



Chinese industrial policy, trade and the global order

By George Magnus

EXECUTIVE SUMMARY

- The People's Republic of China (PRC) pursues industrial policy for geopolitical reasons as well as economic ones. It aims to lead the so-called 'fourth industrial revolution' in technologies such as Artificial Intelligence (AI), quantum computing and biotechnology, supplanting the United States (US) as global leader in technology.
- The Chinese Communist Party's (CCP) central management of the PRC's economy has led to issues in productivity and overcapacity. Chinese firms produce more than domestic demand requires, which results in a reliance on exports to sustain economic growth.
- Although international trade news has been dominated recently by American tariffs, the PRC's industrial policies have an outsized impact on global trade. Developing and middle-income countries, such as Brazil, Mexico and Turkey, have taken action to protect their industrial bases against the PRC's 'dumping' of goods.



Industrial policy has a long and often contentious pedigree. After falling out of favour about five decades ago as neoliberal thinking came to the fore, it is back on the agenda – but this time driven by richer or technologically advanced countries, motivated by a cocktail of concerns spanning national security, economic resilience, complex global supply chains, Artificial Intelligence (AI), and military and defence matters. It is not necessary to dig deep to find a growing angst about, or admiration for, the world's second largest – and leading manufacturing and export – economy, the People's Republic of China (PRC).

The PRC supports an unusually wide swathe of industries and firms at a huge and unprecedented cost. It uses industrial policy for three important, interrelated purposes:

1. To dominate new technologies, and leverage that dominance in global trade and commercial exchanges, as well as in geopolitical relations;
2. To support economic growth, employment and social stability at home, not least to compensate for the waning influence of former key drivers in real estate and infrastructure; and
3. To increase the PRC's footprint in the so-called 'Global South' through exports, technology and Beijing's evolving governance agenda.

Chinese industrial policy is unique

The PRC pursues its unique industrial policy not just for commercial reasons, but also in relation to domestic political goals, as well as geopolitical ones. It wants to insulate itself from strategic vulnerability, become self reliant in key sectors and capitalise its mercantilist interests, but this is to miss the broader context. The PRC's industrial policy is a state-backed effort to knock the United States (US) off the perch of global technological leadership, and exploit what Xi Jinping, General Secretary of the Chinese Communist Party (CCP), refers to as 'great changes unseen in a century'.¹

According to this narrative of the CCP, these changes are defined by shifts in power associated with major technological revolutions. The PRC could not rival the United Kingdom's (UK) mechanisation revolution, was impoverished by the 'century of humiliation' imposed by the carving up of China in the 19th century by European powers, the US and Japan, and lost out to the US both in the ensuing

¹ 'Xinhua Headlines: Changes, challenges and choices – China is driven by the path it takes', *Xinhua*, 28/08/2019, <http://www.xinhuanet.com/> (checked: 20/10/2025).



industrial electrification revolution and the more recent information technology revolution of the 1980s.

Now though, the PRC has been presented with the opportunity to dominate the so-called ‘fourth industrial revolution’ involving new technologies in AI, big data, quantum computing and biotechnology, which it must not fail to grasp if it wishes to lead in this era of change.² Indeed, the PRC’s ambition – unlike that of, say, the US, Europe, Japan and South Korea in their industrial policy heydays – is not to catch up with competitors, but to leapfrog them.

It is worth noting two other PRC-specific issues. There is no precedent for the scale of Beijing’s industrial policy initiatives, which dwarf those deployed across Organisation for Economic Cooperation and Development (OECD) and middle-income countries, both in terms of money and as a share of Gross Domestic Product (GDP). Moreover, no country has used industrial policy as intensively as the centrepiece of economic development, spurning the alternative macroeconomic policy programmes which many economists both inside and outside the PRC think are more appropriate for Beijing’s economic problems. In other words, industrial policy is exacerbating, rather than addressing, systemic economic headwinds, such as overinvestment and overcapacity, the downturn in real estate, deflationary pressures, and debt capacity and financial sector risks.

With the 15th ‘Five Year Plan’ (2026–2030) expected to be approved by the CCP Central Committee at the Fourth Plenum (20th–23rd October), it is fair to assume that industrial policy will retain its central role in Chinese policymaking.³ This means that the PRC will most likely continue to rely on industrial policy and exports to compensate for weaknesses elsewhere, for example in real estate, and thereby increase tension in international trade, as both richer, and emerging and middle-income countries push back against Beijing’s export, in effect, of domestic industrial overcapacity.

How Chinese industrial policy has evolved

The PRC’s industrial and commercial successes in, for example, Electric Vehicles (EVs) and batteries, and climate change mitigation manufacturing are often attributed to industrial policy programmes, but this is only partially – and sometimes barely – true. Top-down industrial policy really only started in the mid-2000s, and many of the factors which enabled Chinese entrepreneurship and

² Rush Doshi, ‘The United States, China, and the contest for the Fourth Industrial Revolution’, *Brookings*, 31/07/2020, <https://www.brookings.edu/> (checked: 20/10/2025).

³ Hanming Fang, Ming Li and Guangli Lu, ‘Decoding China’s Industrial Policies’, National Bureau of Economic Research, 05/2025, <https://www.nber.org/> (checked: 20/10/2025). For a synopsis, see: Hanming Fang, Ming Li and Guangli Lu, ‘Mapping Two Decades of China’s Industrial Policies’, Stanford University Centre on China’s Economy and Institutions, 01/07/2025, <https://sccei.fsi.stanford.edu/> (checked: 20/10/2025).



the emergence of a dynamic private sector have roots in the PRC's most significant economic era in and after the 1980s and 1990s, featuring the 'reform and opening up' campaign.

Between 1978 and the mid-2000s, the CCP actually retreated in important ways from its prior full-on, centralised control of the economy. Instead, the PRC embraced economic and institutional reforms, privatised many state enterprises and encouraged the growth of private enterprise, alongside the space to use some key market mechanisms and structures.⁴

During this period, the PRC pursued a horizontal kind of industrial policy in which Beijing created stronger institutions, regulations and practices to encourage productivity and creativity across all sectors. This was achieved by promoting more competition (including between and among local governments), higher standards of educational attainment and training, improved infrastructure and fiscal incentives, and stronger housing and labour markets.

Several firms which are now popular and successful were founded between the late 1980s and late 1990s, including Huawei, JD.com, Tencent and Alibaba. More recent ones, such as Xiaomi, followed in the 2000s, along with EV and battery firms such as BYD and CATL, which grew out of dense networks of producers and are among the few to have prospered even as state assistance to producers in these areas was wound down. In AI, DeepSeek – whose low-cost Large Language Model (LLM) capabilities stunned the world – was founded only in 2023 by Liang Wenfeng, co-founder and Chief Executive Officer (CEO) of High-Flyer, a private investment firm.

There is, however, a different, less benign, vertical form of industrial policy, in which the CCP decides which firms or industries it wants to promote, and showers them with financial and regulatory largesse in the hopes of creating national champions. This was indeed how Chinese industrial policy underwent a major shift during and after the mid-2000s, with the CCP taking a far more substantial interventionist and direct role in industry and manufacturing.

In the first of three phases of industrial policy, from roughly 2006 to 2015,⁵ the CCP started to pick sectors which it thought would be new drivers of economic growth, and pursued this with even greater enthusiasm after the financial crisis of 2007-2008. It defined a number of so-called strategic emerging industries, which it hoped would compensate for what Wen Jiabao, former Premier of the PRC, had labelled an economy which had become 'unbalanced, uncoordinated, unsustainable and unstable'.⁶

These comprised seven main industries: energy saving and environmental protection; new generation information technology, including the Internet of Things (IoT) and cloud computing; bio-technology; high-end capital equipment,

⁴ George Magnus, *Red Flags: Why Xi's China is in Jeopardy* (New Haven: Yale University Press, 2018).

⁵ Barry Naughton, 'Testimony: "Made in China 2025 – Who Is Winning?"', US-China Economic and Security Review Commission, 06/02/2025, <https://www.uscc.gov/> (checked: 20/10/2025).

⁶ 'Wen confident in maintaining economic growth', *China Daily*, 16/03/2007, <https://www.chinadaily.com.cn/> (checked: 20/10/2025).



including aircraft and aerospace; new energy sources, including solar, wind and nuclear; new materials technologies, including rare earth processing and speciality metals; and new energy – or electric – vehicles. The CCP coined the term ‘indigenous innovation’, under which explicit targets were set, such as for market share and patent registration, for example.⁷

The second phase, dating from approximately 2016, was essentially about gaining control of the evolving technological revolution, incorporating communications, data and AI under the banner of the National Innovation-Driven Development Strategy.⁸ There were three remarkable features about this strategy:

1. The ambition to create clusters of related technologies in order to exploit what are called ‘general purpose technologies’, which comprise essentially multi-purpose and multi-sectoral changes in innovation, and business and management practices;
2. An overt challenge to take on the leadership of the US; and
3. Emphasis of the recently adopted ‘Made in China 2025’ programme to establish a ten-year goal of making the PRC a manufacturing superpower, with explicit industry targets for market share and import substitution. Official references to Made in China 2025 have been suppressed since around 2018 so as not to exacerbate American and international backlash against the strategy, but its content remains unequivocally supported and pursued.⁹

The third phase, starting around the same time as the Covid-19 pandemic in 2020, elevated self-sufficiency as a national goal. Scientific and technological self-reliance were goals built into the 14th ‘Five-Year Plan’ (2021–2025), with the goal of cutting the PRC’s reliance on foreign technology and dependence on imported resources as quickly as possible, and speeding up existing plans for industrial modernisation and technological innovation.¹⁰ The overarching strategy is to become a manufacturing superpower, and complete ‘socialist modernisation’ by 2035.

In 2023, Xi referred to ‘new productive forces’ for the first time.¹¹ The term refers to innovation-driven growth in, for example, clean energy, EVs, batteries, industrial machinery, semiconductors, computing, AI, robotics, life sciences and

⁷ Erik Baark, ‘China’s Indigenous Innovation Policies’, *East Asian Policy*, 11:5 (2019).

⁸ ‘Outline of the National Innovation-Driven Development Strategy’, Centre for Security and Emerging Technology, 11/12/2019, <https://cset.georgetown.edu/> (checked: 20/10/2025).

⁹ ‘An initiative so feared that China has stopped saying its name’, *The Economist*, 16/01/2025, <https://www.economist.com/> (checked: 20/10/2025).

¹⁰ ‘The Outline of the 14th Five-Year Plan for Economic and Social Development and Long-Range Objectives Through the Year 2035 of the People’s Republic of China’, National Development and Reform Commission, No date, <https://en.ndrc.gov.cn/> (checked: 20/10/2025).

¹¹ ‘Xi stresses development of new productive forces, high-quality development’, International Department of the Central Committee of the CCP, 02/02/2024, <https://www.idcpc.gov.cn/> (checked: 20/10/2025).



pharmaceuticals. Yet, ‘productive forces’ also derive from Marxist doctrine, according to which communists are supposed to take the opportunity to exploit the disruption which technological change periodically poses to the existing order, and overthrow it.

The 2020s version of this is likely more subtle, but is nonetheless real, and being prosecuted via industrial policy. This is made possible by wide-ranging attempts to change the global governance system and persuade countries to align with the PRC’s narratives and goals, as well as to counter sanctions and export control regimes.

Industrial-scale industrial policy

There is no question that Beijing’s industrial policy is unique in terms of cost and scale, but it is impossible to measure precisely. The CCP does not publish information on industrial policy costs, and there is little transparency about the myriad policy programmes, tools and funds used to promote Chinese industries and firms.

The price tag, however, is eye-popping. Barry Naughton, an American economist with a Chinese focus, has described Beijing’s investments in innovation from 2000 onwards as ‘the greatest single commitment of government resources to an industrial policy objective in history’.¹² According to a recent study by the OECD,¹³ and another by the Kiel Institute,¹⁴ industrial firms in the PRC receive substantially greater subsidies and other forms of state aid, such as tax concessions, grants and below-market finance, compared with their peers elsewhere. Yet, estimates of the monetary weight of Beijing’s industrial policy vary, depending on the type and scope of subsidies and a host of other – hard to quantify – facilities. These include, for example:

- Government guidance funds, which are essentially public-private venture capital funds (designed to raise capital for innovation, industrial transformation and local economic growth), with a target of CN¥11 trillion (£1.15 trillion), of which about half had been raised by 2023;
- Local government subsidies, which can be larger than national subsidies, especially where land purchase is concerned;

¹² ‘How Xi Jinping plans to overtake America’, *The Economist*, 31/03/2024, <https://www.economist.com/> (checked: 20/10/2025).

¹³ ‘Government support in industrial sectors: A synthesis report’, Organisation for Economic Cooperation and Development, 07/04/2023, <https://www.oecd.org/> (checked: 20/10/2025).

¹⁴ Frank Bickenback et al., ‘Foul Play? On the Scale and Scope of Industrial Subsidies in China’, Kiel Institute for the World Economy, 04/2024, <https://www.kielinstitut.de/> (checked: 20/10/2025).



- Below-market credit, capital market and borrowing rates, accessed via the state-owned financial system;
- Below-market inputs for sectors such as energy and land, via the public monopolies in these areas;
- Subsidies to private firms in the supply chains of industrial policy beneficiaries;
- Implicit guarantees on loans and credits using vast bank sector financial resources;
- Regulation and market access favouring local firms;
- Tariffs and an undervalued exchange rate; and
- Operational control exercised via mandatory party cells, and golden shares in private firms.¹⁵

One of the earlier (although now almost certainly conservative) estimates of CCP industrial subsidies was 1.73% of GDP – US\$248 billion (£185 billion) – in 2019.¹⁶ This would have put the PRC's subsidies at a level which was between three and four times higher than in large European Union (EU) or OECD economies, and in monetary terms, bigger than any country's defence budget in 2024, save only the US and the PRC itself.¹⁷

The most recent estimate was published by the International Monetary Fund (IMF), which stated that the fiscal cost of industrial policy was around 4.4% of GDP in 2023, with cash subsidies accounting for just under half the amount, and also including tax benefits, land subsidies and subsidised credit.¹⁸ State enterprises tend to benefit from lower interest rates and higher subsidies, but private firms, many of which are prominent in government-favoured sectors, also receive high tax breaks and other benefits. The IMF could only quantify what it could measure, and it remains a matter of conjecture as to the size of other programmes and instruments, notably CCP guidance funds.

¹⁵ 'Golden shares' are shares which allow the CCP to wield significant powers in companies in which it holds only minority interests. See: Kai von Carnap, 'Private Enterprise under Xiconomics: How Party Cells and Golden Shares Work – and What Europe Should Do', China Observers in Central and Eastern Europe, 17/07/2025, <https://chinaobservers.eu/> (checked: 20/10/2025).

¹⁶ Gerard DiPippo et al., 'Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective', Centre for Strategic and International Studies, 23/05/2022, <https://www.csis.org/> (checked: 20/10/2025).

¹⁷ Xiao Liang et al., 'Trends in World Military Expenditure, 2024', Stockholm International Peace Research Institute, 04/2025, <https://www.sipri.org/> (checked: 20/10/2025).

¹⁸ Daniel Garcia-Macia, Siddharth Kothari and Yifan Tao, 'Industrial Policy in China: Quantification and Impact on Misallocation', *IMF Working Papers*, 2025:155 (2025).



It is plausible that, taking the IMF numbers as a base, the full range of industrial policy initiatives and funding provided for industrial policy costs at least 5%, more likely 7–8%, and possibly an even higher proportion of the PRC's US\$20 trillion (£14.9 trillion) GDP.

Industrial policy and the productivity acid test

Economic news tends to emphasise well-known areas of industrial policy success where the PRC can claim industrial leadership, including high speed rail, EVs, nuclear reactors, green energy, sophisticated electronics and, to a degree, aerospace. In the last two years, much attention has been drawn also to the success of BYD, a leading EV manufacturer, and DeepSeek in the AI space, although there are quite different stories behind these two firms.

DeepSeek's low cost, open-source AI models came out of a hedge fund which was experimenting with algorithms and models to enhance its trading capabilities. It did not need, nor did it ask for, any external help and leapfrogged many which were already queuing at the industrial policy counter for government assistance. It is not known for sure if DeepSeek is unique, but neither it – nor perhaps some peers – have much to do with official industrial policy.

BYD, which now has a roughly 30% market share in the PRC, is a more complicated, but also illustrative, story. It is one of few very successful EV manufacturers to have emerged from a designated strategic emerging industry over 15 years ago. Subsidies, tax exemptions and an array of other initiatives, including those offered by local governments, triggered a boom in the sector, which at one point had almost 500 firms.¹⁹ Today, some of the industrial support has been wound down – although BYD remains a large recipient of subsidies – and there are maybe 150–200 EV manufacturers left.

Very few of these, however, are profitable. After BYD, the next nine EV firms by market share have about 34% of the market, and the rest compete for what remains, with a large number having a market share of less than 0.5–1%.²⁰ It is an industry mired in overcapacity, bitter price wars and loss-making firms, many of which are zombies that – depending on government policies, and bankruptcy and merger regulations – will not survive.

The equivocal stories about the PRC's EV sector remind that industrial policy also has numerous shortcomings, where throwing money at designated firms and industries with a view to domination has not worked out, or has done only with large-scale losses and remaining foreign dependency. These include shipbuilding,

¹⁹ Scott Kennedy, 'The Chinese EV Dilemma: Subsidised Yet Striking', Centre for Strategic and International Studies, 20/06/2024, <https://www.csis.org/> (checked: 20/10/2025).

²⁰ 'Which brand won the battle for China's EV market?', Autovista24, 25/02/2025, <https://autovista24.autovistagroup.com/> (checked: 20/10/2025).



wind turbines, traditional automobiles, mRNA vaccines, semiconductors and commercial aircraft. Moreover, one of the starkest manifestations of industrial policy weakness is the ubiquitous and systemic overcapacity and deflation, which has far-reaching consequences in both the PRC and the world economy.

Industrial policy certainly has not provided the much hoped-for platform for a revival in productivity growth – the best years for which coincided with the ‘reform and opening up’ era from the 1980s to the early 2000s. The productivity and efficiency metrics may comprise inadequate measures of success. The CCP has other objectives, including scaling up industrial sectors as a route to domination, backstopping economic growth and job creation, and self-reliance, especially in strategic goods and semiconductors. Even so, without productivity and efficiency, industrial policy is liable to become a growing deadweight on the economy and a drain on budgetary resources.

One of the main triggers for productivity growth is successful innovation, but here the PRC’s performance is equivocal. According to the annually published Global Innovation Index (GII) 2025, the PRC has advanced a notch to take 10th position overall among 140 countries.²¹ The GII separates so-called ‘innovation outputs’, including knowledge creation, intellectual property, patents, labour productivity, spending on software and high-tech exports, in which Beijing ranks 5th, from ‘innovation inputs’, including the quality of regulation, legal and business institutions, educational attainment, Research and Development (R&D), communications and energy infrastructure, and measures of business and market sophistication, in which it ranks 19th in the world.

Accordingly, while the PRC’s innovation accomplishments, and certainly its ability to scale up modern manufacturing at low cost, are self-evident, the longer-term drivers, so to speak, of successful innovation are not quite as impressive as the current outputs. It is also likely that even the best innovations will not realise their full potential economically unless the mechanisms and institutions which diffuse it to all the various corners of the economy work well. Diffusion, in other words, sparks and spreads productivity and efficiency gains when many sectors of economy start to use them. Diffusion is more powerful than being a top innovator or first mover. In this context, the PRC’s AI research intensity, academic-industry ties and other assets, impressive as they are, still fall short of those in the US.

From a productivity standpoint, industrial policy is not really working, and may itself even be a drag. The IMF has argued that industrial policies have encouraged a significant misallocation of resources, which has, in turn, lowered total factor productivity by over 1%.²² Given that aggregate productivity growth has been marking time since about 2010 – or roughly since Xi came to power – the

²¹ ‘Global Innovation Index 2025’, World Intellectual Property Organisation, 2025, <https://www.wipo.int/> (checked: 20/10/2025).

²² Daniel Garcia-Macia, Siddharth Kothari and Yifan Tao, ‘Industrial Policy in China: Quantification and Impact on Misallocation’, *IMF Working Papers*, 2025:155 (2025).



cumulative impact of industrial policy has almost certainly been making matters worse. In fact, since 2012, the PRC's total factor productivity, which has been broadly flat, has underperformed both the US and Japan considerably.²³

Some firms, such as BYD, can certainly boast success, but waste, loss and often corruption appear to have been other handmaidens of industrial policy. Weak or loss-making firms which have been targets of the CCP have continued to operate when they should have failed. Political connections rather than innovative capacity are a big driver of subsidies. Some unproductive firms have been allowed to expand into new sectors. State intervention has increased significantly under Xi, as centralisation became more important than competition, and incentives became distorted by compliance.

Overcapacity has also become a major industrial policy problem. Although the PRC has experienced cycles of overproduction in the past, for example in coal, steel and cement, this new and more ubiquitous phenomenon has attracted the authorities' attention. Overcapacity features strongly in real estate and high-speed rail, but the big concern now is in an array of goods and services, including EVs and lithium batteries, photovoltaic cells and wind turbines, building materials, metals processing, digital finance, semiconductors, standard medical devices and pharmaceuticals.

Earlier this year, the PRC's leaders, from Xi downwards, urged companies and sectors to desist from destructive competition and price cutting. They have invoked the term 'involution competition' to emphasise concerns about excess production, anti-competitive business practices, diminishing returns, losses and aggravated deflationary pressures.²⁴

EVs and other automobiles are at the heart of this involution debate. Eight years ago, the CCP published a policy paper aiming to produce 35 million vehicles a year by 2025, roughly double annual sales in the US.²⁵ By 2024, the PRC came close to this target, building more than 31 million vehicles, but it has the capacity to build 45 million; the equivalent of twice the country's own domestic demand. Auto exports, now running at 6 million units, could – on the basis of the PRC's capacity in vehicles and the shipyards to export them – rise a lot further, politics and pushback permitting.

It is highly questionable whether even the involution exhortations of the CCP will suffice to remedy the problem, because the CCP itself is doing the following:

- Distorting markets by channelling resources to preferred firms and industries;

²³ Mark Williams, 'China's push for innovation is not lifting productivity', *Capital Economics*, 02/06/2025, <https://www.capitaleconomics.com/> (checked: 20/10/2025).

²⁴ Casey Hall, 'What is "involution", China's race-to-the-bottom competition trend?', *Reuters*, 15/09/2025, <https://www.reuters.com/> (checked: 20/10/2025).

²⁵ 'China targets 35 million annual vehicle sales by 2025', *Automotive News China*, 28/04/2017, <https://www.autonews.com/> (checked: 20/10/2025).



- Creating incentives to conform, rather than compete and innovate, by insisting on control and direction by local government, state and finance officials;
- Prioritising policies which are antithetical to the creation of domestic demand, especially household income and consumption, which would require economic and political reforms anathema to the CCP; and
- Setting unrealistically high growth targets for the economy, thus encouraging ever more investment and production.

The likelihood, then – in the absence of political decisions to use Beijing’s economic model – is that the status quo will persist. Key industries will produce too much relative to local demand, the CCP will need exports to help sustain economic growth, and the PRC will continue to run the gauntlet with a growing number of countries over trade tensions.

Global and trade repercussions

The scale of the expansion of the PRC’s trade surplus as exports have boomed, and the global consequences of this phenomenon are not widely appreciated. Due to the PRC accounting for a third of global manufacturing – and its share of world exports rising from 13% to 18% since the first term of Donald Trump, President of the US, started in 2017 – its industrial policies have an especially distortionary impact on world trade.

Indeed, even though trade news in 2025 has been dominated by the second Trump administration’s tariffs, world trade has not suffered much, even if patterns of bilateral trade have been shifting. The US’ low 8% share of world imports affected by tariffs is dwarfed by the PRC’s much weightier impact on global trade and commerce. Beijing’s unique industrial policies, expansion of capacity, falling prices and promotion of exports are much more significant than Trump’s tariffs. It is estimated that since 2022, Chinese export prices have fallen by about one quarter, while in the rest of the world, they have been flat.²⁶ The larger threat to world trade and the world economy derives from the rising likelihood of a backlash against the PRC’s ‘dumping’ of its overcapacity.

Consider, for example, that from a standing start a decade ago, the PRC’s share of global EV sales has surged to over 50%. It accounts for half of global shipping tonnage built annually, 60% of wind turbines and 80% of solar panels

²⁶ Neil Shearing, ‘Tariffs may stall trade growth, but China’s overcapacity is the bigger danger’, Capital Economics, 22/09/2025, <https://www.capitaleconomics.com/> (checked: 20/10/2025).



manufactured, and is the biggest exporter of steel in the world. It also has a chokehold, for now at least, on the processing of rare earth metals and magnets, increasingly in demand for advanced manufacturing and defence purposes.

As industrial capacity has expanded, and domestic consumption has remained in the doldrums, in turn keeping imports depressed, the PRC's trade surplus has soared. In manufacturing alone, Beijing's trade surplus rose by US\$775 billion (£578 billion) between 2019 and 2023 – more than Belgium's entire GDP, or three times that of Greece.²⁷ Last year, the PRC's overall trade surplus was close to a record US\$1 trillion (£745.7 billion), or about 5% of its GDP, and is likely to remain at or above this level in 2025. Its manufacturing surplus is likely to be almost twice as large. In the first eight months of 2025, the value of exports continued to rise by about 6% over the same period a year ago, while imports fell by 2.2%.²⁸

Even before Trump's tariffs moved to centre stage this year, the PRC had become the primary target of anti-dumping and countervailing investigations. In the last few years, the US and many other countries have built out different forms of policy infrastructure to resist Beijing's industrial and trade policies, using a mixture of tariffs, export controls and other trade defence measures.

The US' whole-of-government approach notably includes the Commerce Department's Bureau of Industry and Security, which oversees technology and export controls; the Treasury's Office of Foreign Assets Control, which administers financial sanctions and the relatively new Outbound Investment Security Programme; the interagency Committee on Foreign Investment into the United States; and the Justice Department's National Security Division.

The European Commission is the EU body which enforces restrictions on the PRC. Anti-dumping and anti-subsidy measures, the Foreign Subsidies Regulation, and the Anti-Coercion and International Procurement Instruments figure prominently in its arsenal. European Commission departments also review Beijing from the standpoint of state aid and fair competition, sanctions, and trade defence policy.

Yet, the most interesting feature of pushback against the PRC has not been among more developed countries, as was expected, but among a swathe of emerging and developing countries, the bulk of which Beijing courts in the so-called 'Global South', and for whom the PRC is their biggest or leading trade partner.

Mexico, for example, has raised high trade barriers on a range of imports from the PRC, partly to help strengthen its ties with the US. Turkey has imposed tariffs on Chinese EVs. Indonesia acted on cheap Chinese imports to protect local industries in labour-intensive, low-value firms, while leaving certain higher-value goods which it does not yet produce untouched. Brazil has acted against Chinese

²⁷ Camille Boullenois and Charles Austin Jordan, 'How China's Overcapacity Holds Back Emerging Economies', Rhodium Group, 18/06/2024, <https://rhg.com/> (checked: 20/10/2025).

²⁸ Brad Setser and Michael Weilandt, 'China's Data Still Doesn't Add Up', Council on Foreign Relations, 19/08/2025, <https://www.cfr.org/> (checked: 20/10/2025).



steel and EVs to underpin local industrialisation programmes. Other nations, including South Africa, Vietnam and Thailand, imposed measures against Chinese e-commerce firms at the low end of the consumer goods shipments spectrum.²⁹

It is certainly awkward for some emerging countries, but the pushback against the PRC is likely to persist, reflecting rising international concern caused by Beijing's economic model, subsidies, overcapacity and surging exports. Above all, it is clear that many middle-income nations, such as Brazil, India, Mexico and Turkey, harbour concerns about unfair competition anyway, but also an angst about premature deindustrialisation if significant flows of low-priced Chinese exports threaten local firms, industries and communities.

Conclusion

Beijing's industrial policy is not up for negotiation or compromise, and it might only change or soften if the CCP were to reverse policy and decide one day to do so. It should be assumed that it will remain central to policymaking. In addition to what it is already doing well, the PRC could spring more surprises in AI, exploit the further development of robotics and the fusion of materials science with biotechnology, and compete more in design excellence, low-carbon products and processes, and software-defined manufacturing control systems.

Yet, it is not easy to extrapolate things like this in a spreadsheet-like way. The PRC cannot sustainably keep building out investment and production without running into serious macroeconomic blowback. Its industry and innovation aspirations will not always be compatible with its unswerving belief in the effectiveness of government direction and control, its distaste for free markets, its politically driven legal and regulatory institutions, and the rent-seeking and corruption endemic to industrial policy.

In some important ways, the PRC's economic status and industrial prowess are reminiscent of Japan in the 1980s and 1990s, when, despite having an industrial structure and slew of dynamic firms which were the envy and fear of the world, it nevertheless succumbed to a major macroeconomic shock, from which its leading industrial and financial firms could offer no protection.

Japan's experience shows how two things can be true at the same time. An economy boasting world-class firms and striking accomplishments in innovation can also be one in which systemic imbalances, bubbles and overcapacity, political contradictions and institutional rigidities run too deep for the most impressive firms to deliver durable and stable growth. Great firms and strong top-down

²⁹ Jacob Gunter and Claus Soong, 'It's not us, it's you: China's surging overcapacities and distortive exports are pressuring many developing countries too', Mercator Institute for China Studies, 27/11/2024, <https://merics.org/> (checked: 20/10/2025).



industrial policy do not protect an economy against bad macroeconomic policy outcomes.

Technological islands of excellence are no substitute for good macroeconomic governance and well-institutionalised technology ecosystems that diffuse benefits throughout the economy – neither of which constitute the PRC’s strong points. As global trade tensions and fragmentation continue to evolve in years to come, the international backlash against Beijing may well become a catalyst for increased instability.



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