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Toward Globalization 2.0: A New Trade Policy Framework for Advanced-Industry Leadership and National Power

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Globalization 1.0 has failed, but protectionist autarky cannot be its replacement. Instead, it is past time to craft a new kind of globalization that advances U.S. interests in key industries and prevents China from becoming the dominant techno-economic power.

KEY TAKEAWAYS

- The vision and hope for globalization has not worked out as expected, with the spread of "behind the border" trade restrictions, recalcitrance among many leading nations, and the rise of an aggressively mercantilist China.
- With the hollowing of U.S. manufacturing, the political economy of trade has shifted from utopian optimism to dystopian despair. Domestically, the unfortunate response has been a turn toward autarky and protectionism—"America first," and America alone.
- But America can and should do better than simple reaction and rejection of Globalization 1.0. Autarky is an unproductive dead end that will weaken America in its existential competition with China.
- It is time to craft a framework for Globalization 2.0 that prioritizes U.S. interests, focusing on advanced industries, strategic alliances, strong trade enforcement, and more effective policies to support workers and communities left behind.
- Key principles for Globalization 2.0 should include recognizing China's "power trade" tactics, adopting a national advanced-industry strategy, engaging in fair trade with allies, enforcing trade laws aggressively, and insisting on floatable currencies.
- Trade policy must be restructured to focus on securing global markets for U.S. advanced industries, preventing predatory foreign trade practices, and fostering economic alliances that enhance American competitiveness.

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INTRODUCTION

From the fall of the Soviet Union to the 2016 election of President Trump, America rode the globalization horse, leading the charge for the near complete global integration of finance, investment, and trade. In this utopia, economic borders would be a thing of the past, capital would find its highest and most efficient use anywhere around the world, and the globe would be awash with win-win outcomes. Sure, some workers might get hurt, but they could move frictionlessly to thriving communities and "learn to code" or install solar panels and weatherize homes. It was America's destined role to lead the world to this brighter place. Those who didn't embrace that view were, well, beyond the pale and accused of being ignorant of basic economic principles.[1]

It is easy to look back with incredulity—and for some, even disdain—but this would forget the heady days after the long Cold War, and the belief in, as former U.S. State Department official Francis Fukuyama called it, "The End of History."[2] Or as former Intel CEO Craig Barrett stated, "Capitalism has won and economy trumps all going forward."[3] With the exception of a few malcontents, who didn't agree? Indeed, it was, and for many still is, a simple, seductive, and sublime conception.

Needless to say, that vision didn't work out quite the way its advocates believed or promised. The rise of an array of "behind-the-border" trade restrictions, many unchallengeable in the World Trade Organization (WTO) system, was, for many, unexpected—as was the recalcitrance of many leading nations, especially in the "Global South" and led by India, to get fully on board. But most important was the rise of China, a country that willfully skirted global trade rules in the 2000s and flouted or abandoned them altogether by the 2010s. The "China shock" of the 2000s, China's continued technological aggression, and the hollowing out of significant portions of U.S. manufacturing was not expected, nor was the flaccid response of the WTO to China and other trade scofflaws.[4]

At one level, it could be expected that the response to the failures of Globalization 1.0 would be a Hegelian antithesis. But America can and should do better than simple reaction and rejection.

And so the political economy of trade in the United States and many other Organization for Economic Cooperation and Development (OECD) nations has shifted from a mood of utopian optimism to almost dystopian despair. Domestically, we have gone from America the leader to America standing alone, as evidenced by the Trump administration's "America First Trade Policy."[5] And it doesn't matter which party is in power. The first Trump administration opposed market opening, signaled by its day-one abandonment of the Transpacific Partnership (TPP) trade agreement. But so did the Biden administration, with its "pause" on new trade agreements (a euphemism for "ban"), its pulling the United States out of the WTO Joint Statement Initiative on e-commerce, and its embrace of "Buy America" and other protectionist measures. And now the second Trump administration has both promised across-the-board tariffs and already looked to apply 25 percent tariffs on products from companies in the key allied nations of Canada and Mexico.

At one level, it could be expected that the response to the failures of Globalization 1.0 would be a Hegelian antithesis. If Globalization 1.0 was bad, then domestic autarky, protectionism, and a policy of America alone was the unfortunate response. Anyone who doesn't see and embrace that position is assumed to be either a knave or a corporate toady.

But America can and should do better than simple reaction and rejection. Surely, pundits, analysts, advocates, and policymakers can now acknowledge that we have spent enough time in a counterproductive globalization-rejection phase, and it's time to move off the road to autarky. The problem, of course, is that even during Globalization 1.0 there were still significant contingents on the Right and the Left that fundamentally rejected and even despised globalization, at least corporate-led globalization. The stumbles and falls of Globalization 1.0 have created an opening for their autarkic vision.

Surely, pundits, analysts, advocates, and policymakers can acknowledge that we have spent enough time in our globalization rejection phase, and it's time to move on.

The reality is that Globalization 1.0 cannot be resurrected or renovated. The sooner Globalization 1.0's defenders recognize this, the sooner we can build a movement to replace Autarky 1.0 with Globalization 2.0. This would entail the following:

- America would embrace global integration only where and when it is in immediate and direct U.S. interests at present and for the foreseeable future.
- Policy would recognize that potato chips are not equal to computer chips, and therefore the focus should be on market expansion for key U.S. industries that must have global scale to thrive.
- America would embrace integration with allies and nations that largely play by the rules, but treats China and other adversaries fundamentally differently.
- Trade policy would focus on more than just opening markets; it also would entail robust enforcement, coupled with a national advanced-industry strategy to help companies in America gain global market share.
- Policymakers would accept that some workers and communities will be hurt by the creative destruction that can come from globalization, and they would work to cushion those blows through more effective regional development coupled with redistributive fiscal policies and supportive worker-transition policies.

In a global economy that has been fundamentally transformed, stubbornly adhering to Globalization 1.0 is a weakness, akin to France's belief in the Maginot Line before the emergence of mobile warfare in World War II. But neither is Autarky 1.0 the right answer, as appealing as it may seem to many. Only a more realistic Globalization 2.0 can offer a path forward.

This report first discusses the attraction of Globalization 1.0 before moving on to what went wrong. It then lays out why Autarky 1.0 is a dead end that will lead to America's decline. Finally, it proposes both 12 principles to guide Globalization 2.0 and a detailed policy agenda for Congress and the Trump administration to operationalize it.

THE DEFENSE OF GLOBALIZATION 1.0

It is striking that, after two antiglobalization and protectionist administrations and the beginning of a third, so many in the Washington trade establishment still cling so vociferously to Globalization 1.0. They point to polls showing that most Americans still favor trade. They highlight how trade gets Americans low-priced products that are akin to wage increases. They argue that trade helps reduce global poverty. They even claim that one-sided trade deals (where U.S. markets are more open than foreign ones) are a net plus for America.[6] In 1997, economist Paul Krugman reflected the view when he wrote, “The economist’s case for free trade is essentially a unilateral case. A country serves its own interests by pursuing free trade regardless of what other countries may do.”[7]

And as U.S. advanced industries have and continue to shrink, they argue that Globalization 1.0 increased net U.S. economic welfare. And so on. They seem to believe that more op-eds and articles telling the clueless MAGA rubes that globalization has actually been to their benefit will do the trick.[8]

The reality is that in their rightful rejection of Autarky 1.0, most defenders of globalization have a tin ear to the reality that Globalization 1.0 has run out of gas and contained its own structural challenges, which meant that it would never achieve its vision. Globalization 1.0 is no longer purpose fit to the times in which we live.

Rather than engage in a rearguard denial of the problems, advocates of globalization should understand that something actually went wrong and begin to work for a new better version of globalization; something beyond just expanding TAA.

Indeed, in their zeal to turn back the clock to 2016, many deny any and all problems from trade. U.S. manufacturing? It’s healthier than ever (based on output value), and anyone who doesn’t agree is protectionist, or even worse, according to the Peterson Institute head Adam Posen, racist.[9] Loss of millions of manufacturing jobs? Don’t worry, it’s all the machines’ fault, don’t blame trade.[10] Middle class economic anxiety? Don’t blame globalization, blame automation and the lack of adequate worker education. Hollowing out of the defense-industrial base. Don’t worry, we have artificial intelligence (AI). Voters turning against globalization? It’s their fault for being nativists and being stirred up by protectionist demagogues. Losing our lead in advanced industries to China? No way, China can’t innovate, and we have Silicon Valley. But be sure to give workers that have lost because of trade a bit more money and training.

Denial of reality and manipulation of the data might delay the full realization of the bankruptcy of Globalization 1.0, but not for long. The reelection of Donald Trump should have made that obvious. So rather than engage in a rearguard denial of the problems, advocates of globalization should understand that something actually went wrong—that the unwashed proletariat masses may actually be onto something—and begin to work for a better version of globalization; something beyond expanded Trade Adjustment Assistance (TAA).

WHAT WENT WRONG: WHY DID SO MANY BECOME SO SKEPTICAL OF TRADE?

The goal of globalization was not wrong, but the means by which U.S. leaders pursued the goal was. If America had done it right, both the outcomes and the attitudes toward globalization would have been better. There were at least 13 major factors that globalization advocates got wrong.

American Techno-Economic Interests Took a Back Seat to U.S. Foreign Policy Interests

In their effort to contain the Soviets after WWII, U.S. policymakers guided by the Washington Consensus consistently put U.S. economic interests in a subordinate position to U.S. foreign policy interests. If we needed to open up U.S. markets so a nation didn't tilt toward Moscow's orbit, we did it. If we had to cut off U.S. exports to punish a nation, even if U.S. competitors gained the market, we did it. We could afford to sacrifice U.S. techno-economic interests because we believed that America was dominant.

Perhaps the archetypal example of the United States favoring its geopolitical interests over its economic interests came in the trade conflicts with Japan in the late 1970s and 1980s, as Japan pursued a mercantilist, export-led economic growth strategy (just as South Korea did later and China does today). Japan had implemented a number of policies designed to skew trade in its favor and to limit U.S. companies' access to Japanese markets, including imposing high tariffs, import quotas, and onerous regulations, inspections, and standards requirements on U.S. products; limiting U.S. ownership of Japanese enterprises; manipulating the yen's value; and shutting U.S. companies almost entirely out of strategic markets, including automobiles, semiconductors, and mainframe computers—all while dumping key products on U.S. markets below cost. As a result, to take just one example, Japanese companies by 1984 had captured 60 percent of the U.S. semiconductor chip market.

Pressure then mounted from the U.S. business community, labor, and Congress for the White House to file unfair trade complaints under the General Agreement on Tariffs and Trade (GATT) and to declare Japan an unfair trader under U.S. law. But the U.S. policy community was torn about how much to pressure Japan. On one side were national security agencies (including the departments of State and Defense and the National Security Council) along with the Treasury Department and the Council of Economic Advisors (both acting on the principles of neoclassical economics). On the other side were the Commerce Department and the Office of the United States Trade Representative (USTR)—both guided by a more pragmatic, and in USTR's case, a legal approach to the economy. The attitude of diplomats and military leaders was that "Japan was our unsinkable aircraft carrier" and that U.S. trade and economic interests should take a backseat to geopolitical concerns.[11] As assistant national security advisor Gaston Sigur insisted at the time, "We must have those bases. Now that's the bottom line."[12] The economists piled on. Alonzo McDonald, a Carter administration trade negotiator, argued for a more activist policy against Japan, but he complained about resistance from the neoclassical economists at Treasury and the Council of Economic Advisors (exactly the same sort of resistance they continue to mount today), lamenting that the economists had "lost all touch with reality; it's heart surgery handled by a biologist."[13]

There were detractors, but they were sidelined. As early as 1971, the U.S. Commission on Trade and Investment Policy cautioned that Washington was overemphasizing geopolitical considerations at the expense of U.S. economic interests.[14] The commission warned that the

U.S. manufacturing base was declining as a result of the industry-targeting policies of other countries—and as a result of U.S. complicity with those policies. But their message fell on deaf ears.

With the denouement of the Cold War, the Clinton administration signaled a new strategic approach that would elevate economic concerns to stand alongside geopolitical and national security concerns. Clinton secretary of state Warren Christopher told the Senate Foreign Relations Committee that “among the three pillars of the new administration’s approach to foreign policy, economic growth ranked first.”[15] As Mickey Kantor, Clinton’s USTR put it, “Trade and international economics have joined the foreign policy table.”[16] But the temporary economic boom of the second half of the 1990s put these concerns on the back burner.

But even with this language, Clinton still believed in American preeminence. According to the former president, establishing the WTO was “a victory for a couple of simple ideas,” including, “the idea that America can lead in the 21st century, that we need not fear competition, that we want our neighbors to do better than they have been doing, and when they do better, we will do better.”[17] In realty, we should have feared competition from traders that willfully operate contrary to their WTO commitments, as U.S. advanced industry output as a share of U.S. gross domestic product (GDP) has significantly declined compared with other nations.[18] And when “our neighbors” do better in the often zero-sum, winner-take-all competition of advanced industries, America does worse, not better, especially if the neighbors are our adversaries.

And then September 11, 2001, firmly elevated geopolitical and national security concerns back to the top of the agenda. Once again, the United States retuned to emphasizing geopolitical and national security concerns at the expense of economic ones. In his autobiography *Decision Points*, former president George W. Bush wrote that preventing another terrorist attack was his chief concern. But, for Bush, trade opening was part of making the world better. Josette Sheeran, Bush’s undersecretary of state, spoke about “openness as an essential antidote to the narrowness and extremism threatening peace, prosperity and security around the globe.”[19] In other words, if we help other nations, we can ensure their peace and prosperity.

The cumulative effect of consistently trading economic interests for geopolitical ones has contributed to U.S. long-term structural economic decline.

The Obama administration was not much different: Traditional national security officials ran the show. For example, during President Obama’s November 2009 visit to China to meet with president Hu Jintao, Obama pledged closer technical collaboration and accelerated safety approval of China’s planned COMAC C909 commuter jet.[20] It’s not clear why the president promised to help China develop commercial jetliners, but the most likely reason is that he did so as a concession to secure China’s assistance in negotiating with the recalcitrant North Korean and Iranian regimes, or perhaps to soften the blow of recent U.S. arms sales to Taiwan.

Yet, while the United States has made such deals with geopolitical concerns top of mind, China and other nations have focused squarely on gaining economic advantage, especially in strategic, targeted industries such as civil aviation, which they parlay into military advantage. Indeed, months before the United States agreed to provide China with technical assistance in developing a commercial jetliner, in a speech titled “Let the Large Aircraft of China Fly in the Blue Sky,” Chinese prime minister Win Jinbao articulated a Chinese vision for developing and producing its own commercial jets in direct competition with Boeing, even though China could readily afford to buy all the Boeing jets it needed and more with its $200 billion annual trade surplus.[21] Now China's COMAC is ascendent while Boeing (and even Airbus, to a degree) are struggling.

The Biden administration was not much different. It vigorously expanded export controls to China with little concern for the lost sales of U.S. semiconductor companies and the potential negative impact on the latter's competitiveness. Secretary of Commerce Gina Raimondo even admitted that the controls would deny U.S. companies revenues, but she judged that they were strong enough to survive, particularly as she downplayed Chinese domestic capabilities.[22]

The cumulative effect of so often trading economic interests for geopolitical ones has contributed to long-term structural economic decline, as the Information Technology and Innovation Foundation's (ITIF's) *Hamilton Index of Advanced Industry Competitiveness* has documented.[23] Ironically, this only weakens America's relative military capabilities and foreign policy influence.

Globalists Assumed China Would Join the Free-Trade Coalition

Near peak globalization in the late 1990s, it was assumed that U.S.-led globalization was like the Borg from Star Trek: You shall be incorporated and, in so doing, become a democratic, market-based economy. When Bill Clinton signed the China trade bill, essentially paving the way for China to join the WTO, he promised:

> The W.T.O. agreement will move China in the right direction. It will advance the goals America has worked for in China for the past three decades. And of course, it will advance our own economic interests. Economically, this agreement is the equivalent of a one-way street. It requires China to open its markets—with a fifth of the world's population, potentially the biggest markets in the world—to both our products and services in unprecedented new ways.[24]

That clearly did not work out. Yet, Clinton went on to predict:

> By joining the W.T.O., China is not simply agreeing to import more of our products; it is agreeing to import one of democracy's most cherished values: economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people—their initiative, their imagination, their remarkable spirit of enterprise. And when individuals have the power, not just to dream but to realize their dreams, they will demand a greater say.[25]

Perhaps like Marxists who claim the global revolution is just around the corner, Clinton was right: maybe China's gains from trade will eventually lead it—as the gains did in Japan, Taiwan, and South Korea—to democracy. But if so, the pain and damage caused to the U.S. economy will have been enormous, and has long since passed acceptability in light of U.S. national interests.

Perhaps China might have liberalized politically, although that appears to be based on a misreading of the interests of the Chinese Communist Party and its fundamental commitment to zero-sum, protectionist industrial policy. But clearly Xi Jinping had no desire to do that, as reflected by his statement that "China's success proves that socialism is not dead. It is thriving. Just imagine this: had socialism failed in China, had our communist party collapsed like the party in the Soviet Union, then global socialism would lapse into a long dark age."[26] Maybe it is the Marxists who in the long run will have the last laugh.

With the Collapse of the Soviet Union, Globalists Ignored the Critical Nexus Between Multinational Behavior and National Interests

The kind of deep globalization that began in the 1980s was powered not principally by trade liberalization, but rather by technology and cross-border investment. With the rise of the container ship, global air cargo companies, and global telecommunications links, including later the Internet, global distribution of production became more feasible. And, of course, companies took advantage of these technologies to lower costs by moving production to lower-wage nations—and also to other higher-wage nations in order to achieve greater market access. Globalists assumed that in virtually all cases, this process benefited U.S. interests. In some cases, it did; in others, it did not.

In 1953, Charles "Engine Charlie" Wilson, then the president of General Motors, was asked during his confirmation hearing to become the U.S. secretary of defense in the Eisenhower Administration if he could make a decision adverse to the interests of GM. Wilson famously answered that he could—but also that he could not conceive of such a situation "because for years I thought what was good for the country was good for General Motors and vice versa."[27]

As the U.S. economy has globalized and U.S. corporations have become "globally integrated enterprises," such a statement would seem anachronistic to many Americans today. But it might not be to citizens of most other nations, where the interests of country, consumers, and corporations are still seen as more tightly aligned.

The United States is perhaps the only truly global economy in the sense that its businesses and consumers believe that their discrete, short-term economic interests, not some vague sense of economic patriotism, should determine where to locate production and where to source consumption.

It's never been this way in America. Six decades ago, Charlie Wilson did not say that what's good for General Motors was good for Michigan, where GM is headquartered. By that time, GM had significantly expanded its production operations outside Michigan; it had already located some of its production in lower-wage Southern states. GM had moved beyond its roots as a "Michigan company" to become an "American company." Hence, in a logic that would later play itself out again in the move toward globalization, what was good for GM in the 1950s was evidently not always good for Michigan.

And if GM had no complete loyalty to Michigan, neither did Michigan car buyers, who were indifferent to what state their car was made in. U.S. consumers and U.S. corporations had moved from regional to national in their orientation.

Today, the situation is little different. Instead of U.S. companies "off-stating," many offshored. Instead of multistate companies, we have multinationals. And instead of American consumers buying nationally, they buy globally, demonstrating almost no "loyalty" to buying American-made goods. Price and quality are king, origin and production location are at best an afterthought.

In fact, the United States is perhaps the only truly global economy in the sense that its businesses and consumers believe that their discrete, short-term economic interests, not some vague sense of economic patriotism, should determine where to locate production and where to source consumption.

Most other nations see it differently. When the CEO of a large manufacturing company in Austria was asked why he had not moved much of his production to China, among the reasons he listed was that he would have been "shunned" socially if he had done so. This is not unusual. Asian CEOs are reluctant to offshore production because of social pressures, including pressures from their own government. And most foreign consumers, including those in Europe, show considerable loyalty to buying national.[28]

Globalization 1.0 might have worked better if foreign companies and consumers were globalists, like American companies and consumers are, but they were not. Japanese consumers prefer Japanese cars. German companies faced pressure to produce in Germany. That might have worked better if America had no adversaries and didn't need a strong dual-use defense industrial base. But we do.

In a world where few other nations' CEOs or consumers see the pursuit of self-interest as leading to socially optimal outcomes to the extent the United States does, what should America do? One path is to try to become like other nations and develop corporate and consumer loyalty and patriotism to buy and make American. In his first term, President Trump attacked companies such as Apple, Carrier, and Ford for overseas manufacturing, calling such moves "disgusting" and saying that companies that outsource production "have no loyalty to America."[29] Progressive pundit Robert Reich accuses U.S. multinationals of being disloyal.[30] And in her national economic agenda, senator Elizabeth Warren (D-MA) accused corporations of having "no loyalty or allegiance to America."[31]

Perhaps with enough hectoring and attacks, U.S. corporations and U.S. consumers will become more like European and southeast Asian ones where country, corporation, and consumer are tightly linked. But don't hold your breath. Americans are too individualistic, and frankly too selfish for that.

Still, in Globalization 1.0, government could have better ensured the alignment of U.S. multinational behavior and national interests. Doing nothing under Globalization 1.0 led to predictable results.

Globalists Assumed That a More Efficient Global Division of Labor Would Lead the United States to Specialize in High-Value-Added Goods and Services

In the Globalization 1.0 vision, trade is good because it leads to a more rational global division of labor. Just as it makes no sense to produce running shoes in Manhattan, the idea was that the United States would shed lower-wage activities to lower-wage countries where it made more sense to produce them. It would then grow its higher-wage industries to compensate for these losses. Workers would receive training to shift from low- to high-wage industries.

President Clinton reflected this view when he spoke in his 1996 State of the Union speech: "A hundred years ago we moved from farm to factory. Now we move to an age of technology."[32]

Noted economist Robert Solow wrote, “China will compete for some low-wage jobs with Americans. And their market will provide jobs for higher-wage, more skilled people. And that’s a bargain for us.”[33] As long as one believed in Ricardian comparative advantage and not that nations want to move up the value chain while protecting their markets and firms, that made sense. Sadly, Chinese officials focus on absolute rather than comparative advantage.

It’s a good theory and one that if realized would have been good for America and Americans. The problem is that America has lost both low- and high-wage industries, and the former more quickly. High tech was prone to offshoring, with the United States running a trade deficit in high-tech goods since the year 2000. Moreover, other countries moved up the value chain faster than anticipated to challenge the United States in these areas. And finally, manufacturing capabilities and innovation were more interlinked than the theory suggested, meaning that loss of manufacturing limited domestic innovation capabilities.

Globalists Rejected Industrial Policy

The dominance of neoclassical economics in the late 1970s and Globalization 1.0 went hand in glove for the simple reason that followers of the neoclassical doctrine held that unfettered market forces optimized outcomes, and a core component of unfettered markets was a borderless world for trade and investment. Indeed, globalists cheered the emergence of an integrated world market because they believed that it handcuffed governments from doing industrial policy and other “stupid” policy interventions. Libertarian Alan Greenspan spoke for many when he stated, “We are fortunate that, thanks to globalization, policy decisions in the US have been largely replaced by global market forces … It hardly makes any difference who will be the next president. The world is governed by market forces.”[34]

In neoclassical economics, industrial policies—policies designed to alter the location and type of industrial production—are akin to professional misconduct and negligence. Only rent-seeking protectionists or economic knaves would support that kind of thing. For them, market failures are few, government failures rampant, and the goal of policy is allocation efficiency and avoiding waste. As such, there are two key mortal sins: 1) anything that limits unfettered globalization (what they disparagingly call “protectionism”) and 2) industrial policy, which is pretty much any and all government actions to alter market-based outcomes for particular industries.

Case in point, the International Monetary Fund (IMF)—the global Vatican for the neoclassical religion. The IMF recently published a paper with the title “The Return of Industrial Policy.” The tone was akin to a global public health expert bemoaning the return of smallpox. But we can see the extremism of the IMF by what it classifies as “distortive” industrial policy. Sounding like Andrew Mellon in the great depression, the IMF includes providing funds to laid-off workers during COVID as distorting global trade. Better to “liquidate labor” so people will “work harder”?[35] It accused the United States of distorting trade when President Trump blocked China from acquiring U.S. semiconductor firm Lattice Semiconductor.[36] Ignore the fact that U.S. firms cannot buy Chinese firms, that the purchase was directly subsidized by the Chinese government, and that this would have given control of a key national security technology to China.

But when they define industrial policies as “any targeted government intervention aimed at developing or supporting specific domestic firms, industries, or economic activities to achieve national economic or noneconomic (e.g., security, social, or environmental) objectives,” that pretty much cancels out most of what government can do. When this is the attitude of supporters of Globalization 1.0, no wonder the U.S. government put in place few if any policies to align U.S. multinational interests with national interests or to compete with foreign industrial policies. And to no surprise, there has been a backlash against that.

Globalists Believed That the WTO Would Effectively Police Trade Infractions

The architects of the post-WWII global trade system really did believe that it would be a largely self-enforcing, self-policing system. Nations would exert moral suasion on others to be faithful actors; failing that, after the WTO's founding in 1995, they would resort to the WTO's legalistic depute settlement mechanism (DSM) whenever necessary. As one analyst observed, "The system relies on international peer pressure for the bulk of its enforcement."[37]

As the WTO itself proclaimed, "Dispute settlement is the central pillar of the multilateral trading system, and the WTO's unique contribution to the stability of the global economy."[38] As it continued, with remarkably assured belief in the notion that WTO members would be faithful adherents of its covenants, "If a country has done something wrong, it should swiftly correct its fault."[39] Resolutions of trade disputes would be largely amiable and equitable: "And if [the country] continues to break an agreement, it should offer compensation or face a suitable response that has some bite—although this is not actually a punishment: it's a 'remedy', the ultimate goal being for the country to comply with the ruling."[40] (This reflects the view of defenders of Globalization 1.0 that trade "distortions" hurt the nation imposing them.) Disputes would also be resolved swiftly, as the WTO wrote that "[when] a case runs its full course to a first ruling, it should not normally take more than about one year—15 months if the case is appealed."[41] (Compare that rosy assessment with the 16-year-long dispute between the United States and European Union over the latter's excessive launch aid, or production subsidies, for EU aircraft manufacturer Airbus.)[42] Nevertheless, the WTO was confident that its "procedure underscores the rule of law, and it makes the trading system more secure and predictable."[43]

The entry of a nation into the WTO that unrepentantly pursues mercantilist trade and economic policies that are directly antithetical to the WTO's fundamental principles challenges this system.

To be fair, in its initial years, the system did work reasonably well. As Drabek wrote, "The Dispute Settlement Mechanism has been very active over the years and by and large quite effective.... By January 2008, only about 136 of the nearly 369 cases had reached the full panel process."[44]

Or as Mark Wu wrote, "Until the mid-2000s, the three major advanced economies (the United States, the EU, and Japan) regularly brought cases against one another," suggesting that the leading trading nations were reasonably effectively disciplining themselves through the DSM.[45] And indeed, since its inception in 1995, the WTO has facilitated the resolution of hundreds of trade disputes, being one of the most active international dispute settlement mechanisms in the world: 631 disputes have been brought to the WTO and over 350 rulings have been issued, with nearly 90 percent of governments complying with its decisions.[46]

However, the entry of a nation into the WTO that unrepentantly pursues mercantilist trade and economic policies that are directly antithetical to the WTO's fundamental principles of market-oriented policies enacted on the basis of national treatment, reciprocity, and non-discrimination foundationally challenges this system, especially when it has become the world's largest trader and second-largest economy.[47] However, even then, globalists expected that the WTO's DSM tools would be sufficient to address China trade tensions. As Wu wrote:

> Optimists paint the growing number of China-related [WTO] cases in a positive light. Emblematic of this viewpoint is Professor Ka Zeng's suggestion that "the growing utilization of the [WTO Dispute Settlement Mechanism] may have helped to channel the tensions surrounding the bilateral trade relationship and prevented intense interest group pressure from impairing overall U.S.-China trade relations.[48]

But the WTO system was not structured to address a recalcitrant nation such as China, in part because China avoids codification of many policies in order to avoid detection and enforcement actions against it. Moreover, the extent of China's infractions has been so massive and consistent that addressing them has been like playing whack-a-mole. In other words, letting China into the WTO was like letting the fox into the hen house. China was simply playing a different game, abiding by its own rules.

Globalists Believed That "Behind-the-Border" Barriers Would Be Limited and Declining as New Waves of Trade Opening Proceeded, Such as the Doha Round

Globalists believed that the postwar trade liberalization, efficiency-maximizing trend was inexorable and would ultimately reach a zenith of barrier-free global exchange. As Fred Bergsten of the Peterson Institute of International Economics wrote in 1996 extolling the virtues of nations' competitive liberalization:

> Even without any additional configurations, over 60 percent of international commerce now takes place within existing or planned free trade regimes. This share is rising rapidly, both because of the onset of new arrangements and because trade expands more quickly under such conditions. The question thus arises: why not eliminate all trade barriers throughout the world?[49]

Bergsten elaborated on exactly how this process would unfold, with tariffs first being reduced and then the nontariff barriers being addressed. As he wrote:

> The Kennedy Round produced a major reduction in the high tariffs that were the major tool of protection in the early postwar period. The Tokyo Round then attacked government procurement, subsidies and other nontariff border barriers. The Uruguay Round turned to major behind-the-border problems such as intellectual property rights and services rules. Each of these liberalizations exposed a new set of constraints on market access that required a new initiative to bring the international rules up to date, and the present period is no exception.[50]

It should be noted that the postwar trade system did deliver significant tariff reductions, As Drabek wrote, "If the average tariff protection of many developed countries was about 40% immediately after the War, by the end of the 21st century, the US, the EU and Japan had their average tariffs slashed down to 2–3%."[51] In fact, the median global tariff rate declined from 26 percent in 1980 to less than 7 percent by 2013.[52]

Indeed, by the middle of the prior decade, the globalists were celebrating. In a 2019 paper, economists Ana Maria Santacreu and Heting Zhu enthused, "In summary, we observe a persistent decline in trade barriers over the past two decades."[53] Examining trade barrier data inferred from trade and production data for 42 countries and 20 industries over the period from 2000 through 2014, the authors "found that trade barriers across all country pairs and industries declined during that period" and that "the average trade barrier declined by 45 percent."[54] The authors even extolled China "as one of the countries in their sample that experienced the largest decrease in trade barriers from 2000–14."[55]

But while the international trade community has made great strides in removing tariff-based barriers to global trade over the past three decades, in many cases, countries have surreptitiously complemented their reduction by erecting new types of trade-distorting nontariff measures, such as localization requirements.[56]

Unfortunately, such non-tariff measures are almost twice as trade-restrictive as tariffs.[57] And their use continues to grow. One study estimates that while 54 percent of all protectionist interventions used in 2010 were nontariff trade barriers, their usage increased to 61 percent by 2016.[58] According to a 2022 United Nations Conference on Trade and Development report, technical nontariff trade measures, such as technical barriers to trade (TBTs), now affect more than 30 percent of product lines and almost 70 percent of world trade.[59] (Interestingly, climate change concerns are actually increasing countries' use of nontariff measures: About 26 percent of world trade is covered by climate-change-related nontariff trade measures.)[60] Having historically provided some of the world's most open markets, the United States is of course disproportionately harmed by other countries' use of tariffs and nontariff trade measures. For instance, one study finds that from 2017 to 2019, about 50 percent of the overall decline in U.S. exports to China was due to higher non-tariff trade barriers.[61] In short, the expectation that "behind-the-border" barriers would be limited and actually declining as new waves of trade-opening agreements unfolded has unfortunately been proven to be misplaced.

And while China may have liberalized to some extent post its 2001 accession to the WTO, many of its barriers were sub-rosa. Moreover, the arrival of Xi Jinping as China's president on March 14, 2013, corresponded with a shift to a vastly more mercantilist, protectionist strategy that has made much greater use of behind-the border-trade instruments and indeed catalyzed far greater global use of such practices.

U.S. Trade Officials Focused More on Market Opening Than on Market Enforcement

Historically, the United States has focused much more on market opening than trade enforcement. These dynamics remain clear in budget trends that persist to this day. Consider that the U.S. International Trade Administration—whose primary mission is to strengthen the international competitiveness of U.S. industry and promote trade and investment (although it also plays a role in "ensuring fair trade and compliance with trade laws and agreements")—received a $613 million budget in FY 2025. Of this, $385 million was allocated to global market expansion and $130 million to enforcement and compliance (while industry and analysis received $91.8 million and administration $27.6 million).[62] Similarly, in FY 2024, USTR received $61 million while the Trade Enforcement Trust Fund received just $15 million.[63] The Department of Justice (DOJ) operates its Trade Fraud Task Force, but supposedly its staff is miniscule.

Indeed, the gestalt of U.S. trade policy in the years following the WTO's launch was much more focused on international market opening than on trade enforcement. Consider that during George

W. Bush's presidency, the International Trade Administration actually hosted conferences for U.S. companies that were designed to help them invest in foreign nations such as China, even if these companies were closing their U.S. plants and opening up plants in China to sell into the U.S. market.[64] U.S. businesses signing up to attend one such conference could list among their interests "opening up an office, warehouse/distribution center, [or] manufacturing facility."[65] They could find information on "how to Select Locations for your Businesses and who to Partner with in China" and learn about "China's Taxation for Foreign Companies and Joint Ventures post-WTO."[66] The (misguided) logic behind the Bush administration's actions was that if U.S. companies were manufacturing in China, they would be more likely to be competitive in a global marketplace.[67]

The Trade Act of 2002 accelerated presidential authority to pursue trade deals, and the George W. Bush administration's major accomplishments included completion of the Central America Free Trade Agreement (CAFTA) and free trade agreements (FTAs) with Peru, Colombia, Panama, and South Korea. These of course built upon the landmark North American Free Trade Agreement (NAFTA) signed by President Clinton in 1993. For his part, president Obama signed the legislation implementing the U.S.-South Korea Free Trade Agreement (KORUS FTA) on October 21, 2011. While in recent years the sentiment has shifted from trade opening to trade enforcement—the Biden administration failed to produce even one single FTA—certainly that situation was reversed previously, and probably right up to the point the United States withdrew in January 2017 from negotiations to enter into the Trans-Pacific Partnership agreement.

The U.S. government has refused to use its foreign aid as a tool to pressure these lower-income nations to play by the rules.

Failure to Effectively Influence the Global South

For decades, much of the so-called "Global South" (e.g., lower-income nations) have articulated a theory of globalization premised on the quasi-Marxist theory of dependency and exploitation. In this framing, still quite popular at the United Nations, globalization and the world's global trading system is used to limit the development of low-income nations and keep them dependent on the capitalist "North." As such, the North owes the South to make up for this structural imbalance. This includes programs for tariff-free access to U.S. markets (e.g., the Generalized System of Preferences), exemptions from intellectual property (IP) rules, outright grants and other financing, and overall leniency on many of the trade rules that apply to higher-income nations.[68] And lower-income nations have little responsibility for advancing global free trade through, for example, supporting trade opening rounds such as Doha. These countries use their very cheap wages and trade protections and exemptions to often unfairly compete with the United States.

On top of that, the U.S. government has refused to use its foreign aid as a tool to pressure these lower-income nations to play by the rules. For example, over half of the Development Finance Corporation's funding goes to countries listed in USTR's "Special 301" report for substandard IP policies, and 43 percent goes to countries cited in USTR's "National Trade Estimate" for digital trade barriers.[69] Likewise, most U.S.-funded development agencies, including the World Bank and the Millenium Development Corporation, largely turn a blind eye to low- and moderate-income nations' trade barriers and distortions.

Global trade does not maximize global or U.S. economic welfare when large sections of the world economy are not held to the same standards as leading nations. The result is that in 2024 the United States ran a goods trade deficit of $409 billion with the six low-income nations of Mexico, India, Indonesia, the Philippines, Thailand, and Vietnam alone. At the same time, all the listed nations and more have erected systematic trade barriers that limit U.S. exports.[70]

Policymakers Gave Only Lip Service to Helping Regions and Workers Who Lost Due to Globalization

The creation under the Kennedy administration of the TAA program and the Economic Development Administration (EDA) to help distressed regions reflected the view that globalization benefited America, but it did have some negative effects. Therefore, federal policy needed to help those hurt by globalization.

But since the rise of Globalization 1.0, words have not translated into action. For example, if EDA were funded at the same share of GDP as it was in 1979, it would receive $51 billion per year, compared with the $468 million it received in 2024. And while federal support for workers and firms hurt by trade was never very large to begin with, Congress began to phase out the TAA Act in 2022.[71]

Globalists Dismissed the Negative Impact of Foreign Industrial Strategies on the United States

The Washington Consensus held that 19th century British economist David Ricardo was right, and what a country exported was based on natural comparative advantage unrelated to foreign government interventions.[72] Moreover, most globalists held a "computer chips-potato chips" view that held that a nation's industrial composition was irrelevant. Indeed, when asked how much manufacturing the United States could lose and still be okay, the head of a prominent DC trade think tank answered, "all of it."[73]

At the same time, there was a widely held conceit that countries with industrial policies were misguided and willfully inefficient, and that the only way to succeed economically was for the government to at most simply provide a good business climate and support some key production inputs such as science and skills. Indeed, John Williamson's seminal list of 10 principles for developing nations (what become known as the "Washington Consensus") strongly implied that governments should not embrace industrial policy.[74] And they argued that nations that did industrialize, such as South Korea, did so in spite of their industrial policies. The reality is that many nations, especially the most successful from an industrial development view, utterly rejected this advice.[75] South Korea, Singapore, Hong Kong, Japan, Taiwan, Isreal, and China all adopted specific industrial policies to move up the value chain and capture global market share in key industries and industry segments in which the United States had specialized.[76] The result has been a hollowing out of U.S. advanced-industry output to the point where it is now, as a share of GDP, significantly below the global average.[77]

Globalists Refused to Focus on Currency Adjustment as a Natural, Market-Based Adjustment Mechanism

Globalization should work much better if prices are allowed to naturally adjust. If a high-wage country is competing with a low-wage country and the price competitiveness of its traded sectors begins to suffer, the natural adjustment mechanism is for the high-wage country's currency to decrease in value relative to the low-wage nation's. If that occurs, then there is less need for wage suppression in rich countries, a lower trade deficit, or less deindustrialization. Sure, imports would cost more, but there would be more jobs from exports, higher production wages, and a reduction in foreign trade debt.

But that was never going to happen in Globalization 1.0. The IMF and the WTO refused to make currency manipulation for competitive advantage actionable. Countries routinely got away with competitive devaluation in order to boost exports. And second, U.S. policymakers defended the strong dollar—a surefire recipe for large U.S. trade deficits and lost manufacturing output relative to GDP.

The Washington Consensus has long held that a strong dollar and the dollar as the global reserve currency are good for America. In 2008, in the face of growing trade deficits, President Bush made it clear: "We're strong dollar people in this administration, and have always been for a strong dollar."[78] President Obama's Treasury secretary, Timothy Geithner, proclaimed that "we will never weaken our currency."[79] Under President Trump, U.S. Treasury secretary Steven Mnuchin said, "I support a stable dollar," by which he meant he opposed trying to reduce the value of the dollar.[80] Treasury secretary Janet Yellen stated that the United States would not intervene to help raise the value of the yen and lower the value of the dollar. And president Trump recently has threatened the BRICS (Brazil, Russia, Inda, China, and South Africa) nations with tariffs up to 25 percent should they seek an alternative to the dollar.

Many U.S. policymakers, especially those in foreign and defense policy, strongly defend a strong dollar, ignoring its more long-term corrosive effect on the U.S. defense industrial base.

So why the strong resistance to letting the value of the dollar become more competitive? There are a number of reasons. First, hard-core conservatives worry about "debasing" the dollar. These are often "gold bugs" seeking to tie the value of the dollar to the price of gold. The problem is that in virtually every other area, these conservatives favor markets setting prices. Yet, defending a high value of the dollar is a form of engaging in price controls. In writing about China's systematic devaluing of its currency in the 2000s, Fred Bergsten, former president of the Peterson Institute, wrote, "Such unilateral steps by the United States … could hardly be labeled 'protectionist' since they are designed to counter a massive distortion in the market … and indeed promote a market-oriented outcome."[81] (Alas, the Peterson Institute has shifted gears and now supports a strong dollar.)

Second, monetary policy in the United States is largely controlled by or influenced by the financial sector. Wall Street benefits from a strong dollar because it increases the value of its assets. And the Treasury Department, which controls this policy space, as noted, has held deep and inflexible views about maintaining a strong dollar.

Finally, holding the globe's reserve currency provides the federal government with a valuable weapon to punish adversaries. Indeed, Australia's Lowy Institute uses this as one measure of its Asia Power Index.[82] This is why many U.S. policymakers, especially those in foreign and defense policy, so strongly defend a strong dollar, ignoring its more long-term corrosive effect on the U.S. defense industrial base.

Globalists Dismissed the Importance of the Trade Deficit

In the original vision of Globalization 1.0, America should prosper and, because of our inherent strengths, export significantly more and presumably enjoy balanced trade, if not a trade surplus. But the longstanding chronic trade deficit challenged that vision.

As a result, rationales had to be generated, otherwise faith in Globalization 1.0 would falter. One was that the trade deficit was actually a sign of strength, that the U.S. economy was so strong that consumers were spending money, including on imports. But while that might occasionally be true if the rest of the world were in recession and the U.S. economy were growing, it can't explain 30 years of deficits.

A related rationale was that the capital account surplus (the flip side of the trade deficit) allowed the United States to fund major business expansions and keep interest rates lower than they would have been if relying solely on domestic savings. But presumably some of that investment should have gone into manufacturing and advanced industries and grow it. But it declined instead.

And finally, rather than blame foreign mercantilism, the strong dollar, or the lack of a domestic industrial strategy, the culprit was Americans who did not save enough. The story they told is that the trade deficit is a simple accounting function: low U.S. savings requires overseas borrowing, which by definition requires running a trade deficit. Former George W. Bush economist Greg Mankiw reflected this view when he wrote, "My view is that the trade deficit is not a problem in itself but is a symptom of a problem. The problem is low national saving."[57]

The Council on Competitiveness agreed, stating, "These threats [e.g., the trade deficit] stem from global financial imbalances rather than from the inability of American companies or American workers to compete in global marketplaces."[58]

But as non-neoclassical economist Robert Blecker stated, "This identity does not prove causality, and is consistent with other causal stories about the trade deficit."[59] In other words, what the conventional story fails to recognize is that savings is a function of national competitiveness. If, for example, China stopped manipulating its currency, the U.S. trade deficit would fall and China would buy less of our government debt. The result would be a rise in both U.S. exports and interest rates. And both would spur more savings. Higher interest rates would lead more Americans to save. More exports (and relatively fewer imports) would boost U.S. corporate savings. And more jobs and higher wages through exports (exporting firms pay 9.1 percent more than jobs in firms that export less) would boost individual savings and reduce the budget deficit.[60]

In summary, there were a number of assumptions and principles that defenders of Globalization 1.0 made and held, which for whatever reason, did not prove to be the case. The result was the emergence of a more problematic globalization outcome for the United States.

AUTARKY AND PROTECTIONISM CANNOT BE THE ANSWER

While Globalization 1.0 was proceeding apace, there was a vocal minority in the United States who said, "No." As the problems and contradictions from Globalization 1.0 became more severe, those minority views grew, until 2016, when they broke through.

Their complaints were many. The benefits of globalization were vastly overstated. Globalization only helped corporations. Multinationals took away nations' sovereign rights. Globalization led to a race to the bottom in terms of taxes and regulations. Globalization not only hurt workers in the "Global North," it also hurt them in the "Global South." Globalization hurt both consumers and workers. Other countries acted unfairly and took advantage of the United States. With the rise of climate change, anti-globalists added carbon dioxide emissions from trade to their critique. Case in point, Obama climate official John Podesta's claim that global trade was "a huge contributor to the climate problem."[83]

For the most part, these arguments were advanced by an anticorporate Left that preferred to "think globally" (e.g., side with the global proletariat over the interests of America) and "act locally" (produce everything through local worker- or government-owned co-ops). These complaints can and should largely be dismissed as the complaints of advocates who refused to accept the reality of an advanced industrial world and instead sought a calmer, more serene pastoral life filled with organic farms, craft-brewed beer, artisanal goods, and a local "care economy."

The "New Right" offered a similar critique, but one based more on other nations taking advantage of the United States. As Trump supporter and former senator and attorney general Jeff Sessions wrote, "The globalists were like the Lilliputians, using their many strings to bind the giant Gulliver (e.g., the United States)."[84]

However, two charges against Globalization 1.0 deserve a more serious response.

Argument: Globalization 1.0 Hurts American Workers

The first is that Globalization 1.0 has hurt American workers. By that, opponents are referring specifically to lower- and middle-wage Americans working in import-exposed industries such as steel, furniture, and cars. Given that the last year the United States ran a trade surplus in manufactured goods was in 1975, and that the deficit only increased after the full embrace of Globalization 1.0 in the 1980s and 1990s, the critics' case deserves to be considered.

Consider that there could have been two different scenarios in Globalization 1.0, at least conceptually. The first is what actually occurred, with the U.S. trade deficit exploding and the United States experiencing slow or negative output growth in most manufacturing industries. In this scenario, many other nations did not trade fairly. The United States did not establish a national manufacturing policy. And the dollar did not fall enough. As a result, there was downward pressure on wages in export sectors, which translated to other sectors, even if that also led to lower rates of inflation and no change in median income. So, yes, given that outcome from Globalization 1.0, it's understandable that the reaction was the embrace of autarky. This framing is why Biden administration USTR Katherine Tai could write that the real purpose of trade policy should be to help the middle class and provide "economic security for working people."[85]

But imagine a different kind of globalization, one in which the United States is more successful in enforcing trade laws and driving market-oriented conduct from its leading trading partners. It puts in place the kind of manufacturing policies that our leading trading partners such as Germany and Japan did. It drives down the value of the dollar. It limits the import of goods produced and traded unfairly (e.g., below cost of production) by Chinese companies. In this scenario, there is almost as much global trade, but the United States does not run a trade deficit. Some workers would still be hurt, especially in lower-wage, less technologically complex sectors. But their losses would be offset by gains for workers in medium- and higher-wage, more technologically complex sectors such as autos, machinery, equipment, and aerospace.

If the United States had effective worker and community transition programs, combined with a more progressive tax code for individuals, that would have been a positive outcome as it would mean higher living standards for almost all Americans and continued U.S. advanced technology leadership. But many opponents of globalization would still reject this, partly because large corporations would benefit (something they oppose), but mostly because some workers would still be hurt from the creative destruction created by the global reshuffling of production, including perhaps less-educated workers being harder hit. Tai alluded to that concern when she wrote that Globalization 1.0 resulted in "communities of color and workers who had not gone to college, including white men, [being] hardest hit."[86] Presumably, if globalization led to higher GDP and most workers doing better, Tai and other progressive opponents of trade would still oppose trade if some less-educated workers lost their jobs.

This rejection of both bad and good globalization is one that leads to stagnation. If no one can ever lose their job because of geographic shifts in production (and presumably technological change) then the economy changes at a glacial pace and children will have similar living standards to their parents.

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Argument: The U.S. Market Is So Big It Doesn't Need Global Market Access

A second claim against globalization that deserves to be taken seriously is that, because the American economy was so large, U.S. firms did not need access to global markets to gain needed economies of scale. In a 1995 article advocating for techno nationalism, Alan Tonelson laid out the case globalists make:

> Techno-globalists repeatedly argue that, to a great extent, multinationals' operations are already mocking the idea of national boundaries because the new realities of international business leave them no choice. Worldwide economies of scale in not only manufacturing but in R&D and engineering and design must be achieved to cut costs and maintain price competitiveness; the specific needs of local markets must be understood and satisfied; and the best and most abundant supplies of capital, technology, and skilled labor in a bewildering array of product areas must be tapped even though they are scattered throughout more different countries than ever.[87]

The reality is that some industries do need global scale, either because there are not enough customers in the United States or because production experiences continued declining marginal costs with overseas sales. To be sure, some industries could thrive with only the U.S. market. Most small firms in traded sectors export very little. Some industries such as agriculture, lumber and wood products, oil refining, and others appear to be able to reach full economies of scale and scope with just the U.S. market.

But other industries need the global market, in part because their fixed costs of development are so high and they need many customers to be able to bring average revenues below average costs. And in other cases, markets are not big enough for needed economies of scale and scope. It is highly unlikely that Boeing, for example, would have been able to afford designing and building the 787 jet if it could only sell it in the United States.

Second, even if American industries could do okay with only the U.S. market, foreign firms would have access to the rest of the world's markets, and by doing so have a more competitive cost structure than U.S. firms serving only domestic markets.

Box 1: Semiconductors and Global Scale

Most advanced industries continue to improve the larger the market. The largest possible market is the entire world. And they need specialized inputs. A T-shirt may require cotton and dye, but advanced industry products require thousands of parts, and it is unlikely that they can be made in any one country. This is the core case for globalization

Manufacturing semiconductors is perhaps the most complex, expensive engineering task humanity undertakes. The newest, most-sophisticated semiconductor fabs can cost $30 billion or more to construct and advanced chips themselves can cost billions to design. Global markets allow firms to earn that investment back.[88]

Consider semiconductor manufacturing equipment such as the extreme ultraviolet lithography (EUV) machines that print semiconductors: The laser alone in an EUV machine has 457,329 component parts, and the laser itself is just one of more than 100,000 parts in an EUV machine. And the EUV machine itself is just one component among thousands in a multi-billion-dollar semiconductor fab. The key point is that for nations to be competitive at semiconductor manufacturing, they need to ensure that companies have cost-efficient access to the best-of-breed, most-sophisticated components and inputs—such as chemicals, substrates, photomasks, and other materials—that are sourced from more than 50 countries worldwide.[89]

Indeed, the globalization of the semiconductor industry has enabled specialized suppliers of key inputs to emerge in certain corners around the world. For instance, Japanese suppliers provide 90 percent of the world's photoresists and over half the photomasks.[90] These are the materials that contain and imprint the circuit pattern on the wafers. The specialization that pervades the global semiconductor industry has played a key role in advancing the industry's rapid innovation while decreasing the unit cost of computer processing. In other words, it's what has enabled Moore's Law—the principle that the speed and capability of computers can be expected to double roughly every two years. America simply does not have the technical or manufacturing capacity by itself to produce the myriad thousands of inputs and components that underpin advanced semiconductor manufacturing.

GLOBALISTS FIGHT A REARGUARD ACTION TO PRESERVE GLOBALIZATION 1.0

Globalization 1.0 always had its critics, but it was not until the 2010s that their arguments gained traction, and especially starting with Donald Trump's presidential campaign around 2016. In response, globalists mounted a vigorous campaign of defense. But rather than engaging in a process of honest critique and reformulation to correct what went wrong with Globalization 1.0, they mostly focused on defending its record against the critics while extending somewhat more sympathy to the losers.

In 2017, Carl Bildt, former prime minister of Sweden and ardent globalist, dismissed opponents by pointing to the fact that globalization delivered more prosperity to more people than anyone could have dreamed of just a few decades ago.[91] The fact that most of those people live in China and do not vote in developed-country elections is irrelevant to hard-core globalists.

In a 2018 *Foreign Affairs* article, Kenneth Scheve and Matt Slaughter acknowledged that Americans have anxiety and anger about globalization and change. But this was not principally due to supposed income losses, but rather to Americans' inability to secure meaningful roles in their families and communities.[92] And so they argued, "It is not enough simply to redistribute income to financially compensate the losers from globalization. Addressing the backlash requires giving all Americans the tools they need to carve out the sense of security and purpose they have lost amid change."[93]

And so, rather than admit that there was anything wrong with how globalization was structured, they simply propose a better way of "investing in human capital" so the losers can more easily transition to something else. Often absent from such proposals in the United States is any substantial fiscal policy reform to better compensate losers. They then go on to repeat that globalization has been good for America.

In 2019, free-trade economist Alan Blinder threw up his hands, stating that "at the end of the day, [economists] may simply have to accept the inevitable: convincing most people of the value of free trade is a losing fight" because the masses are too dumb to understand the notion of comparative advantage.[94]

Rather than engaging in a process of honest critique and reformulation to correct what went wrong with Globalization 1.0, its champions mostly focused on defending its record against the critics while extending even more sympathy to the losers.

In a 2020 article, Brookings scholars Joshua Meltzer and Neena Shenai went a bit further in the direction of reform by encouraging modest fixes to the current system, principally making the WTO better by "bolstering WTO norms, like nondiscrimination, predictable tariffs, and the rule of law, that allow global commerce to flourish is a start."[95] How that would actually happen is left up the reader's imagination. They also called for the United States to embrace high-standard multilateral trade deals in part because doing so "could incentivize China and others to participate more responsibly."[96] Good luck with that, as China has thus far provided minimal indication that it intends to act responsibly in light of various WTO commitments to which it has agreed, such as on subsidies. And of course, last but not least, do more to help the losers.

In perhaps the most comprehensive effort to save Globalization 1.0, a distinguished panel of centrist globalists, including former Biden national security advisor Jake Sullivan, published in 2020 a Carnegie Endowment report "Making U.S. Foreign Policy Work Better for the Middle Class."[97] The title gives away the story: globalization and U.S. trade policy has worked fine for America but has hurt certain workers (e.g., the middle class).

But they could not get very far in crafting even significant reforms to Globalization 1.0, much less constructing a Globalization 2.0 framework. They start with an attack on the critique by claiming that the impacts of trade and manufacturing loss on the middle class were overblown. And of course, the call for more domestic policy efforts to help the losers from trade and more trade agreements.

To its credit, the report does edge its way toward a revised framework. It proposes better trade enforcement. It supports a national competitiveness strategy, albeit one with special attention on small businesses rather than on businesses of all sizes. But it still stays safely in the confines of the Globalization 1.0 framework.

U.S. TRADE POLICY AND THE GLOBAL BATTLE OVER ADVANCED INDUSTRIES: TIME FOR A STRATEGIC APPROACH

At the end of the day, differences over optimal U.S. trade and globalization policy should break down in terms of what the key goals are for U.S. techno-economic policy. If the goal is free markets and global allocation efficiency, then Globalization 1.0 was the appropriate frame. If the goal is to protect American workers from low-wage competition, then autarky is the answer. But if the goal is U.S. advanced industry leadership and national power, which it needs to be, then Globalization 2.0 has to be the guiding framework.

While the Trump and Biden administrations abandoned America's long-standing mission of global market opening, they both still embraced the long-standing "all exports are equally good" mindset. Since its inception, USTR has remained largely indifferent between opening markets for corn or cars.[98] All foreign trade barriers are seen as equally bad; all exports equally good. The reality is that China is fighting a "terms of trade war" focused on advanced industries. The United States needs to do the same.

Shaped by the neo-classical economics view that no industry is more important than any other ("potato chips, computer chips, what's the difference?"), U.S. trade policy is woefully out of step with today's global economic competitive environment—not because it has become too worker-centric, but because it is not strategic. If the United States is to win the techno-economic war China is waging against the world, trade policy must be aligned with overall national techno-economic strategy, and that means prioritizing global market access for high-fixed-cost advanced-tech industries, such as aerospace, biopharmaceuticals, semiconductors, and software.

This needed shift is particularly challenging, as the Biden administration turned away from the previous trade policy and the Trump administration promises to follow. While the Biden administration obfuscated its true goal behind statements such as having trade "that encourages a race to the top" and seeking an ultimately undefined "worker-oriented" trade policy, its real goal was to roll back America's global economic engagement.[99] If only the U.S. economy were more self-sufficient, the thinking went, there would be little pressure to ensure a healthy business climate. Then the government could regulate and tax companies to its heart's content. If only trade agreements could force U.S. labor, environmental, and tax standards on other nations, then U.S. tax and regulatory policy could operate unhindered. The utopia of the 1950s would return: little foreign competition enabling high corporate taxes and high unionization and wages. The Biden administration rejected, or at least wanted to get past, Tom Friedman's notion that globalization brings with it "golden handcuffs" that pressure countries into having pro-market policies. For them, global economic trade and competition, with its imperative that countries have constraints, were the major barrier to achieving their goals.[100]

For Trump, protectionism and autarky are not to enable higher taxes and regulations; the new administration wants the opposite, and will use U.S. global competitiveness as an argument to achieve that. Rather, Trump—and likely most of his relevant officials—believe that the playing field is inherently tilted against the United States, that the nation has taken on too many global responsibilities, that globalization limits American policy autonomy, and that the solution is a tariff wall. On top of that is his view that multinationals are traitors only interested in profits. The solution is to ignore them in favor of family-owned American firms that do almost all of their production at home. And they want to use tariffs to replace the personal income tax, which is highly regressive.

U.S. trade policy is woefully out of step with today's global economic competitive environment—not because it has become too worker-centric, but because it is not strategic.

In many ways, both Biden's and Trump's autarkic visions are appealing, especially given the loss of so many U.S. manufacturing jobs due to trade and globalization over the last two decades and the decline in private-sector unionization. While an inward-oriented trade agenda, including high tariffs, might lead to some reshoring of certain industries, it would also mean the loss of America's leadership in advanced technology industries, which are central to U.S. techno-economic power vis-à-vis China. The reason is simple: while some traded-sector industries do not need global scale to succeed, virtually all advanced industries do, and by failing to lead on global trade and market opening for these industries, the administration is consigning America's technology industries to a slow decline.

As such, Congress and the Trump administration need to develop a new approach to trade policy that is aligned with an overall U.S. advanced industry strategy. This means basing trade policy on a more sophisticated approach to industries and competitiveness; one that rejects outdated "Ricardoism," which holds that any exports must be based on U.S. comparative advantage and therefore in the national economic interest.[101] While this simple model might hold for low-wage, natural resource economies (e.g., Ricardo's example of wine from Portugal), it was never true for advanced industrial economies engaging in complex cross-border investment where competitive advantage is shaped, not revealed. There is no God-given, natural reason why Germany is good at machine tools, Taiwan at semiconductors, and China at electric vehicles (EVs) and batteries. Rather, China made a publicly stated, persistent, and well-funded effort to dominate EVs and batteries starting around 2010 that continues to this day. As such, U.S. trade policy needs to be grounded in an understanding that some industries (e.g., computer chips) are more important than others (e.g., potato chips) and require larger markets than others do.

A more strategic trade policy designed to shift the U.S. industrial mix toward higher-value-added advanced sectors critical to competing with China needs to be informed by a typology based on structural industry factors, including the following:

1. **Wage levels.** As a rule, the United States should not try to be competitive in low-wage industries, and trade policy should not seek to protect these sectors against competition from low-wage nations.

2. **The degree to which the industry is inherently domestically based.** Some industries are resource based (e.g., ranch land and cattle, rich crop land and soybeans, forests and lumber and wood products). Others have high transportation costs (e.g., soft drinks and cement) and aren't going to be shipped extremely long distances. For these industries, global market expansion expands output and jobs, but this is not needed as long as the economy is in full employment. And these are sectors that would still be domestically competitive if confined to the U.S. market. As such, trade policy should not prioritize these sectors.

3. **The degree to which the industry has high or low fixed costs.** A key characteristic of innovation-based industries is that they incur very high fixed costs before they can even produce the first product. As such, the average cost of any product significantly exceeds the marginal cost of production. The software industry presents an extreme case of this. It can cost hundreds of millions of dollars to produce the first copy, but additional software can be produced at virtually no cost. Likewise, it can cost more than $2.5 billion to bring a drug to market, but the actual cost to produce one dose is significantly less. Similarly, it took Boeing almost eight years of development work and more than $15 billion before a single 787 Dreamliner was sold.[102] That $15 billion must be built into the cost of every 787. Economists describe such industries as experiencing increasing returns to scale, meaning that each additional unit sold yields a higher rate of profit.[103]

For America's advanced high-fixed-cost industries, trade policy needs to push for the maximum possible global market size. This is because each additional sale generates more profits than the prior one, so big markets are key. That added revenue leads to reinvestment in a virtuous circle, and those added sales allow for lower prices—both of which are critical to staying ahead of Chinese rivals.

Congress and the Trump administration need to develop a new approach to trade policy that is aligned with an overall U.S. advanced industry strategy to expand U.S. techno-economic power.

Ensuring the largest possible markets for high-fixed-cost, strategic industries means a new trade policy, neither the old "free trade" one nor the current one with America sitting on the sidelines as most other countries move forward with self-proclaimed trade liberalization, unfortunately with much of that led by China. U.S. trade policy needs to prioritize high-fixed-cost, strategic industries and insist that other nations open their markets for U.S. goods and services in these industries. If they do not, the United States should reduce their access to U.S. markets. This new kind of trade policy means signing "easy" bilateral agreements such as with the United Kingdom. It also means embracing and advancing sector-specific agreements such as the Information Technology Agreement (ITA) I and II agreements, to eliminate tariffs on trade in information technology (IT) goods. It means pushing back against the data localization efforts of other nations. And most importantly, it means taking the lead to establish a super-Transpacific Partnership agreement with both Pacific and Atlantic nations. Doing so would create much-needed, much-larger allied markets that allied advanced technology companies could benefit from, as well as offering leverage for low-wage nations to open their markets to advanced technology exports.

But there is one more key step that U.S. trade policy needs to embrace if it is to win in advanced technology sectors: limiting the sales of Chinese high-fixed-cost industries. As noted, large markets enable high-fixed-cost firms to sell more, but if larger markets come with more competitors, total sales per firm can remain the same or even fall. This does not mean that market-generated competition is detrimental. Normally, markets will not produce an excess number of competitors. But through massive subsidies, discriminatory government procurement, closed markets, and other nonmarket, predatory policies and practices, China captures (and generally does not later surrender) market share that market forces would normally limit. These gains draw sales from stronger firms, reducing their ability to reinvest in innovation and limiting their ability to lower costs and prices. China understands that competition in high-fixed-cost industries is win-lose. Every sale of a single-aisle passenger jet China's state-owned COMAC makes is one less sale for Airbus or Boeing.[104] The Chinese government is willing to limit foreign market sales in its own economy and subsidize the capture of market share outside China because it knows that every product it sells at a loss structurally sets back foreign competitors while advancing Chinse firms.

Ensuring the largest possible markets for high-fixed-cost, strategic industries means a new trade policy, neither the old "free trade" one nor the current one with America sitting on the sidelines as most other countries move forward with trade liberalization.

This is why U.S. and allied governments need to limit Chinese market gains in high-fixed-cost, low-marginal-cost advanced industries. China is too powerful and the WTO too captured by China to effectively open Chinese markets to foreign advanced industries. The Trump administration is leading that effort by banning Chinese (e.g., Huawei and ZTE) telecom equipment and convincing many allies to do the same. Governments should do likewise whenever they can show that Chinese firms have unfairly benefited from Chinese policies. This could be done by reforming the U.S. International Trade Commission's (USITC's) Section 337 law to better enable the exclusion orders on Chinese products.

If America wants jobs, why not just protect all industries? Because other nations would respond in turn, leading to Balkanized markets. This would mean some gains for industries that now lose in global competition but losses for industries that now succeed in global competition. The former are often lower wage and less strategic to the U.S. techno-economic battle with China, while the latter are more strategic.

Finally, it's worth commenting on the widely promulgated view that the United States needs export markets because that's where the lion's share of consumers are. Commerce Secretary Raimondo recently wrote, "When American businesses engage in international markets — where some 95% of the world's consumers live — we profit and prosper as a global society."[105]

But this is misleading. The rest of the world is where 95 percent of the world's producers are as well. In other words, while trade opens up foreign markets for U.S. producers, it also opens up U.S. markets for foreign producers. If it were not for the need for global economies of scale, and the need to import things we can't make, the U.S. economy would be no larger if it did not trade than if it did. Global market expansion is not all that necessary for most industries, except to sell more. But global market access is existential for advanced industries, as without it, costs stay up, research and development (R&D) does not increase, and competitors gain structural advantages that ultimately can lead to the demise of U.S. high-fixed-cost firms and industries. It's time U.S. trade policy recognized this reality.

12 PRINCIPLES TO GUIDE GLOBALIZATION 2.0

American politics are likely to be on the antiglobalization side of the pendulum for the near future, at least. Too many still see Globalization 1.0 as a failure at best, and a plot to sell out American democracy at worst, to entertain pragmatic thinking about reform and the development of Globalization 2.0. Trump and his followers are firmly committed to the antithesis of Globalization 1.0—autarky and tariffs—as where they land and want to stay.

Nonetheless, it's time to start charting a course for what a new Globalization 2.0 should look like and to build support for such a system. Globalization 2.0 is *not* Globalization 1.0 rebranded with more assertions that "trade is good" and more assistance for the losers. And it certainly is not the move toward autarky that we saw in the Biden administration and have seen more emphatically from the Trump administration to date. Rather, it is global trade and integration, but of a different kind.

Globalization 1.0, an optimistic vision, was epitomized by Francis Fukuyama's 1992 "End of History" vision wherein the great battles of the past, particularly between capitalism and communism, had been resolved, with Western liberal democracy winning. If that were in fact the case, then the globalization project makes more sense. Global integration among countries with human rights, the rule of law, and market economies might indeed lead to both U.S. and global advancement. And maybe someday we can get to that.

Globalization 2.0 is not Globalization 1.0 rebranded with more assertions that "trade is good" and more assistance for the losers… It is global trade and integration, but of a different kind.

But Fukuyama was caught up in the fervor of the day with the dramatic fall of the Soviet Union and did not see the rise of either Islamic fundamentalism or mercantilist Chinese Communism. The latter, in particular, does not play by the rules. China practices "power trade," not free trade.[106] It uses trade and globalization to advance as the hegemon and to dominate most advanced industries. And it has burrowed into all major global governance institutions, including the IMF and the WTO, effectively neutering them as agents of discipline.

With this reality, it is naïve to try to restore Globalization 1.0. Rather, we need Globalization 2.0, based on the overarching priority of ensuring that the West (defined as democratic, market-based nations committed to freedom) prospers and grows, especially in advanced dual-use technologies. Globalization 2.0 needs to be grounded by at least 12 core principles.

Principle 1: China Changes Everything

When Globalization 1.0 was crafted, China was a blip on the global economic radar screen—a desperately poor country that had little technological capability. As such, globalists assumed that, as it integrated into the global market, it would be a normal country: one that mostly practiced free trade, and whenever it succumbed to domestic protectionist forces here and there, these would be mostly disciplined by the WTO.

Lawmakers need to understand that, for China, a desire to make money—the fundamental driver of trade and of capitalism—is secondary. Its primary goal is to capture market share and thereby damage advanced economies and pave the way for China to become the world's pre-eminent superpower. Countries such as China are called "power traders," and they are named such because their policies and programs are designed not only to advance their own power but also to degrade that of their adversaries', even at a financial cost to their own economy.

China's rate of progress in production and innovation across a wide range of industries is striking.[107] History has seen campaigns such as this before. From the late 1800s through WWII, Germany illustrated how trade could be weaponized into "an instrument of power, of pressure and even of conquest," wrote development economist Albert O. Hirschman.[108]

Like China, Germany mostly focused on importing goods needed for its war machine, redirected trade to friendly or subject nations, and sought to control oceanic trade routes, all in an effort to limit development of its adversaries. Like China, the German government kept its currency undervalued (making its own goods relatively cheaper for consumers in other countries), leveraged the use of tariffs, and subsidized its own exports to bolster its position in industrial goods such as steel, chemicals, and machinery.

Like China, German companies sold goods lower than the cost of manufacture to wrest market share from overseas rivals. Like China, Germans engaged in systemic industrial espionage, with engineers being sent overseas with the explicit order to return trade secrets to German firms. There was also the theft of IP including chemical formulas and machinery plans to give German manufacturers a leg up. "Trademarks are to be pirated," declared a 1919 *New York Tribune* article of Germany—a declaration that could have been written about China today.[109]

In short, Germany sought to gain techno-economic power, especially over its European adversaries, after which it would use that power to dominate the continent. As French economist Henri Hauser wrote in 1915:

> Germany made war in the midst of peace with the instruments of peace. Dumping, export subsidies, import certificates, measures with respect to emigration, etc., all of these various methods were used not as normal methods of economic activity, but as means to suffocate, to crush, and terrorize Germany's adversaries.... By this concentration of all its energies, by this unity of direction, economic Germany has become a power at least as formidable as military Germany and of the same order: a power of domination and conquest.[110]

Like today, there was a striking debate between free-trading globalists and those worried about destructive power trade. As Hirschman wrote, there were schools of thought:

> The writers who had aroused the public to the dangers of "silent economic penetration" were ardent advocates of preparing defensive or offensive weapons from the arsenal of economic nationalism. Aligned against them were the defenders of the virtues of free trade who ignored or denied the danger to which their adversaries had pointed.[111]

Indeed, what was striking about then is how much it comports to now. Free traders of the time, especially in the United Kingdom, dismissed the threat from Germany. Sounding like the Paul Krugman of his day (who famously said that companies, not countries, compete), British free trader William Smart wrote in 1904 that "all the nonsense one hears about dumping as a 'national conspiracy' is derived from the fallacious idea which thinks of another nation as an industrial unit."[112] Another British free trade economist wrote that the new approach was "nothing but the old protectionism utilizing the ill-feeling created by the war and its unchivalrous incidents."[113]

But at least some called upon them to change their thinking in the face of new realities. In 1916, Aristide Briand, the prime minister of France, gave a speech at the Paris Economic Conference at which he declared:

> No theory can prevail over the facts … you will be less attentive to the traditional theoretical doctrines and to old customs than to the new realities which are imposing themselves upon us. If it is proved that old errors have almost permitted our enemies to establish an irretrievable tyranny over the productive forces of the world you will abandon these errors and enter new roads.[114]

This gets to the core question: How do we craft a global trading system with China being a growing power trader? Hirschman grappled with this question as to how the postwar trading system should be constructed, in light of the 50-year tradition of Germany being a power trader. It is worth reviewing his thoughts:

> What are the conclusions which can be drawn from this experience when the present war will be won by the United Nations? Should we, because of its evil potentialities, try to limit international intercourse? Should special safeguard or boycott measures be erected against German trade once the war is over? Should we be content with prohibiting certain practices and technical devices, such as buy lateral clearings, differential exchange rates, etcetera, which have been a prominent feature of German policies in the 'thirties? Or should we rather endeavor to build a new framework of international relations in which this use of foreign trade for purposes of national power would encounter more difficulties than hitherto? And how could this end be achieved?[115]

Hirschman favored the latter. Indeed, he argued:

> If we want to turn from the sterile alternatives between autarky and economic penetration to the achievement of international economic collaboration, the exclusive power to organize, regulate, and interfere with trade must be taken away from the hands of single nations. It must be transferred to an international authority able to exercise this power as a sanction against an aggressor nation.[116]

This is what Globalization 1.0 tried, and failed, to do.

But even then, Hirschman counseled that policymakers “should contrast the economic policy of welfare and the economic policy of power.”[117] We need to realize that Globalization 1.0 has to shift to a doctrine that recognizes power trade.

Principle 2: Embrace a National Advanced-Industry Strategy to Bolster U.S. Competitiveness

It makes no sense to rail at multinationals as Benedict Arnolds. As long as the United States stays a capitalist nation (and it must), CEOs have one job: maximize shareholder value (ideally in net present value terms). It is up to the federal government to help them do so in ways that benefit the United States and core allies.

At the same time, the United States cannot expect to win in global competition without supporting companies exporting from the United States or facing import competition. All too often, these companies are competing against foreign companies that are backed by their state, making competition anything but fair. Free-market advocates can call for letting the market decide, but it is illogical to think that with all else equal a company in the United States could outcompete a foreign company with a protected home market and massive direct and indirect subsidies.

If globalists want to win the war of ideas with the autarkists—left and right—they will need to embrace national industrial strategy.[118] Otherwise, the default position is to simply choose not to compete through a wide array of import restrictions.

Principle 3: Trade Should Be a Component of That National Advanced-Industry Strategy

Since we were all to be living on a peaceful, harmonious planet by now, free of longstanding geopolitical rivalries, Globalization 1.0 didn’t care where things were made. It didn’t matter if America relied on the Chinese for key military parts.

Hopefully, most everyone has shaken off the fairy tale delusion and recognized that the United States—and allied countries collectively—have to be strong on a wide array of advanced industries, particularly military technologies and those with dual-use application.

Mao famously said that political power flows out of the barrel of a gun. Today, national economic power flows out of the end of an advanced factory or other production facility. In other words, U.S. power and the ability to avoid crippling dependencies on adversaries stems from having an adequate, if not leadership, position in a wide array of advanced and emerging industries. As such, Globalization 2.0 should be seen as a component of a broader national advanced industry strategy, not as a component of overall macroeconomic management and global allocation efficiency. U.S. trade policy should be focused on ensuring that the country has the necessary industrial structure and secure supply chain network to win in key industries.

This means that trade policy should “pick winners.” Some industries are vital to U.S. power and prosperity, others are not. For example, the United States does not need to compete in and defend low-skill industries such as apparels and textiles. We can always buy these from countries around the world. We also don’t need to focus on industries that are natural-resource-based where if we lose some production, we can easily get it back even if imports are limited.

But advanced industries, where if you lose it, you can't get it back, are different. Should the unthinkable happen and Boeing goes out of business, America would have no commercial aerospace industry and there would be virtually nothing we could do to change that. These are the commanding heights of production that U.S. trade policy should focus on. When engaging in market opening or pursuing trade enforcement, the focus should be on key U.S. advanced industries.

A corollary is to focus much less on less-advanced, natural-resource-based, or commodity industries. Traditional globalists have long argued that if other countries want to sell their exports to the United States at below cost, then they were the naïve ones and that America benefited from low prices. This makes sense when it comes to the former types of industries. For example, if the Canadians want to subsidize American consumers by selling lumber or dairy products below cost, we should let them.[119] The worst that can happen is a modest reduction in domestic capacity that would fairly easily change if the Canadians were to stop their subsidies.

U.S. trade policy should be focused on ensuring that the country has the necessary industrial structure to win in key industries.

But price predation to gain share in advanced industries is completely different. If Chinese EV makers were to be able to sell with impunity in the United States, they could dramatically reduce U.S. auto production, leading to bankruptcies and downsizing in an industry that extends beyond auto production to parts, dealerships, and maintenance. If China stopped its subsidies, there is no guarantee that the U.S. EV industry would return, because of very high entry costs and the significant amount of tacit knowledge needed to build an auto industry. The same is true for all advanced industries from software to aerospace to pharmaceuticals.

There is another reason for U.S. trade policy to be laser focused on advanced industries, including industries requiring global market sales. The lumber and wood products industry does not need global market access for success. The U.S. market is big enough. The same is true for many other industries including most financial services firms, agriculture, textiles, and more. But the global battle for advanced industry leadership will be won or lost in significant part on whose firms capture most of the global market. It is the height of naïveté to believe that U.S. firms in these industries can be successful in the U.S. market alone.

Principle 4: America First, But Not Alone

President Trump is right: for too long, U.S. trade policy allowed lopsided trade arrangements that benefited other nations more. That has to stop. America's power—diplomatically, economically, and militarily—is no longer so predominant that it can afford to sacrifice its own techno-economic interests for the sake of the global order.

But as discussed, it is damaging for America to be autarkic. That would be a grave mistake, not only isolating the country from the global techno-economic system, but also leading to the loss of domestic production of now globally integrated industries, such as commercial aircraft, aerospace, chemicals, biopharmaceuticals, significant shares of the machinery and equipment sector (including farm equipment and heavy construction equipment), computer and electronics, scientific instruments, software and Internet services, medical equipment, motors and generators, pumps and compressors, navigation and control instruments, mining equipment, computer hardware, guided missiles, and space vehicles. Autarky would be particularly bad for the nation's defense producers, especially given the declines as share of GDP in defense spending. Defense contractors rely on selling to allied nations in order to keep innovating and keep costs down for the Defense Department. If the Trump administration embraces autarky, our allies are likely to do the same even more, including for defense industry production.

Putting America first requires ensuring reciprocity by trading partners. For example, when president Biden launched the Indo-Pacific Partnership to forge closer ties with key Asian countries, many advocates of Globalization 1.0 dismissed it as not serious because it did not involve opening up U.S. markets. Why would these nations want to partner with America unless we bribed them with preferable access to the U.S. market? But this makes no sense. The average tariff for these nations on American goods was quite a bit higher than American tariffs on these nations' imports.[120] Why should the United States give them an even better deal? A Globalization 2.0 policy would be to say to these nations that America would like to engage in closer partnerships, especially to counter China, and if you refuse to do that, the United States will increase our average tariff rate to your levels.

Principle 5: Engage in Free Trade With Allies, Pragmatic Trade With Others, and Strategic Trade With Our Adversaries

Globalization 1.0, with its embrace of the WTO and the most favored nation principle, envisioned a world where America treats all other nations the same when it comes to trade. It was also premised on the notion that nations are generally rules-compliant free traders, and to the extent they diverted from that path, it was due to protectionist forces the WTO is capable of addressing.

This framing no longer works. Because of the WTO's governance structure, including the influence of China and India, it has become a spent force, unable to effectively discipline trade scofflaws. One only has to look at China's behavior since joining the WTO and especially on issues related to China's core industrial interests. In addition, there are a host of practices, including weaponized antitrust and other behind-the-border measures, the WTO is not set up to address. But more importantly, the GATT/WTO trade regime could not conceive of the idea that some nations would be power traders.

The U.S. government needs to focus on preventing the degradation of American advanced industry capabilities. Besides a national advanced industry strategy, this means blocking virtually all Chinese inward FDI as well as limiting Chinese imports in industries where China does not play by the rules.

Globalization 2.0 is a framework in which America engages in fair and reciprocal trade with allies. As Elizabeth Economy and Melanie Hart argue, a productive next step for the United States would be to use the framework of the U.S.-Mexico-Canada Agreement (USMCA) to incorporate more countries into it, such as Australia, Japan, Taiwan, and the United Kingdom, some in Latin America, and perhaps the EU (if it cleans up its act).[121] This could and should be structured with a strong and binding dispute settlement process.

For nations that are not adversaries, but also not fair and free traders, such as India, Brazil, and other quasi-mercantilists, we should not be bound by the WTO. Surely, we should try to continue to use it as a forum for dispute resolution, but often that will not suffice and the United States will need to resort to realpolitik through unilateral actions.

When it comes to strategic rivals, especially China, much more needs to be done. First and foremost, the U.S. government needs to focus on preventing the degradation of American advanced industry capabilities. Besides a national advanced industry strategy, this means blocking virtually all Chinese inward foreign direct investment (FDI) as well as limiting Chinese imports in industries where China does not play by the rules.

Principle 6: Pressure Allies to Clean Up Their Act and Align With the United States Against Chinese Innovation Mercantilism

While the goal should be America together with our allies, that will first require allies to roll back their unfair practices targeting U.S. companies. For example, there are a host of ways that Europe protects its markets and disadvantages U.S. companies, all of which contribute to the large bilateral trade imbalance. These include discriminatory commercial and government purchases; imposition of digital services taxes on U.S. technology companies; exorbitant fines against U.S. companies; price controls on U.S. drugs; regulations that discriminate against U.S. firms; restrictions on data flows; government supported import substitution of U.S. services, including cloud computing; standards manipulation; and weaponized antitrust. Canada has acted in a similar, albeit less extreme, manner.

The U.S. government cannot continue keeping the allied partnership so sacrosanct that it puts up with these kinds of trade aggressions. It's akin to a spouse who is so desperate to keep the marriage together that she turns a blind eye to her husband's philandering. Just like the spouse is justified in demanding future fidelity to keep the marriage intact, the United States is justified in demanding significantly fewer trade barriers and techno-economic aggression from our allies. The United States can't reasonably expect to get everything it wants, but it should expect significant progress.

A second key component of this hopefully new allied partnership should be a commitment to join ranks to combat Chinese innovation mercantilism to include serious consideration of whether WTO commitments are sustainable when China uses texts such as the Agreement on Subsidies and Countervailing Measures as a roadmap to design industrial policies that are difficult to contest. Ideally, our core allies, including the Commonwealth nations, the EU, Japan, South Korea, and Taiwan, work together. Biden secretary of state Tony Blinken made a key strategic mistake when he stated that the United States would not require other nations to side with us against China.[122] If nations want to have their cake and eat it too, we should make it clear that they are no longer core trade allies. It appears that the EU likes its cake, as European Commission President Ursula von der Leyen recently stated that she intends for the EU to develop much closers ties with China now that Trump is president.[123]

If nations want to participate in open and unfettered trade with the United States, they need to choose the West, fair and open markets, and freedom. That means working with the United States on policies to help win over unaligned nations while coordinating on actions to limit China's targeted destruction of allied core industries. If nations are willing to stand up and be part of this U.S.-led coalition, then the United States will engage in open free trade with them.

Principle 7: Establish a Process and Institution That Can Effectively Adjudicate Disputes Among Free-Trading Nations

The past two decades have demonstrated that the WTO cannot effectively limit China's destructive power trade. There are many reasons, including China's willful opacity; power to intimidate companies and countries from bringing cases against it; it's ability to engage in weaponized power trade without creating laws and regulations that can be challenged in the WTO; and its use of a vast array of weapons that the WTO does not cover.

This does not mean walking away from the WTO, as it is still useful to help ensure that other countries play by the rules more often. But it is time to craft an alternative to the WTO. This should take the form of a new trade alliance led by the United States and involving countries that are committed to playing by the rules, and governed by a binding dispute resolution mechanism process.

The Trump administration should not make the same mistake the Obama administration made of casting the net too broadly when it included too many nations in the TPP grouping that made it hard to craft a "gold standard" agreement protecting free trade and U.S. interests.

Membership should also include the requirements of defending other members if they are attacked economically by China or other adversaries. If any member is threatened or attacked unjustly with trade measures that inflict economic harm, member countries would quickly convene and consider whether to take joint action to defend the member nation.[124]

Across-the-board decoupling from China would only help China.

Principle 8: Don't Decouple From China

The animus toward China is severe. And, not surprisingly, it generates strong emotions. And for many, those emotions lead to a dictate that America decouple from China: no more investment and little or no trade. But across-the-board decoupling from China would only help China.

If Globalization 1.0 was all about "Chi-merica"—a near-complete U.S.-China economic integration—then Autarky 1.0 is about severe and abrupt decoupling. To be sure, the United States should severely limit Chinese investment in the United States, including in venture capital and start-ups. And as described, it should limit imports of unfairly produced goods and services from China. But if that helps us and hurts China, how does doing the opposite—not selling to China—hurt China? Every dollar of sales to China of commercial airplanes, drugs, cars, semiconductors, Internet services, and more are sales that American companies and their workers get, and sales that Chinese companies do not get. And in a global competition for more sales of low marginal cost goods and services, Chinese sales are key. Moreover, a key to Xi Jinping's dual circulation strategy is precisely to reduce the importance of imports to the Chinese economy so that Chinse firms get more market share, both domestically and then globally. As Rand analyst Jimmy Goodrich notes, China is seeking to establish a fortress economy—presumably to survive the economic disruption an invasion of Taiwan would generate—as it reduces dependence on imports.[125] Decoupling from China would be playing directly into the Chinese Communist Party's hands by reducing their dependence on America.

Of course, this does not mean selling China everything it wants. Export controls need to be judicious and balance the benefit of limiting China's advance with the costs of harming U.S. firm revenues.

Some autarkic China hawks will grant this but argue that it's just a matter of time before China boots out all U.S. sales, so why not get it over with? The answer is because 10 or so years of sales for U.S. firms (and their workers) is not something to blithely walk away from.

Principle 9: Insist on Floatable Currencies, Especially the U.S. Dollar

As discussed, globalization does not work if currency values cannot respond to global competitiveness. If a country is running a sustained large trade deficit, its currency should fall. If it is running surpluses, its currency should rise. The United States should insist that other nations, including China, embrace market-based currency policies. And the U.S. government should stop defending the value of the dollar as long as the United States is running a trade deficit.

Principle 10: Fight Back Against Advanced Industry Mercantilism

Effectively defending advanced industries will require our own action. While the WTO should not be abandoned, the likelihood that this body can play any real role in limiting Chinese power trade is minimal.

And the time is past when U.S., and even allied, policies can alter China's path. Xi Jinping has made it clear that China will do what China wants. The Trump administration should be under no illusions that it can craft any deals on trade with China to change its behavior. And seeking deals to have China buy more of our products only plays into China's hands. China would be happy to buy more U.S. soybeans as a way to buy off the Trump administration and continue its predatory free hand when it comes to advanced industries.

Until recently, most in the "slow China down" camp believed that the United States should do more to impose "pain" on China (through either multilateral or unilateral means) to pressure its government to roll back its destructive and predatory trade and economic policies. Such a unilateral strategy might have worked 15 years ago, but as the limited results of the Trump administration's efforts showed, China is too powerful now to be swayed by any actions the U.S. government can take. China's mind is made up to double down on its "Made in China: 2025" program, even if public usage of the term has stopped. Meanwhile, a multilateral strategy has not been possible because many U.S. allies, particularly those in Europe, have seen China as an economic opportunity too important to give up, so they and many other nations have been happy to let the United States be the one to challenge China while they have sat back and unfairly reaped the rewards.[126]

With the growing recognition that there is in fact little America can do to get China to roll back its innovation mercantilist regime, many have now shifted their focus toward limiting key U.S. inputs for Chinese success, including access to universities, financial markets and capital, FDI in the United States, and IP. Yet, while many such policies should be adopted, they still would not be sufficient to slow China's encroachment into advanced industries. China will still be "going faster" than the United States.

As such, the federal government needs to embrace an approach that seeks to limit China's ability to profit from industrial predation. In particular, Congress should amend the Tariff Act of 1930 to enable stronger use of the USITC Section 337 statute, amending it to make it easier to exclude goods and services from China supported by systemically unfair trade practices.

Box 2: Employing Defensive Measures to Protect Allied Advanced Technology Capabilities; The Case of Electronic Displays

In recent years, Chinese manufacturers have rapidly captured global market share in the display sector as a result of concerted and largely mercantilist Chinese government strategies to gain global dominance in advanced technology sectors. The largest Chinese display manufacturer by far is BOE Technology Group Co., Ltd. ("BOE"). BOE is regularly among the top 10 annual recipients of Chinese government subsidies, demonstrating the importance of the display sector to China's industrial strategy. BOE received a total of $3.9 billion in subsidies from the Chinese government from 2010 to 2021, averaging $325 million in subsidies annually; in 2023, BOE received $532 million in subsidies, which was more than the company's $350 million in profits for the year. In addition to loans and grants, subsidies for Chinese display manufacturers have taken the form of tax breaks, discounted capital, free or discounted land and utilities, and state-provided financing for hiring foreign talent. For example, local government subsidies can cover up to 85 percent of the costs of building a display facility in China.[127]

Chinese display producers have also benefited from extensive foreign IP theft. In July 2023, South Korea's Supreme Court found executives and employees of Toptec, a key input supplier to the display industry, guilty of leaking key technological assets to BOE. In July 2024, a former Samsung engineer was sentenced to six years in a South Korean prison for leaking $24.5 million worth of display technology secrets to China.[128] And just recently, USITC's administrative law judge determined that certain Chinese displays infringe Samsung Display's U.S. patents related to innovations in active matrix organic light-emitting diode (AMOLED) display technology.

If Chinese display manufacturers are allowed to continue selling infringing AMOLED displays in the U.S. market, China will continue to capture market share through unfair trade practices, which poses a grave threat to U.S. economic and national security. Fueled by aggressive government subsidies and IP theft, Chinese display makers such as BOE have been depressing profitability for non-Chinese competitors that must earn market-based rates of return in order to survive. This approach has succeeded in driving most of China's competitors out of the liquid-crystal display (LCD) sector—Japanese companies stopped investing in the sector wholesale around 2010—or precluded other would-be competitors from entering.[129] This is how China's share of LCD production increased from zero in 2004 to 72 percent in 2024, and its global market share in OLEDs increased from less than 1 percent in 2014 to over 50 percent in 2024.[130]

China's skyrocketing growth in the display sector and the resulting demise or weakening of non-Chinese display manufacturers puts the United States in a vulnerable position, as it will be forced to depend on China for critical display inputs. This is especially concerning at a time when the United States has taken steps to increase resilience in supply chains for critical ICT sectors and military applications. In a September 2024 letter to Defense Secretary Lloyd Austin, the Chairman of the House Select Committee on China John Moolenaar wrote that "the U.S. national security risk posed by the People's Republic of China's (PRC) growing domination of the global display industry [arises from the fact that] displays are increasingly playing a role in many of our advanced weapons systems, from Javelin missiles to drones."[131] With displays vital to numerous weapons system platforms, the United States needs to ensure that there are allied, non-Chinese display capabilities and options for defense purposes alone.

Moreover, China's increasing capabilities in display manufacturing are likely to spill over to adjacent sectors such as semiconductors. The manufacturing process similarities between fabricating displays and semiconductors are close to 70 percent, meaning that as Chinese display manufacturers develop their capabilities, they will directly contribute to advancing China's semiconductor capabilities, which are negatively affecting U.S. semiconductor companies.[132] Thus, U.S. national and economic security concerns support countering China's unfair trade practices and growing dominance by excluding the infringing displays from the U.S. market.

Infringement of U.S. patents related to the AMOLED display technology is just one example of China's systemic IP theft across numerous advanced technology sectors. For exampleUSTR has documented how the Chinese government conducts and supports cyber intrusions to steal IP from U.S. firms, among its many other unfair practices.[133] The FBI averages a new case every 12 hours against Chinese nationals for IP theft.[134] Such practices are driven by China's primary goal to gain global dominance in the most advanced technology industries.[135]

China's government-sponsored IP theft is harmful to the U.S. public interest in protecting IP rights. If USITC decides not to exclude imports of the infringing displays, the impact of that decision would not be limited to the display sector—the U.S. government would effectively be signaling that it is prepared to tolerate China's widespread practice of stealing U.S. IP. When such practices are left unchallenged, China grows in confidence that it can continue to flout the rule of law in the international arena, and both America and our core allies are weakened. Thus, the remedies from this investigation are necessary to thwart China's IP theft in all advanced technology industries.

Section 337 was made into law to help address unfair foreign trade practices. It should be used vigorously to prevent the import of IP-infringing products from firms that systemically benefit from unfair government practices in non-market, non-rule-of-law economies such as China.[136] In light of the significant public interest concerns detailed herein, USITC should impose a robust remedy that excludes the infringing Chinese displays from the U.S. market.

Principle 11: Expand Trade Rules to Cover More Behind-the-Border Issues

For too long, trade agreements have focused on reducing tariffs and obvious "behind-the-border" distortions such as export subsidies and local production requirements. But the innovation mercantilist toolbox is almost as large as the entire panoply of public policies. Countries now use a wide variety of tools and means to unfairly gain trade advantages, including antitrust, weak IP protection, drug pricing, currency manipulation, tax discrimination, data flow restrictions and a variety of economic and social regulations.

Any new trade or renegotiated trade agreements need to have strong and enforceable disciplines in these and other areas. At the same time, it can't hurt to work through the WTO to expand the scope of areas it can cover.

Principle 12: Provide Better Support to Places and Workers Hurt by Trade Disruption

Despite defenders of Globalization 1.0 having long argued for more support for workers hurt by trade, existing support has actually been cut. They have been less vocal on the importance of regional development programs to help certain areas and towns hurt by trade. One advantage of a

Globalization 2.0 framework is that American workers and regions would benefit more from trade and so the needs for such compensatory measures would be less. But some initiatives would be needed, especially active regional development programs to help communities rebuild from trade shocks.

A POLICY AGENDA TO ADVANCE GLOBALIZATION 2.0

To operationalize Globalization 2.0, Congress and the Trump administration need to take an array of steps. These can be organized into four main areas: 1) organizational strategy, 2) market opening, 3) trade enforcement, and 4) export promotion.

Organizational Strategy

1. **Establish a White House National Competitiveness Council (NCC).** At the end of the day, the problem is not so much knowing what to do, but rather having people in the White House with the incentives and ability to solve America's innovation, productivity, and competitiveness challenges—and we certainly have not seen that during this century. The Council of Economic Advisors is the home for conventional neoclassical economists, focused largely on overall macroeconomic policy. The National Security Council, while having had some focus on these issues, sees them through the lens of national security, intelligence, and foreign policy. And the National Economic Policy team focuses largely on broad domestic economic policy issues, often related to social policy, business regulation, infrastructure, college debt, inflation, and small businesses.

   What is needed is an NCC focused on formulating and coordinating advanced-industry competitiveness policy across the federal enterprise. We believe that this is so important that it deserves its own recommendation. NCC would oversee analysis of U.S. advanced-industry capabilities, especially vis-à-vis China. It would assess Chinese policies designed to erode U.S. advanced-industry leadership, identify key sectors needed for U.S. leadership, and organize a whole-of-government approach to advance this on the sectoral level (e.g., semiconductors, biopharmaceuticals, aerospace, autonomous systems, AI, etc.). NCC should be staffed not by economists who focus principally on price-mediated markets, but rather by "productionists": analysts who have a deep understanding of firm, industry, and technology dynamics.

   It would also play a key role in shaping budget policy. All too often, individual department heads think about their budgets with little or no consideration of the challenge of U.S. advanced industry competitiveness. Case in point, former attorney general Merrick Garland offered testimony before Congress denying that DOJ should receive more funding for trade enforcement. For Garland, this would mean less money for his priorities. [137]

Market Opening

2. **The United States should reset and restart its trade agenda,** including negotiating new and upgraded trade agreements with its closest trading partners (such as the United Kingdom) to ensure that trade arrangements reflect the state of global techno-economic competition and cooperation. This could include joining or initiating new digital economy agreements that combine legally binding and enforceable commitments on well-known digital trade issues (e.g., data localization) and soft commitments to cooperate on emerging regulatory issues (via memorandums of understanding, or MOUs).

3. **Join the Comprehensive and Progressive Transpacific Partnership (CPTPP) agreement.** The United States should integrate itself into the Asia-Pacific economy via a formal—and commercially meaningful—trade agreement, a critical component to both aligning and upgrading trade rules, and also garnering support for broader measures to counteract unfair Chinese trade and economic practices. As such, the next administration should join the CPTPP, ideally as a way to keep China out. And this time around, in contrast to the TPP negotiations, it should ensure the inclusion of enforceable currency manipulation rules and strict rules of origin requirements.
4. **Renew efforts to make the WTO moratorium on digital duties permanent.** The global digital economy is premised on the seamless flow of data and digital products. Allowing countries such as India, Indonesia, and South Africa to enact digital duties would change this. The next administration should work with the many countries that have already made binding trade law commitments on the moratorium to expand these to new countries.
5. **Develop a more integrated North American production system.** To build on what NAFTA/USMCA has achieved, the United States, Canada, and Mexico should coordinate and enact an ambitious and coordinated series of trade, technology, and innovation policies, while rolling back existing protectionist policies, in order to spur deeper North American integration. The United States is much better served to have low-wage production performed in Mexico than in China (though ideally not by Chinese firms operating in Mexico). And it is better served by having a much larger addressable market in North America to counter China's massive market. And it is much better served to have robust North American natural resource development. Trump's misguided 25 percent tariffs on Canada and Mexico are directly antithetical to this and threaten to do needless, untold harm to the North American production system.
6. **These steps should include measures to reduce border barriers and encourage "innovation corridors" along the border,** such as Vancouver/Seattle, Detroit/Windsor, Toronto/Hamilton/Buffalo, and Montreal/Plattsburgh.[138] Respective government procurement policies should include USMCA partners. The three countries should also institute a mechanism to create a jointly funded initiative for a set of institutes to support a North American advanced manufacturing ecosystem. In addition, the next administration should work to make U.S. Export-Import Bank (EXIM) content requirements more flexible for high value-added goods produced with Mexico and Canada.
7. **Develop and promote an "Innovation Trade Agreement" that would have zero tariffs on goods across all high-tech industries.** In the original 1996 ITA, 83 countries came together to eliminate tariffs on trade in hundreds of IT products, with 53 countries agreeing to a 2015 expansion that added over 200 more products to the agreement. In 1995, 22 counties agreed to the Pharmaceutical Tariff Elimination Agreement (i.e., "Zero for Zero"), with the signatories eliminating tariffs on thousands of pharmaceutical entities. An Environmental Goods Agreement sits in limbo at the WTO. The next administration should spearhead creation of a WTO "Innovation Trade Agreement" that would commit nations to eliminate tariffs on trade in a suite of the world's most important advanced technology products.

8. **Lead initiatives and negotiate new agreements to build an open, rules-based system for the free flow of data among likeminded partners.** The next administration should build upon its success with CLOUD Act agreements, the OECD agreement on trusted government access to data held by private entities, and the Global Cross-Border Privacy Rules initiative with new agreements and cooperation with likeminded partners to address issues around data flows, while allowing data to flow freely. These initiatives help contrast the United States and its partners from China's digital protectionism. This could include cooperation on the free flow of data used for training and using AI.

Trade Enforcement

For too long, American trade policy has been stuck on "open": the more trade, the better, even if that trade was often one-sided and unfair. That is no longer tenable. But the alternative should not be the opposite: cutting off America from trade and rolling back globalization. Rather, the Trump administration should deepen and expand trade, but only with other nations that commit to playing by the rules and diminishing their mercantilist and often anti-U.S. policies, while at the same time pushing back more vigorously against unfair trading nations, especially China. This means that the Trump administration needs to focus much more on trade enforcement, especially against China, and not only with existing tools, but rather with new and revamped ones.

9. **Charge USTR with working with willing allied partners to develop a full "China Bill of Particulars" report** that comprehensively documents the extent of Chinese mercantilist, unfair trade, and domestic economic and technology policies. Many of these have been noted, but in a piecemeal manner.

10. **Charge USTR with developing an inventory of all major U.S. trading partners and assessing which are most detrimental to the United States.** ITIF's March 2025 report "The Trade Imbalance Index" provides a useful guide for how to do so.[139]

11. **To the extent the next administration imposes new tariffs, they should be reciprocal to those of our trading partners.** Using tariffs as a broad protectionist tool as they were from the Civil War to the New Deal is not appropriate in today's global economy. They will harm many U.S. producers and induce reciprocal responses from other nations. However, it is appropriate for the next administration to insist on tariff reciprocity. For example, as a group, the Indo-Pacific Economic Framework for Prosperity (IPEF) nations impose higher tariffs on U.S. exports than the United States does on imports from their economies.[140] The next administration should insist that these nations match overall U.S. tariff levels, and if they don't, it should increase U.S. tariffs to match their levels.

12. **Stop defending the strong dollar.** The U.S. dollar is significantly overvalued; otherwise, the United States would not be running a trade deficit of close to $1 trillion. Despite this, the U.S. financial and foreign policy communities still defend a strong dollar, in part because of the supposed leverage the dollar reserve currency gives U.S. policymakers. This is a mistake. A strong dollar is like heroin; it provides a short-term high, followed by a long-term decline in health. A higher dollar means more imports and less exports. Over the moderate to long term, a strong dollar and reserve-currency status are a result, not a cause of competitiveness and national strength. Moreover, a strong advanced industrial base is much more important to U.S. national power than having the reserve currency. As

such, Trump administration financial officials, including the Fed and Treasury, should take steps to reduce the value of the dollar.[141]

13. **Urge Congress to reform USITC Section 337 to better respond to unfair Chinese imports.** Section 337 of the 1930 Tariff Act allows USITC to bar imports when domestic industries suffer harm due to unfair competition. But the law needs to be reformed to better address the unfair trade practices China uses to capture market share in advanced industries at America's expense. In addition, the next administration should charge the Commerce secretary with thoroughly analyzing and documenting all unfair trade practices in China, and then to work with DOJ to file Section 337 complaints at USITC. At the same time, the next president should appoint USITC commissioners who are committed to supporting Section 337 unfair trade practices and see all forms of innovation mercantilism as an unfair trade practice to be resolutely responded to. This recommendation fits with the directive in the "America First Trade Policy" for the secretary of Commerce to "review policies and regulations regarding the application of antidumping and countervailing duty (AD/CVD) laws, including with regard to transnational subsidies, cost adjustments, affiliations, and zeroing."[142]

14. **Better prosecute trade crime, especially transshipment and misclassification.** Chinese companies are masters at getting around trade rules, including exporting products to a country for transshipment to the United States as a way to circumvent U.S. tariffs. Often the amount of value added contributed in the third country is de minimis. Yet, this is seldom prosecuted. Congress should pass and fully fund the Protecting American Industry and International Trade Crimes Act that, among other elements, expands DOJ resources to prosecute trade crime.[143] This should go hand in hand with reform of USITC's Section 337, and, ideally, companies found guilty of trade crimes should automatically have a 10-year exclusion order against all their imports to the United States. At the same time, the Trump administration needs to strengthen Customs and Border Patrol (CBP) cooperation with partners, especially Association of Southeast Asian Nations (ASEAN) members, to enforce their own customs laws to stop transshipment.

15. **Expand U.S. Department of Commerce and USITC's budget for trade analysis, investigations, and enforcement.** The United States needs to look at trade enforcement not as spending, but rather as an investment, as it plays a key role in boosting U.S. economic growth and competitiveness. Both these agencies' budgets should immediately be significantly increased and indexed to GDP growth going forward.

16. **Impose export controls judiciously.** Export controls have become the China trade tool of choice, premised on the belief that the United States can throw serious "spanners" into the works of the Chinese techno-economic machine. All too often, however, these export controls have backfired, as we have seen in the case of Huawei, where Chinese companies identify workarounds, supporting their own indigenous innovation and limiting U.S. global sales—a lose-lose result.[144] The next administration needs to take a much more restrained approach, refocusing back to technologies more directly related to military capabilities and not dual-use technologies.

17. **Develop a new multilateral export control regime.** In advanced-technology industries such as AI and semiconductors, the United States should eschew the application of unilateral

export controls. The next administration should seek to develop a more ambitious and effective plurilateral approach to promulgate export controls among like-minded nations that have indigenous semiconductor production capacity, such as Germany, Japan, South Korea, Taiwan, the Netherlands, and the United Kingdom. In addition, to assist other nations in modernizing their export control regimes, the next administration should encourage Congress to expand the remit and funding for the Export Control and Related Border Security (EXBS) program at the U.S. Department of State. The EXBS program works with partner governments to identify regulatory and institutional gaps and provide technical and capacity-building assistance.

18. **Support multilateral efforts to limit technology transfer to China and other forms of free-riding upon U.S. and allied nation technology.** In violation of WTO rules, China forces foreign companies to transfer technology to Chinese companies in exchange for market access. Imposing unilateral controls on U.S. firms will only deny U.S. firms' sales in China, ceding that market to foreign firms. As such, the Trump administration should work to ensure that any tech transfer limitations should be implemented in coordination with our allies, ideally through a new plurilateral export control agreement.

19. **Ramp up efforts to limit Chinese cyber-IP theft and espionage.** More needs to be done to limit Chinese IP theft. The next administration should work with Congress to pass legislation increasing criminal penalties for such actions. Its next budget should include a sizeable increase for the FBI's Office of Commercial Counterintelligence.[145] The next administration should designate the secretary of Commerce as the principal government official responsible for enhancing and implementing policies regarding the protection of IP. In addition, Chinese companies identified as engaged in commercial spying against the United States should be denied access to U.S. markets and financial services. The next administration should also urge Congress to enact the SECRETS (Stopping and Excluding Chinese Rip-offs and Exports with United States Trade Secrets) Act, which would create a powerful new legal tool to deter and punish state-backed IP theft. Finally, the next administration needs to lead allied trading partners to move from collective condemnation of China to collective action and punishment. This fits with the Trump administration's "America First Trade Policy" directive for pertinent U.S. agencies to "assess the loss of tariff revenues and the risks from importing counterfeit products and contraband drugs."[146] This also fits the separate directive for the secretary of Commerce to "asses the status of United States intellectual property rights such as patents, copyrights, and trademarks conferred upon PRC persons, and shall make recommendations to ensure reciprocal and balanced treatment of intellectual property rights with the PRC."[147]

20. **Increase federal efforts to disrupt the global flow of counterfeits.** Chinese counterfeit goods jeopardize U.S. consumer safety, erode public confidence, reduce U.S. jobs, and unfairly support Chinese economic growth. The government unfortunately struggles to stop many counterfeit shipments. To address this problem, the next administration should increase the Customs and Border Protection budget and appoint a director who will collaborate with private-sector stakeholders, including brand sellers, online marketplaces, and shippers, to establish real-time information sharing and analytics about potential

counterfeit shipments that would allow them to better detect and seize more imported counterfeits.

21. **Broaden CFIUS.** The Committee on Foreign Investment in the United States (CFIUS) is charged with protecting U.S. defense capabilities. But the battle is not just for military supremacy but also broad, dual-use supremacy. As such, the next administration should broaden CFIUS reviews to limit most, if not all, Chinese acquisitions and investments in U.S. companies, including start-ups, with more than minimal technological capabilities.

22. **Institute, ideally along with our allies, a tariff floor on rare earth minerals.** This is needed to prevent China from using price predation to limit production and processing of rare earths by allied nations. China has used subsidies and dumping (pricing below costs) to gain a significant global advantage in rare earths. U.S. subsidies, even if they were forthcoming, will not likely change that outcome. Only a price floor that gives producers the assurance that they will not be undercut by Chinese producers will.

23. **Increase criminal penalties for techno-economic espionage committed against U.S. firms.** For too long, economic espionage has been treated as simply a commercial crime as opposed to a national security crime. With China laser focused on stealing as much core advanced technology information and knowledge as possible from the United States in order to gain global leadership and use in its civil-military fusion, it's time for that to end.

    Examples of flaccid penalties abound. A professor and researcher with strong ties to China was sentenced to just 37 months in prison for making false statements to federal authorities as part of an immunology research fraud scheme.[148] A Taiwanese man was sentences to just 44 months in jail for illegally diverting key pharmaceutical products to China.[149] Yi-Chi Shih received five years for conspiring to illegally export semiconductor chips.[150] Zheng Xiaoqing was sentenced to just two years for stealing turbine technologies from GE Power.[151] This effort needs to be part and parcel of a significant expansion of the FBI's commercial counter-intelligence efforts.[152]

24. **Assess the impact of foreign unfair trade practices, especially China's, on the long-term health of the U.S. industrial base.** China's mercantilist trade practices have contributed substantially to a hollowing out of the U.S. manufacturing base, including the U.S. defense industrial base. For this reason, ITIF supports the "America First Trade Policy's" call for the secretaries of Commerce and Defense to "conduct a full economic and security review of the United States' industrial and manufacturing base to assess whether it is necessary to initiate investigations to adjust imports that threaten the national security of the United States."[153]

Export Promotion

Given that the United States is running an approximately $1 trillion trade deficit, it should be clear that the federal government needs to do more to promote U.S. exports. This is particularly important in unaligned nations, where China is aggressively seeking to be their importer of first resort. The United States cannot afford to sit out that competition.

25. **Support EXIM bank reauthorization and expansion.** The EXIM Bank plays a key role in helping U.S. exporters gain sales. The next administration should strongly support full

congressional reauthorization of the EXIM Bank in 2026, as well increased lending authority and targeted reforms (including allowing the bank to lose some money on loans for U.S. firms going to head-to-head against Chinese firms). It should also allow EXIM to finance weapons exports to our allies (with approval from the U.S. Defense Department).

26. **Use foreign trips as an opportunity to promote U.S. exports.** All governors and most foreign leaders use foreign trips as an opportunity to open foreign markets and expand U.S. company sales. President Trump and his top cabinet officials need to do the same.

27. **Expand exports to China.** The United States cannot win the techno-economic war with China without selling more to China. Every dollar of U.S. sales to China is a dollar less that their companies receive, and a dollar more ours receive. While export controls are needed, they should be limited to only the most critical technologies. And at the same time, the next administration should ignore those arguing for boycotting China, including for human rights reasons, and encourage U.S. companies to contest Chinese firms in the Chinese market.

28. **Charge the Commerce Department with developing an integrated national export assistance system.** Trade promotion and assistance—helping companies in the United States of all sizes export—is a jumble of different programs at different levels of government that is disorganized and uncoordinated, making it difficult for exporters to get the information and assistance they need. The next administration should charge the Commerce Department with establishing a national, inter-agency, and intergovernmentally aligned trade promotion system.

29. **Exempt U.S. firms from the U.S. Foreign Corrupt Practices Act (FCPA) when they are competing head-to-head with Chinese firms.** The FCPA makes it illegal for firms doing any business in the United States to offer bribes or other unfair actions in order to gain foreign business. While the intention is good—a level playing field for companies around the world—the result is problematic. It would be one thing if all countries had similar laws and enforced them rigorously. But that is not the case.[154] In particular, China turns a blind eye to its companies bribing foreign officials to gain market share.[155] This means that enforcement of the FCPA ties the hands of U.S. and allied companies seeking foreign business, giving China a free hand to win market share in third-world countries.

    A second problem with the FCPA is that it extracts often significant fines from allied companies, reducing their ability to compete with Chinese firms. For instance, at a time when Ericsson was fighting for its life competing with Chinese firm Huawei for telecom equipment contracts around the world, DOJ fined it over $1 billion, amounting to almost one-quarter of its R&D budget.[156] In its final decision, DOJ made no mention of Ericsson's battle with China's Huawei. As such, Congress should allow any U.S. or allied firm to engage in bribery and similar activities in foreign nations if it is competing against Chinese firms.

OPPOSITION TO GLOBALIZATION 2.0 AND NEXT STEPS

There will be opposition to Globalization 2.0. It is not the autarkic agenda the Trump administration or the many organizations such as the Coalition for a Prosperous America seek. Advocates for Autarky 1.0 are suffering from a kind of post-traumatic stress syndrome from the harms of Globalization 1.0, unable to process the current world rationally. In part because of the failures of Globalization 1.0, few can give intellectually fair consideration to Globalization 2.0; instead, they default to rejection and autarky.

While the economic autarkists want to limit trade in order to protect the sainted blue-collar worker, cultural autarkists want to limit globalization because they believe it pollutes the American soul and destroys America's autonomy.[157] But leaving aside the question of whether their argument is valid, there is a difference between immigration and trade. One can hold restrictionist views on immigration without embracing trade autarky. Importing Mexican beer and hot sauce does not destroy American culture.

Globalization 2.0 will have to emerge from patriotic pragmatists: individuals who put America first, but not alone. Individuals who support a strong U.S. advanced-industry base, but who do not want to protect all manufacturing firms and jobs. Individuals who can't distinguish between a free trade agreement with Britian and one with China. But the reality is that unless defenders of Globalization 1.0 get on board with Globalization 2.0, Autarky 1.0 is likely to prevail, at least for the foreseeable future, and until its structural weaknesses and inevitable failures become so obvious that most people can't deny them.

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About ITIF

The Information Technology and Innovation Foundation (ITIF) is an independent 501(c)(3) nonprofit, nonpartisan research and educational institute that has been recognized repeatedly as the world's leading think tank for science and technology policy. Its mission is to formulate, evaluate, and promote policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress. For more information, visit itif.org/about.

ENDNOTES

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137. See below House testimony from April 2024:

AG Merrick Garland: You put your finger on an important risk to our economy, which is fraudulent traded goods. That's why we have a trade fraud Task Force, which enhances collaboration between the Justice Department and the other agencies that you were discussing to investigate trade fraud. It helped initiate more than 70 investigations involving hundreds of millions of dollars of fraudulently imported goods. One good example is just last month, the Ford Motor Company agreed to pay $365 million to settle customs civil penalty claims related to misclassified and undervalued items. So I recognize the significance of this for our economy, and I believe our Justice Department Task Force is working well with other departments on this matter, including the Department of Homeland Security.

Congresswoman DeLauro: Do you have enough personnel to take on this issue and resources in a more robust way? I said $3.27 trillion. We collect $19.4 million. That seems to be some great disparity. And I'm just asking, no, no, what do you need from us to be able to deal with this area on international trade where we're getting killed?

AG Merrick Garland: But the trust department always liked more money. I understand that. But an assessment, yeah, I think that the money that we're requesting for our civil divisions, Consumer Protection Branch, which deals with civil this kind of fraud, and our criminal divisions fraud section, which deals with this on the criminal side, and the U.S. Attorney's offices that deal with this in each of the 94 districts and the FBI corporate crime and fraud sections. Given the budget priorities, I think we're asking for the appropriate amount. There's obviously always trade-offs, but we are, we are, I think, able to fund a robust, robust program. The most difficult aspect of this, of course, is identifying the fraudulent goods as they come in. That really is a customs and therefore our homeland security issue. And they, I'm sure would say the same to you that they need more money for this purpose.

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