Rhodium Group

U.S. Chamber of Commerce

China's Next-Generation Industrial Policy

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U.S. Chamber of Commerce Preface

A decade after Made in China 2025 (MIC25), China is entering a new phase of industrial policy. Rather than retreating in the face of mounting domestic and international pressures, Beijing is doubling down. State intervention across the economy is becoming broader and more consequential for global markets than ever.

This report assesses how China's industrial strategy is evolving and what it means for global competition. Two overarching conclusions emerge. First, China's industrial policy is becoming more systemic and pervasive, extending across all layers of production from upstream inputs and industrial equipment to downstream applications, services, and frontier technologies. Second, these domestic dynamics are ushering in a new phase of global impact, characterized by accelerating trade dominance, deepening foreign dependencies on Chinese supply chains, and the rapid global expansion of Chinese firms. Beijing also increasingly deploys policy tools to entrench its dominant position in global value chains and counter foreign diversification strategies.

These conclusions, while significant, are not without precedent, and the analytical foundation for understanding them was laid years ago, in large part by the business community itself.

In late 2015, the U.S. Chamber of Commerce identified and translated the foundational planning document—commonly referred to as the "Green Book"—that set out the localization targets and strategic roadmap underpinning Made in China 2025. That translation was shared broadly with companies, governments, and leading research institutions, and it served as the basis for a series of independent assessments that followed: most notably by the Mercator Institute for China Studies (MERICS) in 2016, the European Union Chamber of Commerce in China in 2017, and the U.S. Chamber of Commerce in 2017.

Published within months of one another, these three reports delivered a strikingly consistent message:

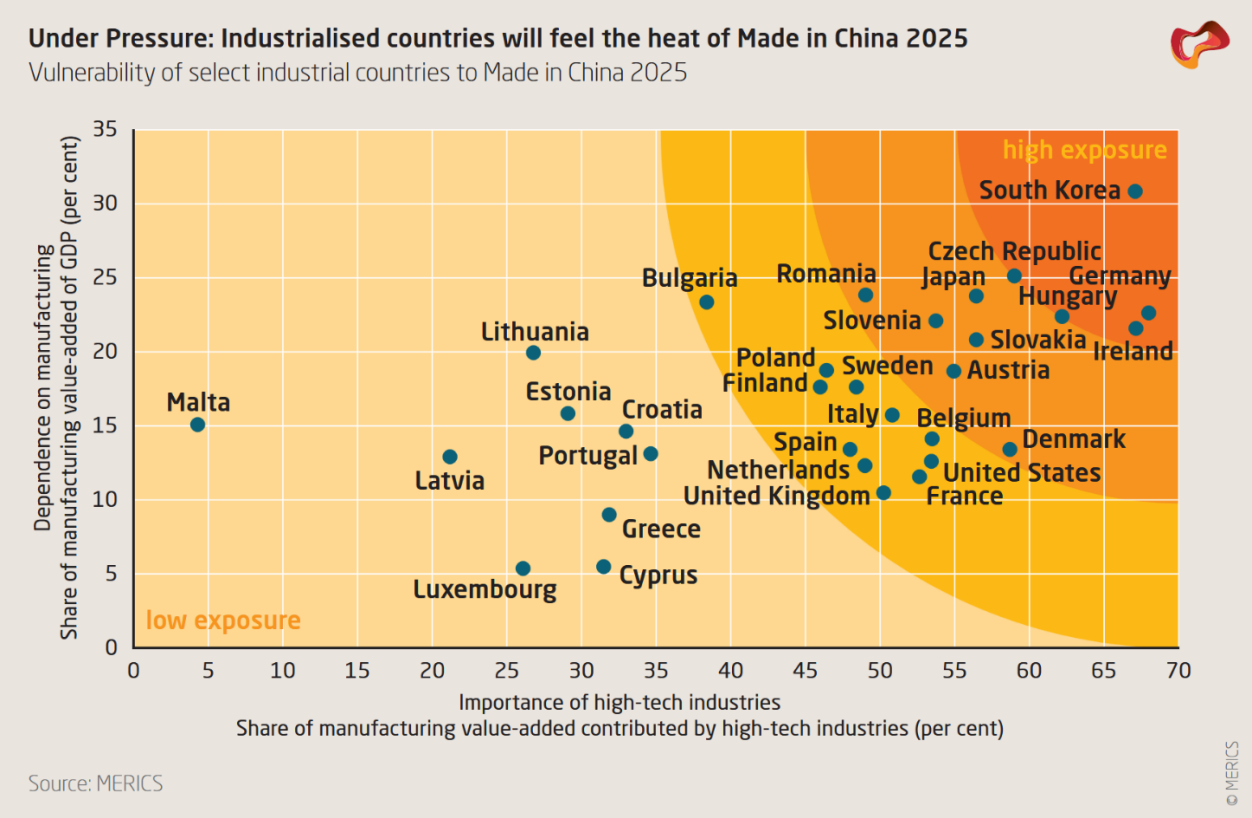
- **MERICS (2016):** "If China succeeds with 'Made in China 2025,' foreign companies and industrial countries will find themselves confronted with a powerful competitor

backed by massive state support across a wide range of advanced manufacturing industries."

- **EU Chamber of Commerce in China (2017):** "If implemented as currently envisaged, China Manufacturing 2025 risks distorting markets, crowding out foreign competitors, and fundamentally undermining the principles of fair competition."
- **U.S. Chamber of Commerce (2017):** "Made in China 2025 represents a decisive shift away from market-oriented reform toward state-directed economic outcomes, with profound implications for global competitiveness and US economic interests if left unaddressed."

The analysis was clear. The evidence was made widely available. And the implications were articulated in direct terms across multiple credible, independent sources. One widely cited visual distillation was the 2016 MERICS *Made in China 2025* Heat Map, which starkly illustrated the exposure of major manufacturing powers—South Korea, Japan, and Germany, along with other European industrial economies—to the blast radius of competitive pressure unleashed by China's industrial push (Figure 1).

FIGURE 1



In the years that followed, China executed much—though not all—of the strategy it had outlined. A comprehensive assessment commissioned by the U.S. Chamber and prepared independently by Rhodium Group, *Was Made in China 2025 Successful?* (May 2025), confirmed that outcomes tracked the original ambitions to a striking degree. China made substantial progress in reducing import dependencies, displacing foreign firms in domestic markets, and building globally competitive positions in sectors ranging from new energy

vehicles to information and communications equipment. At the same time, the Rhodium Group assessment found that significant vulnerabilities persist—particularly in high-end semiconductors, advanced aerospace, biomedicine, and other areas where Chinese firms have not yet closed the technological gap. The picture that emerges is not one of uniform success, but of a state-driven industrial campaign that achieved many of its core objectives while falling short in some of the most technologically demanding sectors. The competitive dynamics and supply chain shifts that were forecast a decade ago have, in large measure, become embedded features of the global industrial landscape. In hindsight, the early warnings were not alarmist—they were, if anything, measured.

It is worth acknowledging plainly that the challenge the world now faces is not the result of an intelligence gap. The translations existed. The reports were published. The warnings reached senior levels of government and industry across major economies. Yet in too many cases, the response was insufficient—whether due to competing priorities, political constraints, or a belief that market forces alone would provide an adequate counterweight. The costs of that delayed response are now visible in lost competitiveness, diminished industrial capacity, and strategic vulnerabilities that will require sustained effort to address.

This report is offered in the same constructive spirit as those earlier assessments: as a rigorous, evidence-based analysis of where China's industrial policy stands today and where it is heading. The Chamber's role is not to dictate policy, but to ensure that decision-makers in government, industry, and multilateral institutions have access to the clearest possible picture of the competitive landscape. The record of the past decade carries a straightforward lesson: When credible analysis is available and the trajectory is visible, the window for effective action is finite. What follows is an assessment of the next phase of China's industrial evolution—and of the strategic choices it presents.

Executive summary

China's industrial strategy is evolving in two significant ways. **First, it is becoming more systemic and pervasive,** extending across all layers of production, from upstream inputs and industrial equipment to downstream applications, services, and frontier technologies. **Second, these domestic dynamics are accelerating China's trade dominance**, deepening foreign dependencies on Chinese supply chains, and the rapid global expansion of Chinese firms in global markets. Beijing is also increasingly deploying policy tools to entrench its dominant position in global value chains and deter foreign diversification strategies.

A more expansive industrial policy

China's next-generation industrial policy represents a shift from targeted sectoral intervention to what can be described as an "industrial policy of everything." While MIC25 focused on a defined set of strategic emerging industries, current policy frameworks extend across mature sectors, foundational supply chain nodes, and frontier technologies alike. Chinese leadership views past policies as largely successful in building domestic capabilities and global competitiveness, even as they identify areas to improve policy execution and remain keenly aware of persistent technological dependencies in high-tech inputs. Beijing is not abandoning mature sectors but is instead pushing them toward higher-value segments, while focusing on new products and technologies. In

several upstream segments, including critical minerals, wafers, and magnets, China already holds dominant positions, and policymakers are now seeking to extend this across a broader range of industrial products.

Even in mature industries facing overcapacity and severe price pressures, **Beijing is providing continued support and pushing firms to upgrade production technologies to gain market share and lower production costs, rather than cutting capacity**. While authorities have acknowledged the need to address imbalances, policy responses have so far fallen short of the structural reforms required to shift China's growth model. Efforts to boost consumption also remain limited, leaving underlying demand weaknesses largely unaddressed.

Services, relatively neglected in earlier rounds of industrial policy, are getting more attention, with visible gains in areas like software, data processing, and drug development. Policymakers also view the current moment as a window of opportunity to pull ahead in disruptive technologies like artificial intelligence, quantum, and future energy systems, mobilizing China's entire economic system to gain a foothold in future industries. These new technologies are no longer treated solely as areas for R&D and innovation. They are now also supported with public procurement and state-owned enterprises generating demand and adoption of new products at scale. AI has emerged as a central pillar, but the broader pivot to demand creation represents a step change in the leadership's willingness to fund commercialization of cutting-edge technologies.

Refining the policy playbook under tighter constraints

This expansion is occurring in a more constrained macroeconomic environment. China faces slowing growth, weak domestic demand, rising fiscal pressures, and declining efficiency of capital allocation. Rather than scaling back intervention, Beijing is adapting to these constraints by recentralization and tighter coordination of financial resources. Authorities are strengthening control over fiscal spending, bank lending, capital markets, and state investment funds to ensure that scarce resources are directed toward strategic priorities. Government guidance funds are being consolidated and aligned more closely with national objectives, while bank lending is increasingly steered through targeted relending facilities and regulatory guidance, and wasteful or redundant tax and fiscal subsidies are being culled, especially at the local level. After decades of liberalization, the leadership is re-inserting non-market considerations into the DNA of banks, state-owned enterprises, and investment markets in ways that may prolong the potency of industrial policy, but which will have long-term ramifications for China's overall economic vitality and efficiency.

However, **the expansion of industrial policy across an ever-wider set of sectors risks diluting its effectiveness**, while increasing state influence on financial markets may further reduce resource allocation efficiency. Evidence of strain is already visible in declining corporate profitability, weakening private investment, and slowing R&D growth in key sectors. Over time, these dynamics could weigh on China's productivity and long-term growth potential, even as they support short-term industrial gains.

A new phase of global impact

The global impact of China's industrial and economic policies has accelerated in the past three years and will likely continue to expand rapidly. The combination of sustained

policy support and weak domestic demand has driven a rapid expansion of China's manufacturing trade surplus, which many observers describe as a "China Shock 2.0." Since 2019, the surplus in manufacturing goods has roughly doubled to around $2 trillion, reflecting both rising exports and successful import substitution, and these trends are expected to grow.

While China's most dramatic market share gains in the 2020s were in electric vehicles and clean energy, **its current expansion is increasingly concentrated in key upstream segments of global value chains, such as chemicals, machinery, and industrial equipment—segments traditionally dominated by advanced economies.** Chinese inputs and capital goods are increasingly also embedded in products manufactured and exported by third countries, creating indirect dependencies that are difficult to detect and manage. This expansion is also systematically underestimated, as falling producer prices mask the true pace of market share gains: Measured in volume, China's market share gains are roughly twice as large as in value terms for many products.

As a result, **global reliance on Chinese supply chains is deepening across a growing number of critical products.** The number of products where China accounts for more than 50% of global exports, for example, nearly doubled between 2021 and 2024, from 192 to 315. China's dominance of global manufacturing began with downstream assembly for foreign value-added, but has now flipped—extending into upstream materials, components, and production equipment, giving it increasing leverage over global industrial systems.

Beijing is actively reinforcing its control over value chains using regulations and economic coercion to pre-empt de-risking and lock in its dominance across critical supply chains. It has tightened controls on critical minerals and processing technologies, extended restrictions to downstream products through extraterritorial rules, and introduced new legal instruments that raise the cost for firms and governments seeking to diversify away from China.

Chinese firms are emerging as major global competitors, but Beijing is intent on ensuring that this overseas expansion does not lead to a hollowing out of production or capabilities in China or a loss of control over key supply chains. Overseas investment remains limited relative to domestic production, accounting for only a small share of firms' total capital expenditure. Chinese firms typically localize assembly or sales abroad while continuing to rely on inputs, components, and technologies sourced from China. As a result, outward investment often reinforces, rather than reduces, global dependence on Chinese manufacturing.

Implications for global competition

Advanced industrial economies face the risk of sustained erosion in manufacturing competitiveness, particularly in sectors such as automotive, machinery, and chemicals. In aggregate, up to $650 billion—equivalent to around 12% of G7 manufacturing exports—could be directly exposed to Chinese market share gains by 2030 if they continue at the current pace. Over time, this could trigger broader effects, including declining investment, weakened innovation ecosystems, and the loss of industrial capabilities. Emerging economies also face challenges, as China's continued upgrading limits opportunities to move up the manufacturing value chain. Growing dependence on Chinese supply chains

raises strategic vulnerabilities. As China's control over critical inputs and technologies expands, so too does its ability to weaponize this leverage.

The window for effective policy response is narrowing. While many governments have begun to react through trade defense measures, industrial policy, and efforts to de-risk supply chains, responses remain fragmented and largely uncoordinated. This risks amplifying trade diversion, duplicative investment, and intra-allied competition, while leaving underlying imbalances unaddressed. Without more coordinated action, China's industrial policy is likely to continue reshaping global markets, entrenching dependencies, and eroding industrial competitiveness across both advanced and emerging economies.

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