# Industrial Policy, Trade, and Geopolitical Shifts

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# 4 broad points in 15 minutes

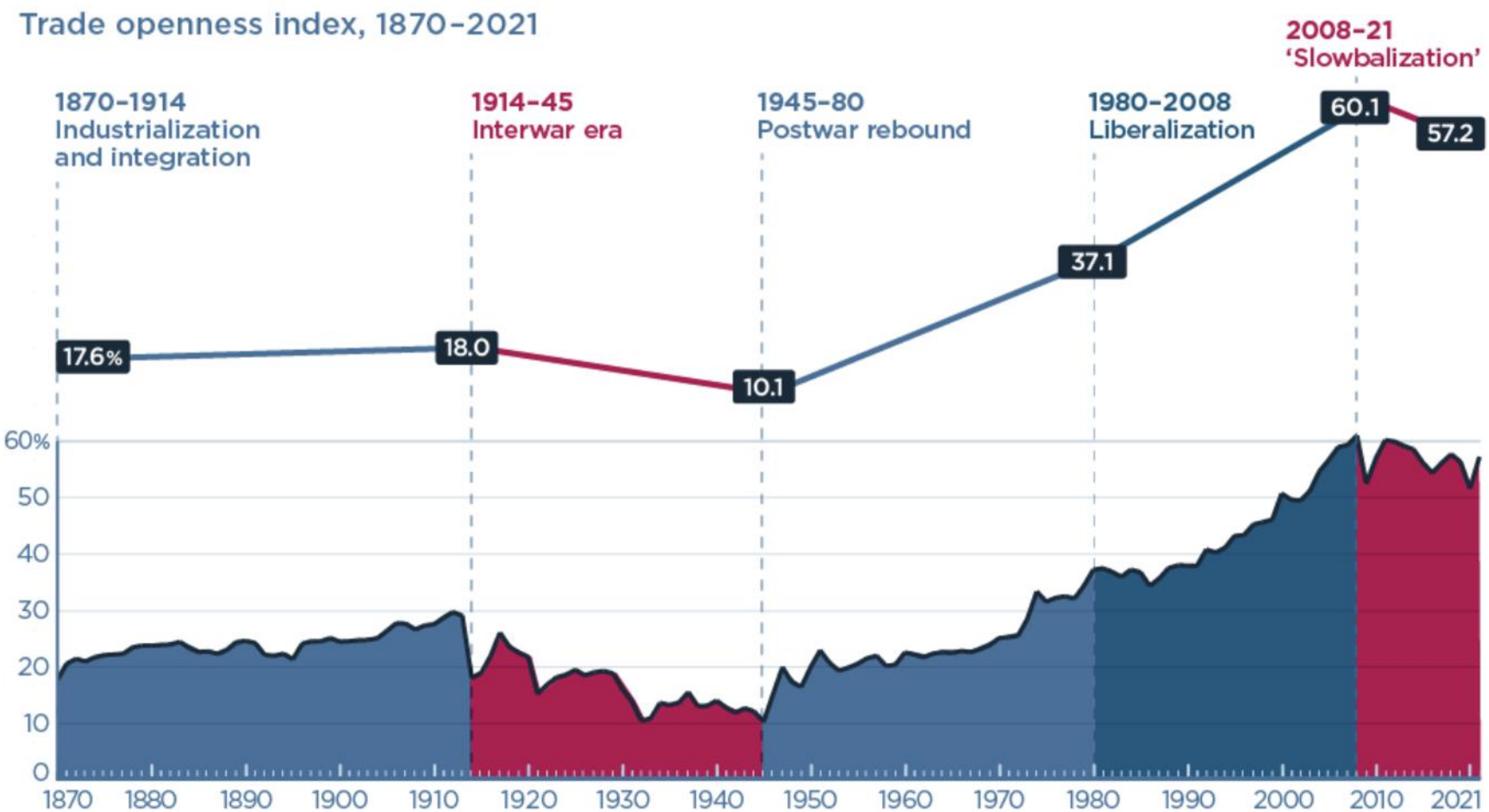
1. The so-called deglobalization

2. The new global economic paradigm under Trump 1.0 and Biden Administration (2016-2024)

3. The return of industrial policy and China's present industrial policy

4. The global economy in the next 2-3 years

# Two centuries of globalization and “deglobalization”




Source: PIIE

# Drivers of globalization and deglobalization

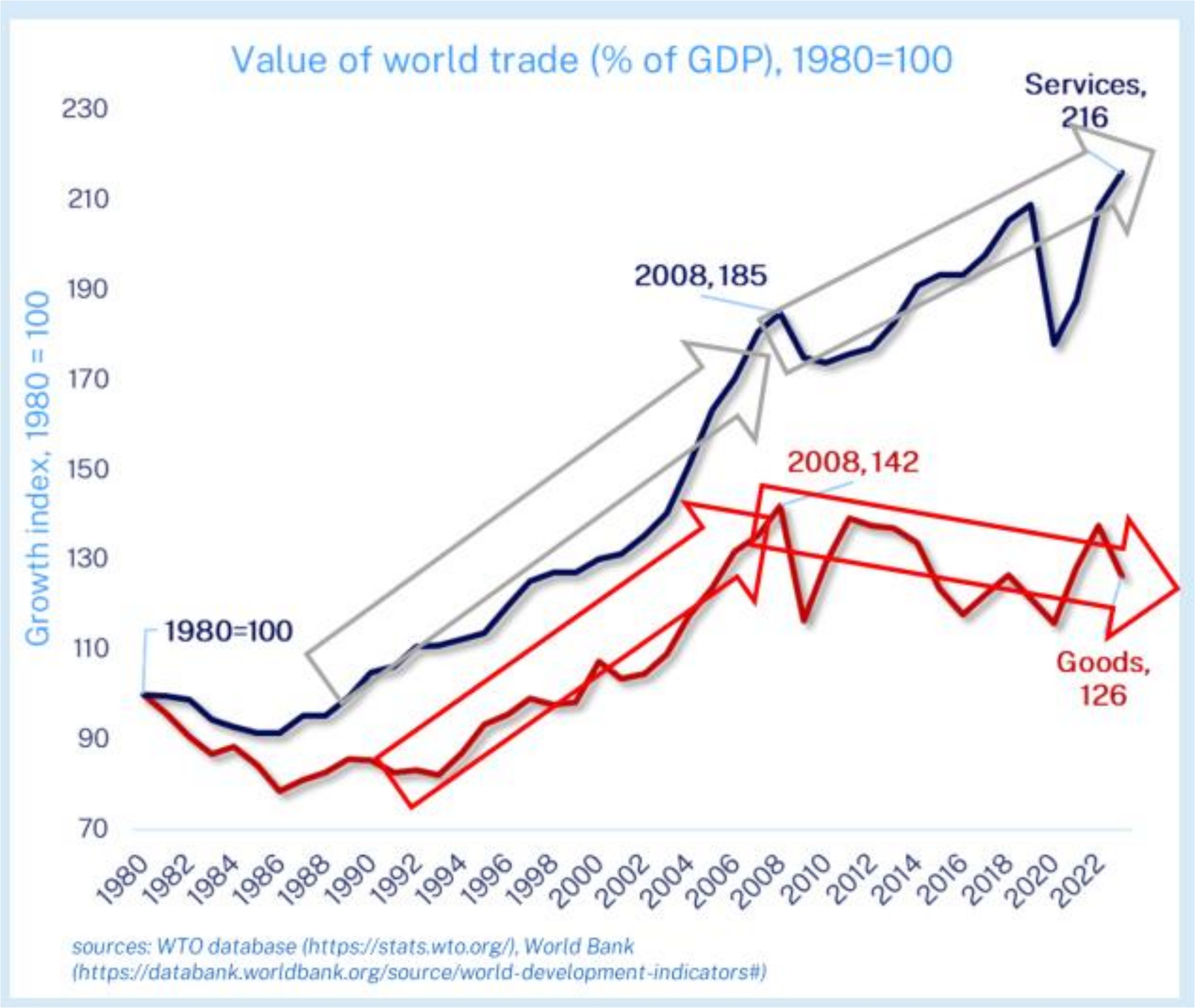
*Globalization in Crisis* (Tang, 2020)

- 3 necessary conditions for fast globalization:

  1. Technological breakthroughs need to facilitate market integration.
  2. The leading power of the era has to derive enough benefits from multilateralism to be motivated to support it.
  3. Globalization cannot generate too much within-country inequality.

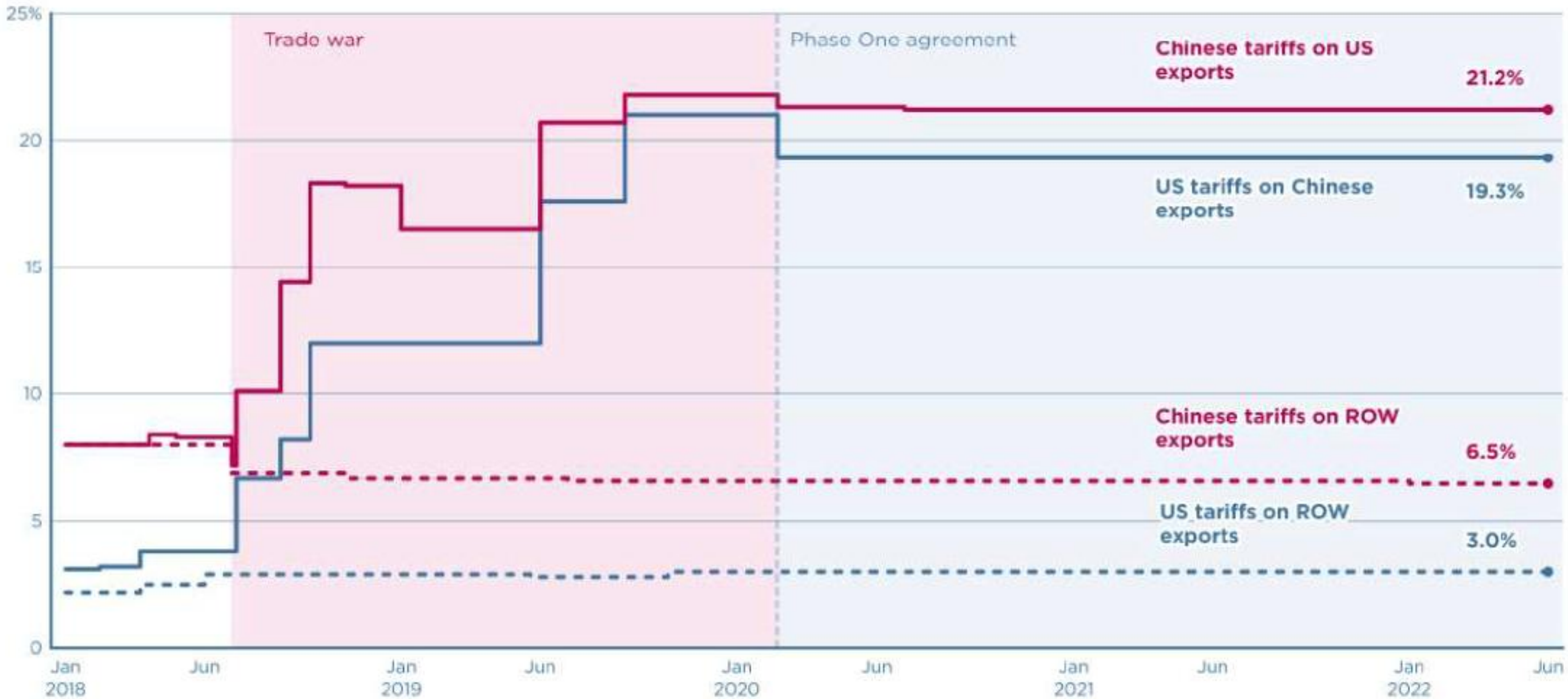
- Globalization will unlikely return to its pre-2008 level.
- But it has taken (and need to take) a different form in recent years
  - Digital globalization? More service trade?

# Deglobalization?



## The New Global Economic Paradigm under Trump 1.0 and Biden Administration (2016-2024)

# Sino-US Trade War

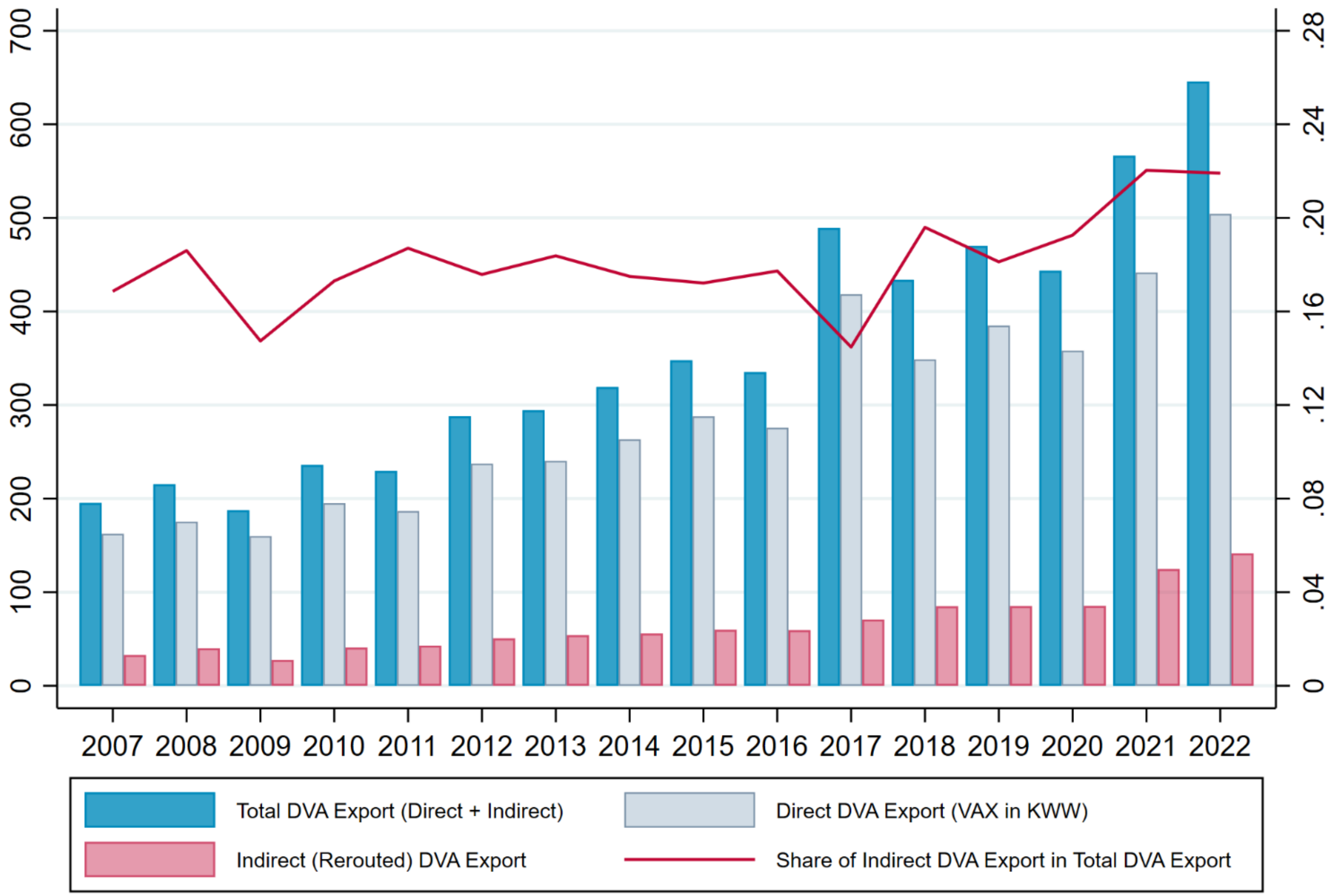


# China's Top 5 (direct) export destinations

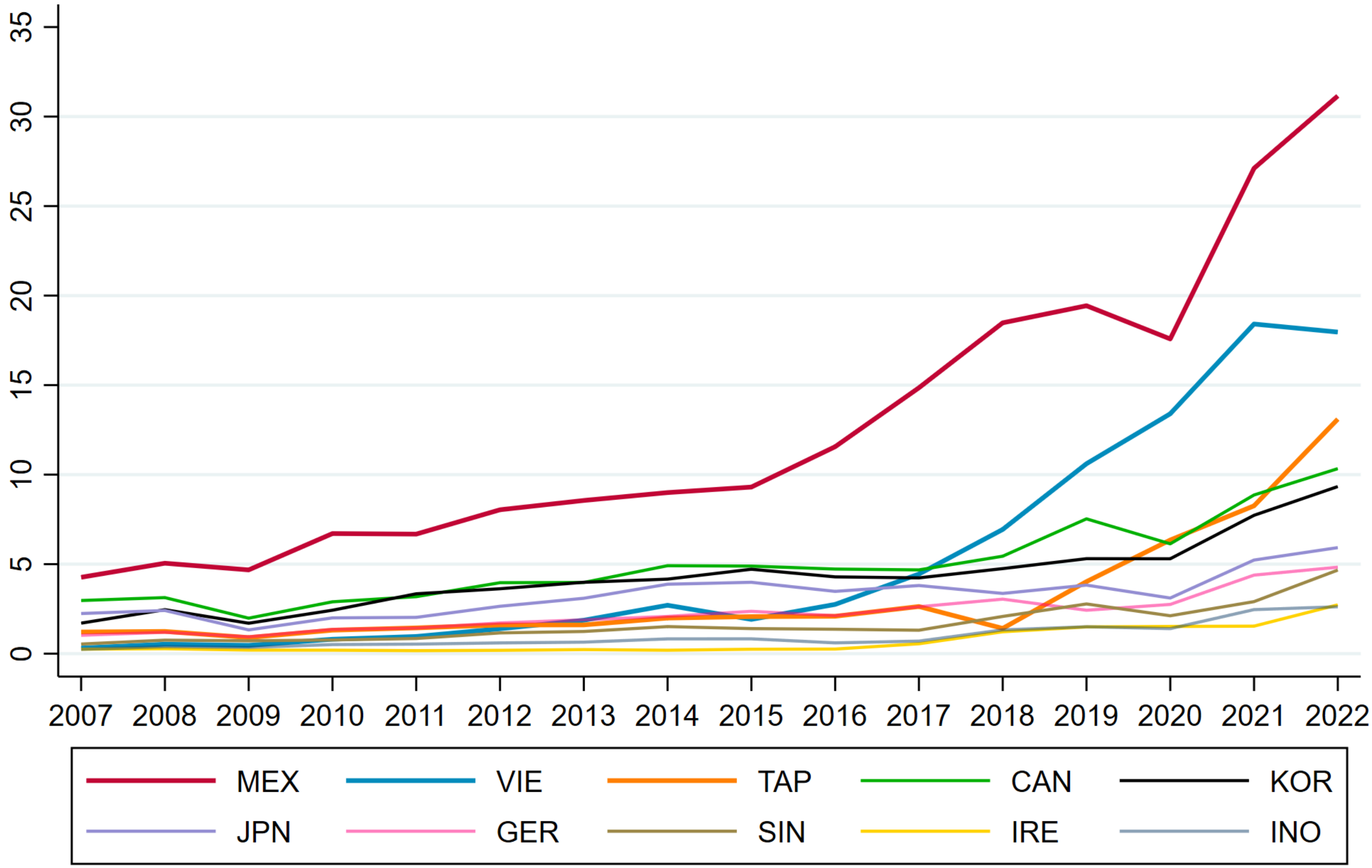
| % | 2018 | | 2019 | | 2020 | | 2021 | | 2022 | | 2023 | | 2024 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **USA** | **19.2** | EU | 17.1 | **USA** | **17.1** | **USA** | **17.13** | **USA** | **16.2** | **ASEAN** | **15.6** | **ASEAN** | 16.40 |
| 2 | EU | 16.4 | **USA** | **16.7** | EU | 15.4 | EU | 15.41 | **ASEAN** | 15.8 | EU | 15.5 | **USA** | **14.67** |
| 3 | **ASEAN** | 12.8 | **ASEAN** | 14.3 | **ASEAN** | 14.3 | **ASEAN** | 14.38 | EU | 15.6 | **USA** | 14.4 | EU | 14.44 |
| 4 | HKSAR | 12.1 | HKSAR | 11.1 | HKSAR | 10.4 | HKSAR | 10.42 | HKSAR | 8.3 | HKSAR | 7.6 | HKSAR | 8.14 |
| 5 | Japan | 5.9 | Japan | 5.7 | Japan | 4.9 | Japan | 4.93 | Japan | 4.8 | Japan | 4.8 | Vietnam | 4.53 |

Source: China' Customs

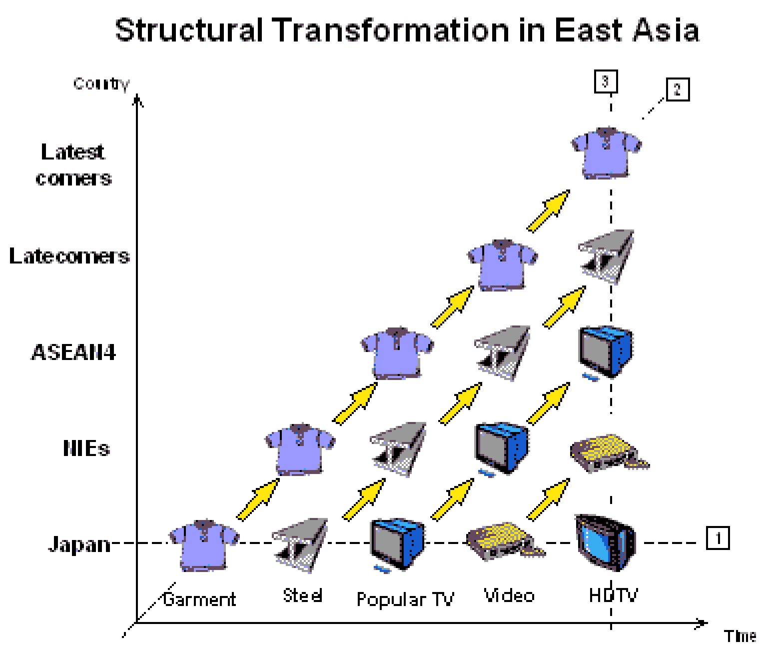
# China's Value Added Exports to the US have been **rising**

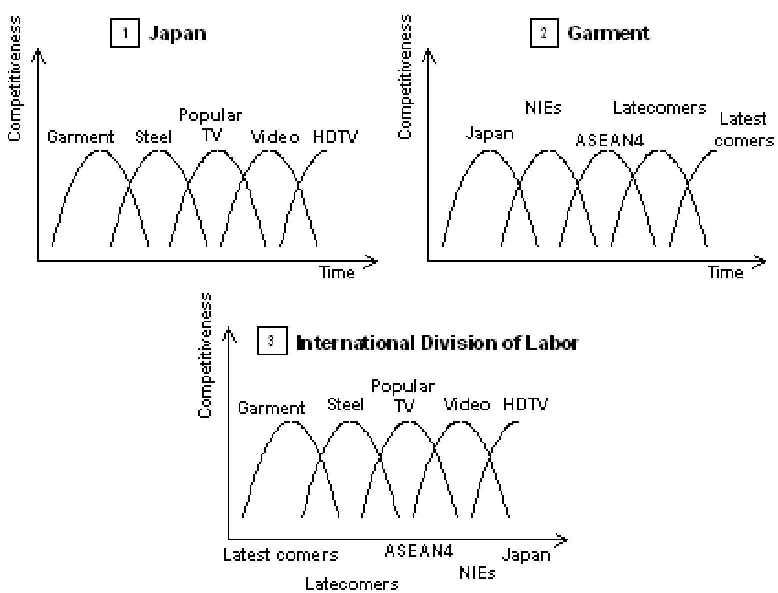


# Who are the connector economies?



# Flying geese paradigm (Akamatsu, 1962)

# Major Tariff Announcement Dates

| | | Event Date (US Time) | | |
|---|---|---|---|---|
| | Event Windows | 2018-03-22 | 2019-01-09 | 2019-05-06 |
| **US Listed Firms** | 1-day [0] | -2.31% | 0.61% | -0.47% |
| | 3-day [-1,+1] | -4.32% | 2.25% | -0.93% |
| | 5-day [-2,+2] | -1.54% | 3.29% | -1.38% |
| **Chinese Listed Firms** | 1-day [0] | -4.09% | 0.67% | -6.65% |
| | 3-day [-1,+1] | -3.86% | 0.41% | -4.55% |
| | 5-day [-2,+2] | -2.56% | 2.72% | -6.95% |

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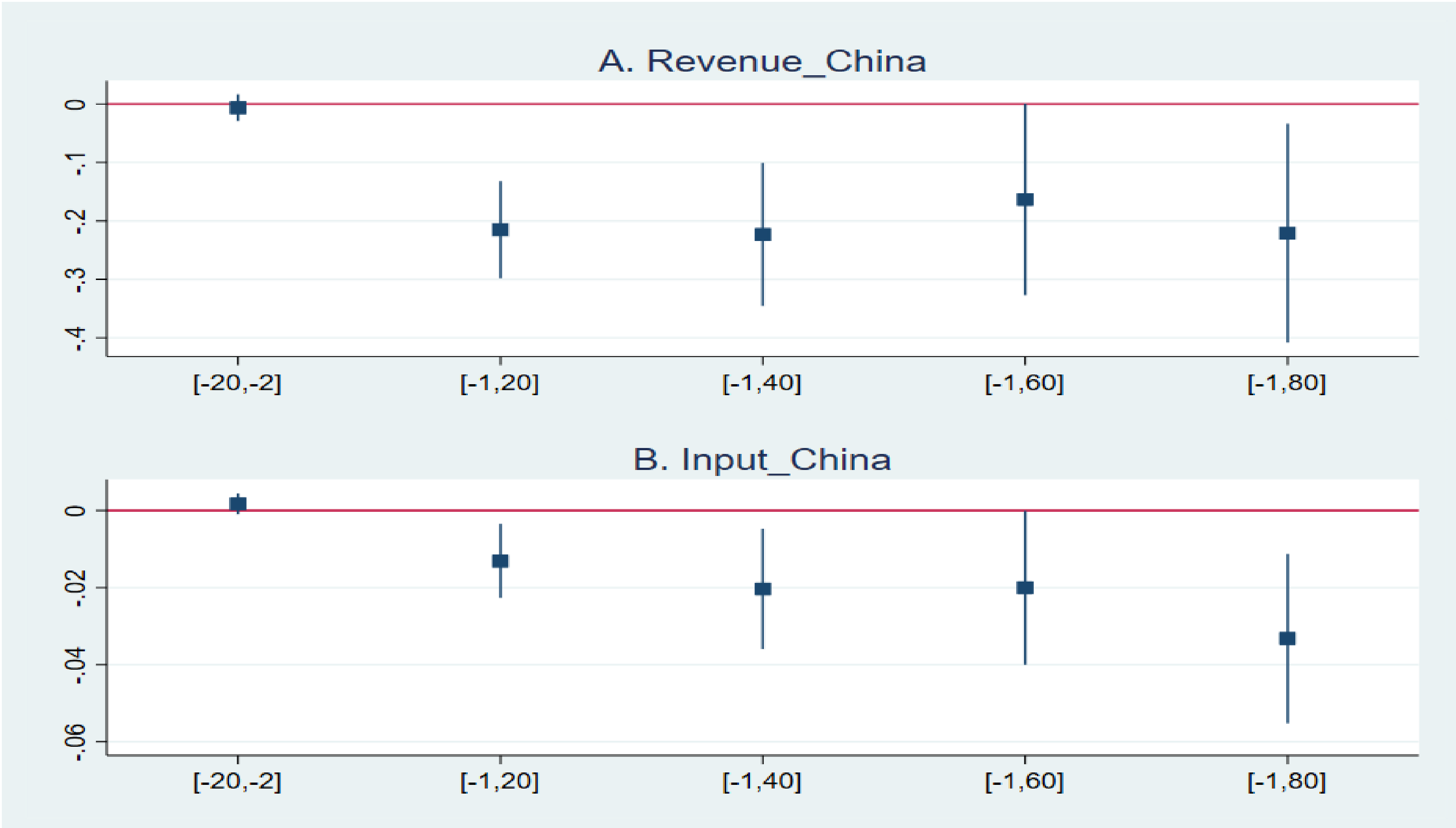
# Trade Networks and Firm Value: Evidence from the 2018 US-China Trade War (Huang, Lin, Liu and Tang, 2023)

**Table 2**
Univariate analysis.

| *Revenue from China* | Revenue_China | | | | |
|---|---|---|---|---|---|
| | >median (0) | | ≤median (0) | | |
| | N | Mean | N | Mean | Diff. |
| CRR[−1,+1] | 910 | −0.033 | 1399 | −0.022 | −0.011*** |
| MV_Change[−1,+1] | 909 | −541.449 | 1399 | −128.359 | −413.091*** |
| Default Risk [−1,+1] | 910 | 0.018 | 1399 | 0.008 | 0.010*** |
| SIZE | 910 | 6.963 | 1399 | 6.116 | 0.847*** |
| MTB | 910 | 2.279 | 1399 | 2.347 | −0.068 |
| LEV | 910 | 0.243 | 1399 | 0.284 | −0.041*** |
| ROA | 910 | 0.062 | 1399 | −0.108 | 0.171*** |
| *Input from China* | Input_China | | | | |
| | >median (0) | | ≤median (0) | | |
| | N | Mean | N | Mean | Diff. |
| CRR[−1,+1] | 496 | −0.036 | 1813 | −0.024 | −0.012*** |
| MV_Change[−1,+1] | 496 | −551.731 | 1812 | −219.698 | −332.033*** |
| Default Risk [−1,+1] | 496 | 0.019 | 1813 | 0.01 | 0.009*** |
| SIZE | 496 | 7.314 | 1813 | 6.213 | 1.102*** |
| MTB | 496 | 2.06 | 1813 | 2.392 | −0.332*** |
| LEV | 496 | 0.256 | 1813 | 0.271 | −0.015 |
| ROA | 496 | 0.092 | 1813 | −0.078 | 0.170*** |

Notes: This table presents the results of the univariate analysis. *CRR[−1,+1]* is the three-day cumulative raw returns around March 22, 2018, the date when the Trump administration issued a presidential memorandum in reference to Section 301 of the Investigation of China's Laws, Policies, Practices, or Actions that proposed to impose tariffs on up to $50 billion of Chinese imports as a response to China's alleged theft of U.S. intellectual property. *Revenue_China* is the revenue share from China in 2016. *Input_China* is the ratio defined as the estimated value of imported goods from China over total estimated value of imported goods from the world. It is calculated using product weight from the bill of lading database in 2016 and 2017 and the estimated average unit price per kilogram (kg) from USA Trade Online. Other variables are defined in Appendix 3. The *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

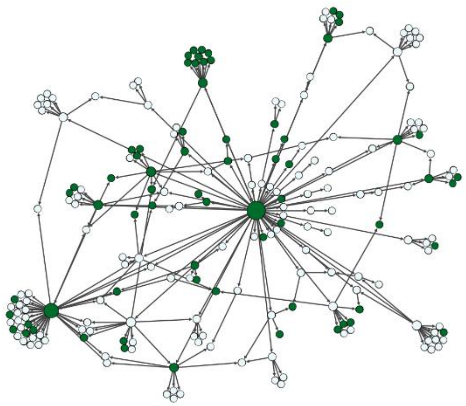
# Medium-term Impact



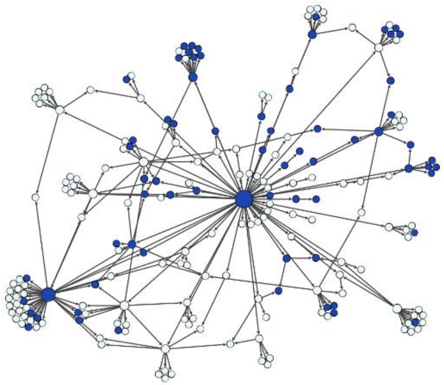

*Notes*: where $Y_i$ denote **buy-and-hold abnormal returns (*BHAR*)** over different event windows. Specifically, *BHAR [-1,+X]* is the buy-and-hold abnormal returns around the event window *[-1,+X]* with zero indicating March 22, 2018 adjusted by the market benchmark. $\text{Exposure}_i$ is firm's exposure to the trade war captured by *Revenue_China* or *Input_China*. The bars represent the 95% confidence intervals.

# Complex Production Networks (based on Factset)

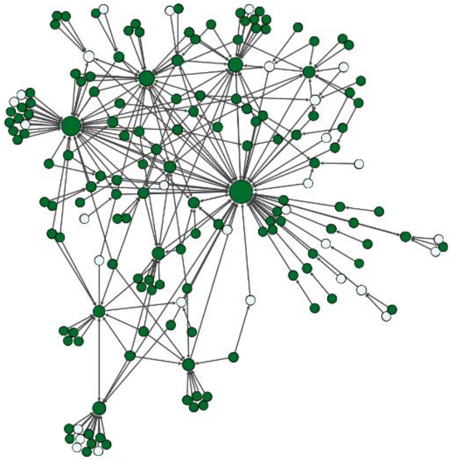
GE's Customers: Revenue from China



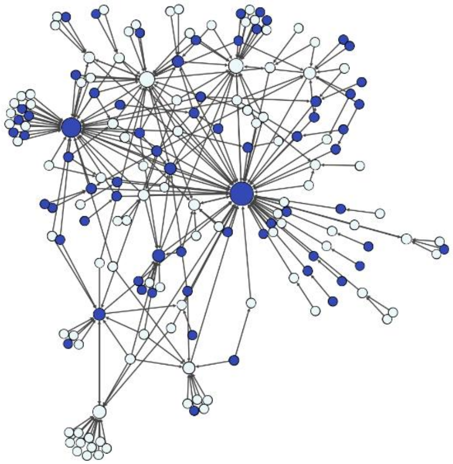
GE's Customers: Input from China



Boeing's Suppliers: Revenue from China



Boeing's Suppliers: Input from China



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# Findings of "Trade Networks and Firm Value Evidence from the 2018 US-China Trade War"

- US and Chinese companies that are more dependent on exports to and imports from China had **lower cumulative abnormal returns, but higher default risks,** around the day *(March 22, 2018)* when Trump's administration announced the first wave of tariffs against China.

- Trade networks matter
  - US companies in sectors that are more exposed to Chinese imports and exports directly and indirectly through input-output linkages reacted more negatively to tariff announcements.
  - Firms' customers' and suppliers' exposure to China also matter.

- Product characteristics matter: stronger effects for
  - US firms that sell to Chinese customers with low R&D intensity
  - US firms that outsource to Chinese differentiated input suppliers.

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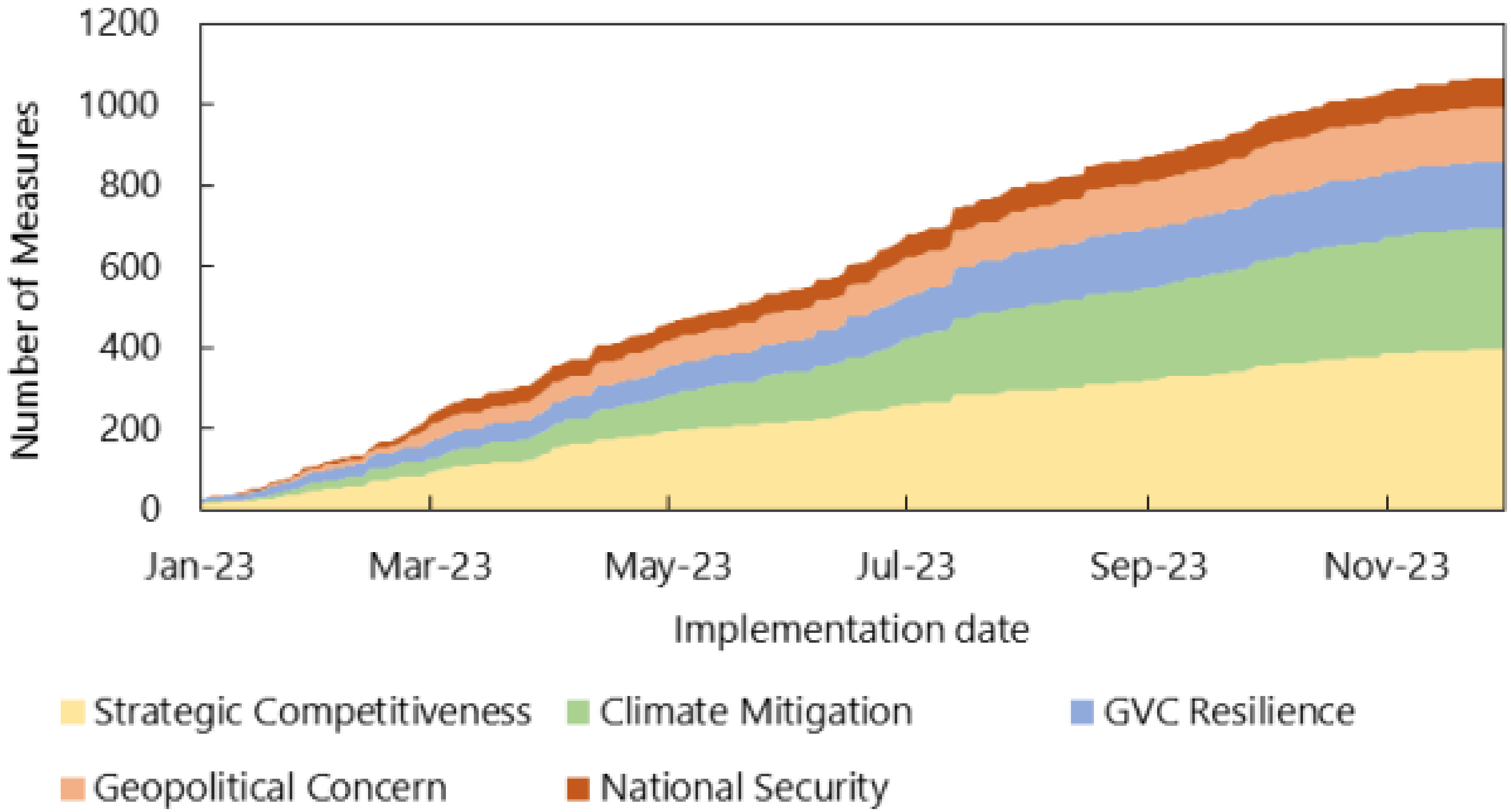
# The Return of Industrial Policy and China’s Current Industrial Policy

# Dani Rodrik (2024)

- Industrial policies: "government policies that explicitly target the transformation of the structure of economic activity in pursuit of some **public goal**."
- "The goal is .. to stimulate **innovation, productivity, and economic growth** …
- promote climate transition, **good jobs, lagging regions, exports, or import substitution.**
- … targets structural change"
- 5 Key Elements for the Practice of Industrial Policy:
  - embeddedness, coordination, monitoring, conditionality, and institutional development.

# Motivations of Industrial Policy

Figure 5: Trade Distortive Industrial Policies with Stated Motivation




Note: Cumulative stock of measures. For measures with multiple motives, each motive is given equal weight.

Source: Evenett, Jakubik, Martín, and Ruta (2024)

# Industrial policy with Chinese characteristics

A holistic approach

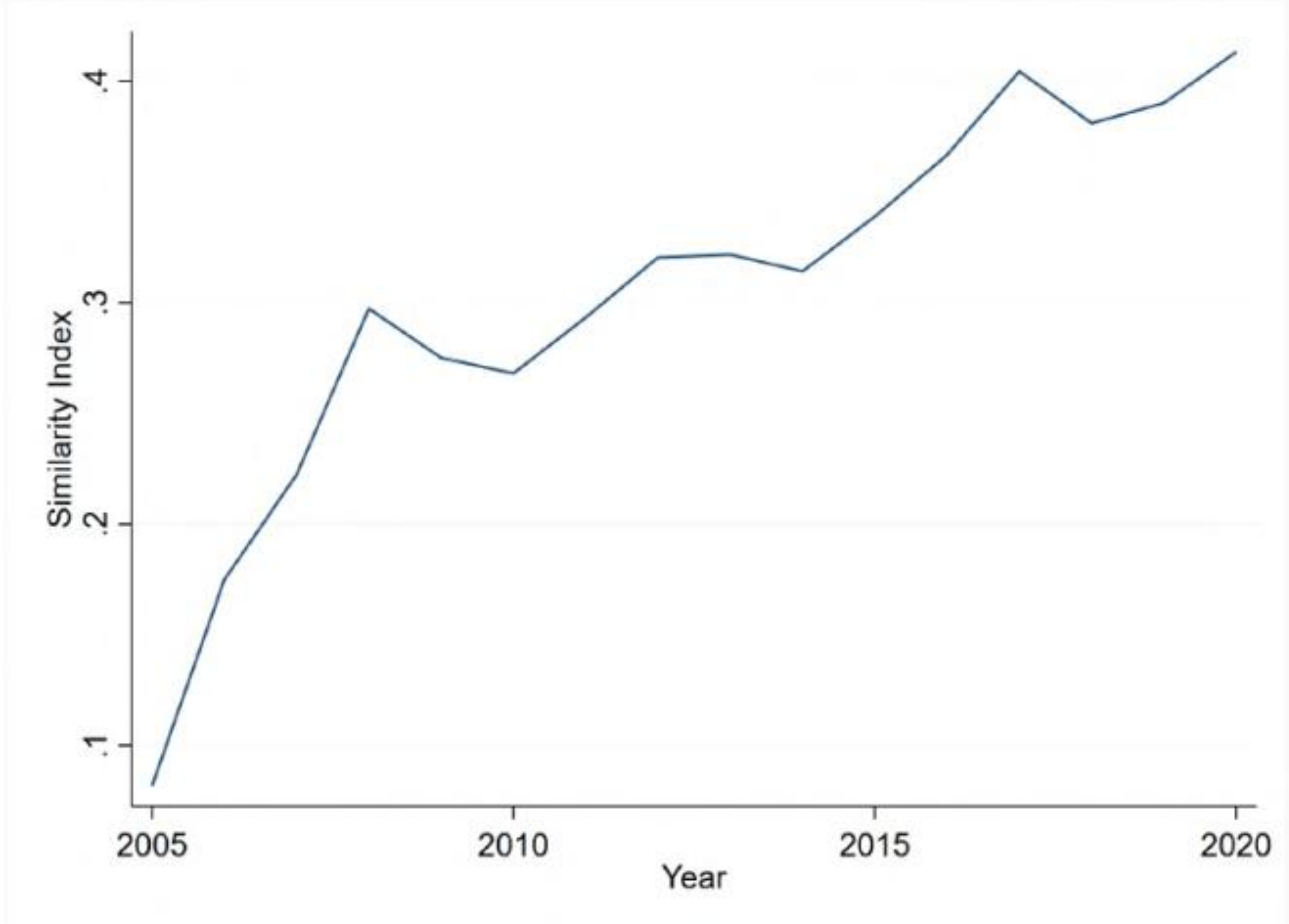
- Bottom-up experimentation
- FDI liberalization (market for technology)
- Export promotion (using subsidies or tax rebates)
- Infrastructure development
- Manipulate labor mobility (second-best policy give Hukou distortion)

- Strategies to move up the value chain (e.g., **Kee and Tang, AER 2016**)

- Emphasize economy of scale

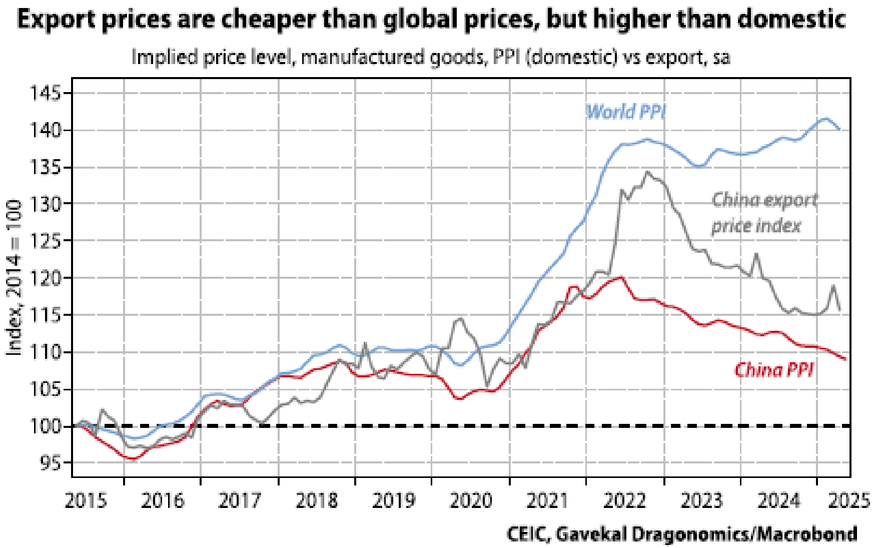
- Emphasize agglomeration effects (e.g., learning to export**, Fernandes and Tang, 2014**)

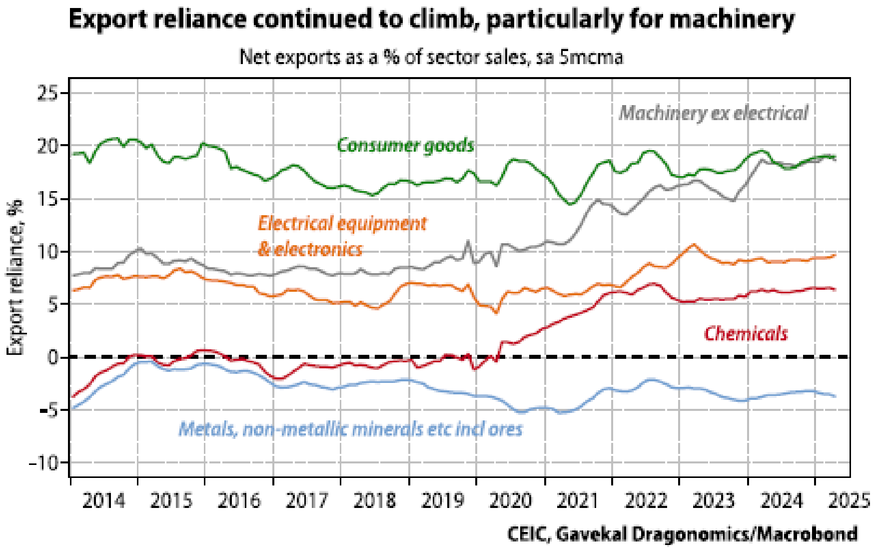
# Policy Sector Similarity across regions in China has been increasing




Fang, Li, Lu (NBER, 2025)

# Weak domestic demand + Decentralized economic policy making + Top-down Industrialization in **China** = Export Reliance




- Stablized capacity has not stopped domestic price declines.
- All sectors saw continued price drops in 2024–2025, especially for electronics and autos.
- Despite exporters cutting prices to stay competitive in global market, export prices are 7 - 8% higher than domestic producer prices.

# The global economy in the next 2-3 years

# April 2, 2025 - Liberation Day

## Reciprocal Tariffs

| Country | Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers | U.S.A. Discounted Reciprocal Tariffs |
|---|---|---|
| China | 67% | 34% |
| European Union | 39% | 20% |
| Vietnam | 90% | 46% |
| Taiwan | 64% | 32% |
| Japan | 46% | 24% |
| India | 52% | 26% |
| South Korea | 50% | 25% |
| Thailand | 72% | 36% |
| Switzerland | 61% | 31% |
| Indonesia | 64% | 32% |
| Malaysia | 47% | 24% |
| Cambodia | 97% | 49% |
| United Kingdom | 10% | 10% |
| South Africa | 60% | 30% |
| Brazil | 10% | 10% |
| Bangladesh | 74% | 37% |
| Singapore | 10% | 10% |
| Israel | 33% | 17% |
| Philippines | 34% | 17% |
| Chile | 10% | 10% |
| Australia | 10% | 10% |
| Pakistan | 58% | 29% |
| Turkey | 10% | 10% |
| Sri Lanka | 88% | 44% |
| Colombia | 10% | 10% |

## Reciprocal Tariffs

| Country | Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers | U.S.A. Discounted Reciprocal Tariffs |
|---|---|---|
| Peru | 10% | 10% |
| Nicaragua | 36% | 18% |
| Norway | 30% | 15% |
| Costa Rica | 17% | 10% |
| Jordan | 40% | 20% |
| Dominican Republic | 10% | 10% |
| United Arab Emirates | 10% | 10% |
| New Zealand | 20% | 10% |
| Argentina | 10% | 10% |
| Ecuador | 12% | 10% |
| Guatemala | 10% | 10% |
| Honduras | 10% | 10% |
| Madagascar | 93% | 47% |
| Myanmar (Burma) | 88% | 44% |
| Tunisia | 55% | 28% |
| Kazakhstan | 54% | 27% |
| Serbia | 74% | 37% |
| Egypt | 10% | 10% |
| Saudi Arabia | 10% | 10% |
| El Salvador | 10% | 10% |
| Côte d`Ivoire | 41% | 21% |
| Laos | 95% | 48% |
| Botswana | 74% | 37% |
| Trinidad and Tobago | 12% | 10% |
| Morocco | 10% | 10% |

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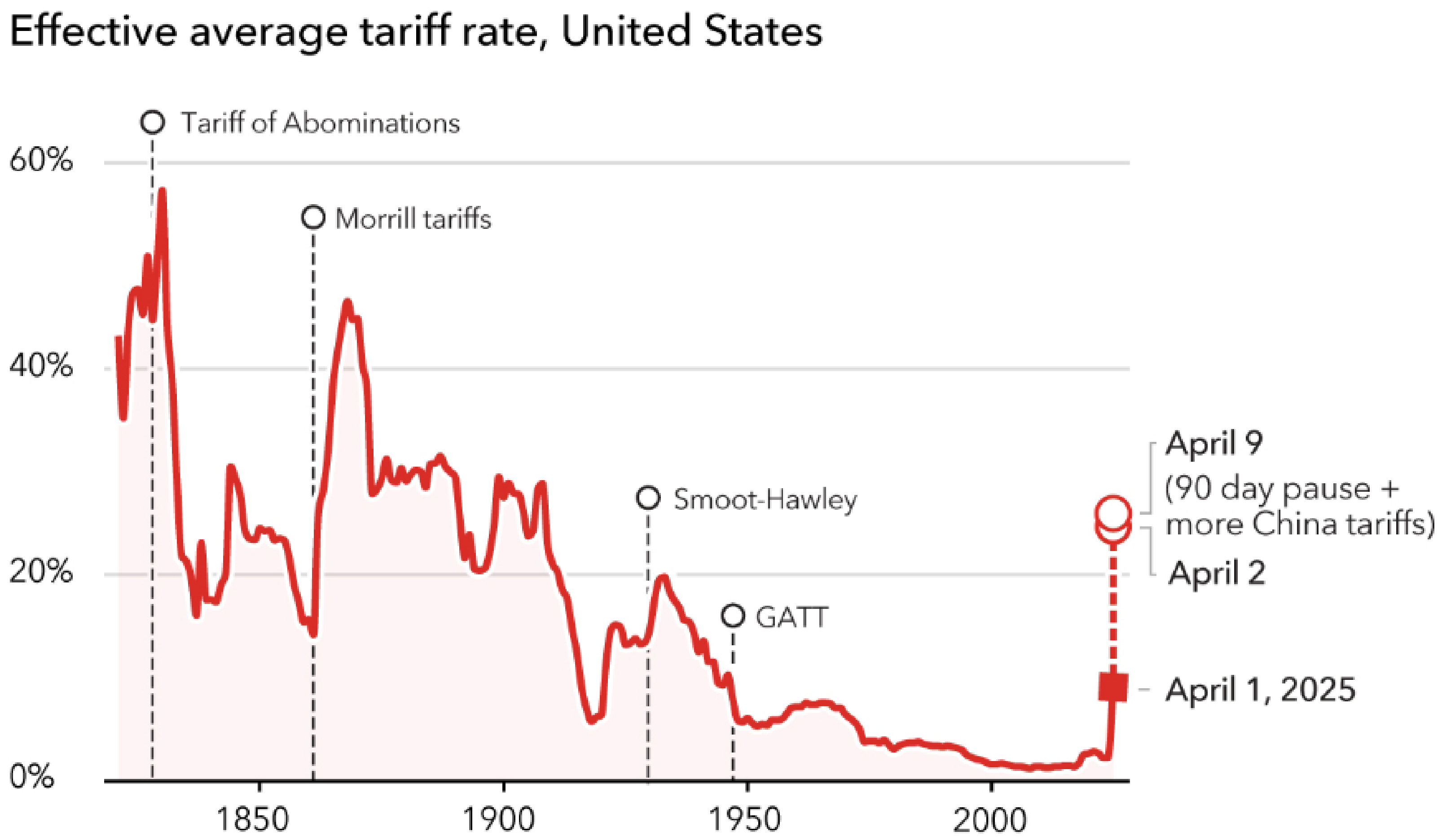
# US tariffs are highest in a century, but …




Source: IMF

# The global economy in the next 2-3 years

- Industry policy in a fragmented will likely slow down global economic growth further.
  - Tit-for-tat strategies and zero-sum approaches are all bad for economic growth and convergence.
  - More challenging for developing countries to catch up through structural change.

- China + N strategy, however, has offer new opportunities for smaller states and companies to industrialize and enjoy export-led growth.

- Other global challenges, like **climate risks and inter-state conflicts**, will become more difficult to overcome.

- Regional agreements (e.g., RCEP, CPTPP, DEPA) may be the temporary solutions.