



Special issue on industrial policy and trade policy in the evolving new global order

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The ongoing discourse on ‘new’ industrial policies is significantly driven by a variety of contemporary developments impacting national industrial and economic prospects. Significant among these are concerns over resilience of global supply chains.

Supply chain disruptions and their economically adverse impacts became especially prominent in the aftermath of the COVID19 pandemic. The sourcing disruptions caused by the pandemic, coupled with the tendency to de-risk and diversify sourcing, has led to strong state emphasis in shaping of new industrial policies. These interventions, and the application of policy instruments (e.g. production subsidies, local content requirements), contribute to the revival of global trade protectionism, impacting trade and investment flows, and the functioning of global value chains/global supply chains (GVCs/GSCs).

Given the context, it is important to understand how different industrial policy measures and, more specifically, trade policy instruments are reconfiguring GVCs/GSCs and, in the process, making them more ‘resilient’ or ‘fragile’. The understanding calls for nuanced and granular research on the evolving industrial policies. This was the key

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academic motivation behind the effort of this special issue on Industrial Policy and Trade Policy in the Evolving New Global Order with special focus on India.

The call for papers for the special issue obtained twenty-three papers, out of which, ten have been finally selected for this issue after rigorous peer review. Four papers deal exclusively with GVCs, conceptually and empirically. The others examine industrial and trade policy interfaces on economic outcomes. The views expressed are solely of those authors.

Ever since the pioneering work of Gary Gereffi on GVCs, there has been a plethora of academic work on defining, conceptualizing and measuring country participations in GVCs. The academic knowledge in this regard is expanded by Sharma and Arora through both conceptual understanding and empirical findings. The authors identify domestic (e.g. national resource share, domestic industrial capacity, and labour composition) and external (e.g. FDI inflows, distance to the GVC hubs, tariffs on manufacturing products, and participation in trade agreements) factors influencing country participations in GVC. The authors further argue that enabling policies should prioritize diversification, sustainable resource management, and infrastructure development for reducing reliance on raw material exports. In the case of limited manufacturing, open trade policy should be encouraged for attracting FDI to enhance manufacturing capabilities.

The issue of how increasing forward and backward global value chain (GVC) linkages affect manufacturing growth is studied by Banga and Goldar for low- and middle-income countries. The authors identify phenomenon in line with the ‘in–out–in’ theory of GVC participation and specifies a positive relationship between backward linkages (BL) and manufacturing growth. Further findings indicate the threshold level of 11–20% range of BL, beyond which the association with manufacturing becomes negative. Similarly, forward linkages (FL) drive manufacturing growth up to a certain threshold, beyond which it becomes non-sensitive to growth. Authors also identify countries that can benefit from increasing GVC participation, along with those that can otherwise, i.e. decoupling from GVCs.

Ray and Thakur focus on the relatively under-researched subject of imports shaping value chain participation. The study shows that liberalization of imports can significantly improve the competitiveness of manufacturing exports. The findings contrast between the short and long-terms, where for the former, coefficients of the log of exports are negative, as opposed to they being positive for the latter. The findings are particularly relevant in the current global juncture where several countries are displaying marked protectionist tendencies.

Understandings on GVC participation get enriched through insights obtained from sectoral studies underlining appropriate trends and determinants. Thomas contributes in this regard through a detailed understanding of GVC participation for India’s food processing industry. The work addresses the existing gap in the literature by exploring the policy issues influencing Indian food processing sector’s participation in GVC. Among important determinants, the author notes lower tariffs on imports, larger foreign investments and bilateral and regional trade agreements for increasing Indian agro-food exports and enlarging GVC participation. More sectoral insights are provided by Talwar and Arora through close examination of the leather industry, which is one of most prominent exports and foreign exchange earners for India. The work explores the source of profit efficiency measured in terms of cost and revenue inefficiencies, which lead to observing causality between market concentration and profit efficiency. The author underpins market concentration and monopoly power as key factors determining

industry integration in GVCs as compared to other firm-specific factors like profit efficiency, managerial efficiency, and scale efficiency.

In the larger context of GVC participation in a landscape dominated by proliferating trade agreements, and FDI inflows, Choudhury, Ghosh and Ganguly explore statistical evidence leading to such association and mutual causal relationships. The authors find net FDI inflows, GDP per capita, foreign exchange reserves and inflation to have statistically significant long-run associations. Furthermore GDP per capita, foreign exchange reserves and quality of physical infrastructure are found to yield empirical support for influencing FDI inflows.

Mukherjee's paper looks at the nuances emerging from the automobile industry. GVC participation and larger presence in global markets are noted for motor vehicles and transport equipment sectors, in terms of India manufacturing more for the world, especially for some segments of the transport equipment sector. Nevertheless, overseas sourcing remains a critically significant factor in the larger perspective of global linkages for the industries. The author emphasizes the imperative for maintaining quality standards in domestic producers and the key state role in this regard.

Mulick, Siddiqui and Lahmar explore how integration impacts trade margins by investigating specific conditions and mechanisms influencing effectiveness. The authors identify that in the long run, a reciprocal trade agreement will bring benefits for export growth both on extensive and intensive margins irrespective of high bilateral incomes, sizes and spatial dissimilarity.

Kumarasamy and Jain analyse the India-South Korea trade agreement and its role in fostering bilateral supply chains in the context of industrial policy led global supply chain realignment. The study maps out some sectors in which India and South Korea has strong trade complementarities and hold potential to develop bilateral value chains linkages. Finally, Kaur examines the potential of trade in green hydrocarbon and the role of industrial policy under India's National Green Hydrogen Mission. The paper underscores the importance of enhancing domestic value addition and strengthening backward linkages to boost domestic manufacturing of green hydrocarbon.

The papers in this special issue have addressed varied key issues concerning trade, global value chains, industrial policy, sector specific issues and supply chains both at aggregate and sectoral levels. They largely agree in favour of more open trade policies for encouraging greater participation in industrial value chains. With such evidence, new industrial policies that selectively or overall propose protectionism, might prove counterintuitive.

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