Assessing the Scope, Goals, and Implications of China’s Industrial Policy

The roundtable participants agreed upon a specific definition of “industrial policy,” i.e., a proactive set of policies deployed by the government to change the sectoral structure of the economy. The discussion coalesced around: (1) the size; (2) policy objectives; (3) effects; and (4) the possible implications of China’s industrial policy for the U.S. and the international community.

Quantifying Beijing’s industrial policy spending. One participant kicked off the discussion by estimating how much China actually spends on its industrial policy. In his research, he has found that China is an outlier, spending far more than any other major economies on its industrial policy, whether measured as a percentage of its GDP or in dollar amounts. Even when accounting for only quantifiable industrial policy instruments, its total spending amounted to at least 1.7% of China’s GDP and over US$248 billion in 2019. Using a more flexible definition of industrial spending (such as including government procurement of goods from China’s firms), this participant found that China’s industrial policy spending totaled approximately 5% of the country’s GDP.

Roundtable participants then mapped out a thumbnail sketch of China’s industrial policy evolution. First, all the participants agreed that prior to 2005, China did not have an active industrial policy (as defined above); and between 2006 and 2014, policymakers conducted the policy in an opportunistic, ad hoc way, in support of “strategic emerging industries.” But around 2014, Beijing’s leadership reached consensus that the world was on the cusp of a seismic technology revolution and backed the view that China needed to seize first-mover advantage.

The government began to funnel resources in a more systematic way towards frontier technologies like semiconductors, AI, robotics, and broadband communications through policies like “Made in China 2025” and China’s “Innovation-driven Development Strategy.”

Beijing’s shifting policy objectives. To the participants, 2020 marked another significant policy turning point. Under Xi Jinping, the leadership grew even more aggressive in promoting China’s self-reliance and self-sufficiency in critical technology domains.

To some observers, economic growth no longer tops the list of priorities for the leadership in Beijing. Leaders in China now appear willing to sacrifice China’s short-term growth to decrease China’s technology dependence on the rest of the world. Wanting to insulate itself against strategic vulnerabilities, China is rapidly decoupling from advanced economies and developing the country’s capabilities around sensitive technologies across the global value chain. As one participant queried, however, it is unclear whether China has already reached technological “escape velocity”: i.e., can China achieve technological breakthroughs (much less its pursuit of technological dominance) with far less connectivity to the advanced industrialized nations?

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- China is an outlier in terms of the scale and scope of the government’s spending on industrial policy, which amounted to at least 1.7% of its GDP and over US$248 billion in 2019.
- Since 2020, Beijing’s leadership has grown increasingly aggressive about achieving self-sufficiency in critical technology. It has also placed growing restrictions on China’s private sector — the very engine of China’s miracle growth.
Additionally, many agreed that President Xi Jinping’s economic decision-making after the 19th Party Congress took a turn away from both the private sector and Deng’s maxim of “getting rich is glorious.” According to one participant, Xi and the CCP are increasingly skeptical of the private sector and Jiang Zemin’s “Three Represents” for fear that power and prestige have been shifting away from the Party and towards “superstar” entrepreneurs.

Beijing’s new policy orientation is undermining the historical integrity of the growth model that has served China well for the last 45 years. If Beijing is starting to “kill the goose” of China’s private sector that has “lain the golden egg” of China’s economic dynamism and growth, many wondered whether China might already be facing an economic reckoning of declining productivity and growth. And slowing growth in China, some averred, could also have unforeseen political and foreign policy consequences.

**Tale of two sectors.** As many participants recounted, China’s industrial policy is notable for the variation in outcomes it has produced. In the wind industry, for example, Beijing’s protectionist policies sought to restrict multinational firms with localization, technology transfer, and joint venture requirements. Beijing also actively tried to push its wind industry onto the frontier, leapingfrogging technologically to gain first-mover advantages. The industry scored some technological successes, he noted, but the sector failed to develop in other, equally valuable ways, such as in design, supply chain adaptability, dynamism, and depth of capacity.

By contrast, the government chose not to intervene in the country’s solar industry. Yet, the solar industry scored remarkable successes through incremental innovation. Solar firms localized the entire supply chain, scaled up, and lowered costs. They also achieved first-generation technological breakthroughs. Because domestic demand did not exist at the time, they exported their solar products overseas. To succeed, China’s solar firms had to meet stringent quality standards appropriate for international markets. Impressively, China’s solar firms successfully penetrated global markets.

These two comparative cases, this participant asserted, are potentially illustrative of two points. First, there are both successes and failures in China’s state-led support for new technologies. Secondly, however, industrial policy is often distortionary, resulting in inefficient allocation of capital and resources. State-led support may even be the “kiss of death” for some sectors. To some members, the case studies noted above highlight what elements may be necessary (if not sufficient) for China’s success, i.e., an industry’s openness to global competition, the active participation of private-sector firms, and the degree to which the state intervenes. All participants acknowledged that perhaps the “more the government hugs, the more the sector fails.”

**Implications for the U.S. and the international community.** As the discussion drew to a close, many around the table raised concerns around how Beijing and Washington D.C. should best manage the global implications of China’s massive industrial policy. Rising geopolitical tensions and widening export controls by the U.S. on high-end technology often compels Beijing to intervene further and introduce even larger-scale industrial policies. A more muscular and active Chinese industrial policy, in turn, could elicit more severe responses from the U.S. In addition, because China is the world’s second largest economy, the potential outputs from its massive industrial policy could also flood, and negatively affect, global markets. Such outcomes, many agreed, could raise further tensions between China, U.S., and the rest of the world. Various countries might also respond by instituting their own industrial policies — an outcome that could introduce even greater economic distortions and public welfare losses.