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China's Position on the So-called Excess Capacity Issue

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The Ministry of Commerce of the People's Republic of China

Contents

Foreword

Providing strong dynamism for world economic growth, economic globalization is an unstoppable and overwhelming historical trend that promotes the flow of goods and capital, progress of science and technology and civilization, and exchanges among nations. As an important dimension to economic globalization, industrial cooperation is a key pathway to continuous global economic recovery and common development shared by all.

In recent years, international economic and trade landscape has gone through profound shifts with major-country rivalry intensifying and global industrial and supply chains reshaping quickly. With growing concerns about their industrial competitiveness and market positions, some countries and economies have politicized economic and trade issues. Hyping the so-called excess capacity of China, they accuse the country of flooding the world market with Chinese capacity and have used this as an excuse to ramp up restrictions on China, stoking up protectionism.

It has been China's belief all along that the capacity issue requires a rounded, objective and just approach that combines historical perspective with dialectics to address contradictions and differences together in the spirit of openness, cooperation,

mutual benefit and win-win outcome. Invoking protectionism will only serve to disrupt global economic and trade order and undermine the security and stability of global industrial and supply chains and the sound and orderly development of industrial cooperation, which spell long-term risks for world economic growth.

To clarify related facts, this document is hereby published to lay out China's policy position on issues related to the so-called excess capacity.

I. Global capacity and the so-called excess capacity should be viewed in a rounded and objective manner

A. The evolving global capacity landscape is the result of international industrial labor division and cooperation.

History of the evolving global capacity landscape. Since the first industrial revolution, continuously improving productivity and deepening economic globalization have accelerated the flow of various factors of production worldwide. As global centers of production and demand shift among countries and regions, industrial capacity also moves from country to country and region to region, which changes the shares of major economies in global industrial output. In 1880, the UK's share in global industrial output peaked at 22.9%. Around the First World War, the U.S. succeeded the UK as the world's industrial center, accounting for as much as 44.7% of the global industrial output in 1953.

Gradual shift in the global industrial landscape after the Second World War from a single center to multiple centers. As economic globalization gathers pace, international division of labor keeps deepening with several waves of global industrial transfer first from the U.S. to Europe, then from the U.S. and Europe to Japan, and on to East Asia and China, as well as the current movement of some industries from China to Southeast Asia and other regions, which has formed three

regional manufacturing centers in North America, Europe and East Asia with their manufacturing value-added respectively accounting for 17%, 17% and 38% of the global total. It is by actively integrating into economic globalization and taking part in international labor division that China has become “the workshop of the world” and a key component of the global manufacturing network.

B. The phenomenon of excess capacity in global economic development should be viewed objectively.

Excess capacity is a dynamic phenomenon in the market economy. Capacity supply and demand in the world economy goes through the dynamic cycle of “balance—imbalance—rebalance”, without lasting capacity balance. Whether there is surplus capacity depends on supply and demand with dynamic adjustments in the life cycle of the industry. Supply-demand balance is relative, while imbalance is universal. In the age of globalization, changes in international capacity are interlinked with shifts in global supply and demand. In the course of technological revolution, emerging capacity creates new supply while old capacity becomes redundant, which leads to temporary and structural supply-demand imbalance. With adjustments of the market mechanism, supply and demand will converge towards a new equilibrium.

Given varying perspectives on the concept of excess

capacity, a global consensus has yet to be reached. Excess capacity remains a subject of debate across various sectors in the absence of an official definition by major international organizations. There is no definition of excess capacity or provisions on excess capacity in the World Trade Organization (WTO) agreements. According to the International Monetary Fund (IMF), excess capacity is a complex concept which should be approached from the perspective of macroeconomic scenarios. Economists mostly explain excess capacity from both macro and micro perspectives. At the macro level, excess capacity is a phenomenon where the production capacity of the whole industry substantially surpasses the total effective market demand. At the micro level, excess capacity refers to a situation where firms' actual output falls short of the optimal level due to monopolistic competition. In reality, economies are no strangers to the state of excess capacity over effective demand driven by fluctuations in economic cycles. The criteria and angles for determining whether excess capacity exists vary greatly across countries and sectors. Some economies attempt to impose on others various criteria they have invented for defining the so-called excess capacity in a simplistic, mechanical or blanket fashion to serve their specific geopolitical and protectionist ends. These so-called concepts and criteria do not hold water, as they are inconsistent with the laws of development and the actual

conditions of countries.

C. The measurement of excess capacity in different economies and industries should take into account their respective development stages and levels.

Capacity utilization rate, an indicator often used to measure excess capacity, should be viewed differently in light of each country's actual conditions. In economics, capacity utilization rate is the ratio of actual output to potential output. There are no globally accepted criteria for determining the reasonable range of capacity utilization, as it differs across economies. Data of relevant institutions indicate that the median capacity utilization rate for advanced and fast-growing economies mostly falls in the 75-80% range, whereas that for less developed countries usually stands between 50% and 64%. It is the constraints of infrastructure, capital and other factors that prevent less developed countries from bringing their capacity into full play.

Capacity utilization rate varies substantially across sectors. According to the latest available data on capacity utilization rates published by the 27 EU member states, 169 out of its 725 industries reported rates below 70%. Capacity utilization in some traditional industries is significantly below the average. For example, in some countries, capacity utilization in beverages and furniture stands at around 65%, while in

sectors like rubber, chemicals, and plastics, it is only 40% to 50%. The latest Federal Reserve data show a 75.7% capacity utilization rate for U.S. manufacturing, but with considerable variation across sectors. The capacity utilization rate ranges from 83.2% in computer and peripheral equipment to below 70% in textiles, leather, automobiles and parts, primary metal products, furniture and related products, and communications equipment. Economic practices of various countries have shown that capacity utilization rate, although a reasonably objective indicator of the use of production capacity, is not a one-size-fits-all measure for determining whether excess capacity exists in different economies or sectors.

II. Perspectives and positions on four relationships concerning excess capacity

A. Relationship between industrial subsidies and excess capacity.

There is no necessary connection between industrial subsidies and excess capacity. Sound industrial subsidy policies help correct market failures, advance technology innovation, protect environment, reduce poverty, and promote balanced development, rather than cause the so-called excess capacity. Many countries introduce tailored industrial policies in light of their national conditions and development needs. For example, R&D subsidies for emerging industries and risk management subsidies for the agricultural sector are legitimate industrial and trade policy tools for WTO members. Several UNCTAD reports point to the rapid increase in industrial policies worldwide over the past five years. Providing R&D subsidies, tax incentives and low-interest loans for emerging industries has become a widely accepted international practice.

WTO members generally pursue subsidies that are fair, universal and transparent. Major countries should set an example in ensuring their subsidies conform to WTO rules. Subsidies per se are not a problem, but they should be applied in a rational way in accordance with the WTO principles of openness, fairness and compliance. Given the significant

spillover and demonstration effects of their industrial policies, major countries, as pacesetters of global industrial development, should take the lead in opposing the abuse of subsidies and discriminatory subsidy polices. The U.S. Inflation Reduction Act, which plans to provide a total of USD750 billion in various subsidies from 2022 to 2031, requires that electric vehicles eligible for these subsidies shall be produced and sold in the U.S. or North America, effectively excluding other WTO members. The U.S. provides far more industrial subsidies for artificial intelligence (AI) than any other country. According to available statistics, the European Commission is set to provide EUR1.44 trillion in various subsidies between 2021 and 2030. The EU Industrial Accelerator Act links local content to fiscal support through the EU origin requirement. It is imperative that all countries make the pie of global development bigger and introduce subsidies and other industrial policies in a rational and compliant manner, rather than use them as a tool to constrain the development of others. China stands ready to engage in discussions on the subsidy policy with all sides under the WTO framework to jointly bring relevant practices into compliance.

China always strictly observes WTO rules and strives to build and improve a system of subsidies in accordance with international practice. For years, China has constantly regulated and improved relevant policies to ensure that its

subsidies are compliant, science-based and transparent. It has also reviewed and standardized some unsound local practices and established a unified administration system for local government subsidies based on negative lists. The government of China has earnestly and comprehensively fulfilled its commitments on transparency in a timely manner. The latest notification submitted in June 2025 by the government of China on central and sub-central policies on subsidies from 2023 to 2024 covered the entire country. China's subsidies apply equally to all types of market entities and mainly go to scientific R&D, initiatives on industrial application of technology, and market consumption, among other areas. China uses market-based and indirect guidance more often, such as public services, technical standards and skills training, to support priority areas like technological R&D and innovation, development of SMEs, and green and energy-efficient development. For example, the consumer goods trade-in program treats domestic and foreign-invested companies equally. Both the trade-in policies for automobiles and household appliances and the subsidies for buying new digital and smart products provide equal treatment. Foreign-invested companies actively participating in them have benefited equally.

B. Relationship between trade surplus and excess capacity.

Large exports or trade surpluses are not synonymous with excess capacity. Surplus mainly reflects the difference between total national savings and investment, including surpluses in both goods trade and services trade. The global history of economic development suggests that manufacturing powerhouses like the UK, the U.S., Japan and Germany all recorded trade surpluses for a long time. It is also quite common for Germany and Japan to have a current account surplus of over 6% of their GDP. The exports of emerging markets also grow fast, making Indonesia and Mexico countries with surpluses, and enabling Brazil and Vietnam to run trade surpluses for ten years in a row. Industry- and product-wise, 80% of American chips are for export, and about two-thirds of commercial planes delivered by Boeing were sold to clients beyond North America. The EU's automobile, pharmaceutical and cosmetics sectors had surpluses of USD92.2 billion, USD214.6 billion and USD11.6 billion in 2025 respectively. By the logic that a large surplus is an inevitable outcome of excess capacity, should these sectors and products with large exports and surpluses be viewed as having an excess capacity issue as well? As a result of the global division of labor and supply and demand pattern, trade surplus does not mean excess capacity.

It has never been China's intention to seek a trade surplus. China's export growth is due to enhanced economies of scale and innovation capacity and the needs of countries for green transition and industrial development. For example, the growth of China's exports to Europe is mainly contributed by photovoltaic (PV) devices, new energy vehicles (NEVs), lithium-ion batteries and chemical products, which reflects more than anything else how green transition has fueled the demand for energy products and the energy crisis has driven up production costs of chemicals and other industries in Europe. Besides, China never seeks to raise the share of labor-intensive products in its exports; rather, the share of relevant products decreased from 20.7% in 2012 to 15.1% in 2025. Regarding the distribution of trade benefits, the surplus is registered by China, but the benefits are shared by all. In 2025, foreign-invested companies accounted for 27% of China's exports and 16% of its surplus, reporting higher growth in both surplus and profit than China's domestic businesses. In terms of the balance of payments in general, despite a relatively large surplus in trade in goods, China has deficits in both trade in services and return on investment. Overall, China's current account surplus is about 3.7% of its GDP, which is within an internationally recognized appropriate range.

China actively promotes the balanced development of

import and export. As the primary export destination for nearly 80 countries, China's scale of import has ranked the second in the world for 17 years in a row. China has extended zero-tariff treatment to 63 countries, and is also the first major economy to give zero-tariff treatment for 100% tariff lines to all the African countries and LDCs having diplomatic ties with China. China is also the only country hosting an international import expo, reaching intended deals worth over USD580 billion in total during the eight successful editions that have been held so far. China is also carrying out the "Export to China" series of events, stepping up efforts to "buy global" and help more quality products and services around the world enter the Chinese market. During the 14th Five-Year Plan period, China's total imports exceeded RMB90 trillion, ample proof that China is not only "the world's workshop", but also "the world's market".

As unilateralism and protectionism are on the rise, trade protectionist measures of all types have suppressed global economic growth, disrupted regular trade exchanges and order, and undermined rational global capacity flows and distribution. This requires all parties, major trading nations in particular, to work in the same direction, safeguard free trade, make more efforts to keep trade easy and smooth, refrain from building walls and barriers, promote balanced and sustainable development of global trade, and keep global industrial and

supply chains stable and unimpeded.

C. Relationship between economic imbalance and excess capacity.

Global economic imbalance is a historical norm with complex root causes. Under the international division of labor and economic and financial order formed after the Second World War, the global economy would move in a cycle about every ten years, in which the risks of imbalance accumulated and materialized, sometimes even causing global economic and financial crises. When analyzing the causes of global economic imbalance, the focus of discussion by the international community keeps shifting, ranging from market factors such as savings and investment and division of labor along industrial and supply chains, to institutional factors including the international financial system and macroeconomic policy interactions. In recent years, global imbalance has taken on new features. The IMF and other institutions believe that the macroeconomic policies of countries, fiscal policies in particular, are the dominant driver of global imbalance. The U.S. has accumulated a huge debt imbalance and needs to improve its finances; Europe has insufficient investment and needs to raise its productivity; China needs to expand its domestic demand. These views have shown that global imbalance is systemic and complex. Some views that link global imbalance with excess

capacity and attribute one to the other in an oversimplified manner deliberately confuse different concepts, contain logical fallacy, and even have a hidden agenda.

The argument that "China's inadequate domestic demand gives rise to excess capacity" runs counter to facts. China is not only a manufacturing powerhouse, but also a major consumer, with domestic demand serving as a main engine of the economy. From 2013 to 2024, domestic demand on average contributed 93% of the country's economic growth. In breakdown, consumption and investment contributed 55% and 38%, respectively. Between 2013 and 2025, China's total retail sales of consumer goods doubled from RMB23.8 trillion to RMB50.1 trillion. Measured by the World Bank's purchasing power parity conversion factor, China's total retail sales of consumer goods in 2025 was 1.7 times that of the U.S., making China the de facto largest consumer market in the world. China also tops the world in terms of consumption of physical products, with the annual per capita consumption of some industrial products approaching the levels of developed countries. In recent years, the growth of China's total retail sales of consumer goods has slowed. This aligns with the country's economic transition from high-speed growth to a phase of high-quality development. It also mirrors an ongoing structural upgrade in China's consumption: the consumption of goods remains steady,

while the consumption of services registers robust growth. Over the past five years, per capita expenditure on services posted an average annual increase of 8.5%. It is both unobjective and biased to view China's slowdown in retail sales growth as a sign of inadequate domestic demand. The argument that "China's inadequate domestic demand gives rise to excess capacity" simply distorts concepts and misapplies a micro-level perspective on market phenomena to the macro, structural level.

China is committed to a higher-level supply and demand equilibrium by continuously expanding domestic demand. A strong domestic market provides strategic support for Chinese modernization. Domestic demand includes demand for investment and demand for consumption. China's 15th Five-Year Plan has a dedicated section on bolstering domestic demand, underscoring the need to adhere to the strategy of expanding domestic demand, complete with measures for expanding effective investment, advancing special initiatives to boost consumption, expanding and upgrading goods consumption, unleashing the potential of services consumption, strengthening the foundation for resident consumption, and continuously improving the consumption environment, so that new demand drives new supply, new supply helps create fresh demand, and positive interactions are fostered between consumption and investment and between supply and demand.

Over the coming decade, China's middle-income population will exceed 800 million, and per capita GDP is expected to reach the level of moderately developed countries. With huge space, abundant potential and strong vitality, consumption will continue to serve as a primary engine for China's economic development, while delivering strong impetus to world economic growth.

D. Relationship between market competition and excess capacity.

Competition provides important guarantee for capacity optimization and adjustment and sound industrial development. Every industrial and technological revolution has been accompanied by increased or even "excess" capacity, alongside technological upgrading and industrial iteration fueled by market competition. To capture higher profits and larger market shares, companies make investment to expand production. Under the regulating forces of the market, companies are encouraged to cut costs and lift efficiency, which in turn spurs technological advances and overall efficiency gains. Market competition in itself constitutes the most effective mechanism to curb disorderly capacity expansion. Otherwise, firms will face unsold inventories, incur losses and ultimately be driven out of the market. The role of the government lies in ensuring orderly competition, preserving a level playing field,

and allowing the market to fully function, so that outdated capacity is phased out naturally through competition.

All parties should uphold fair competition, and reduce undue interference with the global division of labor and cooperation in production capacity. The WTO's principle of fair competition and related rules are the world's most widely accepted code of conduct. In recent years, some economies have prioritized their national interests over international rules, violating the fair competition principle. They have even cloaked protectionist agendas under the guise of fair competition and resorted to the heavy use of unfair practices. The United States has seriously undermined fair competition through illegal tariff measures, targeted investment restrictions, and abusing export controls and sanctions. The European Union has introduced a series of trade and economic legislation and measures. Its *Industrial Accelerator Act*, for example, imposes restrictive requirements on foreign investment across four emerging strategic sectors: batteries, electric vehicles, photovoltaics, and critical raw materials, erecting significant barriers to investment. Accusing China of "unfair competition" and "non-market policies and practices" is a typical case of "double standards" and genuine unfairness. China resolutely upholds the basic principles of the WTO, and firmly promotes fair competition and mutually-beneficial and win-win outcomes. China has

already announced that it will not seek new special and differential treatment in current and future WTO negotiations. As WTO Director-General Ngozi Okonjo-Iweala observed, this decision reflects China's commitment to a more balanced and equitable global trading system.

China is working actively to foster a first-class business environment underpinned by fair competition. The country boasts the world's largest pool of market entities, whose total count has surpassed 200 million. This massive base of market participants creates a fully competitive environment, compelling companies to take on challenges, compete on strength, and keep improving their products and services in competition. McKinsey once described China as "the world's toughest gym" that trains hyper-competitive companies, noting that one cannot find "another China" in the world. China's 15th Five-Year Plan specified that the country will further advance the development of a unified national market, remove barriers related to production factor access, qualification accreditation, public bidding, and government procurement, fully implement national treatment for foreign-invested enterprises, and address rat race competition through holistic measures. China will work actively to foster a first-class business environment that is market-oriented, law-based and internationalized, and uphold fair market competition. According to the US-China Business

Council Member Survey 2026, 92% of American companies surveyed report profitability in China in 2025. The European Chamber of Commerce in China released its Business Confidence Survey 2026, which shows that 75% of the respondents categorize their China production as more efficient than their production in the rest of the world.

III. China's commitment to building a modern industrial system through opening-up and cooperation

A. The rapid growth of China's modern industries is driven by innovation.

China stays committed to an innovation-driven development strategy, and has blazed a successful path whereby sci-tech innovation spearheads industrial innovation and industrial upgrade propels sci-tech revolution. As a major national strategy, pursing development through innovation is the key to the sustained and sound long-term growth of China's economy. During the 14th Five-Year Plan period, the total R&D expenditure nationwide grew by an average of 10% annually, making China the world's second-largest R&D spender. In 2025, basic research accounted for more than 7% of total R&D expenditure, setting a new historical record for China. Numerous industries have achieved technological breakthroughs and secured leading positions through arduous, long-cycle and capital-intensive R&D. These efforts, not government subsidies, underpin the competitiveness of Chinese products. The vigorous growth of China's new energy and intelligent connected vehicle industries, for example, has been enabled by sci-tech breakthroughs in new materials, power batteries and communication technology. Domestic new

energy vehicle manufacturers have carried out consistent investment in R&D and industrial layout for over two decades, cultivating unique technological edge. Since 2018, energy density of power battery has risen by more than 50%, while production costs have fallen by over 60%. A Morgan Stanley report suggests that the focus of China's NEV sector has shifted from price wars to technology battles, with AI applications such as intelligent driving systems further consolidating its industrial advantages.

China stays focused on empowerment through innovation, contributing to significantly greener and smarter traditional industries. China supports enterprises in adopting digital and smart technologies to drive industrial optimization and upgrading and promoting higher-end, smarter and greener industries. In recent years, industries in China have grown increasingly eco-friendly. Over 8,000 national green factories and more than 600 green industrial parks have been built, and the 246 national green data centers are 50% powered by green electricity. Of all industrial enterprises above the designated size, 89.6% have launched digital transformation and 57.7% have installed digital equipment. China has 109 lighthouse factories, nearly half of the global total.

China enhances the application of innovation, building massive "training grounds" for new industries and new

arenas. China has a complete industrial system. A promising sci-tech outcome, backed by China's manufacturing strength, can be rapidly turned into real-world products. China has the one-hour electronic information technology innovation circle in the Yangtze River Delta, and the 30-minute support circle in Shenzhen's Robot Valley. Its highly advanced new energy industrial circles enable electronic vehicle manufacturers to source all their components within a four-hour drive. China has a super-sized market of more than 1.4 billion people, in which constantly emerging new business types, models and scenarios create the finest testing grounds for verifying "zero-to-one" breakthroughs and "one-to-N" upscaling. The rise of sectors such as the new export trio (NEVs, lithium-ion batteries, and PV products) and the new IT consumption trio (smart and connected NEVs, smartphones and computers, and smart robots) is closely related to the massive application scenarios.

B. China's steady, healthy industrial performance relies on continued, deep-going reform.

China presses ahead with supply-side reform, with the utilization rate of industrial production capacity kept within a reasonable range. In recent years, during the supply-side reform, China has taken such measures as phasing out outdated production capacity to improve industrial capacity utilization, achieving a generally balanced and stable performance in terms

of the total supply and demand. In 2025, the capacity utilization rate of industrial enterprises above the designated size was 74.4%, and higher capacity utilization was observed in high-tech manufacturing, high-end equipment manufacturing and strategic emerging industries. By sector, the average capacity utilization rates over the last three years were 78.9% for general equipment manufacturing, 74.8% for electric machinery and apparatus manufacturing, 73.3% for automobile manufacturing and 76.9% for manufacturing of computer, communication equipment and other equipment. The temporary low capacity utilization rates in certain traditional raw-material sectors mainly stem from adaptive adjustments brought by structural changes and green transition, which are normal during the high-quality upgrading of industries.

China keeps refining the institutions and mechanisms for market-based allocation of production factors to foster an enabling industrial ecosystem. In recent years, China has been increasing support in resources and factors of production, putting in place a diversified investment system with enterprises leading the way, government providing guidance and society participating, building a group of major sci-tech research facilities and infrastructure, and training some seven million university graduates in science, engineering, agriculture and medicine every year. In deepening reforms of systems and

institutions, China has introduced a series of new policies and measures in areas including intellectual property rights protection, risk sharing and innovation incentives. On improving the institutions and mechanisms for ensuring the supply of production factors for new business types and areas, China has sped up the development of new infrastructure such as new-type power grids, computing power networks and new-generation telecommunication networks, so as to effectively remove barriers to better resource allocation, further enhance total factor productivity, speed up the transformation of growth drivers and promote the sound and sustainable development of industries.

C. China's industrial modernization is "China opportunity 2.0" to the world, not "China shock 2.0".

The U.S. and other western countries have come up with the so-called "China shock 2.0", falsely accusing China's industrial development of posing threats to western countries' monopoly and squeezing the development space of the Global South. This is not supported by facts and totally untenable. For more than a decade, China has contributed around 30% of the global growth, making it a critical engine driving the world economy. In the past, China's big market and low-cost production factors provided the world with "market dividends". Today, while continuing to provide even greater "market dividends", China is also offering "development dividends" as

an anchor of stability and hub for global industrial cooperation through its industrial development; moreover, it is also offering more and more "innovation dividends" with its technological progress. What these combined dividends generate for the world are greater opportunities and potential of development, also known as the "China opportunity 2.0" more frequently mentioned by the international community, as reflected in the following four aspects specifically:

Pushing forward innovation cooperation and scientific progress on a global scale. China is committed to an open approach to innovation. Many of its innovations, such as large AI models, are open-source, enabling more countries, particularly developing ones, to access affordable new technologies to enhance their development capacity. China's large open-source AI models have been downloaded over 10 billion times globally in cumulative terms, and large-scale scientific facilities in controlled nuclear fusion, quantum technology and other areas are open to the world. Fast-growing innovative Chinese companies generate several, even dozens of, times of returns for global investors. Here in China, enterprises from various countries can quickly find whole-process partners from R&D to prototyping, and to mass production, making innovation more efficient. This not only helps companies succeed in the Chinese market, but also boosts their global

competitiveness. These are proof enough that what China's technology and products in emerging areas bring to the world are not shocks, but opportunities; not threats, but empowerment.

Accelerating global green and low-carbon transition. With climate change as a global challenge, achieving green and low-carbon transition is the common aspiration and development need of all countries. China's quality new energy products enrich global supply, promote green and low-carbon development and contribute to achieving the targets set in the Paris Agreement. According to a report from the International Renewable Energy Agency (IRENA), over the past decade, the average cost per kilowatt-hour of global wind projects has decreased by more than 60%, and PV power projects by more than 80%. The reductions are largely attributable to China's innovation, manufacturing and production capacity. The U.S. journal *Science* crowned the global renewable energy surge led by China among its Top 10 Breakthroughs of 2025. With the global energy crunch, and rising electricity demand driven by AI, green transition is becoming an important area of international cooperation. The IEA projects that global electricity consumption of data centers will reach approximately 1 trillion kWh by 2030, and 40% of the growth in power demand will be met by renewables. China boasts significant advantages in scale and technology in solar, energy storage and electrification,

enabling it to provide green energy equipment and solutions.

Improving wellbeing for people of all countries. In recent years, the global economy has been suffering sluggish growth and high inflation. High-quality, high-performance and cost-effective Chinese products have enriched global supply, lowered costs of living, and eased global inflation pressure. China's textiles and home furnishings, daily consumables, smart devices, home appliances and medical supplies are exported to over 200 countries and regions, offering stable, reliable and diversified choices to global consumers. According to Australian media, the Chinese products that are helping keep inflation under control have expanded from daily necessities to high-tech equipment, such as solar panels, significantly benefiting U.S. and European consumers. A report published by the European Central Bank estimated that a 10% increase in EU imports from China would lower overall import prices by 1.6%. According to Brazilian media, amid continuously rising costs across the world, China maintains relatively moderate inflation with the advantage from its manufacturing system and helps emerging markets, including Brazil, lower inflationary pressure.

Contributing to industrialization in developing countries. China's exports of high-quality, cost-effective manufacturing equipment and components, including sewing machines, textile machinery and industrial machine tools, have

made manufacturing more accessible for developing countries. From 2012 to 2024, the value of China's exports of textile machinery to developing countries exceeded USD 30 billion, helping countries like Vietnam, Pakistan and Bangladesh become major textile manufacturers and exporters. China's imports have also created export opportunities for developing counties. From 2010 to 2025, China's imports of labor-intensive products from developing and least-developed countries grew by 3.5 times and 16 times respectively. China's investment has enhanced developing countries' industrial production capabilities. More than 50,000 Chinese businesses have been established overseas, and China's outbound investment has exceeded USD 3 trillion, with nearly 90% in developing economies. They have driven the implementation of a large number of projects in light industry, textiles, home appliances and other industries, promoted the development of new areas, such as digital and green sectors, and helped many developing countries in Southeast Asia, the Middle East and Africa move from the margins of supply chains to serve as key nodes in the global manufacturing network.

IV. We should jointly pursue open and inclusive cooperation on global industrial and supply chains

A. Promoting mutually beneficial and win-win cooperation for common development.

Against the backdrop of globalization, economies are intertwined and industries are integrated. Mutually beneficial and pragmatic cooperation on industrial and supply chains that makes the pie of global development bigger meets the common interest of all countries.

Creating new demands through the iteration of industries. All parties should jointly seize the opportunities brought by the new round of industrial revolution and technological transformation, enhance international cooperation on green and low-carbon sectors, AI and biomanufacturing, fully leverage the rapid growth, huge potential and other strengths of frontier and emerging industries, and address growth bottlenecks by sharing scientific dividends, so as to inject new impetus and vitality into sustained global economic recovery.

Facilitating balanced development to expand new space. All parties need to place greater emphasis on the "real imbalance" between developed and developing economies, enhance industrial, trade and investment cooperation and engage more developing countries and regions in the global division of labor to accelerate their industrialization and modernization,

boost their economic growth and expand their markets, so as to create “new blue oceans” for global industrial cooperation. When the pie of the world economy gets bigger, conflicts over distribution of interests get smaller.

B. Respecting the law of the market and advancing economic globalization.

Global industrial and supply chains are the result of the combined effects of the law of the market, business development and technological advancements. They are not formed overnight, and artificial intervention by force will only backfire.

Facilitating the flow of factors through openness and integration. All parties should foster a virtuous global cycle of industrial and supply chains, promote trade and investment facilitation and liberalization, make the allocation of production factors and resources more efficient, and prevent bottlenecks in industrial and supply chains caused by market fragmentation, investment restrictions and increased barriers. All parties should draw on one another’s strengths based on equality for mutual benefits, jointly build and safeguard an open global innovation ecosystem, so that international industrial cooperation will generate more benefits.

Opposing politicizing and overstretching the concept of security over economic issues. Enhancing the influence and

resilience of domestic industries through competition and cooperation between countries is a legitimate demand that should not be subject to artificial political interference which distorts the market's underlying logic for reasonable flow of global resources and production factors. Overstretching and politicizing concepts such as "diversification" and "de-risking" will only lead to missed development opportunities. All parties should respect the investment decisions and autonomy of market entities in business planning, and build a fair, stable and predictable business environment, so that the nature of the market will be reaffirmed for businesses to act in accordance with economic laws.

C. Strengthening coordination of industrial policies and maintaining a sound cooperation environment.

Major economies are deeply involved in and have a significant impact on global cooperation along industrial and supply chains. Considering the spill-over effects of their industrial policies, they should, therefore, strengthen communication and coordination, enhance mutual trust, and set a good example.

Working together to keep global industrial and supply chains stable and unimpeded. Major economies should commit to equal-footed consultation, manage differences properly, reject unilateralism and protectionism, oppose

discriminatory and exclusive practices, and avoid self-isolation, restrictive measures and the race to the bottom, which would create more barriers and instabilities to global industrial cooperation. Economic and trade restrictions imposed by Europe and the U.S. on China not only are detrimental to mutual trust and cooperation, but also undermine their own interests, with an adverse impact on global economic development and industrial cooperation.

Strengthening multilateral and bilateral dialogue on industrial policies. Based on multilateral and bilateral platforms, all parties should improve mechanisms for regular exchange on industrial policies, uphold openness and transparency, clarify policy objectives, and clear up misunderstandings and respond to concerns through constructive dialogues. All parties should strengthen communication on subsidy transparency under the WTO framework, resolve differences properly through equal-footed consultation, and submit notifications on subsidies on time and proactively respond to members' concerns, so as to jointly create a stable and predictable institutional environment.

D. Expanding market openness and jointly creating cooperation opportunities.

Openness brings progress, while isolation leads to backwardness. All parties should break down barriers, open up further, and continuously tap into market potential to create

broader space for industrial cooperation.

Reducing trade barriers. The larger the scale of trade, the harder it is to avoid differences and frictions. Focusing on "building walls" will only intensify contradictions and do no good to resolving issues. All parties should, in the spirit of openness and cooperation, facilitate cross-border flow of domestic and international factors of production, promote full competition in the market, boost business vitality, and continuously enrich new supply and create new demand. Self-isolation will only deprive the market of growth engines, which will further hold back innovative development.

Reducing barriers to investment cooperation. As an important channel to make the pie bigger, tighten bonds and enhance mutual benefits, investment cooperation not only meets local needs but also boosts development of the host country. All parties should ease access restrictions in investment sector, streamline procedures and remove barriers to provide a fair, transparent and predictable environment for foreign investors, and better protect the legitimate and lawful rights and interests of investors. We oppose saying welcome as a lip service while cherrypicking in practice, as well as conducting discriminatory investigations into and imposing mandatory requirements on companies by using foreign investment screening regulation and foreign subsidies regulation as weapons.

E. Upholding multilateralism and building a more just and equitable international economic order.

Multilateralism, a valuable lesson humanity has learned from the two painful world wars, should be all the more cherished by the international community.

Upholding fundamental principles and rules of the WTO. The WTO rules system underpinned by principles such as fairness, transparency, non-discrimination and openness has served as a cornerstone for the stable development of global economy and trade for years. The idea of multilateral trade is well entrenched, and no one wants to go back to the jungle era where the strong bully the weak. All parties should advance WTO reform in a manner that keeps pace with the times, restore the WTO's authority, promote the upgrading of WTO rules, rebuild trust among WTO members, adhere to the most-favored-nation (MFN) principle, and work together to anchor global trade within the multilateral framework and in the rules that are acceptable to all, to protect the legitimate rights and interests of different economies in global trade and economic exchanges to the greatest extent possible.

Making the global governance system more just and equitable. All parties should stay committed to equality and mutual benefit in trade and economic exchanges, respect the development stages and national conditions of each other, and

jointly reject the big and strong bullying the small and weak and in particular making peace with major powers at the expense of third countries' interests. All parties should uphold genuine fair competition and make efforts to run faster in stead of tripping others, avoid inconsistency between words and actions, and refrain from prohibiting others from doing what they allow themselves to do. Multilateral and regional cooperation mechanisms such as G20, BRICS, and APEC should be better leveraged to jointly defend fairness and justice and improve the system for global economic governance.

Conclusion

The issue of capacity is a natural outgrowth of industrial iteration, market volatility and evolving division of labor amid global economic development. All countries should view the so-called capacity “controversy” objectively and dialectically on the basis of economic laws with a market-oriented and global perspective, focus more on exploring cooperation rather than creating confrontation, work together to remove bottlenecks in global supply and demand, optimize global resource allocation, and promote the sound and sustainable development of global industries.

Economies make progress through exchange and inter-connectivity and fall behind because of seclusion and closeness. China cannot develop in isolation from the rest of the world, nor can the world as a whole maintain prosperity without China. China stands ready to work with all parties to safeguard the global free trade system, the stability and smooth functioning of global industrial and supply chains, and an open and cooperative global environment, so as to make the global economy more sustainable and universally beneficial, promote common prosperity for the world, and ensure that development outcomes benefit all peoples.