global production and export capacity are concentrated in a limited number of jurisdictions characterized by large-scale manufacturing ecosystems and significant state involvement.³⁷ The pricing strategies, capacity expansions, and subsidization practices of such suppliers may exert pressures that exceed normal competitive forces. For low- and lower-middle-income Members, these pressures can deter investment and prevent industries from reaching minimum efficient scale.

Defining Structural Dominance: The absence of a definition of “dominant supplier” within WTO law has generated uncertainty in addressing structural asymmetries. For analytical clarity, dominance may be defined through objective and cumulative criteria reflecting both trade performance and production capacity. A Member could be considered dominant in a given HS6 product where it accounts for at least 10 per cent of global exports of that product and at least 5 per cent of global manufacturing output in the relevant ISIC sector.

The dual thresholds ensure that dominance reflects systemic industrial weight rather than temporary export success, thereby distinguishing entrenched structural power from episodic competitiveness.

Recalibrating the Evidentiary Framework: Where imports originate from a supplier meeting these criteria, investigating authorities should be permitted to apply a rebuttable presumption of material retardation or threat thereof. Structural dominance would constitute *prima facie* evidence of the capacity to impede industrial establishment. Provisional measures, including anti-dumping or countervailing duties, could be imposed for a limited period of up to one year on the basis of a documented *prima facie* assessment. The evidentiary burden would then shift to the respondent to rebut the presumption, with a full investigation proceeding where necessary.

This approach preserves procedural safeguards while recalibrating evidentiary burdens in situations marked by demonstrable structural asymmetry.

Normative and Doctrinal Justification: Material retardation is conceptually distinct from material injury. While the latter concerns harm to an established industry, the former addresses the prevention or delay of industrial emergence.³⁸ Imposing identical evidentiary standards in both contexts risks depriving material retardation of independent meaning. In the presence of concentrated export share and production capacity, structural dominance itself provides probative evidence of the potential for entry foreclosure, particularly where the domestic industry remains nascent.

The proposed recalibration rests on three considerations. First, objective indicators of market concentration justify a *prima facie* inference of capacity to impede industrial development. Second, proportionality is maintained through temporary and reviewable measures. Third, industrial foreclosure may be irreversible: once investment is deterred or capacity abandoned, subsequent remedies may be ineffective.

A dominance-sensitive interpretation of material retardation would therefore restore functional relevance to the provision and better align trade remedy practice with contemporary production realities. By

grounding the presumption in objective thresholds, the proposal maintains rule-based discipline while acknowledging structural asymmetries that are especially consequential for developing and transitioning Members.

c) Counter-Notification of Unreported Subsidy Programmes by Dominant Economies and Their Presumptive Classification as Prohibited Subsidies

The Agreement on Subsidies and Countervailing Measures establishes a notification regime intended to secure transparency and preserve competitive neutrality.³⁹ Regular notification under Article 25 constitutes a central pillar of this framework.⁴⁰ However, the Agreement does not attach meaningful substantive consequences to persistent or deliberate non-compliance. In practice, several Members have repeatedly failed to notify new or expanded subsidy programmes, particularly in capital-intensive sectors characterized by concentrated production structures. The absence of systemic consequences enables opacity to function as a strategic advantage, while affected Members must bear the full evidentiary burden of investigation without access to essential information.

This structural deficiency assumes greater significance when examined in light of Article 27.6 of the ASCM.⁴¹ That provision provides for the graduation of developing country Members from certain special and differential treatment once they achieve a defined level of export competitiveness. The normative premise underlying Article 27.6 is that Members with sustained and significant export capacity possess the ability to influence global markets and therefore warrant differentiated legal treatment.⁴² Implicit in this provision is the recognition that manufacturing scale and export performance confer structural power. Yet the existing transparency framework does not calibrate notification obligations or consequences to such structural realities.

Integrating a Manufacturing-Based Dominance Standard: To address this asymmetry, the transparency obligations under Article 25 should be operationally linked to objective indicators of structural dominance, incorporating both export share and manufacturing capacity. A Member that satisfies defined thresholds of global export share in a

given HS6 product and a minimum share of global manufacturing output in the relevant ISIC sector should be presumed capable of generating systemic market distortions.

Where such a member fails to notify a subsidy programme, a rebuttable presumption should arise that the unreported measure is specific and capable of causing serious prejudice, and may therefore be provisionally treated as prohibited for remedial purposes. Affected Members would be entitled to adopt proportionate corrective measures without bearing the full evidentiary burden that ordinarily applies where relevant information has been deliberately withheld. Such measures would remain temporary and subject to immediate suspension upon full and transparent notification, at which point the standard procedural disciplines of the ASCM would resume.

By linking notification compliance to demonstrable manufacturing strength, this approach aligns the transparency regime with the logic embedded in Article 27.6 and reflects contemporary patterns of industrial concentration.

Addressing Circumvention, Rerouting, and Rules of Origin Manipulation: The need for recalibration is reinforced by the growing prevalence of circumvention practices. In sectors marked by concentrated production, subsidized output may be rerouted through third countries, subjected to minimal processing, or strategically reclassified under rules of origin to obscure its true source.⁴³ The current framework, which relies heavily on formal origin determinations and product-specific investigations,⁴⁴ often proves inadequate to address such practices in a systemic and timely manner.

Dominant producers frequently operate integrated cross-border production networks, enabling them to reconfigure supply chains in response to trade remedies. Where subsidy programmes remain unnotified, investigating authorities face significant informational asymmetries in tracing value chains, assessing pass-through effects, and determining whether nominal transformation operations amount to circumvention.⁴⁵ The absence of transparency thus weakens enforcement not only substantively but also institutionally, allowing

distortions to persist through technical compliance with origin rules while undermining the economic objective of the Agreement.

Integrating a manufacturing-based dominance criterion strengthens the capacity of the system to respond to such practices by shifting the evidentiary burden in situations characterized by demonstrable structural power and opacity.

Economic, Legal, and Equity Justifications: The proposed recalibration is supported by interrelated economic, legal, and equity considerations. Economically, Members with concentrated export share and substantial manufacturing output exert disproportionate influence over global prices, capacity allocation, and investment decisions. Undisclosed subsidies granted by such actors can generate structural overcapacity and distort competitive conditions across multiple jurisdictions simultaneously.

Legally, transparency is constitutive of a rules-based system. Article 27.6 embodies the principle that structural economic strength justifies differentiated legal consequences,⁴⁶ Extending this logic to persistent non-notification by structurally dominant Members promotes coherence within the ASCM and enhances its enforceability. Allowing intentional opacity to persist without consequence undermines reciprocity and predictability.

From an equity perspective, no Member should derive advantage from its own non-compliance. Formal procedural equality applied to actors with unequal market power may yield substantively inequitable outcomes. Conditioning full procedural protections on good-faith transparency restores balance and mitigates distortions arising from structural dominance, including those manifested through circumvention and supply chain rerouting.

In sum, integrating a manufacturing-based dominance standard into notification and counter-notification disciplines would strengthen the effectiveness of the ASCM. By linking enhanced transparency obligations and presumptive consequences to objective indicators of structural capacity, the proposal aligns subsidy disciplines with contemporary production realities while reinforcing systemic credibility and fairness.

However, notwithstanding the analytical discussion presented in this paper, the proposed flexibilities should be understood solely as exploratory and conceptual contributions intended to stimulate discussion on possible approaches for addressing structural development asymmetries within the multilateral trading system. The frameworks and criteria outlined above are illustrative in nature and are not intended to constitute negotiating proposals or formal policy positions.

The analysis seeks to examine how objective indicators such as levels of development, export concentration, and manufacturing capacity might inform discussions on development-sensitive approaches within existing trade disciplines. In this context, the paper highlights that approaches such as integrating a manufacturing-based dominance standard into notification and counter-notification disciplines could, in principle, strengthen the effectiveness of the ASCM by linking enhanced transparency obligations and presumptive consequences to objective indicators of structural capacity. Such conceptual approaches are discussed to illustrate how subsidy disciplines might better reflect contemporary production realities while reinforcing systemic credibility and fairness.

The discussion should be viewed as a contribution to the broader policy debate on development-oriented trade governance. Any consideration of such approaches in a multilateral context would necessarily require further examination, wider engagement among WTO Members, and consistency with the established rules and principles of the multilateral trading system.⁴⁷

Endnotes

- ¹ Vernon, R. (1992). International investment and international trade in the product cycle. In *International economic policies and their theoretical foundations* (pp. 415-435). Academic Press.
- ² Alpha industries refer to technologically complex sectors that command a dominant share of value in global manufacturing and trade. These include advanced engineering, complex chemicals, specialized materials, electronics, precision equipment, pharmaceuticals, automobiles, shipbuilding, and aviation.

- ³ For a summary of the literature on this topic please refer to “Centre for WTO Studies. Navigating the development divide: The case for policy space in India’s industrial policy strategy amid rising global protectionism (Working Paper No. 85). https://wtocentre.iift.ac.in/workingpaper/CWS_WorkingPaper_85.pdf The paper includes a detailed discussion on concerns associated with unfair trade practices of the Chinese state.
- ⁴ Naudé, W. (2010). Industrial policy: Old and new issues (No. 2010/106). WIDER Working Paper.
- ⁵ Ilyina, A., Pazarbasioglu, C., & Ruta, M. (2024). Industrial Policy is Back but the Bar to Get it Right Is High. IMF Blog.
- ⁶ WTO (World Trade Organization). (2024). Special and Differential Treatment in Trade Policies. WTO, REPORT ON G20 TRADE MEASURES (MID-OCTOBER 2023 TO MID-OCTOBER 2024)
- ⁷ Sancho, A. E., & Fritz, J. (2026, February 4). Government is Back in Business. Global Trade Alert.
- ⁸ The refined taxonomy developed by the Global Trade Alert expands the classification of state support by introducing five additional intervention categories to better reflect the evolving structure and modalities of government assistance. These include Corporate Control Orders, Debt Purchases, Equity Stakes, Intermediated Financial Investment Support, and Intermediated Lending Support. The revised framework enhances analytical clarity by distinguishing between direct state interventions and those channelled through financial intermediaries, thereby capturing the increasing institutional complexity of contemporary state capitalism.
- ⁹ Ilyina, A., Pazarbasioglu, C., & Ruta, M. (2024). *Supra* note 5
- ¹⁰ Chang, H.-J. (2002). *Kicking away the ladder: Development strategy in historical perspective*. Anthem Press.
- ¹¹ Wu, Mark (2016) The “China, Inc.” Challenge to Global Trade Governance, *Harvard International Law Journal*, Vol. 5, No.2
- ¹² Rotunno, L., & Ruta, M. (2024). Trade Implications of China’s Subsidies, *International Monetary Fund (MF) Working Paper No. 24/180*
- ¹³ Atkinson, R. D., & Tufts, I. (2023). The Hamilton index, 2023: China is running away with strategic industries. ITIF, December.
- ¹⁴ Lardy, N. R. (2019). *The state strikes back: The end of economic reform in China?*. Peterson Institute for International Economics.

- ¹⁵ Bickenbach, F., Dohse, D., Langhammer, R. J., & Liu, W. H. (2024A). Foul play? On the scale and scope of industrial subsidies in China (No. 173). Kiel Policy Brief.
- ¹⁶ As per Stanford Centre on China's Economy and Institutions (SCCEI) and the Asia Society Policy Institute's Centre for China Analysis (CCA)
- ¹⁷ Branstetter, L. G., & Li, G. (2022). Does "Made in China 2025" Work for China? Evidence from Chinese Listed Firms (No. w30676). National Bureau of Economic Research.
- ¹⁸ The term "non-market economy" is not a part of the original GATT or WTO agreements. The closest thing is the Second Ad Note to Article VI:1, which describes a non-market economy as "A country which has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State." This definition is extremely narrow, that was intended to apply to Soviet-style command economies. Most economies today, including China and Vietnam, do not fit this description because these countries allow private property and have some market-determined prices.
- ¹⁹ G7+ non-G7 EU member states
- ²⁰ "China shock" refers to the severe, rapid economic disruption caused by the surge of Chinese imports into the US and Europe following China's 2001 WTO entry. Proponents of the China shock that include prominent economists like David Autor, Gordon Hanson, and David Dorn, as well as former USTR Robert Lighthizer, argue that this led to significant manufacturing job losses, declining wages, and stagnation in western industrial regions. It is further argued that a more aggressive "China Shock 2.0" is now occurring, driven by Chinese overcapacity in high-tech sectors (i.e., alpha industries) like EVs, solar and industrial robots, leading to concentration of manufacturing in China and displacement of industries elsewhere.
- ²¹ US Communication on WTO Reform (WT/GC/W/984), 15th December, 2025
- ²² EU Communication on WTO Reform (WT/GC/W/986), 21st January, 2026
- ²³ Policy Space for Industrial Development - A Case for Rebalancing Trade Rules to Promote Industrialization and to Address Emerging Challenges such as Climate Change, Concentration of Production and Digital Industrialization, WT/GC/W/868, G/C/W/825, WT/COMTD/W/270, IP/C/W/695, WT/WGTTT/W/33, March 1, 2023
- ²⁴ Centre for WTO, (Working Paper No. 85), Supra Note 3

- ²⁵ Todaro, M. P., & Smith, S. C. (2020). *Economic development* (13th ed.) TRADE, OECD. (2023). *GOVERNMENT SUPPORT IN INDUSTRIAL SECTORS. POLICY*, (270).
- ²⁶ Centre for WTO, (Working Paper No. 85), *Supra Note 3*
- ²⁷ Baldwin, R., & Lopez-Gonzalez, J. (2015). Supply-chain trade: A portrait of global patterns and several testable hypotheses. *The World Economy*, 38(11), 1682-1721.
- ²⁸ Sturgeon, T. J., Van Biesebroeck, J., & Gereffi, G. (2008). “Value Chains, Networks, and Clusters: Reframing the Global Automotive Industry”.
- ²⁹ Gereffi, G. (2008). *The pharmaceutical industry and dependency in the global value chain*. United Nations Statistics Division.
- ³⁰ World Bank. (2019). *World development report 2020: Trading for development in the age of global value chains*. World Bank Group
- ³¹ Cusolito, A. P., Safadi, R., & Taglioni, D. (2016). *Inclusive global value chains: Policy options for small and medium enterprises and low-income countries*. World Bank Publications.
- ³² UNIDO. (2019). *Industrial development report 2020: Industrializing in the digital age*. UN.
- ³³ World Bank. (2019). *World development report 2020: Trading for development in the age of global value chains*. World Bank Group.
- ³⁴ “2024 Report to Congress On China’s WTO Compliance”, United States Trade Representative (January 2025) [Pg. 2].
- ³⁵ Article 3, footnote 9, GATT.
- ³⁶ Article 15, footnote 45, GATT
- ³⁷ “Government policies to promote innovation in the digital age”, *World Trade Report 2020*, World Trade Organisation (2020) [pg. 28].
- ³⁸ Article 15.1, SCM and “United States — Countervailing Measures Concerning Certain Products from the European Communities”, WTO (2005). https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds212_e.htm
- ³⁹ Article 25, SCM Agreement, 1995.
- ⁴⁰ *ibid.*
- ⁴¹ Article 27.6, SCM Agreement, 1995.
- ⁴² *ibid.*

- ⁴³ “Trade circumvention in free trade areas”, Jianpeng Deng, Jialin Li, Joeseoph Mai, et. al., *Journal of International Money and Finance*, Vol 150, 103232, Science Direct (February 25, 2025), “Exports in Disguise? Trade Rerouting During the US–China Trade War” Ebehi Iyoha, Edmund Malesky, Jaya Wen, Sung-Ju Wu, Harvard Business School, Working Paper 24-072.
- ⁴⁴ Article 11.1, SCM Agreement and Article 5.1 Anti-Dumping agreement.
- ⁴⁵ *ibid* (n. 12) [pg. 6].
- ⁴⁶ Article 27.6, SCM Agreement, 1995.
- ⁴⁷ This paper reflects solely the views of the authors. The arguments and proposals presented herein have neither been discussed at any official level within the Government of India nor do they represent any formal position or proposal of the Government of India.

About the Authors



Dr. Pritam Banerjee is Head & Professor at the Centre for WTO Studies. He brings versatile expertise in areas such as trade in goods, trade in services, trade facilitation, logistics and digital trade. He has held senior roles in prestigious organisations, including the World Bank, Asian Development Bank and Deutsche Post DHL Group. Dr Banerjee’s career, therefore, has included stints in academia, private sector, and multilateral development banks, that enable him to bring a diversity of experience and perspective on trade policy issues. He has also been a member of several government taskforces and committees, including the National Committee on Trade Facilitation (NCTF).



Dr. Zaki Hussain is a Senior Research Fellow (Economics) at the Centre for WTO Studies. He brings nearly a decade of experience in international trade, trade policy analysis, industry regulation and the Indian steel sector. Having worked extensively with leading government institutions and industry bodies, Dr Hussain specialises in evaluating bilateral trade agreements, assessing trade impacts, and analysing regulatory frameworks – particularly across key sectors of the Indian economy. His research contributions include policy studies, publications in peer-reviewed journals, and collaborative projects focused on strengthening India’s global trade competitiveness.



Dr. Amit Randev, Consultant (Legal) at the Centre for WTO Studies, IIFT, New Delhi. A trade lawyer by training he advises the Government of India on WTO trade remedial measures (antidumping, countervailing, safeguards), NTMs, and industrial policy shaping FTAs and WTO engagements. He holds a Ph.D. in International Trade Law and about 9 years of professional experience.



Ms. Kanika Karwal is serving as a Young Professional (Economics) at the Centre for WTO Studies. She holds a Bachelor's degree in Economics (Hons.) from Atma Ram Sanatan Dharma College, University of Delhi, and completed her Master's in Economics with a specialization in Trade and Finance from the Indian Institute of Foreign Trade in 2023. Her research interests include environmental economics, development economics, international trade, and policy analysis.



Ms. Riddhi Lakhiani is a Research Assistant at the Research and Information System for Developing Countries (RIS), New Delhi. She holds a Master's degree in Economics from Azim Premji University, Bengaluru. Her work focuses on development and policy research across areas such as gender equality, disability inclusion, financial inclusion, and international trade. Her research interests include development economics, international trade and policy issues.

Acknowledgements

Authors are grateful for the comments and suggestions received from reviewers for finalising the Discussion Paper. Thanks are also due to the publications team at RIS, comprising, Mr. Sanjay Singh, Mr. Sachin Singhal, Mr. Sanjeev Karna and Ms. Karanpreet Kaur Sodhi for arranging the production of this Discussion Paper.

RIS Discussion Papers

Available at: <http://www.ris.org.in/discussion-paper>

- DP#329-2026 *Public Stockholding for Food Security: Negotiating an Unfulfilled Commitment at the WTO* by Sachin Kumar Sharma, Suvayan Neogi, Paavni Mathur and Palkin Ratna
- DP#328-2026 *Special and Differential Treatment Provisions in the WTO: Evaluating Pathways for Development* by Abhijit Das, Paavni Mathur and Sushil Kumar
- DP#327-2026 *WTO MC14 and Trade-Sustainability Nexus: Strategic Choices Ahead* by R V Anuradha, Rajeev Kher, Anshuman Gupta and Lakshmi Swathi Ganti
- DP#326-2026 *Fisheries Subsidies and the Development Imperative: Balancing Sustainability and Equity* by Bhatnagar, Pankhuri Gaur and Ayush Tiwari
- DP#325-2026 *Multilateralism Served à la Carte: The Rise of Joint Statement Initiatives at the WTO Issues and Challenges* by Shailja Singh, Priyadarshi Dash and Pragyan Agarwal
- DP#324-2026 *E-Commerce Moratorium at WTO: Evolution, Status and Way Forward* by G D Lohani, Amit Kumar and Alaknanda Mishra
- DP#323-2026 *Trade and Investment Convergences in Global North and Global South: Implications for WTO MC14* by S.K. Mohanty, Sabyasachi Saha and Pankhuri Gaur
- DP#322-2026 *India's BRICS Chairship 2026: Cooperation for Resilience and Sustainability* by Sabyasachi Saha, Pratyush Sharma, Kanishk Rohilla and Syed Arslan Ali
- DP#321-2026 *Evolution of China's Agricultural Subsidies: Between Reform Pressures and Policy Space at the WTO* by Sachin Kumar Sharma, Kamna Chaudhary, Talha Akbar Kamal, Alisha Goswami and Teesta Lahiri
- DP#320-2026 *Scaling Telehealth Solutions: Insights from Northeast India and Applicability in the Global South* by Monika Kochar

BEF

BLUE ECONOMY FORUM

BEF aims to serve as a dedicated platform for fostering dialogue on promoting the concept in the Indian Ocean and other regions. The forum focuses on conducting studies on the potential, prospects and challenges of blue economy; providing regular inputs to practitioners in the government and the private sectors; and promoting advocacy for its smooth adoption in national economic policies.

FIDC

**FORUM FOR
INDIAN DEVELOPMENT
COOPERATION**

भारतीय विकास सहयोग मंच

FIDC, has been engaged in exploring nuances of India's development cooperation programme, keeping in view the wider perspective of South-South Cooperation in the backdrop of international development cooperation scenario. It is a tripartite initiative of the Development Partnership Administration (DPA) of the Ministry of External Affairs, Government of India, academia and civil society organisations.



**Forum for Indian
Science Diplomacy**

FISD aims to harness the full potential and synergy between science and technology, diplomacy, foreign policy and development cooperation in order to meet India's development and security needs. It is also engaged in strengthening India's engagement with the international system and on key global issues involving science and technology.



As part of its work programme, RIS has been deeply involved in strengthening economic integration in the South Asia region. In this context, the role of the South Asia Centre for Policy Studies (SACEPS) is very important. SACEPS is a network organisation engaged in addressing regional issues of common concerns in South Asia.



Knowledge generated endogenously among the Southern partners can help in consolidation of stronger common issues at different global policy fora. The purpose of NeST is to provide a global platform for Southern Think-Tanks for collaboratively generating, systematising, consolidating and sharing knowledge on SSC approaches for international development.



DST-Satellite Centre for Policy Research on STI Diplomacy at RIS aims to advance policy research at the intersection of science, technology, innovation (STI) and diplomacy, in alignment with India's developmental priorities and foreign policy objectives.

RIS A Think-Tank of Developing Countries

Research and Information System for Developing Countries (RIS) is a New Delhi-based autonomous policy research institute that specialises in issues related to international economic development, trade, investment and technology. RIS is envisioned as a forum for fostering effective policy dialogue and capacity-building among developing countries on global and regional economic issues.

The focus of the work programme of RIS is to promote South-South Cooperation and collaborate with developing countries in multilateral negotiations in various forums. RIS is engaged across inter-governmental processes of several regional economic cooperation initiatives. Through its intensive network of think tanks, RIS seeks to strengthen policy coherence on international economic issues and the development partnership canvas.

For more information about RIS and its work programme, please visit its website: www.ris.org.in

Research shaping the development agenda



RIS

**Research and Information System
for Developing Countries**

विकासशील देशों की अनुसंधान एवं सूचना प्रणाली

Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi-110 003 India., Tel. 91-11-24682177-80
Fax: 91-11-24682173-74, Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>