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Marshaling National Power Industries to Preserve America's Strength and Thwart China's Bid for Global Dominance

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China is on the march to dominate advanced industries that underpin national power in the 21st century. To protect U.S. economic strength and national security, policymakers must jettison old techno-economic and trade policy doctrines and adopt a new national power industry strategy.

KEY TAKEAWAYS

- Certain technologically advanced industries—from semiconductors to aerospace to AI—serve as the wellsprings of national power and security in the 21st century. China's strategic campaign to dominate those industries is an existential threat to America.
- These industries are globally traded. When China captures market share, it is at America and the West's expense—and losing market share usually leads to downward spirals in innovation and investment, or even irrevocable loss due to high reentry barriers.
- The CCP follows a predictable strategy across industries: attract foreign investment, coerce tech transfer and steal foreign IP, provide massive subsidies, close domestic markets, and then capture global market share.
- Prevailing policy narratives in Washington largely ignore techno-economic and trade warfare and its implications for U.S. power. Neither engagement, nor denial, nor false confidence in American innovation will suffice in the face of the threat China poses.
- We must abandon consumer-welfare economics and neo-New Dealism and go beyond competitiveness and innovation strategy. We need a "national power industry strategy" that adapts from the field of corporate strategy, where competition is win or lose.
- Time is short. Policymakers must recognize that industries differ in strategic importance, markets won't automatically preserve critical capabilities, production matters as much as innovation, and long-term strategic positioning trumps short-term efficiency.

EXECUTIVE SUMMARY

The Strategic Imperative

The United States faces an existential challenge in China's systematic campaign to dominate the advanced industries that enable national power in the 21st century. Unlike any competitor in American history, China combines the continental scale of a 1.4-billion-person economy with a Marxist-Leninist political system explicitly committed to achieving techno-economic supremacy over the Western democratic world. This is not normal economic competition between market economies—it is a carefully orchestrated, multi-decade strategic campaign to displace U.S. industrial capabilities, weaken allied nations, and fundamentally reshape the global order under CCP leadership.

The stakes transcend economics. National power today depends on strength in what this report terms "national power industries"—a spectrum of sectors spanning pure defense production, dual-use technologies employed in both military and commercial applications, and enabling industries that support the broader industrial commons. These include semiconductors, aerospace, biopharmaceuticals, telecommunications equipment, advanced chemicals, precision machinery, robotics, artificial intelligence (AI) systems, and dozens of other sectors in which weakened or fatally injured firms would grant China dangerous leverage over the United States and its allies, as well as weaken U.S. defense production capabilities.

On its current trajectory, it is likely that China will soon amass significantly greater capabilities than the United States will in national power industries.

This competition occurs against a backdrop of American policy failure. For over two decades, U.S. leaders across both parties have operated under the assumption that China was becoming a "normal" market economy that would gradually liberalize politically and economically. That assumption has proven catastrophically wrong. China today is more authoritarian, more aggressive internationally, and more committed to state-directed capitalism than at any point since Mao's death.

On its current trajectory, it is likely that China will soon amass significantly greater capabilities than the United States will in national power industries. With those greater capabilities will come geostrategic hegemony over the West, unless the United States forestalls that outcome by adopting a new, transformative national power industry strategy that goes beyond a mere competitiveness or national innovation strategy. This is not a war that the United States and allies can win in the sense of significantly weakening or retarding the growth of China's own national power industries. The only way Chinese attacks will end is if China becomes a free, democratic country. But the United States and allies can avoid defeat—keeping their national power industries relatively strong—by working together and adopting national power industry strategies.

Understanding the Chinese Communist Party's True Objectives

Perhaps the most damning evidence of Chinese intentions comes from internal Communist Party documents and speeches intended for party members rather than foreign audiences. As China scholar Daniel Tobin has documented, these reveal a regime explicitly committed to Marxist-

Leninist global ambitions that go far beyond merely moving up the value chain and growing its economy.

Xi Jinping has repeatedly framed China's rise in ideological terms, stating that "scientific socialism is full of vitality in 21st century China" and that China offers "a new option for other countries and nations who want to speed up their development while preserving their independence." In a 2013 speech to senior party officials, Xi declared that "the viewpoint of historical materialism that capitalism is doomed to failure and socialism will prevail" remains valid, and that China must "seize the initiative, win the competitive edge, and secure our future" in a "long-term cooperation and rivalry between the two social systems."

Documents from the party's 20th Congress state that China's success has "significantly shifted the worldwide historical evolution of the contest between the two different ideologies and social systems of socialism and capitalism in a way that favors socialism." Chinese leaders explicitly describe their work as part of a "great struggle" and "systems contest with Western capitalist democracy," using terminology that leaves no ambiguity about their intentions.

On technology and industry specifically, party documents are equally explicit. The minister of Science and Technology wrote in the *People's Daily* that "the scientific and technological revolution and the contest between major powers are intertwined; the high-tech field has become the forefront and main battlefield of international competition." Another official commentary stated: "To a certain extent, those who gain access to the Internet will gain the world. Core technology is an important weapon for the country."

China's Made in China 2025 plan, while officially downplayed after international backlash, clearly articulates the goal: "Building an internationally competitive manufacturing industry is the only way China can enhance its comprehensive national strength, ensure national security, and build itself into a world power." The plan calls for China to "seize the commanding heights of a new round of competition in the manufacturing industry" and achieve innovation leadership "ranking first globally."

The CCP follows a predictable playbook across industry after industry.

Leading Chinese scholar Lu Yongxiang stated in 2024 that "by 2035, 'Made in China' will surpass the United States and become the global leader," noting this would thrust the world into a "new era"—explicitly referencing an era of Chinese dominance. These are not the words of a nation seeking merely to "catch up" or achieve "legitimate development." They are the explicit articulation of a campaign for global advanced industrial hegemony.

China's actions match its rhetoric. The CCP follows a predictable playbook across industry after industry. First, attract foreign investment by promising market access. Second, coerce technology transfer through joint venture requirements and other mechanisms—pressure the U.S. Trade Representative has characterized as "particularly intense." Third, support domestic firms in copying and incorporating foreign technology while building indigenous capabilities through programs such as the 2006 Medium- and Long-term Program for Science and Technology Development, which identified 402 core technologies to master.

Fourth, carve out and protect the Chinese market for Chinese firms, excluding foreign competitors once domestic champions can reasonably serve the entire Chinese market. Fifth, provide massive subsidies—estimated at minimum 1.73 percent of Chinese gross domestic product (GDP) annually, or over $400 billion per year, though actual figures are likely far higher accounting for provincial and local support. Finally, support Chinese firms "going out" to capture global market share, particularly in developing nations through Belt and Road Initiative investments exceeding $1 trillion. These dwarf the minimal industrial subsidies the U.S. government (USG) provides.

The scale of Chinese subsidies dwarfs anything in Organization for Economic Cooperation and Development (OECD) nations. A German institute found that in 2022, 99 percent of listed Chinese firms received direct government subsidies, with electric vehicle (EV) maker BYD alone receiving over $3.7 billion. Chinese industrial subsidies were 4.5 times greater than U.S. subsidies as a share of GDP. Combined with a chronically undervalued currency, suppressed domestic consumption, and closed markets, these subsidies have enabled Chinese firms to sell below cost for years or decades, systematically destroying foreign competitors' market positions.

This is not to say that all Chinese efforts or innovation are win-lose. If China invents a cure for Alzheimer's, the world benefits (assuming the United States or its allies would not also do so). But this would also reduce U.S. (and allied) strength in the pharmaceutical industry.

Three Flawed Strategic Responses

Overall, the policy debate about China is largely dominated by international relations scholars and experts, not business or industrial strategy experts. The former are aware of the global competition for leadership in advanced industries, but they largely see it as subservient to overall foreign policy considerations and goals. Moreover, few understand the operation of advanced industries, the nature of the competition, or the importance of barriers to entry and reentry. As such, the prevailing narratives largely ignore techno-economic and trade war implications and the implications for U.S. power.

Current U.S. thinking about China coalesces around three main strategic approaches, all of which are inadequate to the challenge.

The Engagers: Cooperation Above All

The first camp, still influential in much of the U.S. foreign policy establishment, prioritizes maintaining cooperative relations with China, even in the face of CCP behavior that harms U.S. national power industry capabilities. These experts argue that China's growth benefits global prosperity, that Chinese cooperation is essential for addressing climate change and other global challenges, and that confrontation risks becoming a catastrophic conflict.

A 2019 open letter signed by over 100 prominent scholars claimed that "we do not believe Beijing is an economic enemy or an existential national security threat" and argued that "the fear that Beijing will replace the United States as the global leader is exaggerated."

This camp consistently minimizes Chinese malfeasance while emphasizing supposed benefits of engagement. They cite Chinese economic growth as driving global prosperity (ignoring that China's persistent trade surpluses actually reduce GDP elsewhere). In arguing that cooperation is needed on issues such as climate change, pandemic response, and AI governance, they gloss

over the question of why the United States should be the supplicant when China has equal or greater interest in addressing these challenges.

Their fundamental error is treating China as a partner rather than a strategic competitor. Engagers assume that continued dialogue and economic ties will moderate China's behavior, when two decades of evidence proves otherwise. They prioritize the process of engagement over the substance of outcomes, accepting Chinese predatory practices as the price of maintaining access and conversation.

The Deniers: Wait for China's Collapse or Assume Inherent U.S. Superiority

A second camp acknowledges China's rise but counsels patience, predicting that internal contradictions will lead to Chinese economic stagnation or political crisis. These analysts point to demographic decline, the housing bubble, government debt, and the inefficiencies of state capitalism as harbingers of inevitable Chinese failure. To be sure, many advance the well-trodden prescriptions such as improved K-12 education, more high-skill immigration, smarter regulation, and more government spending on science. But they will not go so far as to support a national power industry strategy.

This "Peak China" thesis is seductive because it requires no painful U.S. policy changes. If China is destined to collapse under its own weight, the United States need only wait and maintain its existing approaches to the economy, trade, and national security. Proponents cite any negative Chinese economic news as evidence that their predictions are materializing, while ignoring continued Chinese gains in technological capabilities and global market share of advanced industries.

The fatal flaw is mistaking China for the Soviet Union. Unlike Soviet command economics, Chinese state capitalism has proven remarkably effective at generating growth and technological advancement. The CCP studied why the Soviet Union failed and adopted fundamentally different economic management—allowing market forces to operate within state-directed strategic frameworks rather than attempting to centrally plan everything.

Moreover, even if China faces economic headwinds from demographics or debt, these business-cycle challenges do not negate its structural advantages in the techno-economic competition. Chinese firms will continue benefiting from massive subsidies, protected markets, and patient capital regardless of GDP growth rates. Waiting for China to self-destruct while Chinese companies dismantle Western industries one after another is a prescription for defeat.

The Innovationists: Technology Will Save Us

The third camp acknowledges the challenge China presents but argues that American innovation superiority will enable the United States to prevail. These "dynamists" focus on deregulation, immigration reform, scientific research funding, and nurturing entrepreneurship—particularly in cutting-edge fields such as AI, quantum computing, and synthetic biology.

This view holds that the United States need not defend legacy industries because American innovators will create entirely new sectors and the United States will lead them. Why fight over solar panels or EVs when we can dominate AI and quantum? The prescription is to boost science funding, reduce regulatory barriers, import more STEM (science, technology, engineering, and math) talent, and trust that Silicon Valley-style innovation will deliver victory.

The problems with this strategy are multiple. First, with a few exceptions (e.g., AI), it is industry-agnostic—there is no guarantee that market-driven innovation will produce capabilities in sectors that matter most for national power. Second, the United States has repeatedly lost production of technologies it invented, from televisions to solar panels to batteries, as other nations have commercialized American discoveries. Innovation alone does not ensure domestic production or competitive strength.

Third, advanced defense systems increasingly rely on commercial technologies (spin-on rather than spin-off), making a strategy that abandons commercial sectors to China while hoping to maintain defense-only production unrealistic and prohibitively expensive. Fourth, the "industrial commons"—the ecosystem of suppliers, skilled workers, and manufacturing capabilities—erodes when industries disappear, making future innovation harder. Intel founder Andy Grove's warning resonates: "Abandoning today's 'commodity' manufacturing can lock you out of tomorrow's emerging industry."

Finally, China is not ceding emerging technologies. Chinese firms are competitive or leading in AI (see Alibaba, Baidu, and DeepSeek), quantum communications, commercial space, robotics, and biotechnology. The notion that the United States can retreat to "higher ground" in emerging tech while China dominates established industries ignores that Chinese firms are aggressively pursuing both.

Why Current U.S. Economic Policy Frameworks Fail

The deeper problem is that dominant U.S. economic doctrines are fundamentally mismatched to the era of *national* power industry competition.

Consumer Welfare Economics

The reigning paradigm in U.S. economic policymaking—which critics call "neoliberalism"—treats all industries as equivalent. Financial services and semiconductor fabrication are no different; both simply respond to market signals. The goal is to maximize consumer welfare through efficient resource allocation, which markets achieve better than governments do.

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In this framework, Chinese subsidies (including low labor costs and lax environmental regulations) are gifts to American consumers (lower prices!), not strategic attacks. Trade deficits reflect American prosperity (we're rich enough to buy foreign goods!), not industrial weakness. Offshoring production to China demonstrates smart capital allocation by U.S. firms seeking higher returns, not a national security vulnerability.

Consumer welfare economics has no concept of strategic industries or national power. Its proponents argue that "countries don't compete, only companies do" and that concerns about industrial structure reflect economically illiterate protectionism. The Peterson Institute epitomizes this view, arguing that U.S.-China trade is "clearly win-win" and that "Chinese companies have a right to compete with U.S. companies and succeed in any sector, including in high-tech."

This doctrine might have been adequate when America faced no serious techno-economic competitor; it is catastrophically inadequate against China's state capitalist predation. Markets have no inherent reason to preserve semiconductor fabrication, aerospace, or pharmaceutical production domestically. They are equally happy producing legal services, retail, and hospitality, none of which enable national power.

But the reality of this techno-economic and trade attack fundamentally undercuts the foundation of consumer welfare economics and exposes its inability to address the current challenge. If national power is the ultimate goal, not consumer welfare, then this doctrine fails, at least in guiding the share of the economy composed of national economic power industries. If a nation's industrial mix is critical, then a doctrine that gives equal weight to potato chips and computer chips fails.

Neo–New Deal Progressivism

The ascendant alternative on the Left is equally unsuited to the challenge. Neo–New Dealism focuses on redistribution, social justice, and worker welfare overgrowth and competitiveness. Its industrial policy priorities are human services (childcare, eldercare), climate-focused sectors (renewable energy), and breaking up large corporations through aggressive antitrust.

While rhetorically supporting "industrial policy," progressives' actual agenda—drug price controls, restricting intellectual property (IP), mandating labor standards that limit automation, attacking profitable corporations as exploitative—systematically weakens the large advanced-technology firms that must serve as national champions against Chinese competitors.

Moreover, neo–New Dealism's massive social spending agenda would consume the fiscal resources needed for strategic industrial investment. Its anticorporate ideology and deep suspicion of business-government collaboration make the public-private partnerships required for an effective national power industry strategy politically toxic.

The reality of the CCP's techno-economic and trade war on the West undercuts the foundations of neo–New Deal progressivism. If the United States is in an existential contest for global power, then boosting taxes and regulations on business is especially ill-advised, as are the neo-Brandeisian campaign to destroy large corporations and separate unrestrained demands from organized labor. Progressive advocates know this quite well, which is why they go to any end to deny that China is even a competitor.

What's Required: National Power Industry Strategy

The United States needs a fundamentally new framework: a national power industry strategy. This approach recognizes the following:

- **Industries differ fundamentally in strategic importance.** Semiconductors and furniture are not equivalent. Some sectors—defense, dual-use, and enabling—are critical to national power and must be prioritized even at short-term economic cost.
- **Markets are indifferent to national power.** Unregulated market forces will not automatically preserve strategic capabilities. Government must actively shape industrial structure through strategy, not just generic competitiveness or innovation policies.
- **China is a strategic competitor, not a normal trading partner.** Chinese mercantilism requires defensive measures (restricting imports produced unfairly) and offensive support

(strengthening domestic champions in national power industries) that violate free-market and progressive orthodoxies.

- **Production matters as much as innovation.** The United States cannot rely on inventing technologies that China then produces. Manufacturing capabilities, supply chain resilience, and industrial commons must be preserved domestically in strategic sectors.
- **Long-term strategic positioning trumps short-term efficiency.** Maintaining redundant capacity, subsidizing strategic industries, and accepting higher consumer prices are necessary costs of not losing the techno-economic war.

This requires jettisoning the deeply held view that governments should not "pick winners." Markets might optimize GDP growth, but only by happenstance will this generate needed national power industry capabilities. Policymakers must embrace strategic industry selection and support, drawing on business strategy frameworks rather than consumer welfare economics.

Implementation Barriers

The political economy obstacles to a national power industry strategy are severe. U.S. business leaders, shaped by decades of financial capitalism prioritizing quarterly returns and shareholder value, distrust government involvement and focus myopically on firm-level profitability rather than systemic strength. Unlike their predecessors from the 1940s–1970s who saw themselves as corporate statesmen with responsibilities to the broader capitalist system, today's executives view government industrial policy as either incompetent interference or the thin edge of socialist control.

Labor unions pursue short-term wage gains that often undermine firms' long-term global competitiveness because they are unable to escape the prisoner's dilemma of aggressive bargaining today leading to job losses to less-constrained Chinese rivals tomorrow.

Conservative organizations reflexively oppose the government activism required for industrial strategy, while progressive organizations reflexively oppose supporting corporations. Neither party's dominant coalition supports the combination of strong state capacity and empowered corporate champions that a national power industry strategy requires.

Perhaps most critically, the USG itself lacks the analytical capacity, institutional structures, and personnel with expertise to formulate and execute sophisticated industrial strategy. Unlike China, where officials study industrial policy as a discipline and spend careers mastering sectoral dynamics, U.S. policymakers typically have backgrounds in law or generalist economics divorced from operational understanding of specific industries and technologies.

The Path Forward

The United States requires political, policy, and institutional transformation comparable to previous pivots after the War of 1812, the Civil War, and World War II. In all three cases, war provided the spur to overcome inertia and interest group resistance. We certainly hope it will not take a physical war to achieve similar transformation today. Either way, the organizing principle of economic policy must shift from maximizing consumer welfare or spurring social justice to ensuring that the United States maintains superior capabilities in national power industries relative to China. The simplest measures of this are the share of these industries' global output that is produced in the United States and the share of U.S. production that occurs in allied

nations. Related measures are the technological sophistication of U.S. products and services in national power industries compared with those of Chinese competitors.

This demands classifying industries by strategic importance, developing sophisticated strategies for priority sectors informed by business strategy principles rather than economics, restricting unfairly traded Chinese goods' access to allied markets, substantially increasing public and private investment in strategic sectors (on the order of $100 billion per year in tax incentives and direct expenditures for at least a decade), coordinating with allies to present unified responses, and building government institutional capacity for industrial strategy.

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The costs will be significant: Implementing a national power industry strategy will bring higher prices for certain consumer goods, increased government spending, greater fiscal discipline elsewhere, and reduced returns for some investors as capital is channeled toward strategic rather than merely profitable uses. But the alternative is worse: a future in which Chinese dominance of advanced industries leaves the United States dependent on an adversary for critical technologies, unable to defend its interests or protect its allies, and relegated to second-tier status in a China-dominated world order.

Conclusion

History shows that America can make fundamental pivots when circumstances demand. Whether it can do so absent the shock of military conflict—which might come too late, after critical capabilities are already lost—remains the defining question of our era. The window for effective action is narrowing. Chinese positions in industry after industry are becoming entrenched, protected by economies of scale, learning curves, network effects, and the enormous barriers to reentry that characterize advanced manufacturing. The reality is that once advanced industry capabilities are lost, they are extremely difficult to resurrect.

The choice facing America is stark and unavoidable: Fundamentally reform techno-economic policy now by embracing the uncomfortable truth that some industries matter far more than others—and by recognizing that preserving them requires active government strategy—or accept a managed decline into second-tier status while China's techno-economic dominance translates into geopolitical supremacy. There is no third option, no magical innovation breakthrough that will solve the problem without hard choices and real sacrifices.

The United States remains far stronger than any declining power in history. Its advantages in innovation ecosystems, allied networks, capital markets, universities, and democratic legitimacy provide a foundation for successful competition if properly mobilized. But time is not on America's side. Every industry lost makes recovery harder; every year of Chinese industrial expansion shifts the balance further; every failure to act because it violates free-market or progressive orthodoxies surrenders ground that cannot be regained. The techno-economic war with China is the central challenge of the 21st century. America's response will determine not just its own future but the future of the liberal democratic world.

Read the Full Report

Robert D. Atkinson, "Marshaling National Power Industries to Preserve America's Strength and Thwart China's Bid for Global Dominance" (ITIF, November 2025), https://itif.org/publications/2025/11/17/marshaling-national-power-industries-to-preserve-us-strength-and-thwart-china/.

More in This Series

This report is part of ITIF's National Power Industry Series on China's predatory industrial strategies; their impact on U.S. technological leadership; and how to avoid losing U.S. and allied capabilities in advanced industries that undergird national power. See: itif.org/power-industries.

About the Author

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