



China's Next-Generation Industrial Policy

China's industrial strategy now touches almost every major sector in the economy and their underlying supply chains. These state interventions are accelerating China's trade dominance, expanding foreign dependence on Chinese supply chains, and boosting the expansion of Chinese firms in global markets.

A MORE EXPANSIVE INDUSTRIAL POLICY

China's next-generation industrial policy is shifting from targeted sectoral intervention to an industrial policy of everything. Current policy frameworks cover both mature sectors and frontier technologies: Traditional sectors are being pushed into higher-value segments, while cutting-edge industries are offered investment and guaranteed sources of demand. The services sector is also gaining more support as policymakers see new windows of opportunity for China's AI, quantum, biotech, and future energy system firms.

A POLICY PLAYBOOK UNDER TIGHTER CONSTRAINTS

However, this new expansive industrial policy has to grapple with a more constrained macroeconomic environment. China faces slowing growth, weak domestic demand, and rising fiscal and financial pressures. To compensate, Beijing is centralizing and tightening control over its resources. Government investment is being consolidated and brought in line with strategic objectives, and redundant programs are being culled, especially at the local level. The pendulum is swinging even further away from the market, with leadership expanding the role of policy edicts in guiding the behavior of banks, state-owned enterprises, and capital markets.

A NEW PHASE OF GLOBAL IMPACT

The new generation of China's industrial policy will intensify pressure on industrialized economies. Beijing pays lip service to the importance of domestic consumption, but is not acting with the urgency needed to rebalance the economy. This imbalance, combined with aggressive industrial policy across a broad range of manufactured goods, will continue to fuel China's manufacturing trade surplus, which stood at nearly \$2 trillion in 2024. China's firms are now gaining market share in sectors that have long been employment and growth engines for advanced economies, like autos, chemicals, and machinery. They are also reinforcing their dominant position in global value chains as foreign investors and suppliers of intermediate goods.

Time is running out for governments to respond. As global reliance on China has deepened, some countries have pursued trade defense and industrial policy, but the efforts have been fragmented. Without coordinated action, China's industrial policy will continue to reshape global markets to its benefit, entrench dependencies, and erode industrial competitiveness in both advanced and emerging economies.