

DEBATE

The Demise of Globalization and Rise of Industrial Policy: Caveat Emptor

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Abstract

The global trading system has reached an inflection point. The future of the liberalized, rules-based global world order is in doubt as countries that have for decades preached and practiced policies, which can loosely be defined as embodying the ‘Washington Consensus’, have started to backtrack. Free and fair trade is no longer the mantra as governments embrace industrial policy, protectionism, national security, risk management, and managed trade. Perhaps the most surprising adherent of the reversal is the US, whose embrace of what has been termed a ‘modern American industrial strategy’ runs counter to traditional American views and norms. While David Ricardo’s theory of comparative advantage still holds true, it has certainly fallen out of fashion. Where it leads remains unknown – caveat emptor. This article analyses President Joe Biden’s industrial policy and its implications as well as shifts that have occurred as a result of the pandemic, geopolitical competition, and other recent global events.

Keywords: International economic law; industrial policy; trade disruption

1. Introduction

The post-war international order has been built on a model that promotes common understanding and rules-based systems.¹ Trade, investment, and financial flows have been liberalized while technological advancements have allowed firms to construct global supply chains based on cost and efficiency considerations. Advanced and low- and middle-income countries (LMICs) benefited from the system, as people became richer and the world grew accustomed to large-scale poverty reduction and improved health outcomes.²

This is not to say that increased globalization only produced winners; on the contrary, there have been losers.³ Manufacturing jobs in advanced economies departed with each new generation of technology as manufacturing in the global south expanded. While the movement of jobs undoubtedly benefited the newly employed LMICs, workers in developed countries struggled

¹See R.H. Steinberg (2022) ‘The Rise and Decline of a Liberal International Order’, in D.L. Sloss (ed.), *Is the International Legal Order Unraveling?* Oxford University Press. <https://doi.org/10.1093/oso/9780197652800.003.0002>; M. Mandelbaum (2004) ‘The Ideas That Conquered The World: Peace, Democracy, and Free Markets in the Twenty-First Century’, Public Affairs.

²D.A. Irwin (2022) ‘Globalization Enabled Nearly All Countries to Grow Richer in Recent Decades’, Peterson Institute for International Economics, 16 June 2022, www.pii.com/blogs/realtime-economic-issues-watch/globalization-enabled-nearly-all-countries-grow-richer-recent (accessed 1 June 2023); A. Harrison (2006) ‘Globalization and Poverty’, National Bureau of Economic Research Working Paper 12347, www.nber.org/papers/w12347 (accessed 1 June 2023).

³J.L. Broz, J. Frieden, and S. Weymouth (2021) ‘Populism in Place: The Economic Geography of the Globalization Backlash’, *International Organization* 75, 464.

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to find comparable alternative employment.⁴ The era of globalization also brought challenges to LMICs. The inflow of capital delivered benefits but the bursting of bubbles and rapid fleeing of capital sows chaos and continued indebtedness.⁵ There is a feeling among many that the international order has not delivered all that it promised.⁶

This sentiment led in part to the United States' (US) election of Donald Trump as President in 2016. President Trump promoted an 'America First' agenda that both downplayed international cooperation and partnerships and aggressively targeted China and its perceived unfair model of economic development.⁷ President Trump showed little interest in using the World Trade Organization (WTO) to resolve trade disputes and instead severely damaged its dispute settlement system by refusing to agree to the appointment of members (judges) to the Appellate Body.⁸ Moreover, in 2018, President Trump began a trade war with China, levelling tariffs on over \$300 billion worth of imports.⁹ In January 2020, the US and China agreed to a 'Phase One Trade Agreement' which ended the escalating imposition of tariffs but did not remove existing tariffs.¹⁰ Shortly thereafter, the COVID-19 pandemic wreaked havoc around the globe as countries struggled to keep citizens safe and their economies afloat. Supply chains broke down, and shortages became commonplace. Governments that could spend did so, but inevitably inflation set in and reversed years of economic gains in many economies.¹¹

These events were perhaps the final straw in the liberalized, rules-based global world order. Countries that for decades preached and practiced policies which can loosely be defined as embodying the 'Washington Consensus' have started to backtrack. Free and fair trade is no longer the mantra as governments embrace industrial policy, protectionism, and managed trade. Perhaps the most surprising adherent of the reversal is the US, whose embrace of what has been termed a 'modern American industrial strategy' runs counter to traditional American views and norms.¹² This brief article analyses Biden's industrial policy and its implications as well as shifts that have occurred as a result of the pandemic, geopolitical competition, and other recent global events.

⁴M.W.L. Elsby, B. Hobijn, and A. Şahin (2013) 'The Decline of the US Labor Share', Brookings Papers on Economic Activity; E. Alden (2012) 'Globalization, Job Loss, and Stagnant Wages: The Evidence is Changing', Council on Foreign Relations, www.cfr.org/blog/globalization-job-loss-and-stagnant-wages-evidence-changing (accessed 1 June 2023); M. Spence (2011) 'The Impact of Globalization on Income and Employment: The Downside of Integrating Markets', *Foreign Affairs* 90(4), 28–41.

⁵J.A. Ocampo, International Jacques Maritain Institute and United Nations (eds.) (2000) *Financial Globalization and the Emerging Economies*, United Nations, Economic Commission for Latin America and the Caribbean, International Jacques Maritain Institute 2000.

⁶T.M. Flaherty and R. Rogowski (2021) 'Rising Inequality as a Threat to the Liberal International Order', *International Organization* 75, 495.

⁷'Read Trump's "America First" Foreign Policy Speech', *Time*, 27 April 2016, <https://time.com/4309786/read-donald-trumps-america-first-foreign-policy-speech/> (accessed 1 June 2023).

⁸J. Bacchus (2018) 'Might Unmakes Right: The American Assault on the Rule of Law in World Trade', Centre for International Governance Innovation Paper No. 173, May 2018.

⁹'President Trump Announces Tariffs on \$300 Billion of Chinese Products', *International Trade Insights*, 2 August 2019, www.internationaltradeinsights.com/2019/08/president-trump-announces-tariffs-on-300-billion-of-chinese-products/ (accessed 1 June 2023).

¹⁰'Trump Signs China Trade Deal, Putting Economic Conflict on Pause', *The New York Times*, 6 August 2021, www.nytimes.com/2020/01/15/business/economy/china-trade-deal.html (accessed 1 June 2023).

¹¹'World Economic Situation and Prospects 2023', United Nations Department of Economic and Social Affairs (UN DESA) 2023, <http://desapublications.un.org/publications/world-economic-situation-and-prospects-2023> (accessed 2 June 2023); World Bank (2023) 'The Reversal Problem: Development Going Backwards', 15 April 2022, <https://blogs.worldbank.org/developmenttalk/reversal-problem-development-going-backwards> (accessed 1 June 2023).

¹²J.D. Tuccille (2023) 'Biden's Industrial Policy Promises a Return to the 1970s', *Reason.com*, 10 May 2023, <https://reason.com/2023/05/10/bidens-industrial-policy-promises-a-return-to-the-1970s/> (accessed 1 June 2023); A.O. Krueger (2023) 'America's Industrial Policy is Counterproductive', *Project Syndicate*, 22 March 2023, www.project-syndicate.org/commentary/us-subsidies-provisions-for-childcare-stock-buyback-excess-profits-tax-by-anne-o-krueger-2023-03 (accessed 1 June 2023).

2. Modern American Industrial Policy

Throughout his presidency, Joe Biden has promised a renewal of the domestic economy.¹³ This has manifested in the prioritization of industrial policy as a means to restructure the economy, increase employment, combat climate change, and maintain technological supremacy.¹⁴ An undertone of the President's efforts is the seemingly apparent need to contain a rising China.

In so doing, the Biden administration is pushing back against the longstanding trend of liberalized trade and investment embodied in the Washington Consensus. At the same time, the US is embracing the policies of subsidies, trade distortions and state led development for which it has long criticized China. These policies were laid out in a hawkish speech by National Security Advisor Jake Sullivan, who stated that perceived failures in past policy choices ignored geopolitics, rising inequality, and climate change in pursuit of liberalized trade and economic growth in addition to leading to the dissemination of the US industrial base.¹⁵ Sullivan outlined a new path forward that will focus on US manufacturing and provide subsidies and other support to favored industries – that is, the government will select ‘winners’ – at the same time, the US will attempt to placate its ‘friends’ to help ‘Creat[e] a secure and sustainable economy in the face of the economic and geopolitical realities.¹⁶ In essence, Sullivan set out a ‘modern American industrial strategy’, with a focus on national security (which could be read as strategic competition with China) and public investment.¹⁷

Sullivan's speech must be read together with a more conciliatory speech given by Treasury Secretary Janet Yellen where she discussed the need for the US and China to work together on ‘urgent global challenges’ – despite the increasing tension between the two powers – before setting out what could be viewed as a strategy of engagement.¹⁸ Yellen set out the long list of US complaints against China, including numerous elements of state capitalism, such as the favored treatment of state-owned enterprises, intellectual property (IP) theft, and mass subsidization, before turning to how the US version of industrial policy can be distinguished and viewed differently. Here, Yellen emphasized that the US national security objectives affecting economic policies – such as export controls, investment controls, and the proposed screening of outbound investment – are related to vital US security interests and not directed towards obtaining an economic advantage:

[T]hese national security actions are not designed for us to gain a competitive economic advantage or stifle China's economic and technological modernization. Even though these policies may have economic impacts, they are driven by straightforward national security considerations. We will not compromise on these concerns, even when they force trade-offs with our economic interests.¹⁹

¹³F. Gray (2023) ‘Joe Biden does America First’, *The Spectator*, 11 February 2023, www.spectator.co.uk/article/joe-biden-does-america-first/ (accessed on 1 June 2023).

¹⁴See E. Alden (2022) ‘Biden's “America First” Policies Threaten Rift with Europe’ *Foreign Policy*, 5 December 2022, <https://foreignpolicy.com/2022/12/05/biden-ira-chips-act-america-first-europe-eu-cars-ev-economic-policy/> (accessed on 1 June 2023).

¹⁵The White House (2023) ‘Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution’, 27 April 2023, www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution.

¹⁶Ibid.

¹⁷Ibid.

¹⁸US Department of the Treasury (2023) ‘Remarks by Secretary of the Treasury Janet L. Yellen on the US–China Economic Relationship at Johns Hopkins School of Advanced International Studies’, 20 April 2023, <https://home.treasury.gov/news/press-releases/jy1425>.

¹⁹Ibid.

In so stating, she distinguished US policy with to that of China's state capitalism model that has 'become more ambitious and complex' in seeking to obtain an unfair economic advantage over competitors'.²⁰ Yellen continued:

China has expanded support for its state-owned enterprises and domestic private firms to dominate foreign competitors. It has done so in traditional industrial sectors as well as emerging technologies. This strategy has been coupled with aggressive efforts to acquire new technological know-how and intellectual property – including through IP theft and other illicit means.²¹

Several subsequent speeches by high-ranking officials from the administration have further cemented the policies laid out by Sullivan and Yellen.²² Regardless of the stated justifications, the US is trending towards protectionism and managed trade. This is perhaps most evident in the Inflation Reduction Act, which, despite the name, is squarely aimed at advancing the development of green technologies through the deployment of subsidies, tax breaks, and other incentives to encourage the production of electric vehicles and renewable energy components in the US.²³ The CHIPS and Science Act likewise provides incentives to firms to manufacture semiconductor facilities in the US²⁴ While these legislative efforts can be described as an attempt to 'run faster' than China, the latter also attempts to 'trip up' China as it bans outsourcing to China.²⁵

3. The Implications of America First

The populist economic-nationalism and anti-China sentiment is playing well domestically, but Biden's inward focus has a wide range of economic and geopolitical implications. The first is that economics and its principles, such as comparative advantage, are no longer a priority.²⁶ The prevailing view in Washington is that not only must the US 'decouple' or 'de-risk' (as it is now referred)²⁷ from China but that it must also delocalize by domesticating supply chains and rebuilding a manufacturing base. The industrial policies needed in order to do so have been shunned for decades as both uneconomical and inefficient but are now deemed essential

²⁰Ibid.

²¹Ibid.

²²Most notable in this regard are speeches from US Ambassador Katherine Tai. See, e.g., Office of the United States Trade Representative (2023) 'Ambassador Katherine Tai's Remarks at the National Press Club on Supply Chain Resilience', 15 June 2023, <https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2023/june/ambassador-katherine-tais-remarks-national-press-club-supply-chain-resilience>.

²³Inflation Reduction Act of 2022, Pub. L. 117–169. For commentary, see J. Fabian (2022) 'Biden Signs \$437 Billion Tax-Climate Bill in a Long-Sought Democratic Win', Bloomberg, 17 August 2022, www.bloomberg.com/news/articles/2022-08-16/biden-signs-tax-climate-bill-marking-long-sought-democratic-win (accessed on 1 June 2023).

²⁴CHIPS and Science Act, Pub. L. 117–167. For commentary, see J. Leonard and J. Fabian (2022) 'Biden Signs Chips Bill, Unleashing Funding for US Production', Bloomberg, 9 August 2022, www.bloomberg.com/news/articles/2022-08-09/biden-set-to-sign-chips-bill-as-us-makers-unveil-new-investments (accessed on 1 June 2023).

²⁵The analogy of tripping China and running faster can be attributed to William Reinsch, the Scholl Chair in International Business at the Center for Strategic and International Studies. See W.A. Reinsch (2022) 'Running Faster and Tripping China', CSIS Commentary, 31 January 2022, www.csis.org/analysis/running-faster-and-tripping-china. For further analysis, see B. Mercurio (2023) 'US Trade Policy and the Future of World Trade: Managed Trade, Protectionism, Distortions and Uncertainties', *International Trade Law and Regulation* (2), 69–78.

²⁶P. Timmers and S. Kreps (2022) 'Bringing Economics Back into EU and US Chips Policy', *Brookings*, 20 December 2022, www.brookings.edu/techstream/bringing-economics-back-into-the-politics-of-the-eu-and-u-s-chips-acts-china-semiconductor-competition/ (accessed 1 June 2023).

²⁷See D. Cave (2023) 'How "Decoupling" From China Became "De-risking"', *New York Times*, 20 May 2023, www.nytimes.com/2023/05/20/world/decoupling-china-de-risking.html (accessed 1 June 2023).

to the transformation.²⁸ This is worrisome, as inflationary pressures across the globe are concerning and the potential for a global recession looms. The state of the global economy should be a priority for the administration, not an irrelevancy.

The second is that US measures will not occur in isolation. They will instead be mimicked by other countries seeking to ignore fundamental economics and distort markets in order not to lose ground to the US. Indeed, the European Union and United Kingdom have already announced plans to compete with the US on semiconductor and green manufacturing.²⁹ The risk is that a subsidy battle will benefit the countries that throw the most money at firms, and that the battle will lead to a glut on the market and eventually vastly reduced prices for the good at issue – whether it be electric vehicle batteries or semiconductors.

Finally, the US and China both seem comfortable with the geopolitical status quo of mistrust, competition, and a simmering trade war; the result will be reduced economic growth. Case in point, while Biden criticized the imposition of tariffs on Chinese products prior to taking office,³⁰ he has maintained them while hiding behind a lengthy ‘review’ of the measures.³¹ Meanwhile the administration constantly defends the tariffs, with US Trade Representative Ambassador Katherine Tai labelling the tariffs as a ‘response to a legitimate concern economically and competitively’, that being China.³² The administration was likewise unmoved by a March 2023 report of the US International Trade Commission confirming that the cost of the tariffs were borne by US importers and (to a lesser extent) consumers – although it must be noted that the report also indicated a reduction in imports of certain products from China and an increase in US domestic manufacturing (with an even greater increase in imports from third country sources).³³ The economics seem unimportant as domestic politics dictate maintaining a tough stance on China.³⁴

Lost in the US approach is trade. Sullivan disappointingly and incorrectly dismissed past policy and trade agreements as focusing on tariffs, while stating that the Biden administration is instead seeking to deliver on modern issues, such as diversified and resilient supply chains and delivering good jobs and sustainable, inclusive economic growth.³⁵ This is in line with earlier statements from Ambassador Tai that refers to free trade agreements (FTAs) as a twentieth century tool which is no longer fit for the modern global economy.³⁶ Such a view not only ignores the fact

²⁸‘What America’s Protectionist Turn Means for the World’, *The Economist*, 9 January 2023, www.economist.com/finance-and-economics/2023/01/09/what-americas-protectionist-turn-means-for-the-world; J.M. Deutch and E.J. Moniz (2022) ‘How America Can Make Industrial Policy Work’, *Foreign Affairs*, 7 September 2022, www.foreignaffairs.com/united-states/how-america-can-make-industrial-policy-work (accessed 1 June 2023).

²⁹See F.Y. Chee (2023) ‘EU Takes on United States, Asia with Chip Subsidy Plan’, *Reuters*, 18 April 2023, www.reuters.com/technology/eu-agrees-chips-subsidies-plan-eu-industry-chief-says-2023-04-18/ (accessed 2 June 2023); ‘UK Lays Out £1 Billion Plan to Invest in Domestic Chip Sector’, *Bloomberg.com*, 18 May 2023, www.bloomberg.com/news/articles/2023-05-18/uk-lays-out-1-2-billion-plan-to-invest-in-domestic-chip-sector (accessed 2 June 2023).

³⁰S. Anderson (2020) ‘Biden Says He Will End Trump’s Tariffs On Chinese-Made Goods, Aide Walks Back Statement’, *Forbes*, 6 August 2020, www.forbes.com/sites/stuartanderson/2020/08/06/biden-says-he-will-end-trumps-tariffs-on-chinese-made-goods/ (accessed 1 June 2023).

³¹‘US Allows Trump-Era China Tariffs to Continue Pending Review’, *South China Morning Post*, 3 September 2022, www.scmp.com/news/world/united-states-canada/article/3191208/us-allows-trump-era-china-tariffs-continue-pending (accessed 1 June 2023).

³²‘Ukrainian Blitz Reclaims Territory and Routs Russian Forces’, www.youtube.com/watch?v=T2B-AqGPok0&ab_channel=PodSaveAmerica (accessed 1 June 2023).

³³United States International Trade Commission (2023) ‘Economic Impact of Section 232 and 301 Tariffs on US Industries’, www.usitc.gov/publications/332/pub5405.pdf (accessed 1 June 2023).

³⁴M. Hirsh (2022) ‘Is Biden Fighting the Last War on Trade?’, *Foreign Policy*, 5 May 2022, <https://foreignpolicy.com/2022/05/05/biden-trade-policy-war-economy/> (accessed 1 June 2023).

³⁵Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution’, *supra* n.15.

³⁶R. Lordache (2023), ‘WTO Chief Pushes for Reglobalized Supply Chains to Cut down Bottleneck Risks’, *CNBC*, 21 May 2023, www.cnbc.com/2023/05/21/wto-chief-pushes-reglobalized-supply-chains-to-cut-down-bottlenecks.html (accessed 1 June 2023).

that the majority of US and other countries FTAs were negotiated in the twenty-first century³⁷ but also obfuscates the fact that the administration is simply unwilling to discuss market access or anything that would require the US to amend or modify any of its policies, laws, or regulations.

While it is one thing for the administration to seek to make the US economy more resilient, sustainable, and inclusive, it is quite another to attempt to get other countries to agree to better protect worker rights, take anti-corruption initiatives, fight climate change, reduce income inequality, and adopt US rules for digital technologies, but this is exactly what the administration is attempting to do in the Indo Pacific Economic Forum (IPEF) – its signature trade initiative.³⁸ But the initiative does not include a market access component. Thus, the US is asking 13 other nations to accept higher standards but is unwilling to provide any inducements or concessions in exchange. Not only is market access not part of the IPEF, but the US has signalled that it is unwilling to offer concessions of any kind.³⁹ In short, the US is simply seeking to have others adopt prevailing US policies. It is therefore unsurprising that the so-called ‘trade’ pillar of IPEF is failing even as gains are made in the other pillars (supply chains, clean economy, and fair economy).⁴⁰

4. Traders Respond to a Changing World

The movement towards industrial policy, protectionism, and managed trade, when combined with the newfound interest in the business community to diversify supply chains, is producing a rapidly changing economic trading environment. From geopolitical tension to trade friction, from the COVID-19 pandemic to Russia’s invasion of Ukraine, the year 2015 seems a long time ago.

Supply chains have faced supply side disruptions since 2020, with the majority being COVID-19 related. The disruptions became exaggerated as relations between the US and China continued to deteriorate. Ports became clogged and the just-in-time production model characterized by short lead times broke down – delays caused shortages and stock outs.⁴¹ While the pressures and disruptions have eased, pricing issues, shortages (most notably in trucking and warehousing), and labour remain an issue in some countries.⁴²

In the short term, companies mitigated port risks (diversifying to multiple ports), increased inventory to ensure stock (and with it securing more warehouses, leading to a shortage of available space), utilized technological advancements, and even reformulated product mixes and ingredient lists.⁴³ More substantially, COVID-19 exposed vulnerabilities in global supply chains that had been built for speed, low cost, and innovation. Adherence to a market-based model worked well in a stable global trade environment but COVID-19 caused chaos – with everything from sourcing, manufacturing, distribution all facing crisis at the same time in every market around the globe. This chaos has led to the breakdown of the just-in-time model. Once a fixture, the strategy is no longer dominant as companies build resilience and transparency into the supply

³⁷World Trade Organisation, ‘Regional Trade Agreements Database’, <https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

³⁸The White House (2022) ‘Statement on Indo-Pacific Economic Framework for Prosperity’, 23 May 2022, www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/statement-on-indo-pacific-economic-framework-for-prosperity/; Yuka Hayashi (2023) ‘US Delivers Early Win in Asia Trade Pact, but Rifts Surface’, *Wall Street Journal*, 27 May 2023, www.wsj.com/articles/u-s-delivers-early-win-in-asia-trade-pact-but-rifts-surface-f607309a

³⁹A. Swanson (2023) ‘Biden Administration Announces Indo-Pacific Deal, Clashing with Industry Groups’ *The New York Times*, 27 May 2023, www.nytimes.com/2023/05/27/business/economy/biden-indo-pacific-trade-deal.html (accessed 1 June 2023).

⁴⁰See W.A. Reinsch (2023) ‘Reality Bites’, CSIS Commentary, 21 November 2023, www.csis.org/analysis/reality-bites

⁴¹K. Wang (2021) ‘We Decoded the Global Shipping Crisis and Supply Chain Backlog That’s Causing the “Everything Shortage”’, *Business Insider*, 2 December 2021, www.businessinsider.com/decoding-the-global-shipping-crisis-and-everything-shortage-2021-12 (accessed 1 June 2023).

⁴²Supply Chains Have Healed yet Their Mark on Inflation to Endure’, Bloomberg, 26 February 2023, www.tbsnews.net/bloomberg-special/supply-chains-have-healed-yet-their-mark-inflation-endure-591110 (accessed 1 June 2023).

⁴³‘How the COVID-19 Pandemic Has Changed Supply Chain Practices’, *World Economic Forum*, 14 January 2022, www.weforum.org/agenda/2022/01/5-ways-the-covid-19-pandemic-has-changed-the-supply-chain/ (accessed 1 June 2023).

chains – the so-called ‘just-in-case’ production model – focusing on increased lead time and adjustment to inventories.⁴⁴ In essence, speed and cost are no longer the dominant considerations as companies seek to understand the entire risk profile. This has led to new supply chain management processes, new alliances and strategic agreements between manufacturers and suppliers, and increased data sharing and cooperation.⁴⁵

The shifts have not only been behavioural, but also geographical. Companies are seeking out more regional trade, so-called nearshoring, as a way to improve resilience and mitigate risks.⁴⁶ Companies have also responded by engaging in what has become known as the ‘plus one’ model of manufacturing, with manufacturing in China for the Chinese and other regional markets while investing in redundant sourcing and manufacturing outside of China to service other countries as a way to reduce risks arising from trade friction and geopolitical tensions.⁴⁷ Selective decoupling also seems to be occurring as the US uses policy tools to incentivize supply chain resilience from a national security perspective. Russia’s invasion of Ukraine also impacts supply chains as risks and sanctions mount and as container ships avoid Russian ports.

Finally, there has been a shift in the regulatory landscape, with environmental, social, and corporate governance (ESG), reputational risks, and the like now taking a prominent place in strategic thinking and planning.⁴⁸ With everything from human rights to climate mitigation to sanctions having to be tracked and monitored, the supply chain process is now complicated and more expensive.

Many of the production shifts are benefitting third countries, such as Mexico, India, and Vietnam, primarily due to nearshoring and the ‘plus one’ manufacturing model.⁴⁹ Consequently, these economies are witnessing new opportunities for job creation and economic growth as companies diversify their supply chains and seek alternatives to China.

The de-risking framework is gathering momentum, and expanding beyond the notion that it is simply a way to decouple from China. For instance, in May 2023 WTO Director-General Ngozi Okonjo-Iweala used the issue of diversification in global supply chains to advocate for the development of LMICs. Stating that there is an ‘overconcentration of manufacturing in certain sectors in certain countries ... we need to build resilience, that the world cannot be reliant on a few countries for a few key products’.⁵⁰ Ngozi then suggested that pursuing diversification in LMICs to ‘regionalize’ would simultaneously enhance economic growth and development in those countries and meet global supply requirements: ‘Let’s regionalize by situating diversifying industries

⁴⁴B. Masters and A. Edgecliffe-Johnson (2021) ‘Supply Chains: Companies Shift from “Just in Time” to “Just in Case”’, *Financial Times*, 20 December 2021, www.ft.com/content/8a7cdc0d-99aa-4ef6-ba9a-fd1a1180dc82 (accessed 1 June 2023).

⁴⁵W.C. Shih (2020) ‘Global Supply Chains in a Post-Pandemic World’, *Harvard Business Review* <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world> (accessed 1 June 2023).

⁴⁶B. McCrea (2023) ‘Supply Chain Design Meets the Reshoring Trend’, *Supply Chain Management Review*, 2 March 2023, www.scmr.com/article/supply_chain_design_meets_the_reshoring_trend (accessed 1 June 2023).

⁴⁷H. Huifeng, L. Sun, and K. Wong (2023) ‘How Are Chinese Firms Responding as Foreign Buyers “Don’t Want Anything Made in China”?’’, *South China Morning Post*, 25 May 2023, www.scmp.com/economy/china-economy/article/3221706/how-are-chinese-firms-responding-buyers-dont-want-anything-made-china (accessed 1 June 2023).

⁴⁸Tinglong Dai and Christopher S. Tang (2022) ‘Unifying ESG and Supply Chain Thinking: An Urgent Call to Action in the Post-Pandemic Era’, *Asia Global Papers*; Interview with Dirk Holbach, ‘Achieving Supply-Chain Resiliency amid Disruption’, *McKinsey*, 10 January 2022, www.mckinsey.com/industries/consumer-packaged-goods/our-insights/achieving-supply-chain-resiliency-in-consumer-goods-amid-disruption (accessed 1 June 2023).

⁴⁹K. Wong (2022) ‘US Firms Increasingly Eyeing Manufacturing “Backups” as China’s Zero-Covid Policy Accelerates Reshoring’, *South China Morning Post*, 9 November 2022, www.scmp.com/economy/global-economy/article/3198860/us-firms-increasingly-eyeing-manufacturing-backups-chinas-zero-covid-policy-accelerates-reshoring (accessed 1 June 2023); A. Raj (2023) ‘India and Vietnam Becoming Attractive Alternatives for China Plus One Strategy’, *Tech Wire Asia*, 12 January 2023, <https://techwireasia.com/2023/01/india-and-vietnam-becoming-attractive-alternatives-for-china-plus-one-strategy/> (accessed 1 June 2023).

⁵⁰R. Lordache (2023) ‘WTO Chief Pushes for Reglobalized Supply Chains to Cut Down Bottleneck Risks’, *CNBC*, 21 May 2023, www.cnbc.com/2023/05/21/wto-chief-pushes-reglobalized-supply-chains-to-cut-down-bottlenecks.html (accessed 1 June 2023).

into these countries ... Let's look for those areas where we have the right environment, diversify and use that to bring them in from the margin into the global system. That will re-spur growth in those countries and in the world.⁵¹

Moreover, G-7 leaders meeting in May 2023 used uncharacteristically strong language to endorse de-risking and diversifying supply chains and production in order to moderate 'excessive dependencies in our critical supply chains'.⁵² However, the leaders were also careful to make clear that they were not endorsing a decoupling from China.

Our policy approaches are not designed to harm China nor do we seek to thwart China's economic progress and development. A growing China that plays by international rules would be of global interest. We are not decoupling or turning inwards. At the same time, we recognize that economic resilience requires de-risking and diversifying.⁵³

Thus, while Biden's modern American industrial policy puts manufacturing at the core and is, in part, attempting to re-shore production that long departed American shores manufacturing is not, absent large dollops of cash, relocating to the US. Nevertheless, patterns of manufacturing are shifting even without inducements as firms seek to diversify production away from a single source in the wake of the COVID-19 pandemic and to minimize the fallout from rising geopolitical tensions. While some of the shifts will inevitably be temporary, others will be lasting. It is also clear that the shift in supply chains is continuing to occur as pressures ease and firms can take stock of the 'new normal' in trade relations.

5. Conclusion

Several months into the Biden presidency, it was not apparent whether there was a coherent strategic approach to economic management or geopolitical relations. The legislative agenda, coupled with recent speeches by high-ranking officials, provides clear evidence that Biden administration has a strategy – and in what direction the modern American industrial strategy will take the US and the world. That there is a pullback from globalization is certain, as is American trust in a freer and rules based international order.

An industrial strategy prioritizing national security and the American worker will continue to re-shape international markets, global supply chains, and diplomatic engagements. Other advanced economies and those developing countries that can afford to do so will follow the US down the subsidy-led protectionist path. China will react accordingly, and trade patterns will further bifurcate. While this will undoubtedly lead to a radically different trading climate and negatively impact economic development, it is not a signal of a coming period of *décroissance*.

The extent of economic harm on the US and other advanced economies is unclear, as is the affect on technological leadership and developments. What is clear is that most low- and middle-income countries will suffer. Many of these countries make use of a youthful labor force to compete on the global stage but do not have the capital or know-how to build a competitive manufacturing base. They may struggle to adapt to the changing trading architecture. At the same time, certain developing countries will attract foreign investment and become manufacturing hubs as supply chains diversify and businesses spread risks. Domestic policy choices will be key for many governments in determining which camp they fall into.

What is also clear is that the trading world that has existed for the last several decades is rapidly changing. The Washington Consensus model of freer, liberalized trade, investment, and

⁵¹Ibid.

⁵²The White House (2023) 'G7 Hiroshima Leaders' Communiqué', 20 May 2023, www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-hiroshima-leaders-communique/

⁵³Ibid.

finance is being replaced by one that prioritizes national security, risk management, domestic interests, and geopolitical considerations. David Ricardo's theory of comparative advantage still holds true, but it has certainly fallen out of fashion. Where it leads remains unknown – caveat emptor.

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