

STEER FROM CRISIS TO RECOVERY WITH THE FT

Try full access for 1 €

Latest on Protectionism



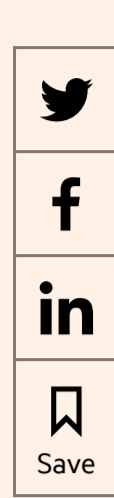
Opinion **Protectionism**

US-China rivalry drives the retreat of market economics

Industrial policy is back in fashion as geopolitical tensions increase

GIDEON RACHMAN

+ Add to myFT



© James Ferguson

Gideon Rachman MAY 10 2021

138

Be the first to know about every new Coronavirus story

Get alerts

Old ideas are like old clothes — wait long enough and they will come back into fashion. Thirty years ago, “industrial policy” was about as fashionable as a bowler hat. But now governments all over the world, from Washington to Beijing and New Delhi to London, are rediscovering the joy of subsidies and singing the praises of [economic self-reliance](#) and “strategic” investment.

The significance of this development goes well beyond economics. The international embrace of free markets and globalisation in the 1990s went hand in hand with declining geopolitical tension. The cold war was over and governments were competing to attract investment rather than to dominate territory.

Now the resurgence of geopolitical rivalry is driving the new fashion for state intervention in the economy. As trust declines between the US and China, so each has begun to see reliance on the other for any vital commodity — whether semiconductors or [rare-earth minerals](#) — as a dangerous vulnerability. Domestic production and security of supply are the new watchwords.

As the economic and industrial struggle intensifies, the US has [banned](#) the exports of key technologies to China and pushed to repatriate [supply chains](#). It is also moving towards direct [state-funding](#) of semiconductor manufacturing. For its part, China has adopted a “[dual circulation](#)” economy policy that emphasises domestic demand and the achievement of “major breakthroughs in key technologies”. The government of Xi Jinping is also tightening [state control](#) over the tech sector.

The logic of an arms race is setting in, as each side justifies its moves towards protectionism as a response to actions by the other side. In Washington, the US-China [Strategic Competition Act](#), currently wending its way through Congress, accuses China of pursuing “state-led mercantilist economic policies” and industrial espionage. The announcement in 2015 of Beijing’s “[Made in China 2025](#)” industrial strategy is often cited as a turning point. In Beijing, by contrast, it is argued that a fading America has turned against globalisation in an effort to block China’s rise. President Xi has said the backlash against globalisation in the west means China must become more [self-reliant](#).

The new emphasis on industrial strategy is not confined to the US and China. In India, Narendra Modi’s government is promoting a policy of [Atmanirbhar Bharat](#) (self-reliant India), which encourages domestic production of [key commodities](#). The EU published a paper on [industrial strategy](#) last year, which is seen as part of a drive towards strategic autonomy and less reliance on the outside world. Ursula von der Leyen, European Commission president, has [called](#) for Europe to have “mastery and ownership of key technologies”.

Even a Conservative administration in Britain is turning away from the laissez-faire economics championed by former prime minister Margaret Thatcher, and seeking to protect strategic industries. The government is reviewing whether to [block](#) the sale of Arm, a UK chip designer, to Nvidia, a US company. The UK government has also bought a controlling stake in a failing satellite business, [OneWeb](#).

Covid-19 has strengthened the fashion for industrial policy. The domestic production of vaccines is increasingly seen as a vital national interest. Even as they decry “[vaccine nationalism](#)” elsewhere, many governments have moved to restrict exports and to build up domestic suppliers. The lessons about national resilience learnt from the pandemic may now be applied to other areas, from energy to food supplies.

In the US, national security arguments for industrial policy are meshing with the wider backlash against globalisation and free trade. Joe Biden’s rhetoric is frankly protectionist. The president [proclaimed to Congress](#): “All the investments in the American jobs plan will be guided by one principle: Buy American.”

In an [article](#) last year, Jake Sullivan, Mr Biden’s national security adviser, urged the security establishment to “move beyond the prevailing neoliberal economic philosophy of the past 40 years” and to accept that “industrial policy is deeply American”. The US, he argued, will continue to lose ground to China on key technologies such as 5G and solar panels, “if Washington continues to rely so heavily on private sector research and development”.

Trade Secrets



The FT has revamped Trade Secrets, its must-read daily briefing on the changing face of international trade and globalisation.

[Sign up here](#) to understand which countries, companies and technologies are shaping the new global economy.

Many of these arguments will look like common sense to voters. Protectionism and state intervention often does. But free-market economists are aghast. Swaminathan Aiyar, a prominent commentator in India, [laments](#) the return of the failed ideas of the past, arguing that: “Self sufficiency was what Nehru and Indira Gandhi tried in the 1960s and 1970s. It was a horrible and terrible flop.” Adam Posen, president of the [Peterson Institute](#) for International Economics in Washington, recently [decried](#) “America’s self-defeating economic retreat”, arguing that policies aimed at propping up chosen industries or regions usually end in costly failure.

As tensions rise between China, the US and other major powers, it is understandable that these countries will look at the security implications of key technologies. But claims by politicians that industrial policy will also produce better-paying jobs and a more productive economy deserve to be treated with deep scepticism. Sometimes ideas go out of fashion for a reason.

This article has been amended since original publication to reflect that Arm is a UK chip designer

gideon.rachman@ft.com

Get alerts on Protectionism when a new story is published

Get alerts

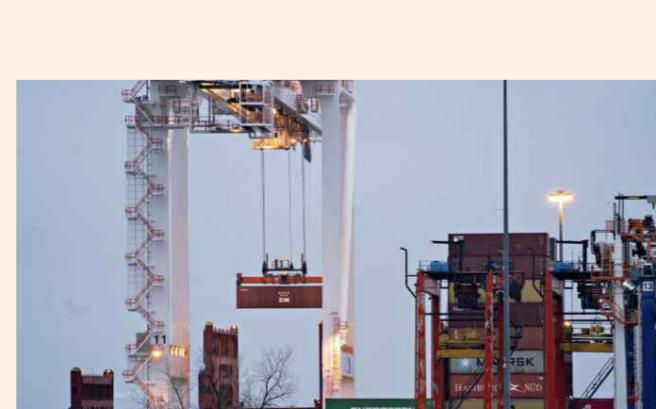
Copyright The Financial Times Limited 2021. All rights reserved.

Reuse this content

Latest on Protectionism



John Fingleton
Britain must rethink its 'national security' law



The FT View **The editorial board**
'Buy American' plan will not help US workers



Global Insight **Martin Sandbu**
Sweden flies the flag for the free-trade cause in the EU

Follow the topics in this article

- Gideon Rachman [+ Add to myFT](#)
- Coronavirus pandemic [+ Add to myFT](#)
- Protectionism [+ Add to myFT](#)
- US trade [+ Add to myFT](#)
- Chinese economy [+ Add to myFT](#)

Support	Legal & Privacy	Services	Tools
View Site Tips	Terms & Conditions	FT Live	Contracts & Tenders
Help Centre	Privacy Policy	FT Forums	Executive Job Search
Contact Us	Cookies	Board Director Programme	Advertise with the FT
About Us	Copyright	Share News Tips Securely	Follow the FT on Twitter
Accessibility	Slavery Statement & Policies	Individual Subscriptions	FT Transact
myFT Tour		Group Subscriptions	Secondary Schools
Careers		Republishing	
Portfolio	Enterprise Tools	Today's Newspaper (ePaper)	News feed
Alerts Hub	Newsletters	Business School Rankings	Currency Converter

More from the FT Group >