

# U.S. Industrial Policy Here to Stay

Forward 

LOOKING FORWARD | JANUARY 26, 2023

**The World Economic Forum (WEF) leadership likely breathed a sigh of relief when President Biden was elected, convinced that the “America first” agenda would be a thing of the past.**

Few, however, could have predicted that the Trump presidency was only the beginning – not the end – of a renewed American focus on bolstering supply chain resiliency and domestic manufacturing, or that the strained trade ties between the U.S. and its key partners would only increase under the Biden Administration. Rather than pivoting away from many of President Trump’s domestic industrial policies, President Biden has carried the torch, advancing a strategy focused on reshoring critical U.S. industries that have been weakened by policies championed by the WEF, namely uninhibited free trade and globalization.

The U.S. has learned from the COVID-19 pandemic and Russia’s invasion of Ukraine that relying on foreign actors for certain products and resources – including energy, personal protective equipment, and computer chips – represents a critical vulnerability with detrimental consequences to the American economy, society, and public health. The pain many Americans felt from supply shortages, runaway inflation, and other logistical challenges pushed U.S. policymakers to reduce reliance on overly globalized supply chains and reinvigorate U.S. manufacturing.

At Davos last week, these issues dominated the conversation, as American delegates, both lawmakers and business leaders, staunchly defended U.S. policies that advance our national and economic security. The key message they delivered? A renewed U.S. industrial strategy is here to stay.

## **BELOW ARE A FEW KEY OBSERVATIONS**

**Inflation Reduction Act:** In Davos, the Inflation Reduction Act (IRA) was at the top of the agenda for U.S. and European delegates, especially its electric vehicle (EV) tax credit provisions designed to bolster U.S. leadership in EV manufacturing and production. Senator Joe Manchin (D-WV) spent the week fiercely defending the legislation from European critics, who consider the measure protectionist and harmful to European car manufacturers given their exclusion from the EV tax credits. Sen. Manchin held his ground, telling his counterparts that “this piece of legislation was not intended to harm anybody. It was intended to keep America strong so we could help our friends.”

Final guidelines for the tax credit provision are due in March. It is unlikely the Europeans will be happy with the final results.

**CHIPS and Science Act:** The bipartisan CHIPS and Science Act, which is designed to bolster America’s computer chip industry, also received significant attention Davos. Intel CEO Pat Gelsinger called the bill a “turning point” in U.S. competition with the People’s Republic of China, who is investing heavily in its own semiconductor industry and seeks to dominate the market. Thus far, the measure has already spurred \$200 billion in private investments for U.S. semiconductor production. In addition to domestic investment, the U.S. also recently instituted export controls to restrict China’s access to advanced computing and semiconductor products, which have also provoked the ire of U.S. partners who are fighting for “free trade” in the semiconductor space.

**Aluminum and Steel Tariffs:** U.S. tariffs on steel and aluminum, pursuant to Section 232 of the Trade Expansion Act for national security purposes, have also been a point of contention. In perhaps the most significant, though understated, examples of the Biden Administration maintaining one of its predecessor’s policies, President Biden isn’t changing course. Thus far, he has maintained these tariffs to bolster domestic production capacity and protect national security interests. His administration forcefully rejected the World Trade Organization’s previous finding in December that the tariffs were in violation of global trade rules, reaffirming that they are necessary to protect U.S. national security.

**Whole-of-America Effort:** In reality, the mission to rebuild America’s critical industries can only be accomplished if private sector actors are ready and willing to support the national interest. Recent comments from Davos indicate that there is a growing chorus of companies committed to this. Whether it was Cisco’s Pat Gelsinger stating the U.S. will “win back the semiconductor industry” or Palantir’s CEO Alex Karp asserting that he only wants employees committed to strengthening the West by providing Western governments technology to defeat their adversaries, key players in corporate America are playing to win. This contrasts sharply from previous decisions by other tech giants to halt their national security-related projects, often when faced with employee pushback. As geopolitical rivalries with autocratic regimes become more acute, expect increased pressure on other U.S. companies to take similar pro-America positions.

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## LOOKING AHEAD

The hard realities of pandemic and war have forced the U.S. and other countries to look inward for the solutions to their most pressing problems. Self-sufficiency is taking precedence to cooperation. Realpolitik considerations are overpowering free market orthodoxy. While the WEF-backed economic model of free trade and globalization may have served U.S. interests in the post-Cold War era,

it seems that it will need reorienting to remain relevant in this new era of great power politics. Until then, the business community at home and abroad can expect additional efforts in Washington to incentivize domestic manufacturing and onshoring of critical industries. The era of a renewed American industrial strategy is just beginning.

## KEY TAKEAWAYS

1. **U.S. industrial policy was a hot topic last week at the World Economic Forum in Davos, Switzerland. But across the board, the bipartisan American delegation forcefully defended efforts to rebuild U.S. industry.**
2. **Like President Trump before him, President Biden has advanced a range of industrial strategies to bolster U.S. domestic manufacturing, especially in critical industries such as electric vehicles, semiconductors, and other goods that are necessary for our economic and national security. These policies have angered U.S. allies, who consider such initiatives as harmful to their own domestic industries. Their criticisms, however, have been largely brushed aside by Washington. A renewed U.S. industrial strategy is here to stay.**

