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The Reshaping of China's Industry Chains. *By* CICC Research, CICC Global Institute. Springer, 2024

By Tai Yuen CHEN [†]

Abstract. This book examines the fundamental forces and strategic imperatives reshaping China's position within global industry chains, shifting the national focus from "efficiency first" to a critical balance between efficiency and security. Driven by increasing geopolitical risks, "deglobalization," and technological non-neutrality, the book argues that China must leverage its unparaleled economies of scale to build resilience and enhance its irreplaceability in the global supply network. A key advantage is its massive domestic market, which can serve as a potent engine for growth and innovation, especially for digital platform companies. The analysis details how industrial policy is returning to the spotlight, advocating for a "dual-pillar national system" where big, state-supported companies mitigate vertical risks (dependence on key upstream technologies) through integration, while diversified small and medium-sized enterprises (SMEs) mitigate horizontal risks (supply chain disruption) through decentralization and competition. Sector-specific analyses cover critical areas—from raw materials security to the green transformation, and the leap forward in high-end equipment and new energy vehicles—providing a comprehensive roadmap for navigating the complexities of the new global economic landscape.

Keywords. Global Industry Chains (GICs); Deglobalization and Geopolitics; Economies of Scale (China); Supply Chain Security; Industrial Policy.
JEL. F62; L23; O25; R38; F13.

Book Review

The *Reshaping of China's Industry Chains*, authored by CICC Research and the CICC Global Institute, is an incisive and timely analysis of the fundamental forces transforming China's role in the global economy. Published in 2024, the book serves as a strategic policy blueprint, detailing the necessary shift in China's economic philosophy from prioritizing "efficiency first"—the guiding principle of the globalization era—to a new imperative of balancing "efficiency and security" in the face of rising geopolitical competition and "deglobalization".

The central premise of the book is that the established structure of global trade, founded on low transaction costs and the vertical specialization facilitated by multinational enterprises (MNEs), is disintegrating. The new landscape is characterized by technological non-neutrality, regionalization, and the return of assertive industrial policy worldwide. To navigate this uncertain environment, the authors argue that China must strategically leverage its most decisive inherent advantage—the sheer **economies of scale** afforded by its massive domestic market—to solidify its position and enhance its technological irreplaceability. This review will examine the book's macro-level diagnosis, its proposed "dual-pillar" policy response, and the sector-specific applications that demonstrate the depth and practical relevance of the analysis.

† Griffith University, Environmental Futures Research Institute, Australia.

II. Macroeconomic Diagnosis: The End of Flatness

The book begins by establishing the "new landscape" that necessitates a re-evaluation of industry chain strategy.

A. Deglobalization and Non-Neutrality of Technology

Chapter 1 and 2 thoroughly diagnose the shift from the post-Cold War era of seamless globalization to one characterized by competition. The authors reference Paul Krugman's "new economic geography" to argue that "the world is not flat"; spatial factors, transportation costs, and increasing returns to scale lead to agglomeration, which fundamentally challenges the purely comparative advantage theory of trade. This reality is now magnified by geopolitical tensions.

Crucially, the book highlights the "non-neutrality of technology". Unlike past technological waves that were seen as globally beneficial, current technologies are being weaponized, forcing countries to reconsider efficiency for the sake of equity and security. The shift from China-US cooperation to competition is identified as the main driver of deglobalization, pushing transaction costs up and fragmenting global industry chains (GICs). The book, therefore, posits that industry chain security is no longer an abstract concern but a national priority, even at the cost of some efficiency.

B. The Unmatched Advantage of Scale

A significant portion of the macro-analysis is dedicated to articulating how China's enormous scale has become its new, critical advantage.

- Theoretical Grounding: Drawing on concepts of economies of scale and scope, the book argues that large countries gain dominance in cross-border industry chains through this scale. Scale reduces costs, encourages specialization, and, most importantly, provides a resilient demand-side engine for innovation.
- Countering Global Headwinds: Amid increasing horizontal risks (decentralization and diversification of production) and vertical risks (technological bottlenecks from key suppliers), China's domestic market acts as a strategic buffer. Chapter 3 argues that fully leveraging this scale requires correcting defects in market mechanisms and expanding the domestic market to strengthen the core position of Chinese industries in regional and global industry chains.
- Digital Economy: The book points out that the US's digital platform companies' success stems partly from their active integration into global markets. China's large domestic market is the crucial foundation that Chinese platform companies can leverage to grow their global presence and improve economies of scale, especially in strategically important digital innovations like AI.

III. The Policy Response: Industrial Policy and the Dual-Pillar System

The CICC analysis directly addresses the resurgence of industrial policy, arguing that a "proactive and effective" policy is necessary in this new era of profound change.

A. The Return of Industrial Policy

Acknowledging that industrial policies have been historically adopted by various countries (citing Japan and the US as examples), the book argues that profound global changes necessitate a new mindset. It outlines five basic principles for industrial policies in the current era, primarily focusing on promoting innovation. Industrial policy should, for instance, be better targeted to avoid resource waste and lend more support to areas facing difficulties in mass production and client acquisition, while taking advantage of China's economies of scale.

B. The Dual-Pillar National System

The book's most novel strategic proposal is the "Dual-Pillar National System" for mitigating industry chain risks. This framework is structured to manage the two primary types of risk:

1. Mitigating Vertical Risks (Centralization): Vertical risks relate to technological dependence and bottlenecks—the classic "choke points" in high-tech or natural resource industries where supply is oligopolistic.
   - Strategy: The response is centralization, or vertical integration. This is primarily led by large, state-supported companies (SOEs) that have the capital and long-term perspective to engage in catch-up innovation, particularly in high-tech and critical resource industries. The book suggests that banks are better suited for supporting this "catch-up innovation" led by big companies.
   - Goal: Utilizing supply-side vertical integration to accelerate catch-up innovation and demand-side horizontal integration (especially in resources) to improve bargaining power.
2. Mitigating Horizontal Risks (Diversification): Horizontal risks relate to supply chain disruptions caused by regional instability, trade wars, or industrial relocation.
   - Strategy: The response is diversification and decentralization. This involves relocating mature, labor-intensive production capacity to Southeast Asia and surrounding countries, increasing regional cooperation (e.g., through RCEP and Belt and Road Initiative), and promoting competition among small companies.
   - Financial System: Leading innovation requires the capital market, especially a booming equity investment market, which is better suited for the high-risk, high-return nature of truly innovative ventures.

The book stresses the importance of the relationship between large and small companies in this dual system: large companies should lead in mitigating vertical risks, but should eventually vertically disintegrate and create an ecosystem that is conducive to small companies innovating and forming new businesses once those risks are mitigated.

IV. Sector-Specific Analysis: The Road to Reshaping

The latter half of the book applies this macro-framework to critical industrial sectors, providing granular insight into the challenges and opportunities.

A. Green Transformation and New Energy

The green transformation is not just an environmental imperative but a competitive one. The book argues that China's major goal is to balance the development of green and traditional industries to adapt to and even lead the change in global industry chains. The New Energy chapter highlights that China faces security issues amid this transition and the energy crisis, noting that while vertical risks (technological dependence) are controllable, deglobalization exacerbates horizontal risks (relocation, trade barriers). The suggested solution for new energy is to mitigate horizontal risks by moving mature production capacity overseas (e.g., to Southeast Asia, Europe, and the

US) while simultaneously upgrading advanced technologies domestically to build a comparative advantage.

B. High-End Equipment and Automotives

In the equipment manufacturing industry, China remains stuck in the lower-value segments of the "Smile Curve," mainly participating in subcontract manufacturing. The core driver for improvement lies in ongoing technological accumulation, and the authors urge creating conditions for high-end equipment manufacturers' technological accumulation. The Automotive chapter focuses on the shift toward electrification and intelligentization, which presents a massive opportunity to overcome the historical underperformance of the "market-for-technology" strategy. China's Smart EVs are positioned to potentially overtake foreign competitors. The solutions again mirror the dual-pillar idea: guiding the market to ensure domestic demand while fully supporting technological breakthroughs.

C. Raw Materials and Pharmaceuticals

The analysis of Raw Material Commodities directly addresses the security component of the new strategy. High dependence on imports and high concentration of supply create significant risk. The proposed plan includes industry measures such as increasing domestic supply and storage, as well as national support through a two-pronged approach focused on foreign investment and technological substitution. The Pharmaceuticals chapter identifies R&D as the core of the supply chain system. It argues that China has an "engineer dividend" that benefits outsourcing but must strengthen the "software" of its ecosystem—scientific research, regulatory guidance, and investment structure—to move into higher-added-value processes.

V. Conclusion and Scholarly Significance

The Reshaping of China's Industry Chains is a landmark publication that provides a rigorous and intellectually honest assessment of China's current economic strategy. It successfully integrates classical economic theory (Krugman, scale, trade models) with contemporary geopolitical and technological realities.

The book's core contribution is the cohesive articulation of the security-efficiency trade-off and the resulting Dual-Pillar National System. This framework is not merely descriptive but is highly prescriptive, offering practical policy guidelines across diverse industrial sectors. By advocating for a nuanced approach that embraces both state-led centralization for managing vertical, high-tech risks and market-led decentralization for managing horizontal, supply-chain risks, the authors present a sophisticated model of planned capitalism for a large economy.

While the volume, produced by a leading Chinese investment bank and institute, reflects a strong policy-oriented viewpoint and focuses heavily on maximizing China's national interest, its comprehensive empirical detail and systematic analysis make it an indispensable resource. It is essential reading for economists, geopolitical analysts, and business strategists seeking to understand the deep structural adjustments and competitive landscape that will define global trade for the next decade.