

Strategy Bulletin (No. 383)

# The root of the problem is China's excessive industrial power, U.S. tariffs are its byproduct

~ The Trump administration is not making light of Japan ~

## The era of high global tariffs?

The world is being swept up on Trump's tariff hikes. The tariffs being proposed in the U.S. consist of (1) a uniform 10% across the globe, (2) reciprocal tariffs that will be added to each country, and (3) tariffs on individual items such as steel, aluminum, and automobiles. Import tariffs are calculated to have averaged 22% as of April 2, and it has been argued that we have entered an era of high tariff rates for the first time in 100 years. The average tariff rate on imported goods was over 20% in the early 1900s, but fell sharply after World War II, and since the 1980s, the era of low tariffs of 2-3% has continued, but those days seem to be over.

## Trump tariff racket

Nevertheless, the Trump administration's tariff policy is extremely arbitrary and inconsistent. The most extreme example is the announcement of a 50% reciprocal tariff on Brazil, which has a trade deficit with the United States. As a basis for this, it cites the indictment of former President Bolsonaro, a Trump ally (accusing him of a "witch hunt"), and regulations on U.S. social media companies. This is a serious interference in the country's internal affairs. China has criticized this belligerent U.S. move to impose trade restrictions as an attempt to undermine the international trade regime and has performed as a defender of the free trade regime in its foreign minister's tours to ASEAN, the BRICS nations, the EU, and other nations. This is c with Prime Minister Ishiba's comment, "This is a battle for national interest. We will not be underestimated."

The more fundamental problem, however, lies in the fact that China's overblown industrial power is harming the world. Japan, like the U.S., has lost the core of its manufacturing industry to China, forcing a prolonged stagnation of production. China's destructive industrial power to its neighborhood has affected the economies and people's lives of many countries, and the U.S. and other countries are no longer able to withstand it

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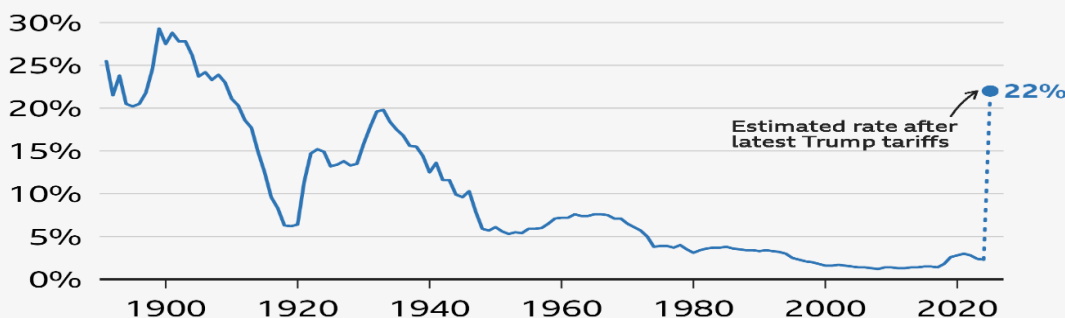
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Figure1: US Import Tariff rate (BBC)

## US tariffs could hit their highest level in more than a century

Average US tariff rate\* on imports



\*Tariff revenue as a percentage of total import value

Note: Estimate by Capital Economics assumes import levels remain the same. In reality, imports could fall in response to tariffs.

Source: LSEG; Capital Economics

BBC

### China's Dominance of World Industry

Heavy industry is under China's dominant. China's global share in crude steel production was about 10% in 2000, and 52.8% in 2024, having at one point risen to 57%. In addition, commercial shipbuilding orders in 2024 will account for 70% of the world's total, with South Korea and Japan unable to catch up at all. As for advanced industries, it also controls 70% of the world's commercial drones. It is also further increasing its dominance in the green energy sector, with 60% in EVs, 60-70% in batteries, 80% in solar panels, and 80% in wind power. What has also become clear during this period is the fact that China is solely responsible to produce rare metals, especially smelting, which is essential for advanced products. Although it does not have such large reserves, it imports ore and now controls 90% of the world's smelting. Therefore, any attempt to sanction China would, on the contrary, result in a halt of metal exports from China and the interruption of various types of production. In fact, Japanese automobiles are also facing difficulties due to the reduced supply of rare metals from China. High-technology products using rare metals such as cobalt have always been Japan's forte. Japan was the sole supplier of powerful magnets and other products, but before long, all these products were lost to China.

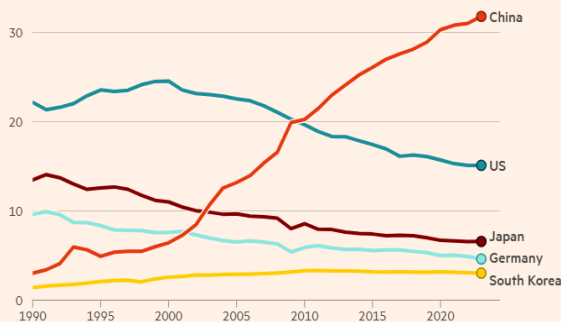
### Overwhelming industrial power, 40% world share

China's share of the world manufacturing industry now stands at 40%. According to a United Nations (UNIDO) survey, China's share of the global manufacturing industry is about 31%, but this is based on market exchange rates and does not represent the actual situation. The Chinese yuan against the dollar is currently 7.2 yuan per dollar, but the purchasing power of the yuan is much stronger, with a purchasing power of 3.64 yuan per dollar (in 2023); this is advantageous because China, with a power of less than 4 yuan per dollar, does business at 7 yuan per dollar. If we estimate the share by considering that manufacturing value-added is produced in China at 3.64 yuan per dollar, China's actual share of world production will increase to 40%. Given China's overwhelming share in steel, shipbuilding, and green industries, the UNIDO figure of 30% of the world is too low.

**Figure 2: Manufactured Goods' Global Share**

China makes almost a third of all manufactured goods — more than the US, Japan, Germany and South Korea combined

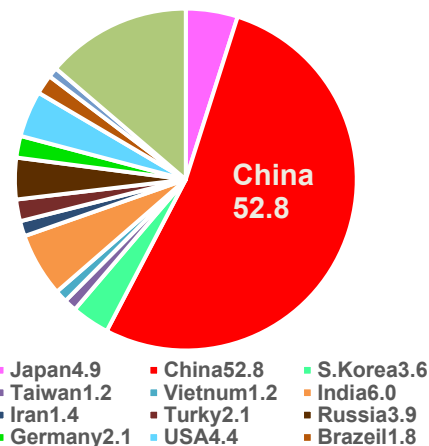
Share of global manufacturing, %



Source: United Nations Industrial Development Organization (UNIDO)

Source: Financial Times Apr. 4. 2025

**Figure3: Global Raw Steel Production Share**



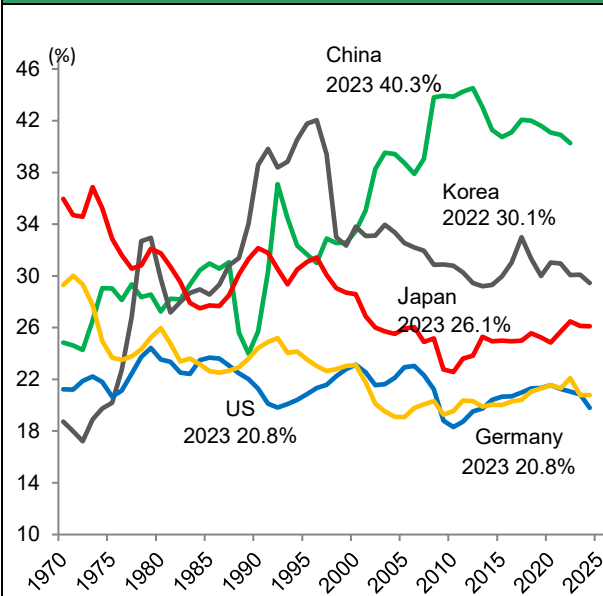
Source: Bloomberg, Musha Research

### The extended reproduction of distortion

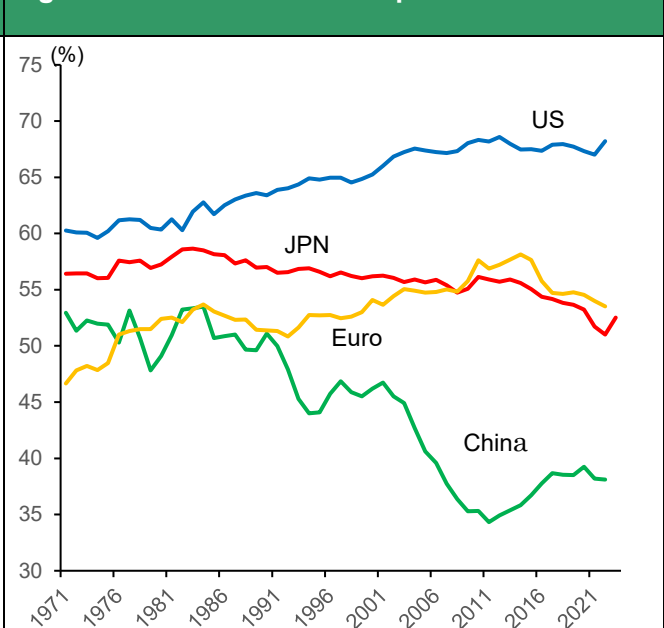
#### (Underconsumption → Excessive savings → Excessive investment)

This excess industrial capacity is the result of China's distorted economic structure. The ratio of household consumption to GDP in major countries according to a World Bank survey shows that China's consumption to GDP has remained between 36% and 37%. On the other hand, China's fixed capital formation is 40% of GDP, an unusual economic structure in which consumption is smaller than investment. This elevated level of investment ratio is unprecedented and extreme in modern history.

The bursting of the real estate bubble, deflation, and rising unemployment are making people anxious about their future. In China, where pension and social insurance systems are not in place, households are saving more. China's savings rate of 45% (2021) is significantly higher than Japan's 3.6% (2022), the United States' 1.9% (2022), the United Kingdom's 1.1% (2022), and Germany's 9.1% (2022). The excess savings have been channeled into investment to further strengthen industrial power.

**Figure 4: Gross fixed capital formation as % of nominal GDP**

Source: OECD, Bloomberg, Musha Research

**Figure 5: Household Consumption /GDP**

Source: World Bank, Musha Research

### China's Achilles' Heel = Deflationary Pressure on the World

With its weak consumption power, China has strengthened its export drive, finally surpassing Japan as the world's largest exporter, even of automobiles. Recently, China has been particularly focusing on its new quality production capacity, solar panels, electric vehicles, and lithium-ion batteries, known as the New Trio. The substantial increase in these exports has compensated for sluggish domestic demand. However, even so, there is still a significant oversupply. For example, solar panels are said to be in such an excess supply that they could supply all the world's demand 10 years from now. As a result, price competition has become so fierce that seven solar panel manufacturers are now significantly in the red. Going forward, this excess supply capacity will exert deflationary pressure not only within China but also on the entire world.

### Tariffs are a means of correcting China's (=the world's) imbalance

When World War II ended in 1945, the U.S. was said to have a 50% share of the world's industrial power. Now China has established almost comparable power with the US at that time. However, this is not sustainable for China, which accounts for only 17% of the world's population and has a declining appetite for consumption. How can this distortion be changed? Without such questions, it will be impossible to formulate international strategies and trade policies for the future. The Trump administration's abrupt and violent series of policies, such as the tariffs, should be seen as the first step in a timetable to change China's unipolar domination of the world. Just as the U.S. spent more than a decade since the 1980s tying Japan's hands and feet in Japan-U.S. structural talks, the U.S. may be slowly tying China's hands and forcing it into a position where it cannot move.

### The endurance war has begun

The unusually low exchange rate of 7 yuan per dollar against the ability of 3.64 yuan per dollar has led to extreme competitive strength of China, which should be easily adjusted by raising the yuan to 4 yuan per dollar. However, if the yuan strengthens, China could use it to carry out aggressive acquisitions of companies, acquire interests in various countries, etc. While The US was able to punish Japan with a strong yen, punishing China with a strong yuan could have the opposite effect. It will take time to change the supply dependence on China, which controls nearly 40% of global industrial power. It should be recognized that a long-term endurance war has begun.

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