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COMPETING PILLARS: US DOLLAR'S FINANCIAL MIGHT VS. CHINA'S MANUFACTURING ASCENDANCY

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The 21st century global economy is increasingly shaped by two defining pillars of national power: financial dominance and industrial capacity. On one hand, the United States maintains an enduring edge in global finance, with the US dollar still entrenched as the world's reserve currency and American capital markets unrivaled in scale and liquidity. On the other, China has emerged as the world's manufacturing powerhouse, anchoring global supply chains and asserting influence through its industrial footprint. As economic competition intensifies between Washington and Beijing, the US must recognize that preserving its strategic edge requires more than just financial leverage. It demands an ambitious and coherent industrial strategy.

In recent years, US policymakers have responded to China's industrial rise with a series of reactive measures: tariffs, export controls, and investment restrictions. While these tools may address short-term imbalances or national security risks, they do little to resolve the foundational challenges eroding America's manufacturing base. Without tackling these core issues—a shrinking skilled workforce, outdated infrastructure, and brittle supply chains—America's efforts to restore production and reduce dependency on China will falter.

Moreover, these temporary policy instruments signal inconsistency. From Beijing's perspective, a coherent and sustained US industrial strategy poses a greater long-term challenge than ad hoc trade barriers. China has long anticipated an American pivot toward rebuilding domestic capabilities, which is why it has redoubled efforts to internationalize the renminbi (RMB) and invest in technology self-sufficiency through programs like "Made in China 2025" and the dual circulation strategy.

The landscape of high-tech manufacturing illustrates the complexity of this rivalry. Taiwanese-owned factories play an outsized role in this arena, particularly in sectors like semiconductors and electronics. Taiwan Semiconductor Manufacturing Company (TSMC), for example, produces over 90% of the world's most advanced chips and has long operated major fabrication plants in mainland China. However, geopolitical tensions and supply chain disruptions have spurred a geographic recalibration. In 2020, TSMC announced a $12 billion investment in a new Arizona factory, followed by additional plans to expand US operations to a second facility and advanced packaging plant, representing over $40 billion in commitments. Similarly, other Taiwanese firms like Foxconn have begun diversifying away from the mainland China, exploring sites in Southeast Asia and North America.

This migration is driven not only by strategic hedging, but by rising concerns over operational risk. Beijing's increasingly assertive stance toward Taiwan—underscored by military drills, trade coercion, and political pressure—has fueled public resentment in Taiwan and hardened its resolve to chart an independent economic path. For Taiwanese firms, this volatile political environment adds yet another layer of complexity to already fraught supply chain decisions. It also sharpens the urgency for Washington to work more closely with Taipei and other democratic partners to ensure the stability and resilience of high-tech industries.

These shifts also carry implications for US industrial policy. Facilitating the relocation and expansion of trusted foreign manufacturers requires proactive support—from tax incentives and streamlined

permitting to workforce training and secure energy supplies. If the US succeeds in anchoring key players like TSMC and Foxconn within its industrial ecosystem, it will not only reduce strategic vulnerabilities but also catalyze domestic innovation and regional development.

Regional engagement and tailored strategies

In Arizona, for instance, state-level coordination with federal programs has been critical in advancing TSMC's investments. Similar efforts are underway in Ohio, New York, and Texas to attract semiconductor and battery manufacturers. Local governments must be empowered with tools like workforce development grants and infrastructure bonds to prepare regions for high-tech industries. Regional partnerships with universities and technical colleges should also be expanded to create talent pipelines aligned with industry needs.

Internationally, the US should deepen industrial cooperation with regional allies. In East Asia, trilateral dialogues with Japan and South Korea can align standards and incentives for semiconductor resilience. In Southeast Asia, American firms can partner with Taiwanese manufacturers relocating to Vietnam, Malaysia, and Thailand—offering technical assistance and financing to build regional clusters of excellence. Mexico, as part of the USMCA framework, offers proximity and preferential trade treatment that could be leveraged to expand nearshoring strategies.

Additional policy recommendations include:

- **Create a national industrial council:** Modeled after the National Security Council, this body would coordinate policy across federal agencies and align public and private investment in strategic sectors.
- **Establish a regional resilience fund:** This fund would offer matching grants to states and municipalities that successfully attract and retain high-tech manufacturers and build ecosystem infrastructure.
- **Leverage Export-Import Bank of the United States and United States International Development Finance Corporation:** These institutions can support overseas projects that reduce dependence on Chinese supply chains and promote reshoring through financing, insurance, and political risk coverage.
- **Standardize permitting and tax incentives:** A national framework for permitting and incentives would reduce red tape and create predictability for foreign and domestic investors alike.
- **Codify a Taiwan-US industrial compact:** A bilateral framework to protect and promote Taiwanese investment in the US, facilitate joint R&D, and coordinate supply chain planning could be a diplomatic and economic win-win.

For Washington, a credible industrial strategy must begin with a clear sense of national purpose: not simply to compete with China, but to rebuild a resilient, inclusive, and future-ready economy. The goal is not isolationism but strategic interdependence—reducing vulnerability while fostering trusted economic ties with allies and partners. To do this, the United States must make sustained investments in three critical areas:

1. Workforce development: The erosion of America's industrial workforce is a long-term challenge with deep roots. Addressing it requires a generational investment in vocational training, apprenticeship programs, and STEM education. Policymakers must work with industry and labor to create pathways into advanced manufacturing, clean energy, and semiconductor production—sectors that are both strategically vital and poised for growth.

2. Infrastructure modernization: Manufacturing competitiveness depends on the efficiency of logistics, power, and digital infrastructure. The bipartisan Infrastructure Investment and Jobs Act was a step in the right direction, but follow-through is essential. Industrial hubs need 21st-century ports, smart grids, and broadband access to compete globally. Without modern infrastructure, the productivity gains from reshoring will remain limited.

3. Supply chain resilience: The pandemic exposed how dangerously fragile many global supply chains have become. The US must incentivize domestic production of critical inputs like rare earth elements,

batteries, and pharmaceuticals. But it must also build redundancy and flexibility into its supply networks by fostering regional production alliances with trusted partners such as Japan, South Korea, Mexico, and members of the EU.

Policy must be coupled with strategy. This includes:

- **Identifying strategic sectors** that merit targeted support—including semiconductors, green technologies, AI, and advanced robotics.
- **Using public-private partnerships** to accelerate innovation and commercialization.
- **Ensuring consistent regulatory frameworks** that promote competitiveness while upholding labor and environmental standards.

Importantly, America does not need to emulate China's model of state-led capitalism. Its strengths lie in decentralized innovation, private sector dynamism, and democratic accountability. But the government must set the direction and provide the stability needed for industrial renewal to take root.

Global allies are watching. Many share America's concerns about economic overdependence on China. A credible US industrial strategy could serve as the foundation for a broader coalition to promote economic security and democratic resilience.

Ultimately, America's long-term economic influence will rest not on the power of the dollar alone, but on its ability to produce, innovate, and lead by example. The world is entering an era where economic power will increasingly shape geopolitical outcomes. If the US seeks to preserve its leadership in this new era, then rebuilding its industrial base must be treated not as an option, but as a strategic imperative.

This does not require the US to mimic China's model of state-driven capitalism, but it does require clear direction and sustained investment. Otherwise, America risks remaining reliant on foreign supply chains and vulnerable to external shocks—as made evident during the COVID-19 pandemic.

The goal should not be isolationism, but strategic interdependence: building domestic strength while engaging with allies to construct a more resilient and balanced global economic order. Only with such a vision can the US maintain its influence in a world where economic power increasingly shapes geopolitical realities.

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