ABSTRACT: A hefty dose of nationalism infuses Build Back Better, U.S. President Joe Biden’s economic policy priorities. Echoing Trump’s Make America Great Again promises, it embraces a zero-sum logic regarding economic relations with China, and is centered on trade protectionism, restrictions on capital and technological flows, and an industrial strategy that subsidizes American suppliers. Why? Many American politicians, if not average citizens, claim that China benefits much more than the U.S. from their economic interdependence. We debunk this idea, rejecting the logic of the arguments that policymakers deploy to justify their economic nationalism. American businesses, consumers, and workers benefit from Sino-U.S. interdependence. Plus, many of Trump’s supporters backed him not because of his protectionism, but despite it. We also discuss concerns over relative versus absolute gains in Sino-U.S. economic relations. China’s increased economic convergence with the U.S. may help explain America’s neo-mercantilism, especially in light of stagnating median wages.
Former American President Donald Trump famously imposed steep tariffs on Chinese goods—to the tune of 25 percent of their 2017 value. The Trump tariffs were equivalent to taxing $370 billion worth of Chinese imports. He also imposed stringent restrictions on Foreign Direct Investment (FDI) from China and curtailed semiconductor exports to China. Trump claimed this crusade would reduce the U.S. trade deficit and improve welfare overall. In his campaign manifesto, he pledged to “cut a better deal with China that helps American businesses and workers compete.”¹ The premise was that China’s cheap labor steals jobs away from American workers and that China floods the U.S. market with cheap goods—putting American firms at a disadvantage.²

As predicted by many analysts, however, American workers and consumers are paying protectionism’s price. Tariffs on Chinese imports have cost the U.S. economy over 300,000 jobs (Zandi, Rogers, and Cosma 2019). They have also cost the average household anywhere from $600 to $800 a year (see, for example, Bown 2021).³

Trump’s quixotic attempt to upend the global division of labor was always destined to fail and leave Americans poorer. There is little that skin deep tariffs on Chinese imports imposed in an arbitrary manner can do to change that Americans finance, design, and market the goods that Chinese manufacture and sell back to American consumers. In this chain, American firms add the

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¹ See, for example, BBC 2016.
² These grievances went beyond trade. Besides grousing about China’s supposed currency manipulation and its subsidies of state-owned enterprises, The Trump Administration also accused China of several transgressions around intellectual property: engaging in widespread industrial espionage; compelling American firms of enter into joint ventures that divulge trade secrets in exchange for access to the Chinese market; and conducting onerous security reviews and testing requirements, as well as deploying billions of dollars to acquire U.S. companies operating in high-tech industries, to achieve similar ends. See Menaldo and Wittstock 2021 for the logic and evidence behind these complaints.
³ These were not the only costs. Beijing also imposed tit-for-tat tariffs on U.S. exports and increased regulation of American firms doing business in China; for example, Chinese antitrust authorities’ decision to nix the attempt by Qualcomm to merge with Dutch chipmaker NXP.
most value and reap the highest share of the profits, allowing the U.S. to import far more from China than it exports (Menaldo and Wittstock 2021). Unfortunately, global supply chains in semiconductors, batteries, computer chips, and pharmaceuticals have been battered by Trump-era trade restrictions and associated uncertainties, and COVID-19 disruptions have exacerbated shortages. One datapoint among many: due to the serious microprocessor shortfall, General Motors and Ford have shut down several of their U.S. factories.

The tariffs on Chinese goods remain in place under President Joe Biden, despite a Phase One trade deal signed between the U.S. and China in January 2020. Biden has so far sustained restrictions on international capital and technology flows with China too. Biden’s trade policy agenda reiterates concerns over allegedly coercive technology transfer and other Chinese “transgressions”. He has also flirted with industrial policy: announcing federal infrastructure spending on “Buy American” purchases. A new office in the Commerce Department is intended to pick industries that will be boosted by federal investment.

This is indicative of a sustained change in U.S. trade and investment policy—especially since Biden reversed so many of his predecessor’s other policies upon coming to power. Apparently, Republicans and Democrats do agree on something these days: America’s commitment to globalization is no longer what it once was.

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4 United States Trade Representative 2021.
5 To be sure, Build Back Better primarily focuses on providing investment in basic research in strategically chosen areas, and includes big investments in the National Science Foundation and vocational educational programs. It therefore has a strong public goods component. However, Biden’s supply chain review opens the door to far more aggressive industrial policy. It requires 100-day reviews of producers and distributors operating in so-called critical industries, as well as a one year-long review of supply chains in some broader industries. On all these points see The White House 2021. If the Biden Administration declares that industries are “at risk”, it may compel them to rejigger their supply chains to avoid some locations. Read: to exit China. This will dampen the overall supply of key industrial inputs, increase business costs, and stifle innovation.
6 This includes environmental policies, immigration, foreign policy, taxation, and socio-cultural issues.
7 Individual Republican politicians like Josh Hawley and Marco Rubio have explicitly championed industrial policy and growing numbers of Republicans are warming towards federal spending funneled
Perhaps this is all well and good. Has globalization and economic interdependence with China gone too far? Are current economic arrangements bad for the U.S.? How about its workers? Is the United States better off decoupling from China?

Whether one supports globalization or not, it is important to get the facts straight—and that is the major goal of this paper. The answers to the questions posed above are no. Neo-mercantilist policies are misguided and rooted in flawed logic: a mentality of zero-sum competition between nations and the foolhardy quest for greater autarky.\(^8\) Big Populism may prosper in its wake, electing politicians from both parties on the right and left and riling up nativists, but Americans will be made poorer.\(^9\)

To understand what neo-mercantilism looks like, we begin this paper with a case study of Francisco Franco’s Spain. We do not claim that it is a realistic comparison to today’s United States, but it is an extreme example serving as a word of caution.

This word of caution is necessary because the United States’ prosperity is based on amazing innovations such as supercomputers that fit into our pockets, which we can purchase at a fraction of the cost of previous generations of devices. American and Chinese companies have jointly created the most sophisticated and valuable vertically disintegrated supply chains the world towards the American semiconductor industry. This is a drastic change in the GOPs once strong support for free trade and investment flows, as well as its reluctance to intervene in markets and pick winners.\(^8\) Classical mercantilism, as practiced by the Spanish and Portuguese Empires, for example, was centered on hoarding precious metals and running up trade surpluses. It accompanied government efforts to regulate commerce in general in ways that awarded monopoly rights over long distance trade in exchange for government revenues. For example, by imposing flag taxes on merchandise delivered by unlicensed vessels and the outright banning of imported goods.

\(^8\) This is not to say that the United States has not used gaining access to its huge market in the past as leverage: coaxing developing countries to better protect American Multinationals’ (MNCs) intellectual property rights (IPRs) in exchange for tariff reductions; indeed, it has done just that, beginning with Section 301 of the Trade and Tariff Act of 1984, and continuing with the Trump Administration’s executive actions. While there are strong efficiency grounds for promoting strong IPRs (Haber 2016), the distributional aspect has been paramount in these cases: American MNCs gain rents from stronger IPRs, as they would otherwise transact with firms located in developing countries on worse grounds, in which they would obtain a smaller share of the producer surplus (see Menaldo and Wittstock 2021).
has ever known across a wide array of high-technology industries. For example, U.S. fabless companies such as Qualcomm design high performance semiconductors, and rent them out to Taiwanese chip manufacturers and device makers like Apple manufacturing in China.

The upshot? Billions and billions of dollars in profits shared among all the parties involved. And very happy American consumers to boot. Not only do American businesses and consumers benefit from economic globalization and greater interdependence with China, but America’s industrial labor force benefits too.

Some critics have suggested that trade-competition with China has economically devastated the U.S. industrial heartland and thereby sparked support for Populist politics on both the right and left. We question whether support for former President Trump and populism is greater in the rustbelt than other places and argue that Trump’s rise is better explained by factors other than globalization/U.S.-China economic integration, including nativism and racism. We also aver that while some Trump voters are not irrational in their opposition to globalization, they are being myopic.

Then why is neo-mercantilism on the rise? A globalization skeptic might argue that it is not irrational or myopic for Americans to prefer to decouple from China and be slightly poorer as a result. That is, if it means remaining in a world guided by American legal, political and commercial preferences, rather than to be slightly richer in a world increasingly following the social, legal, political, and technological vision of the Chinese Communist Party.

There are problems with this view. Decoupling from China will make it more likely that China will successfully carve out a separate geopolitical sphere of influence and try to strike out on its own in terms of technology—moving up the supply chain (semiconductors) and down (handsets and other devices)—and the provision of global public goods, such as offering an
alternative to the dollar as a reserve currency and performing lender of last resort functions (see Sundquist 2021). This would potentially enhance China’s hard and soft power and increase its political and military leverage, both abroad and possibly within the United States.

Alternatively, perhaps average Americans simply do not care about cheaper goods available from China if their incomes have barely budged in the last 30 years and some of them have lost jobs to Chinese competition. Protectionism and an activist industrial policy might be inefficient, but it at least creates jobs for them in the short term.

This view is simply wrong. First, after adjustments for taxes and transfers, median incomes and those below the median have actually risen substantially, not stagnated, over the past few decades (see Auten and Splinter 2019).\(^{10}\) Second, the cost of goods and services typically consumed by Americans at and below the median of the income distribution have fallen more than those consumed by Americans above that threshold. Third, it is not clear that industrial policy actually creates jobs for Americans—in fact, it is more likely to simply redistribute jobs from some sectors to others. Finally, as we discuss further below, globalization and increased economic interdependence with China has led to increased job creation, even if there have been losers concentrated in some sectors and geographies. Indeed, the U.S. productivity slowdown responsible for stagnant wages began in 1972, preceding China’s entry into the WTO in 2000 by almost two decades; additionally, a pause in this slowdown, albeit one of short duration—lasting from 1996 to 2004—coincided with increased economic interconnection between the U.S. and China (see Gordon 2016).

\(^{10}\) A thirty percent improvement is a lower bound estimate. Of course, this is not the same as pre-tax and transfer wages. If wages earned on the market are more important to laborers at and below the median of the pre-tax and transfer income distribution than disposable income generated after redistribution, then this fact may simply not matter politically.
Nonetheless, to explain the rise of neo-mercantilism, we parallel a popular folk theory—that Americans reject free trade and capital flows with nations that converge economically with the United States. And this is especially the case if, at the same time, U.S. wages have stagnated for some workers because of a productivity slowdown (see Nelson and Romer 1996: 12, Piketty 2014: 125). China is converging economically and technologically with the United States, and populist politicians have tried to stoke fear in American voters about the implications for America’s national security and its own economic fortunes, including that of wage laborers.

China managed to close the economic gap with the West by adopting—and sometimes perfecting—its technology. Much of it because of investment and trade flows from the U.S. to China. Defying stereotypes, it was this, more than its huge and low paid labor force, that helped China’s factories produce bicycles, clothes, and toys at large scales and sell them to Western markets so cheaply. Eventually, Chinese firms grew in sophistication and moved up the value chain, producing more technologically complex products, such as routers for wireless telecommunications, and providing services such as digital platforms and cloud computing.

This reality is what allows American politicians to try to turn against economic integration with China. It has indeed narrowed the gap with the U.S. and it was partially because the U.S. helped it do so.

Laying out the ways in which the U.S. has also greatly benefited from this chain of events may allow readers to gauge whether decoupling from China is actually a good idea. After reviewing an extreme historical case of neo-mercantilism, Spain under Franco, that is what we do.

AN ILLUSTRATIVE CASE-STUDY OF NEO-MERCANTILISM: FRANCO’S SPAIN

Spain experienced economic neo-mercantilism during the better part of the 20th Century. This phenomenon began during the early 1920s when Miguel Primo de Rivera, a dictator who
succeeded a republican interlude, ramped up protectionist policies and used the rhetoric of nationalism and self-sufficiency as a smokescreen to erect barriers to entry and actively pick winners and losers.\textsuperscript{11} This was just the beginning. After another, short experiment in parliamentary government, Francisco Franco put neo-mercantilism on steroids during the 1940s. With the support of the so-called Falangists, he adopted a cascading tariff structure, quantitative import restrictions via licenses, and foreign exchange controls with multiple exchange rates. Franco also nationalized enterprises under the auspices of the \textit{Institute of National Industry}, a state holding company.

What remained of the private economy was heavily regulated to achieve national investment and employment goals, as well as to boost the earnings of industrial sector wage earners. There were two main motivations for these policy choices. First, Franco included important industrialists and labor unions in his ruling coalition. Second, the regime feared instability associated with labor militancy and leaned on magnates who headed heavy industries for political support.

The details were straight out of a neo-mercantilist playbook. Tax breaks and subsidies were doled out by the Spanish government to a host of manufacturing industries, including textiles, domestic appliances, and vehicles (Pons Brias 2002). The state also encouraged mergers to ostensibly “help firms reach economies of scale” (de la Torre and Garcia Zuniga 2014: 169), but Spanish firms rarely achieved this status during Franco’s regime. Under the umbrella of stringent local content requirements, Foreign Direct Investment played a limited economic role at this time:

\textsuperscript{11} To be sure, protectionism did not emerge out of nowhere. There were tariffs levied on imports in 1891, 1906, and 1922. Some researchers argue that these tariffs were not protectionist per se; that they instead served as revenue generating measures. See Berend and Ranki 1982: 106; Tortella 2000: 201. On the other hand, non-tariff laws that subsidized domestic industrialization efforts were passed in 1907, 1909, 1917, 1918, and 1922 (see Roses 2003: 999).
Franco’s government was bent on having Spanish firms manufacture the intermediate inputs at the heart of industrial supply chains (de la Torre and Garcia Zuniga 2014: 167; 169).

Franco’s economic neo-mercantilism also relied on financial repression. The Spanish government restricted entry into the banking system and capped interest rates, so credit was artificially rationed. The upshot was a highly concentrated, inefficient financial system centered on five big banks. In exchange for market power rents, these banks had ownership and controlling stakes in important industries, many of them state-run enterprises, to which they directed subsidized credit. These banks also held the government’s debt at below market rates: it was compulsorily invested in long-term government securities that could be automatically discounted with the Bank of Spain at no additional cost.

Mercantilist intellectual property rights were also instrumental to the state’s self-styled industrialization policies.12 In 1929, Spain’s patent system was reformed under the auspices of a new law governing industrial property; the goal was to significantly strengthen introduction patents—monopolies on inventions coopted from abroad but manufactured in Spain for the first time. Their duration was extended from 5 to 10 years, and patent holders now had only 1 year to put them into practice, which, along with companion tariffs, incentivized import substitution. The law also pioneered “exploitation patents”: monopoly rights granted to Spaniards who sought to introduce a whole new industry to the country, rather than a particular invention; these were granted for 10 years.13

Figure 1. Spanish Industrialization (1830 to 2000).

13 Exploitation patents were abrogated in 1930, however. We should also note that there were other, less important, changes made to the patent system under the 1929 law; for example, a host of regulations governing who could seek “addition patents,” as well as how many could be sought and for what purpose (see Saiz 1995: 165).
The upshot was short term gains for longer term pain. To be sure, Spain’s industrial output increased to an exponential degree during Franco’s regime (see Figure 1). This growth path was unsustainable, however. It relied on an inefficient allocation of resources, including an overreliance on labor. Spain’s big banks accumulated high levels of risky loans that culminated in a financial crisis (see de la Torre and Garcia-Zuniga 2014). Inflation skyrocketed on the back of chronically high budget deficits. A balance of payments crisis enveloped the country in 1958. This led to a fiscal crisis, which mushroomed into an economic debacle.

Thus, while economic nationalist policies might succeed in creating desired domestic industries and jobs for workers in the relative short-term, the economic distortions created by such policies can result in inefficient capital allocation, industries that fail to find customers, resist innovation to defend their legally protected rents, and ultimately, protracted fiscal crises followed
by painful economic reforms. Indeed, it is only after trade and capital flow liberalization in the 1960s and 70s, as well as reforms to the patent system that encouraged greater openness to foreign technology acquisition, that Spain’s economy really boomed, experiencing the so-called Spanish Miracle (see Menaldo and Wittstock 2021). Franco’s Spain thus indicates that extreme forms of neo-mercantilism are self-defeating.

**Does labor in the developed world benefit from globalization?**

While some critics of globalization may concede that mercantilist policies can be economically inefficient, they may defend them by arguing that worker fare much better when domestic industries are protected from imports, thus enjoying more stable employment. On the one hand, perhaps Franco’s example is not a good benchmark for the United States. His was a dictatorship, after all, and an emerging economy to boot. On the other, perhaps workers did well under Spain’s protectionist shield, justifying tariffs on trade and restrictions on FDI, along with subsidies to national champions. Could neo-mercantilism actually be good for American labor?

To answer this question, allow us to decompose it into several parts. First, let us define globalization. Globalization consists of three things. First, freer trade across borders (unhindered by tariffs and non-tariff barriers). Second, freer capital flows in terms of both portfolio investment and FDI (unhindered by capital account restrictions and taxes aimed at curbing cross-border financial movements). Third, the protection of intellectual property rights across borders, both involving international treaties that recognize foreigners’ property rights to ideas (patents, trade secrets, trademarks, and copyrights) and also the domestic infrastructure needed to respect those rights—most importantly the process around patent filing, examination, registration, dissemination, and enforcement.
To address if labor in developed countries benefits from these processes, we proceed in three steps. First, we discuss benefits associated with the textbook understanding of economic efficiency – the overall size of the pie, which can be measured by GDP. Second, the absolute level of welfare for labor. Third, the relative gains to labor versus capital.

Economic Efficiency in General

In terms of efficiency, ignoring the share earned by labor, the answer is yes: globalization should increase the size of the pie in the developed world. As a first order concern, we submit that trade between nations, like trade between individuals, is voluntary and only occurs because it makes both parties better off. In other words, by definition, it is a positive sum interaction. Of course, this does not mean that both countries have shared an equal distribution of the larger pie (surplus) generated by their exchanges. However, there are both static and dynamic reasons why globalization makes the pie larger.

We first review the static reasons. When scarce raw materials, goods, services, and capital can flow with fewer impediments across international borders, they can be allocated to their more efficient use. What that means is that international market prices—exchange ratios between goods—improve economic coordination, ensuring that scarce resources (raw materials, capital, labor, goods, and services) are directed to where their opportunity costs are lowest (in other words, according to comparative advantage) and they are most valued. While the Smithian and Ricardian logic behind gains from trade involving specialization and the extent of the market are well known, allow us to elucidate on less celebrated reasons involving capital and technology flows.

Capital can flow to poorer countries and they can use it to make up for any shortcomings in domestic savings to invest in both physical (plants, equipment, machinery) and human capital (education, training). Crucially, this raises the rate of return earned by developed world capital,
which should help grow the pie at home. It also creates new export markets for developed world goods and services, which should also help grow the pie. Also, just as capital flows to the global South, so does technology, including not only physical technology, such as hardware and software transferred to developing countries, but tacit knowledge that is difficult to codify too. Because this creates a larger and potentially more sophisticated market for developed world technology, it should also grow the pie in the global North. To give just one example: China is the biggest consumer of semiconductors produced by American companies such as Intel, purchasing 25% of all microprocessors ($300 billion dollars). In the case of China-U.S. trade, investment, and technology flows, all these channels are important.

Now let us review the dynamic reasons for a bigger pie in the developed world due to globalization. Dynamic efficiency basically means that demand curves are shifted outward (a higher willingness to pay for both old products and new products) and supply curves are shifted outward too (firms’ marginal costs are reduced – they can produce higher quantities at the same cost). There are many reasons why.

As more expensive labor in the developed world is potentially replaced with cheaper labor in the developing world, this leads to a bigger pie over the longer term in the developed world for a variety of reasons. As firms specialize in higher value-added endeavors in vertically disintegrated supply chains, this may allow them to reach economies of scale, reduce costs, and become more innovative.

For example, consider a company like Qualcomm that focuses exclusively on designing computer chips and companies in Taiwan that focus exclusively on fabricating them; Qualcomm can dedicate itself entirely to what it does cheapest (with fewest opportunity costs), designing chips, implying its costs will decrease, its profits will increase, its R&D budgets will swell, and its
products will improve and become cheaper (in quality adjusted prices). And, because Taiwanese firms are now manufacturing chips, they are paying workers who may, in turn, now have a demand not only for the smartphones that use Qualcomm chips, creating a potentially larger market for the chips in Taiwan and other developing countries, but for other developed world goods and services.

This not only benefits Qualcomm, but also Apple and Motorola, not to mention Google (Android) and app developers, if not American digital platforms such as Facebook. It potentially benefits Coca Cola, Nike, and Disney. Taken together, these investment and consumption reactions grow the pie in the developed country – in this case, the U.S.

Also, as globalization allows capital and technology to flow from the developing world to the developed world, efficiency also improves dynamically. Focusing on the U.S. again, it is a big recipient of FDI from China, India, and even Mexico. To take the latter country: billions of Mexican pesos flow yearly into American sectors that include food and beverages, auto components, plastics, and business services. This creates American jobs and increases American savings and consumption. Again, this grows the pie in the U.S. Of course, this is also very much the case in terms of FDI and technology travelling from China to American shores.

**Does American labor benefit from globalization?**

The evidence for labor in the developed world benefiting from globalization is indeterminate. In terms of absolute living standards, there is strong evidence that labor has indeed benefited from globalization in the developed world. Increased trade, capital flows, and technology transfer to the developing world is associated with greater net job creation and improvements in living standards on average. In terms of the relative distribution of gains between capital and labor, things are fuzzier. Let us focus first on labor’s absolute level of welfare (living standards) improvement before addressing relative gains.
Have absolute living standards improved?

As capital flows to poorer countries, it raises the rate of return earned by developed world capital. This means higher income for savers in those countries, with the disposable portion of that “delta” fueling greater demand for domestically produced goods and services, which in turn means potentially more jobs for workers in developed world countries and improved incomes.

Of course, freer trade creates new export markets for developed countries’ goods and services, which should not only help grow the pie in the global North, but also means more jobs and higher incomes for developed world workers too. This is true for both the export sectors and non-export sectors. First, domestic suppliers will crop up and expand to help feed demand for developed country exports to the developing world (think: engine manufacturers for Boeing 787s made in Ohio by GE, with those aircraft purchased by Chinese airlines). Second, increased jobs and income in export sectors will generate “derived demand” for domestically produced goods and services. For example, Boeing workers will spend money on purchasing homes and American made appliances and services, such as haircuts and restaurant meals.

Plus, more net jobs will be created in developed countries to service a potentially more sophisticated market in the global South for developed world technology, which will happen as technology transfers to poorer countries on the back of globalization. Returning to the microchip example: as U.S. semiconductors are purchased by developing country consumers (in China, Indonesia, and Brazil, for example) who buy things like iPhones, jobs for American software engineers, app developers, and even hardware manufacturers, including the makers of complementary products such as headsets (not all of them are made in China, some are made in Colorado), will blossom. In turn, U.S. workers’ incomes will increase.
Now let us review dynamic reasons for the improvement in absolute living standards for labor in the developed world because of globalization. Returning to the definition of dynamic efficiency: demand curves are shifted out (a higher willingness to pay for old products and for new products) and supply curves are shifted out (firms’ marginal costs are reduced). There are many reasons why, over the long run too, globalization should benefit developed world workers of all stripes.

When firms specialize in higher value-added endeavors in vertically disintegrated supply chains innovation increases. This is the case for the technologies associated with mobile computers and internet telecommunications in general. Consider what we wrote above about Qualcomm, which focuses exclusively on designing computer chips and allows companies in Taiwan to fabricate them. This allows its R&D budgets to grow and leads to innovation that not only grows the pie but makes workers better off too, because they will pay less for improved products, which frees up income to purchase other things. Similarly, as technology flows from the developing world to the developed world, innovation flourishes, creating not only a larger pie, but more jobs and higher incomes for workers. Consider the flow of technology from Japan to the United States after World War II when it was still a developing country, including electronics and cars, and subsuming both product and process innovations. This led to a bigger pie in the global North and benefited its workers: over time, more jobs were created, and incomes for workers increased.

**What about inequality?**

There is also the question of whether developed world labor benefits in relative terms from globalization. Here, the theory and evidence are, at best, mixed (O’Rourke, 2002, Celik and Basdas, 2010; Bergh and Nilsson, 2010). One theory is that in a capital-rich but labor-scarce economy such as the U.S. labor should be relatively worse off under globalization. Rents of labor
will be dissipated by the fact that the overall supply of labor will increase, in that a previously scarce labor supply will now compete with a more abundant pool of labor (located abroad and producing manufactured goods imported by the developed country). Meanwhile, returns to capital should increase because capital is scarce abroad. Therefore, the gap between these factors should increase (measured as the capital to labor income ratio, for example).

While this may be true in static terms, it is not necessarily true dynamically. That is because the demand curve for labor may shift out over time, leading to an upward sloping demand for labor over the long run. The reason for this is that as the society gets richer, there will be increased demand for goods and services (the demand curves will keep shifting out), and, in turn, increased demand for the labor who make these goods and services, including domestic workers. In other words, employers will have an increased willingness to pay laborers—especially because innovation will make them more productive. While the scholars who model these dynamic effects focus on skilled (educated) labor to explain why the returns to college degrees have increased, even though the pool of college educated workers has increased steadily over time (e.g., Goldin and Katz 2006, Acemoglu 2009), conceivably the same process may apply to unskilled labor too.\(^\text{14}\)

What about the empirical evidence? Some studies consider globalization the culprit for increased asset and income inequality in developed economies, and others find no systematic relationship (O’Rourke 2002, Celik and Basdas 2010, Bergh and Nilsson 2010). One reason for this is that there are a lot of time-varying confounders that have evolved in parallel to trade and capital liberalization, and that could instead account for the increased inequality between capital and labor observed in the developed world since the 1970s. These alternative explanations include

\(^{14}\) This depends on whether technology is biased towards skills or not. More on this shortly below.
increased immigration flows and automation. Also, these studies are at a relatively high altitude, studying overall inequality, instead of how workers at the very bottom of the distribution fare, so the question about globalization’s implications for unskilled labor remain unclear.

Further, the effects of globalization may differ across countries, regions, and different time periods. Wei and Wu (2001) indicate that Chinese regions with stronger trade-exposure have reduced income inequality, while Bergh and Nielsson (2010) suggest that stronger trade liberalization increases income inequality in some developed countries. The truth is, however, that in the developed world the most powerful explanation for inequality is skilled biased technological change, in that citizens with more education are able to exploit innovations associated with IT investment and other technologies that are complemented by white collar labor (e.g., Acemoglu 2002).

**Does labor in the rustbelt benefit from globalization?**

Let us assume that labor in the rustbelt refers to unskilled labor living in places that were once involved or continue to be involved in heavy industry, including steelmaking and the manufacturing of automobiles, appliances, machinery, and chemicals. We again review the static and dynamic reasons why unskilled labor should benefit from globalization, but this time qualify those textbook explanations with evidence that calls them into question.

We again start with the static reasons for why globalization may benefit unskilled workers in the developed world. If savers in these countries have more money to spend due to unrestricted capital flows that yield higher returns on their investments, they will spend more on leisure activities, eat out more often and go to the movies. Let us consider the U.S. This includes folks

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They also include agglomeration effects. A big part of the wealth inequality observed by Piketty (2014) is driven by the increase in value of residential property. See Fuller, Johnston, and Regan (2020). It is unclear how that is related to globalization. Cities have become more important centers of economic activity and restrictive zoning laws have made construction of new rental properties more difficult.
with 401K retirement plans who lack college degrees—in other words, unskilled labor, both working in the export sector (either helping to manufacture jet engines on planes shipped to China or working as janitors at companies making the apps downloaded by Uber users in Saudi Arabia) and the workers who service their new demands (e.g., cooks, waiters, barbers). The latter will themselves have new demands that need to be serviced domestically by unskilled workers.

Of course, there could be a major reallocation from manufacturing jobs to service jobs in the wake of increased globalization, which is consistent with the evidence and stylized facts about “de-industrialization” in the United States. While the U.S. remains the world’s preeminent manufacturing powerhouse, the use of labor per capita in manufacturing has diminished significantly, due partially to trade but most directly to increased automation, while services have grown exponentially (Dinlersoz and Wolf. 2018).\(^\text{16}\) And many of the new service jobs do not pay as well as the manufacturing jobs they have replaced.

Consider the following evidence. While Freeman (1995) suggests that the expansion of global trade has modestly reduced employment and wages among U.S. low-skilled workers, Acemoglu et al (2016) estimate that increased import-competition associated with China’s accession to the World Trade Organization in 2001 created losses of between 2.0 to 2.4 million jobs in the U.S. manufacturing sector between 1999 and 2011. Autor, Dorn, and Hanson (2013) note that these effects are geographically concentrated in areas previously focused on manufacturing. Autor, Dorn, and Hanson (2016) stress that labor market adjustments to trade shocks have been remarkably slow in the last decade. As a result, American workers exposed to

\(^{16}\) U.S. manufacturing sectors are larger than ever but require fewer workers due to labor-replacing technologies that have driven productivity gains. While offshoring has certainly contributed to job losses in the U.S. manufacturing sector (see Acemoglu et al 2016), the latter are primarily driven by technological change.
increased trade competition experience greater employment insecurity and persistent reductions in income, especially unskilled workers.

Among low skilled workers, however, the effects of increased trade with China and other developing countries have been heterogeneous: while trade exposure has created job losses in some sectors, such as toys, furniture, and textiles, it has created employment and raised wages in others, such as agriculture, machinery, and vehicle parts.

In terms of the dynamic benefits from globalization for skilled workers, there are reasons for optimism. While the slow creation of new economic opportunities for those displaced by U.S.-China trade effects is puzzling, the demand for skilled workers in U.S. manufacturing continues apace. In fact, one of the biggest problems faced by American industry is a shortage of skilled workers, especially as craftspeople and workers in precision manufacturing retire. This has led to higher wages for those types of workers and is inducing low skilled laborers to “upskill” and seek these higher paying jobs. They face some barriers, however: inadequate education and vocational training (many of these jobs require a high school degree and technical skills), a mismatch between the location of these jobs and where unemployed workers live, chronic drug use problems (e.g., the opiate epidemic), and rampant absenteeism.

Is economic dislocation from globalization fueling populism?

What does the evidence say about the idea that there is strong support for populism in the American rustbelt? If so, is this support atypical (historically and comparatively)? The evidence is quite mixed. On the one hand, job losses associated with increased U.S.-Sino trade reported by 17 Similarly, contrary to the anti-Globalist message, immigration does not create a zero-sum struggle for resources that pits immigrants against the native population. Blau and Mackie (2016) find that the impact made by unauthorized immigrants on wages for U.S. born workers is insignificant and fleeting, while their fiscal contribution to the federal government is positive.
Autor, Dorn, and Hanson (2013) are geographically concentrated. On the other hand, it is unclear whether support for populism is greater in the rustbelt than other areas of the United States.

Consider support for Donald Trump in the 2020 elections. The former president lost to President Joe Biden in Pennsylvania, Wisconsin, and Michigan. While Trump won in Ohio, and overwhelmingly won rural districts across the Midwest, it is not clear that these districts are representative of the country’s former manufacturing hubs. In fact, Biden won with strong support in the major cities across these states, including Ohio. It is these cities that perhaps best represent former manufacturing centers and include Detroit, Michigan, Milwaukee, Wisconsin, and Akron, Ohio. Moreover, if we consider the rustbelt to include cities such as Chicago, Illinois, Buffalo, New York, Corning, NY, Rochester, NY, and Utica, NY, and East Lansing, Michigan, and Flint, MI, Joe Biden also beat Trump in those places.

What’s more: an election postmortem report authored by Republican pollsters affiliated with the Trump campaign in the aftermath of the 2020 presidential race evinces that the former president bled support in the rustbelt (Fabrizio, Lee & Associates, 2020). These pollsters conducted an analysis of exit polling in several battleground states, many of them located in America’s industrial heartland. They include Michigan, Wisconsin, Ohio, and Pennsylvania. The report concludes that Trump suffered great losses among demographics overrepresented in the low skilled subgroup; he experienced sizable erosion in support among white men across every age group, including males of prime working age and those entering retirement age, two groups usually associated with unskilled workers. In the five states in which Biden beat Trump in 2020 after Trump won in 2016, Trump’s most dramatic loss of support among these voters was in the 18 to 29 age group and the 65 and older group. This indicates that the link between trade-related
economic grievances and political support for Trump is not nearly as strong as sometimes intimated.

Let us now focus attention only on the voters of former President Trump in the rustbelt states mentioned above during the 2016 presidential election. There is no evidence that these voters are motivated by different factors than other Trump supporters. First, let us separate Trump voters into two groups: Republicans who always vote Republican, no matter who’s at the top of the ticket, whether it be McCain, Romney or Trump, and thus who are not necessarily big fans of the former president, and his hardcore supporters. The latter includes many new Republican voters who are more likely to be non-college educated, white-, and blue-collar workers. They are among the strongest supporters of the former president.

If that subset of Trump voters is indeed especially aggrieved – what are their grievances? Survey evidence suggests that hardcore supporters of Trump in both 2016 and 2020 favored him because of his opposition to (i) immigration, (ii) liberal cultural values (iii) disdain for political correctness (iv) mockery of experts and the media (Tucker et al 2019; Sherman 2018; Major, Blodorn and Blascovich 2018). These studies also provide strong evidence that outright racism and nativism fueled Trump’s rise and continued political success (Noland 2020). Opposition to trade ranks near the bottom of support by hardcore supporters.

Do these reasons behind Trump’s support differ geographically? There is no evidence for that hypothesis. More importantly, his hardcore supporters in the rustbelt voice similar reasons why they like him to those voiced elsewhere. The link between economic dislocation from globalization and populist voting is not nearly as clear as often presented.

The rise of the Trump phenomenon is complicated. But a scholarly consensus on Trump’s political appeal is starting to emerge centered mostly on race and ethnicity (see above), with anti-
globalism as a secondary, albeit important, reason behind it. This is not only true about Trump, but political support for populism more generally: while industrial decline may have helped tilt voters to favor populists around the globe, as pointed out by Margalit (2019), as well as Norris and Inglehart (2019), economic factors are highly limited in fully accounting for the electoral success of populists in general. So, what then explains Trumpism?

Many researchers have found that among an important contingent of Trump supporters/voters, the most salient political issue is a backlash against immigration and multiculturalism (Major, Blodorn, and Blascovich 2018). As the United States gets closer to a so-called minority majority country (especially due to higher birth rates for Latinos), some white voters see the potential changes associated with this demographic turning point, including their potentially reduced political power and social status, as alarming. It threatens their identity and feeling of security. Since Trump is openly against immigration, both illegal and legal, and he has repeatedly sent both coded and overt messages that are hostile to minority groups in general, this subset of his supporters view him as a champion of white identity politics. Evidence for this thesis is documented in Sides, Tesler, and Vavreck (2017); Skocpol and Tervo (2020); Hooghe and Dassonneville (2018); and Towler and Parker (2018).

Some voters certainly resonated with Trump’s anti-globalist message. But they tend to be the same voters who responded favorably to his nativist and potentially racist appeals. Pride of place is given to policies that oppose immigration and multiculturalism; opposition to freer trade and investment are important, but only in the sense that they are linked to a nationalist, zero-sum view of the world (Finley and Esposito 2020). While Trump’s anti-Globalist message does include some emphasis on the putatively adverse effects of trade and immigration, these issues are framed more in terms of nationalist self-determination (“America First”) instead of an economic threat
Most particularly, tariffs on Chinese imports tend to be construed as a show of force against China, which many Trump supporters consider an enemy (Noland 2020). In the same way in which demographic change within the U.S. is threatening to some Trump supporters’ sense of self, a rising China is seen by those same supporters as a threat to an identity rooted in nationalism and relative, rather than absolute, political, economic, and social status.

*Is this a rational response by rustbelt workers?*

Of course, it is not altogether irrational for voters who have suffered employment losses directly due to the offshoring of their jobs to seek redress. This may include the desire to place tariffs on competing imports, which are in turn passed on to consumers as higher prices for domestically manufactured products. Nevertheless, if targeted correctly, tariffs ensure that these products become (artificially) cheaper than foreign made ones.

While this may constitute a rational response for the laborers who produce these goods, this is almost certainly not the most optimal response. First, their jobs may be automated away anyway, no matter the level of trade protectionism: domestic workers in developed countries remain relatively expensive and the costs of automation keep dropping like a stone. Second, it might be more advantageous for workers exposed to trade to favor policies that reform education, create vocational training, and promote lifelong on-the-job training in coordination with employers complaining about skill gaps and mismatches. Also, investments in green energy may be more effective in creating lasting economic opportunities than futile attempts to force the reshoring of inefficient steel manufacturing. In that spirit, some of President Biden’s push to invest in basic research and development, clean energy technology and educational initiatives is considerably more productive than punitive tariffs on Chinese imports.
While support for protectionist policies that may or may not save domestic manufacturing jobs in the short term are rational, they are also myopic, and therefore possibly explained by high discount rates (Magistro 2020).

RELATIVE VERSUS ABSOLUTE GAINS IN SINO-US ECONOMIC RELATIONS

Why then is neo-mercantilism on the rise in the United States? There are several possible explanations.

One possibility is that the neoliberal global trading and investment regime that emerged after the Cold War was itself neo-mercantile, but suited for a different era: it created an institutional infrastructure that benefitted American companies that sought to bolster profits through vertical disintegration and outsourcing. Now that Chinese high-tech companies threaten to steal their lunch and possibly impose their own standards, as well as legal and commercial preferences through new institutions, American politicians seek to avoid falling into a politically, technologically, and economically dependent position. Similarly, perhaps American companies are rent-seeking and lobbying Washington, D.C. for subsidies and barriers to entry, much like the Chinese Communist Party is sheltering, if not bankrolling, its domestic tech superstars.

Or, this may all be about human rights. American politicians might be genuinely opposed to China’s internal politics—repression and potential genocide against the Uighurs, state surveillance, the repression of dissent in Hong Kong—and are using protectionism and economic decoupling, or at least its threat, to discipline and punish China.

While these explanations might carry some weight, in the rest of the paper we advance a different view. Namely, that China is converging economically and technologically with the United States, and populist politicians have been able to stoke fear in American voters about what this means for America’s national security and its own economic fortunes.
To evaluate this idea, let us first consider the narrowing of the economic gap. First, consider the growth rate of China’s economy since the late 1970s. Breakneck growth rates have sometimes approached 10 percent annually in real terms. While economic growth has slowed since 2014, and China’s economy was initially hit hard by Covid-19, decelerating below 3% annualized growth, it quickly recovered (clocking 2.3% GDP growth), and is expected by most forecasters to continue to grow at a healthy clip in 2021 and beyond. Indeed, in the first quarter of 2021 its growth rate was almost 20% on an annualized basis.

Because the United States was much wealthier than China going into this period, its GDP growth experienced a more muted rise: at most, it increased 3% per year. And, after the 2008 Financial Crisis, America’s average rate of growth has been closer to 2%. The jury is still out on how strongly the pandemic will hurt the U.S. economy (its GDP suffered a contraction of 2.3% in 2020). While the latest Congressional Budget Office projections are quite bullish, projecting 3.7% growth in GDP in 2021, this is unlikely to change its relative position all that much. The Chinese economy is projected to eclipse America’s in terms of size in 2028 (Congressional Budget Report 2021).

Now consider absolute gains in living standards. Between 1990 and 2008, China’s workforce increased by 145 million people as peasants migrated from the countryside to work in megacities such as Beijing and Shanghai; labor productivity improved by more than 9% per year during that period, as did Total Factor Productivity. This allowed Chinese real living standards to double three times between 1979 and 2020. Forecasters expect continued improvements ahead.

In the graph below, we show the appreciable narrowing of the gap in per capita income between China and the US between 1979 and 2020.

**Figure 2. Convergence in the Standard of Living between China and the U.S.**

Obviously, because China’s population is so much larger than that of the United States, the gap in GDP has narrowed to an even larger extent during this period (GDP Per Capita means dividing the size of the pie by the population and China has over 1 billion people while the US population is smaller than 340 million). China’s share of global GDP has grown steadily, irrespective of any change in living standards, and is projected to continue to do so. Conversely, America’s share of world GDP is projected by most forecasters to continue a steady decline.

**But what about relative gains?**

The larger question is about the effects of globalization on these convergence patterns and what country has benefited from greater economic integration between the U.S. and China in both absolute and relative terms. In terms of gains from trade, investment, and technology transfer,
which are obviously captured in GDP, but that we spell out here in greater detail, both China and the U.S. have gained significantly from their economic entanglement.

As we outlined above, China has gained from receiving American investment, primarily as FDI, and the transfer of technology that goes along with that. It has benefited in direct ways (more capital to invest, more jobs, higher paying jobs), and indirect ways (access to technology, knowledge, and knowhow). China has also benefited in terms of the U.S. becoming a major destination for its outbound FDI, for example, Huawei’s investments in basic research in the US in partnership with American universities. In terms of trade, China has benefited from the United States as the primary destination for its exports. This has led to the creation of jobs and higher profits for Chinese companies and higher incomes for Chinese workers. It has also led to higher revenues for its local, regional, and national governments (Whiting 2001).

Of course, the United States has also gained enormously from greater economic integration with China. American companies and private investors have made big profits from their access to Chinese labor, factories, and markets. China has become a top export market for companies such as Boeing, General Motors, Coca Cola, Nike, Microsoft, Apple, and a host of other companies. This includes their suppliers too. Indeed, a larger and sophisticated market for American semiconductors has been a godsend to American companies such as Intel, Sun, and Qualcomm.

Importantly, especially in the high-tech sector, globalization has allowed firms to specialize in higher value-added endeavors in vertically disintegrated supply chains. For example, Qualcomm focuses exclusively on designing computer chips, which means that its costs are lower, its profits higher, its R&D budgets bigger, and its products (contained in the vast majority of the world’s smartphones) are of higher quality and available to consumers at reduced prices. In turn, this is
also good for Apple and Motorola, not to mention Google (Android) and app developers, if not American digital platforms such as Facebook.

Finally, America benefits when FDI from China enters its shores. Speaking macroeconomically, it allows the US to consume more Chinese made products and thus compensates for its trade deficit with China, while also reducing interest rates on American sovereign debt, which in turn decreases its borrowing costs and tamps down on inflation. More directly, as billions of Chinese Yuans flow into US sectors that include food and beverages, auto components, plastics, and business services, this fuels American jobs and increases American savings and consumption. Accompanying this FDI and imports of Chinese goods and services is technology travelling from China to American shores. Consider Huawei wireless equipment, for example, which helped the US consolidate its 4G network.

The Political Response

Today, many U.S. policymakers that seem concerned about China gaining more of the surplus created from economic exchanges between the two nations than the U.S. Specifically, they worry that if China gets relatively more out of the relationship that this is “unfair”, “bad for American businesses”, and “bad for American workers.” They are also worried that the flow of technology to China, by whatever means, might translate into military and geostrategic gains that will displace the U.S. from its global leadership perch.

U.S. policymakers have expressed concern about China’s growing technological capacity in areas such as AI, robotics, electric vehicles, the Internet of Things, semiconductors, and quantum computing. Chinese companies such as Baidu, Alibaba, Tencent, and, of course, Huawei, which earned over $107 billion dollars in revenues in 2018, now bestride the commanding heights of the digital economy and operate some of the most valuable tech platforms in the world.
The Chinese state is accused by U.S. critics on both sides of the aisle of unfairly taking advantage of American firms and hurting American economic interests. In the words of FBI Director Christopher Ray: “Put plainly, China seems determined to steal its way up the economic ladder at our expense” (cited in The Economist 2019). Several individuals who served in the Obama Administration have also welcomed Washington’s harder stance on China (Rhode 2019). To “better compete against China”, American politicians such as Senator Marco Rubio have urged America to embrace an overt industrial strategy centered on tax breaks and export controls to strengthen American manufacturing. Some proposals have called for the nationalization of critical infrastructure like the nascent 5G wireless network. New tariffs, sanctions, and outright export bans directed towards the Chinese government and Chinese firms continue to proliferate out of Washington.

Of course, Huawei is not just any firm. Perhaps it is not just about predominance in manufacturing or design of specific products that American politicians fear, but the soft power that comes from designing the very infrastructure upon which the data-driven economy is built. For example, Huawei has attempted to amass several of the Standard Essential Patents that are likely to play an outsized role in structuring the supply chain around the 5G network (Menaldo and Wittstock 2021). This could potentially allow China to push its own legal, economic, and social preferences more forcefully.

Indeed, beyond the professed motives of politicians, Realist international relations theory suggests that these criticisms of China-U.S. relations may be a rational, if not prudent, response to the narrowing gap in relative power between the U.S. and China. Hence, the U.S. might wisely press its fading advantage now and slow China’s rise while it still can. According to this logic, U.S.-Sino conflict is structurally determined and unrelated to China’s own economic mercantilism
(e.g., the “Made in China 2025” industrial plan that seeks to see China “overtake” Western industrialized nations in key markets for high-technology manufacturing and AI).

Washington and Beijing may be caught in the “Thucydides’ Trap”: a rising power like China is doomed to frighten the incumbent power, the U.S., especially when its ascendance is rapid. The latter will, in turn, inevitably pick a fight, such as when Athens warred against Sparta during the Peloponnesian War and Germany fought against Britain in World War I. Indeed, a fading power may strategically challenge a rising power at a critical inflection point, right before the latter’s strength surpasses its own. That might explain U.S. policymakers’ concerns over the distribution of relative power between both countries and, by extension, their worries that the distribution of gains from greater economic integration might be skewed in China’s favor.

Chinese leadership is aware of this possibility. Xi Jinping himself stated in 2015: “There is no such thing as the so-called Thucydides’ Trap in the world. But should major countries time and again make the mistakes of strategic miscalculation, they might create such traps for themselves.” This alludes to another fundamental IR tenet: the security dilemma—when a nation mistakenly believes its rival’s defensive capabilities are offensive moves.

Do U.S. policymakers risk miscalculating China’s intentions in this manner? Jinping’s warnings about the Thucydides’ Trap notwithstanding, and, contrary to Beijing’s rhetoric that its foreign policy is focused on “win-win” cooperation and respect for global institutions (Zhang 2015, Goldstein 2020), Beijing’s recent moves might challenge American global leadership in profound ways. China has been bent on creating technology companies that are world-beating in certain cutting-edge innovations. As a result, technology has become an arena of geostrategic competition between these nations.
It is uncertain whether China is actually enjoying asymmetrically large relative gains, however; as we’ve argued above, the U.S. has accrued major benefits from greater economic integration with China. Indeed, if measured strictly in consumer surplus, the U.S. may be doing relatively much better than China. Consider just one example: Past buying behavior and surveys of U.S. consumers reveal that they are willing to pay thousands and thousands of dollars for a smartphone but typically only pay a fraction of that price. The reason? A globally disintegrated supply chain centered on respect for American firms’ IP rights that relies on China’s skilled and unskilled labor to produce supercomputers that fit in consumers’ pockets and can be purchased for as low as $30 dollars. We know that consumers bought 1G phones for $10,500 in today’s money. Taking that as a lower bound estimate on their willingness to pay for 2021 smartphones, the consumer surplus runs into the trillions of dollars. As a result, to claim that interdependence with China adversely impacts the US economically is not borne out by the facts.

CONCLUSION

Context matters for making sense of why Washington’s power brokers are so nervous and bandying ideas about tariffs, bans, and American self-sufficiency: China managed to close the economic gap with the West by adopting—and sometimes perfecting—its technology. Much of it because of investment and trade flows from the U.S. to China. Defying stereotypes, it was this, more than its huge and low paid labor force, that helped China’s factories produce bicycles, clothes, and toys at large scales and sell them to Western markets so cheaply. Eventually, Chinese firms grew in sophistication and moved up the value chain, producing more technologically complex products, such as routers for wireless telecommunications, and providing services such as digital platforms and cloud computing.
There are historical parallels to the fears voiced by U.S. policymakers regarding China’s economic and technological rise. The British were worried about the rise of the Netherlands in the 17th Century on the back of financial innovations such as liquid securities markets, which birthed the Dutch East India Company and the growth of a global trading Empire that encroached upon the British sphere of geopolitical influence, including in North America. This fueled the crown to engage in mercantilist policies such as the so-called Navigation Acts, which were aimed at bolstering British traders at the expense of their Dutch counterparts. It also triggered several Anglo-Dutch wars. Britain was also worried about the rise of the U.S. in the late 19th Century. However, in this case, the passing of the torch from the former to the latter was peaceful and gradual. While the U.S. had eclipsed Britain in economic terms by the early 20th Century, due in large part to the Second Industrial Revolution (electricity, the internal combustion engine, chemicals, aeronautics, and radio), the former surpassed the latter in geopolitical and military terms only after World War II. Similarly, the United States was worried about the rise of Japan in the 1980s. But these worries faded after Tokyo’s 1990 stock market crash, its subsequent economic collapse, and failure to return to its former economic glory after thirty years of stagnation.

Similarly, today’s worries about China’s rise might be overstated. Even if they are not, however, Washington’s reviews of the U.S. supply chain and its recent penchant to actively intervene in the allocation of resources along that chain is likely to end in futile efforts to artificially subsidize inefficient American producers. When the supply of some input such as microchips is running low, prices rise. This induces greater quantities to be produced for the market, which in turn leads to price reductions, back to the initial equilibrium. These new chips may be produced in China, the U.S., or Timbuktu. The reason that chips are currently often produced in China is because that is the cheaper option. If Chinese taxpayers are willing to pay
for subsidies that allow Americans access to cheaper chips – they should be our guest. No executive action needed. The market is already correcting itself as chip manufacturers are revving up supplies in light of higher prices.\textsuperscript{18}

American and Chinese companies have jointly created the most sophisticated and valuable vertically disintegrated supply chains the world has ever known across a wide array of high-technology industries. This has generated trillions of dollars in economic value shared among all the parties involved. Increased interdependence with China has also created millions of jobs in both countries. This should not be viewed as a threat to the United States, but as an opportunity for even closer relations and shared prosperity. Genuine national security concerns related to specific technologies or industries notwithstanding (see Menaldo and Wittstock 2021), economic concerns do not warrant decoupling from China.

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\textsuperscript{18} Of course, there is the issue of Xinjiang. If Chinese products are cheaper because of forced labor, then American citizens and politicians might still prefer to boycott them. For example, U.S. politicians such as Marco Rubio and Cathy Rogers are attacking clean energy by pointing out that Chinese photovoltaic production heavily relies on these practices.


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