

# The United States Needs a Nuanced Response to China's Manufacturing Might

**Effective policy requires sectoral analyses of China's investments to distinguish between central directives, local government incentives, and market forces.**

China is the world's largest manufacturer. Between 1995 and 2020, its share of global manufactured output increased sevenfold to 35%, just as manufacturing in G7 economies declined sharply. In that same period, China's manufacturing exports soared to 20% of the global total from 3%.

China has since doubled down on a manufacturing-led growth model, even though the central government has long vowed to rebalance the economy toward services and domestic consumption. In 2024, after a slump in the domestic property sector, Beijing announced plans for an economic recovery based on investments in the "new three" sectors of manufacturing: solar, batteries, and electric vehicles.

In response, the United States has accused Beijing of intentionally using manufacturing investments to create overcapacity. (One way to define overcapacity is production that cannot be absorbed by global demand; if it is deliberately created through subsidies, it can allow firms to sell below cost in order to drive foreign competitors out of business.) The United States has reacted with a slew of new tariffs, including on electric vehicles, solar panels, and semiconductors (see also the Pearson and Gallagher memos elsewhere in this collection).

Yet debate in the United States over China's manufacturing investments is simplistic: It suffers from narrow definitions, flawed measurements, and (mis-)attribution of central government intent. Effective policy responses require nuanced analyses, sector by sector, of the drivers of China's manufacturing investments. Scrutiny must go beyond central directives: Policymakers should study the structural incentives that affect local governments and the competitiveness that results from market forces, innovation, and scale economies.

### **REALITY CHECK**

A central concern of U.S. policymakers is China's burgeoning auto exports. They fear that these could undermine the electric vehicle industry in the United States. In the first half of 2024, vehicle exports from China rose by 36%. In response, the Biden administration imposed new 100% tariffs on vehicle imports from China in 2024. Other proposed rules would ban software and components for connected vehicles starting in 2027, and Trump has promised similar restrictions. Such bans—justified on national security grounds—would also shield domestic vehicle manufacturers from competition.

So far the United States has failed to engage with the reality of China's auto sector. Most of the exports from China are internal combustion engine vehicles, which no longer sell there. By contrast, domestic demand for EVs in China is growing; sales are projected to reach 11 million in 2024. Leading Chinese EV exporters like BYD and SAIC have little spare capacity and are profitable. A significant portion of EV exports from China are from foreign brands like Elon Musk's Tesla that use the country as a manufacturing base.

There are several risks to the United States of continuing to mischaracterize China's electric vehicle sector. Protectionist policies could raise prices for American consumers and impede the transition to cleaner vehicles. Tariffs and bans also reduce pressure on U.S. automakers to innovate, including by learning from China's EV makers who excel at software innovation, rapid product development, and a relentless focus on reducing costs. Plus, competition and investment in global markets from China could accelerate the transition to electric vehicles worldwide—a critical step in addressing climate change.

Supply does currently outstrip demand in some sectors of the Chinese economy. Yet these mismatches are not necessarily strategic. A combination of price signals and lumpy investments can lead to excess supply in the short term that can make economic sense for China in the long run. For example, during the COVID-19 pandemic, disruptions to supply chains caused price spikes in several sectors, including in the production of nickel and cobalt which are used in making batteries.

Chinese firms responded by investing in **mining and refining**. These investments and a lack of coordination among producers has increased the supply of such materials, causing prices to fall as demand has not yet caught up. Forecasts suggest that for many of these sectors, global demand will again outstrip supply in a few years, as the energy transition increases **raw material needs** globally.

If the domestic supply of such materials in the United States is indeed a priority, U.S. firms should be incentivized to invest in additional mining and refining now, so that projects come online by the time **shortages are likely**. Yet firms in the United States are **cancelling additional projects**, citing financing constraints in the current price environment. A central lesson is that the United States needs policies that facilitate the financing of projects with long-term objectives.

### **SOLAR FLAIR**

Perhaps the most cited example in U.S. policy circles of China and overcapacity is in the solar industry. Here China dominates global production. Indeed, existing and planned production capacity in China far outstrips what is required to meet the levels of deployment necessary to reach global net-zero goals. By 2030, no additional factories will be required anywhere in the world, according to an estimate from **Bloomberg New Energy Finance**. Globally, prices of solar modules are now at their **lowest-ever levels**, with most manufacturers recording losses as a result of intense competition.

Even this case may not be the result of strategic policy interventions in Beijing intended to drive foreign competitors out of business. There are two main reasons for the rapid expansion of solar manufacturing in China: policy support from subnational governments for local firms, and a long-standing lack of coordination among provinces. Indeed, the central government has expressed concern that the price war between domestic solar manufacturers could threaten its most innovative and competitive players. To calm the melee, **Beijing has issued new rules** that require existing firms to meet R&D benchmarks and minimum utilization rates to stay in business.

Meanwhile, the low global prices for solar could be a boon for the energy transition. The European Union, in a **report on economic competitiveness**, declared solar PV a “non-strategic industrial sector” with few pathways to competitiveness for European firms, and in which the EU greatly benefits from the subsidies borne by foreign taxpayers and governments (see also the Farrell memo elsewhere in this collection). In other words, economies around the world can benefit from China’s overcapacity in non-strategic sectors.

Of course, overcapacity in China as a result of domestic imbalances can disrupt global markets. China’s steel sector, the world’s largest, is suffering from the slump in domestic construction. Steelmakers are dumping excess supply on global markets at prices that undermine steel producers outside China and **thwart attempts to transition to green steel** production in Europe and the United States.

Economies around the world can benefit from China’s overcapacity in non-strategic sectors.

Similar problems are posed by ongoing investments in cement and glass manufacturing beyond what global markets can absorb. In these cases, tariffs and more may indeed be required to ensure that China's domestic imbalances do not drive global cement and glass manufacturers out of business.

### REFINED VIEW

In sum, trade measures need not be implemented for sectors of the Chinese economy where policy-driven structural overcapacity does not exist or is not a problem. Detailed analyses highlight where there is strategic positioning, local government overreach, and genuine market competitiveness. Armed with this nuanced understanding, the United States could craft targeted policies to protect key industries without stifling innovation or raising prices for consumers, and it could welcome imports in non-strategic sectors where domestic production is not imperative.

The simplistic approach poses two risks. The United States may fail to protect its industries from Chinese manufacturing. And it may miss the opportunity to learn from China's strategic investments in the industries of the future.

---

### FURTHER READING

Nahm, Jonas. *Collaborative Advantage: Forging Green Industries in the New Global Economy*. Oxford University Press, 2021.

Nemet, Gregory F. *How Solar Energy Became Cheap: A Model for Low-Carbon Innovation*. Routledge, 2019.

Sanderson, Henry. *Volt Rush: The Winners and Losers in the Race to Go Green*. Oneworld Publications, 2022.



**Jonas Nahm** is an associate professor at the Johns Hopkins School of Advanced International Studies. He served as a senior economist for industrial strategy on the Council of Economic Advisers at the White House between 2023 and 2024. His book *Collaborative Advantage* (Oxford, 2021) examines the development of the wind and solar industries.