Geopoliticized Industrial Policy: Power Rivalries and the Allocation of Government Subsidies

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Global Resurgence of Industrial Policy

- Vigorous revival of industrial policy amid strategic and technological rivalry

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  - **Global North**: CHIPS and Science Act (2022), Inflation Reduction Act (2022), Infrastructure Investment and Jobs Act (2021), European Green Deal (2019).
  - **Global South**: Nova Indústria Brasil (2024), India's Production-Linked Incentive Schemes (2020), Made in China 2025 (2015).

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- Traditionally focused on government intervention to promote infant industries, nurture national champions, and address market imperfections (Haggard 1990; Wade 1993; Aiginger & Rodrik 2020).

Research Questions

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Our argument: U.S. industrial policy is a dual-purpose statecraft
Advance national competitiveness + reflect electoral particularism and rent-seeking.

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Argument: Geopoliticized Industrial Policy

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- Evolving geopolitical environments and increasing great power rivalries $\rightsquigarrow$ emphasize relative gains.
- Geopolitics factor into the making of foreign and domestic economic policy.
- Industrial policy serves as a crucial statecraft instrument $\rightsquigarrow$ strengthen strategic advantages, address vulnerabilities, and counter foreign rivals in economic, technological, and security domains.

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Argument: Geopoliticized Industrial Policy

Three Dimensions of Geopolitical Competition

- **H1 (Economic)**: Firms in located in areas that facing more import competition from China are more likely to receive federal support.
- **H2 (Technology)**: Fims operating in the industries that are prioritized in the "Made in China 2025" initiative are more likely to receive federal support.
- **H3 (Military)**: Firms in the military-industrial complex are more likely to receive federal support.

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Domestic Politics

- **H4 (Electoral Particularism)**: Firms located in a swing or core constituency are more likely to be the recipients of federal support.
- **H5 (Political Favoritism)**: Firms that are political connected are more likely to be the recipients of federal support.

Research Design

Model

$$\begin{aligned}\Pr(\text{subsidy}=1) = \alpha &+ \beta_1 * \text{ChinaImportComp} + \beta_2 * \text{MIC2025} + \beta_3 * \text{MilitaryIndustry} \\ &+ \beta_4 * \text{coreCD} + \beta_5 * \text{swingCD} + \beta_6 * \text{PoliticalTies} \\ &+ \gamma * \text{state dummies} + \theta * \text{industry dummies} + \lambda * \text{year dummies}\end{aligned}$$

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Variables

Dependent Variable:

- Subsidy dummy = 1 if firms received any federal subsidy in a given year

Independent Variables:

- Geopolitics: Chinese import competition (Autor, Dorn, and Hanson 2013); MIC2025 strategic sectors; military-industrial complex (Jeon et al. 2025)
- Distributive politics: swing v.s. core districts/states and co-partisanship (Kriner & Revees 2015); lobbying ties with the Democratic or Republic party (Kim 2018; Kim & Kunisky 2021)

Controls:

- Firm size, listing status, economic and demographic factors (e.g., population, population growth, income per capita, unemployment rate).

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Data

Subsidy Tracker (Good Job First 2025):

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- Two broad types:
  - Grant: grant and allocated tax credit.
  - Loan: loan or loan guarantee, insurance, and tax-exempt bond.

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Data

- **U.S. Firms**: Orbis Historical Database.
- **Firm matching between Subsidy Tracker and Orbis**: Machine learning probabilistic record linkage (Fuca, Lin, and Zhu 2025)
- **Mapping from firm zip codes to CDs and counties**: crosswalk developed by the Department of Housing and Urban Development.

Table 1: Summary Statistics

Large and very large U.S. firms	Sample
Total firm-year observations (2010–2021)	2,480,143
Subsidy recipients	8,650 (0.35%)
Unique firms receiving subsidies	5,375

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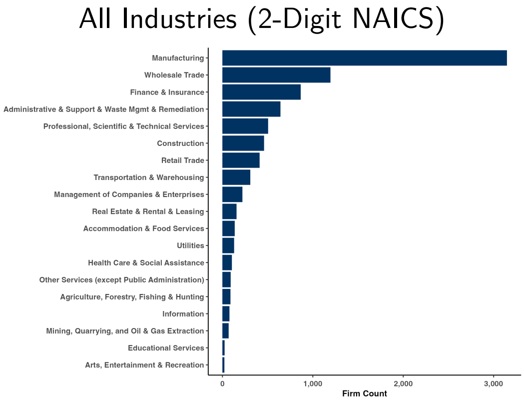
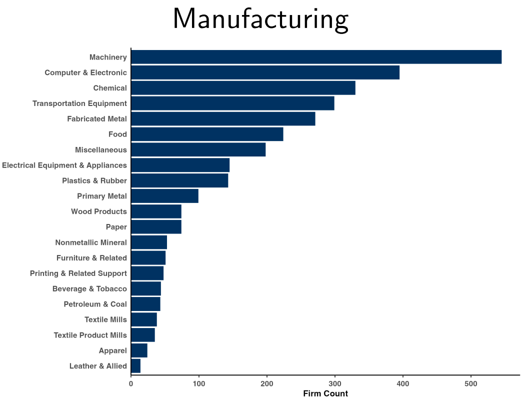
Industry Variation





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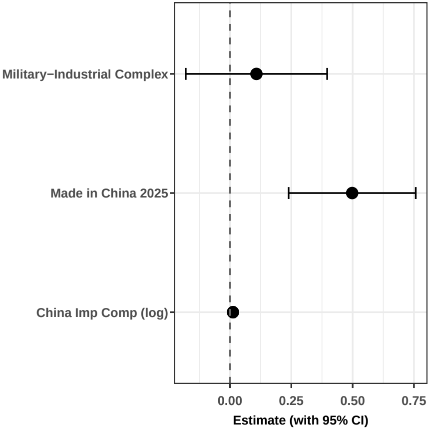
Results: Geopolitics



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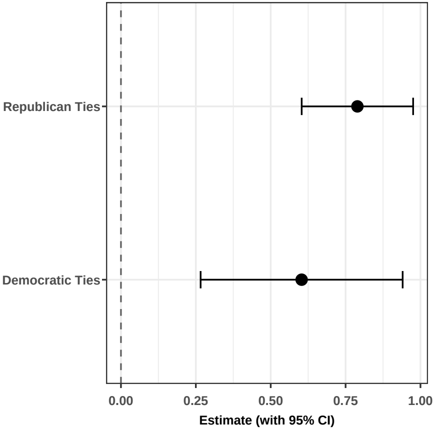
Results: Electoral Particularism

	(1)	(2)	(3)	(4)
Swing District	0.06			−0.02
	(0.07)			(0.09)
Core District	0.07			0.10
	(0.06)			(0.07)
Swing CD in Core ST		0.11		
		(0.08)		
Swing CD in Swing ST		0.05		
		(0.07)		
Core CD in Swing ST		−0.02		
		(0.05)		
Core CD in Core ST		0.13		
		(0.09)		
Copartisan CD			0.03	
			(0.04)	
Swing State				−0.04
				(0.11)
Swing CD × Swing State				0.05
				(0.09)
Core CD × Swing State				-0.16^{***}
				(0.06)
Covariates	Yes	Yes	Yes	Yes
2-Digit NAICS FEs	Yes	Yes	Yes	Yes
State FEs	Yes	Yes	Yes	No
State-Level Covariates	No	No	No	Yes

Results: Political Connections



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Conclusion

- **Findings**:
  - Firms located in localities facing high import competition from China and those operating in industries prioritized in MIC2025 are significantly more likely to receive federal subsidies.
  - No evidence that firms in the defense industries are more likely to be supported.
  - Firms with politically ties with both parties are more likely to be favored.
- **Takeaway**: Industrial policy serves as a tool of statecraft to advance national strategic and counter geopolitical rivals, while subject to domestic political capture.
- **Contributions**:
  - Integrate geopolitics into the study of industrial policy in an advanced economy
  - Speak to the distributive politics literature in American Politics
  - Analyze government subsidies with a unique large firm-level dataset and offer new nuanced insights

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Thank You

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