

Industrial policy options for a post-pandemic global economy.

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Abstract

Recent events such as the Covid-19 pandemic, economic competition between the United States and China, and Russia's invasion of Ukraine emphasized the fragility of the interdependency of the economic system. The geopolitical tensions and fragmentation of supply chains made industrial policy seem unavoidable. Industrial policy (IP) has a potential to restructure globalization, making countries more robust in the face of economic shocks. Thus, the aim of this research is to understand the primary motivation for industrial policy in industrialized countries, how IP can be crafted to make economies more resilient to economic shocks, and to analyze the impact IP will have on the market. Furthermore, the paper delves into the discussion of how IP can be used to address geopolitical concerns and analyze its influence on shaping economic relations between nations, using Biden's Administration Inflation Reduction Act (IRA) as an example.

Following a comprehensive review of existing literature, primary data was obtained in a form of a semi-structured, open-ended interview with the experts in the field of industrial policy. The experts indicate the significance of industrial policy to address climate change and promote green industries, as well as investment in R&D to generate positive externalities and enhance innovation. However, other elements of industrial policy are subject to diverse opinions. The implementation of IP is a complex process influenced by factors such as political base, economic position, and geopolitical considerations. The shape of globalization is expected to change since countries are prioritizing domestic industries development, with IRA as a driving force. Lastly, the findings suggest the need for international cooperation among countries and organizations.

Keywords: Industrial policy, market failures, Inflation Reduction Act