

New paper finds industrial policy will remain central to Beijing's pursuit of domestic and geopolitical goals

- Beijing's industrial policy faces global backlash from emerging and developing countries, according to new China Observatory research.
- Chinese industrial policy costs are notably larger than the 2024 defence budget of any country except the People's Republic of China (PRC) and the United States (US).
- The Chinese trade surplus has recently soared to the equivalent of over three times the total Gross Domestic Product (GDP) of Greece.

The latest Explainer from the Council on Geostrategy's China Observatory outlines that industrial policy will remain central to Chinese policymaking as the PRC seeks to knock the US off its technological perch, ahead of the 15th 'Five Year Plan' (2026-2030) – expected to be approved by the Chinese Communist Party's (CCP) Central Committee at its annual Plenum this week.

The paper highlights how the PRC's industrial policies have a disproportionate impact on world trade, which is far greater than the effects of the American tariffs that have dominated trade news so far this year. There is a growing threat to the world economy from increasing global backlash. This is from America, Europe, and large emerging and developing countries, including Turkey, Indonesia and Brazil, attempting to protect their home industries by clamping down on Chinese 'dumping' of products, including steel, Electric Vehicles (EVs), solar and wind equipment, and textiles.

The industrial policy has allowed homegrown giants, such as EV manufacturer BYD and AI firm DeepSeek, to flourish internationally, though the paper also identifies shortcomings leading to foreign dependency, overcapacity and deflation.

The paper suggests 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. This dwarfs levels of large European Union (EU) or Organisation for Economic Cooperation and Development (OECD) economies, and is notably larger than any country's defence budget in 2024, except those of the PRC and the US.

As industrial capacity has increased, outpacing more lacklustre domestic consumption, the Chinese trade surplus has soared – growing by US\$775 billion (£579.5 billion) between 2019 and 2023, equivalent to more than three times the total GDP of Greece.

The paper sketches out the history of modern industrial policy in the PRC, culminating in the CCP's present-day, more interventionist approach through direct support provided to key industries, including clean energy sources and EVs.

The PRC's full-throated industrial policy, however, is notable not only for some astounding accomplishments, but also for chronic overcapacity, deflation and low productivity outcomes. The CCP has other, distracting objectives such as self-reliance and state control, and certainly lags when it comes to things like educational attainment, and flexible and open institutions. The paper claims that the PRC's industrial policy boasts some world class firms, but also features drags in the form of waste, loss and corruption. It warns that if this industrial policy continues, firms will continue to overproduce and rely on exports to offload products, exacerbating global trading tensions.

George Magnus, author of the paper and Member of the China Observatory Advisory Council at the Council on Geostrategy, said:

‘The PRC cannot sustainably keep building out investment and production without running into serious macroeconomic blowback.’

‘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 increase instability.’

ENDS

Notes to editors:

1. The Council on Geostrategy was launched on the 2nd March 2021. More information can be found on our [website](#), including our [mission statement](#).
2. The Council on Geostrategy has an [Advisory Board](#) of 16 individuals with experience in politics, the military, diplomacy and academia.

Council on Geostrategy

www.geostrategy.org.uk | [Twitter/X](#) | [LinkedIn](#) | [Bluesky](#) | [YouTube](#) | [Facebook](#)