The Chips Nobody Noticed

How Strategic Dependency Gets Built in the Layers No One Is Watching

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What Happened at Nexperia

In November 2025 the Dutch government suspended the order it had used to seize control of Nexperia, the Chinese-owned chipmaker headquartered in Nijmegen.[1] The reversal ended a crisis that had built quietly through the autumn and then snapped into view. When The Hague invoked a Cold War–era law to freeze Wingtech's control on security grounds — under pressure traceable to a U.S. entity-list designation — Beijing answered by halting exports from Nexperia's assembly-and-test operations in Dongguan. Within weeks, chip shipments to European automakers slowed; Volkswagen and Volvo warned of shortages; the Dutch government stepped back as a "show of goodwill."

The chips at the center of it were not advanced. They were *foundational* semiconductors — older-process parts inside car modules, appliances, and industrial controllers, not the AI accelerators Washington has spent years restricting. The unglamorous ones. The ones nobody thought to track.

That is the argument in one image: strategic power increasingly sits in the unglamorous layers of production, and Beijing saw the value of those layers before its competitors did. But the episode also resists the triumphal reading. The Dutch move that triggered it was itself coercive, taken under American pressure; the crisis *ended* within weeks; and it left European governments newly alert to a dependency they had ignored. Whether that reads as "leverage works" or "leverage, once used, accelerates its own obsolescence" is the question this essay keeps open, because the honest answer is that the same event shows both.

[1]The Netherlands suspended its Goods Availability Act order over Nexperia on 19 November 2025; the company is headquartered in Nijmegen and owned by China's Wingtech. CNBC, 19 Nov 2025; https://www.cnbc.com/2025/11/19/nexperia-dutch-government-suspends-intervention-at-chinese-chipmaker.html

How Markets Create Dependency

When a market competes hard enough on a single axis — price — it tends toward concentration. Margins compress, competitors exit, capacity consolidates, and the lowest-cost producer becomes first the dominant one and then nearly the only one. This is an ordinary outcome of market logic, not a malfunction of it. Markets price for cost and speed; they do not price resilience or the strategic cost of concentration.

A port authority weighing a $25 million crane from ZPMC — the Chinese state-backed firm that holds roughly 70–80% of the global ship-to-shore crane market and supplies close to 80% of the cranes at U.S. ports[2] — against a $40 million domestic alternative is making a defensible choice. Multiply that across thousands of procurement cycles over two decades and you get structural dependency that no one actor chose.

The honest counterweight: much of this dependency was chosen, not imposed, and chosen for real gains. Offshoring was profitable; shareholders wanted higher returns than low-margin manufacturing offered; consumers wanted cheaper goods. Cheap chips, panels, and drugs delivered enormous consumer surplus. The strategic bill came due later, but the benefits were not illusory. Any honest accounting weighs both.

Xi Jinping framed the other side of it in a 2016 speech: when core technologies are severed from their industrial chains and ecosystems, even large research efforts can be wasted. Beijing's strategy has been to control the links that matter — the chokepoints — rather than every link. That rested on a financial architecture Western markets are not built to replicate.

The Capital Advantage

The familiar explanation — cheap labor plus subsidies — is real but incomplete. The deeper mechanism is that a large share of Chinese capital is allocated by strategic priority rather than commercial return. Consider ZPMC: revenues that have roughly doubled over fifteen years on net margins near 2% and return on equity near 3% — numbers that would force restructuring in a Western market. Overseen by the state asset regulator SASAC and

[2]U.S. House Committee on Homeland Security: ZPMC "controls around 70 percent of the global market share for cranes and accounts for nearly 80 percent of the ship-to-shore cranes at U.S. ports" (2023). An industry report put ZPMC at ~72% of new STS deliveries in 2024. https://homeland.house.gov/2023/05/12/chairmen-green-gallagher-slam-dhss-silence-demand-answers-on-threats-posed-by-chinese-manufactured-cranes-at-u-s-ports/

backed by cheap state credit, ZPMC pursues market share, not return, and at sufficient scale market share becomes leverage.

Economists call the enabling condition a **soft budget constraint**: when a strategically important firm loses money, the state tends to absorb the loss rather than force failure. A firm that cannot easily go bankrupt can hold prices below what a disciplined rival can match. Competing with it is not quite competing with a company.

But the same mechanism is a liability. It funds enormous waste — overbuilt property, idle capacity, the zombie firms discussed in The GDP Machine — and steadily degrades the productivity of Chinese capital. The advantage is real; it is neither free nor obviously sustainable, and treating it as an unstoppable machine misreads a system straining under its own logic.

The capital reaches strategic sectors through several channels at once: policy banks (the China Development Bank and Export-Import Bank of China) lending below market rates along priority lists; more than two thousand government guidance funds managing assets in the trillions, including a semiconductor "Big Fund" that has raised tens of billions across three phases; directed commercial lending steered by sectoral targets; and a capital market that regulators themselves describe as a tool for technological self-reliance. Rhodium Group has estimated industrial-policy spending in covered sectors at several times the OECD average — and that captures only the conventional instruments.

Where does the money originate? Less from taxes than from monopoly rents. China's SOEs hold protected positions in energy, telecoms, tobacco, rail, and finance; the rents from those positions are reinvested through the state system, and the profitable monopolies cross-subsidize the strategic loss-leaders. A Western firm in the crane or chip market competes, in effect, against the accumulated surplus of China's protected domestic economy — though that surplus is itself shrinking as the domestic economy slows, which bounds the advantage going forward.

The Pattern Across Sectors

Nexperia and ZPMC are not outliers. The template recurs, with local variation.

Foundational semiconductors. China held roughly 30% of global legacy-chip capacity in 2020 and has since added more new capacity than the rest of the world combined; U.S. officials have warned its share of new legacy chips could approach a majority, with overall

legacy capacity projected near half by decade's end.[3] These parts cannot be requalified on short notice — which is what "not substitutable" meant when Nexperia's lines paused.

Rare earths. China processes the large majority of the world's rare earths. In April 2025, in direct response to new U.S. tariffs, Beijing imposed export controls on seven heavy rare-earth elements and magnets; automakers cut utilization as magnet supply fell, and prices outside China stayed elevated — European prices reportedly several times Chinese levels — with benchmark NdPr oxide up about 40% in August 2025.[4]

Note how that one resolved, because it complicates "Washington always backs down." The U.S. recalibrated at the table — and moved structurally: the Defense Department took a $400 million equity stake in MP Materials, set a ten-year $110/kg price floor for domestic NdPr, and funded heavy rare-earth separation at Mountain Pass.[5] Beijing's coercion was real and costly; it also triggered exactly the alternative-capacity investment that erodes the leverage over time. Both happened.

Pharmaceutical inputs. Precision matters here, because a widely repeated figure is wrong. China is *not* the source of ~80% of global active pharmaceutical ingredients; by most measures it supplies on the order of 20–40% of API overall, while India holds the largest share of U.S. drug master files.[6] The real dependency is narrower and arguably sharper: China dominates specific bulk molecules — by industry and U.S. Census estimates around 95% of U.S./EU-imported ibuprofen and roughly 70% of paracetamol — and supplies the precursor chemicals that India's own industry depends on.[7] So the chokepoint

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[3]On China's legacy-chip capacity expansion and the projection toward ~50% of global capacity, see analyses summarizing U.S. Commerce statements and fab announcements, e.g. CSIS and industry trackers; the ~30% (2020) baseline and "more new capacity than the rest of the world combined" are widely reported. https://www.csis.org/analysis/chinas-new-rare-earth-and-magnet-restrictions-threaten-us-defense-supply-chains

[4]IEA: after the 4 April 2025 controls, magnet exports fell sharply and some carmakers cut output or idled lines, with European prices reaching up to six times Chinese levels. The ~40% August 2025 NdPr oxide spike is reported by War on the Rocks (5 Jan 2026). https://www.iea.org/commentaries/with-new-export-controls-on-critical-minerals-supply-concentration-risks-become-reality

[5]CSIS, "Rare Earth Export Restrictions One Year Later" (2026): DoD's $400M equity investment in MP Materials, the 10-year $110/kg NdPr price floor, and a $150M loan for Mountain Pass heavy rare-earth separation. https://www.csis.org/analysis/rare-earth-export-restrictions-one-year-later

[6]U.S. Pharmacopeia: India holds ~43–48% of active API Drug Master Files for U.S. medicines; the U.S. ~8%. Industry sources put China at roughly 20–40% of global API production. The widely repeated "80%" figure is not supported. https://qualitymatters.usp.org/global-manufacturing-capacity-active-pharmaceutical-ingredients-remains-concentrated

[7]Industry analysis (APIFDF, Dec 2025): up to ~95% of U.S./EU-imported ibuprofen and ~70% of paracetamol originate in China; India's API sector is heavily dependent on Chinese inputs. The ibuprofen (~95%) and acetaminophen (~70–74%) shares are corroborated by U.S. Census Bureau import data. https://www.apifdf.com/blog/apis-export-from-china/

is concentrated in particular essential drugs and upstream chemistry rather than the whole pharmacopeia — a real vulnerability, stated at its true scale.

Solar. China's share across all solar-manufacturing stages exceeds 80%, with roughly 97% of wafers and around 40% of global polysilicon from Xinjiang alone.[8] The Western green transition runs substantially through Chinese supply chains — which is also why cheap panels have accelerated decarbonization. The strategic cost and the climate benefit are entangled, not separable.

Shipbuilding. China is now the world's largest shipbuilder by volume, built from near zero in two decades, while U.S. commercial shipbuilding has dwindled to a negligible share — capacity that would take a generation to rebuild.

The shape repeats: state-backed scale, Western exit, concentrated supply, leverage Beijing has shown it will use. The U.S.–China Economic and Security Review Commission framed it in 2025 as a bid for "escalation dominance" through control of chokepoints rivals cannot quickly replace.

The Information Case — Related, Not Identical

The physical chokepoints share a defining trait: the input cannot be substituted on any short horizon, because the alternative infrastructure is gone. It is tempting to file TikTok under the same heading as a "cognitive chokepoint." The comparison illuminates in places and misleads in others.

The concern is genuine. TikTok's owner ByteDance is subject to China's 2017 National Intelligence Law, which obliges firms to assist state intelligence without the judicial constraints that govern U.S. government access. In U.S. litigation the government cited evidence the company acted on data at the PRC's request, and ByteDance acknowledged employees had improperly accessed data on U.S. journalists. A randomized study circulated in early 2026 found pro-China influencers on the platform measurably raised favorability toward China while overt state media produced backlash — consistent with the worry that entertainment-shaped messaging evades the resistance propaganda triggers.

[8]IEA, Solar PV Global Supply Chains: China's share in all manufacturing stages exceeds 80%; ~97% of wafers; Xinjiang ~40% of global polysilicon. https://www.iea.org/reports/solar-pv-global-supply-chains/executive-summary

But the analogy breaks where it matters. A foundational-chip dependency cannot be exited by fiat — there is no other fab. TikTok is an application with direct substitutes and a *legally reversible* ownership structure; the U.S. Supreme Court upheld a divestiture requirement in January 2025, which is itself proof the dependency can be addressed by a mechanism no crane or rare-earth dependency offers. The sharper framing: TikTok is a real influence-and-data problem that shares a *formation story* with the physical dependencies — better product, rational adoption, atrophied alternatives — but not their *irreversibility*. Keeping that distinction sharp strengthens the argument rather than weakening it.

The Strategy Behind the Slow Response

Market forces explain how dependency forms; they explain less well why the response was slow. Part of the answer is a feature of Chinese statecraft that ran in plain sight and was read as integration rather than consolidation. China's approach runs on two tracks. The **operational track** builds position: subsidized financing, share-maximizing production targets, technology-transfer conditions, and — in the South China Sea — coast-guard and militia activity that creates facts before rivals respond. The **performative track** runs alongside: free-market language at the WTO, multilateral participation, each firm presented as a private commercial actor. When Beijing halted Nexperia exports, it called the matter routine commerce; when a tribunal rejected the nine-dash line in 2016, it dismissed the ruling and kept building.

The performative track exploits a real asymmetry: the rules-based order was built by states that treat adverse rulings as binding. A state that invokes the law when it helps and dismisses it when it doesn't can capture the benefits of membership without the full compliance cost.

This is the strongest structural claim, so here is its strongest objection. The asymmetry is not absolute. The U.S. has itself rejected adverse WTO rulings, never ratified UNCLOS, and — as the Hormuz section below shows — bent maritime-law norms when stakes ran high. "Western states internalize the rules" is a tendency, not a law, and treating it as a clean binary flatters Western consistency. The defensible version is comparative: China defects more systematically, at larger scale, and as deliberate strategy. That is damning enough without the absolutism — and the degradation is a shared project that accelerates wherever powerful states cut corners, Beijing most consistently among them.

The thread is calibration: each move is pitched to stay below the threshold that would trigger a decisive response, in the gray zone between commerce and coercion. By the time a government recognizes a dependency, reversing it has been engineered to be costly. Yet "absorbed without consequence" is not always accurate — the rare-earth case shows some responses build lasting counter-capacity.

Why the Market Didn't Self-Correct

The standard rejoinder is that markets self-correct: dominance invites diversification. That holds in ordinary markets and weakens when three conditions coincide. **First, long asset lifecycles:** a crane runs 25–30 years; a validated API or chip supply relationship carries approvals and qualifications that take years to replicate, and the incumbent keeps leverage throughout the switch. **Second, vanished alternatives:** firms that exited did not mothball plants — they closed them, so rebuilding means reconstructing whole ecosystems of suppliers, workers, and knowledge. **Third, subsidized overcapacity:** Chinese capacity untethered from demand keeps prices low enough that a competing plant abroad cannot clear a commercial return without state support.

The qualifier the argument needs: "cannot self-correct" is too strong as a universal. Markets correct slowly and expensively, not never — the rare-earth response, the CHIPS-Act fabs, MP Materials, and allied stockpiling are corrections in progress. The accurate claim is that self-correction runs on a decade-plus timescale, far longer than the timescale on which leverage is applied, and requires sustained policy support markets do not supply on their own. That is a serious problem; it is not impossibility, and the distinction separates fatalism from industrial policy.

The Tariff Question

Meeting this with tariffs is understandable and not entirely wrong, but tariffs as the *primary* response misread the problem. The issue is not mainly unfair border pricing; it is the architecture behind the goods — the soft budget constraint, the monopoly rents, the directed capital. A tariff raises the border price while the architecture keeps running beneath it. The 2025 tariff–rare-earth exchange showed the asymmetry: steep U.S. tariffs, a rare-earth answer within days, U.S. manufacturers squeezed. As the Council on Foreign Relations' Michael Froman put the structural point, the U.S. can cut China off from today's chips, but China can make building tomorrow's technologies much harder.

Credible economic pressure depends on absorbing the counter-punch, and in rare earths and foundational chips the U.S. currently cannot fully absorb it — so the tariff threat is partly bluffed in exactly the sectors that matter most. Tariffs still have a role, deployed *ahead* of dependency, alongside domestic capacity, within a coordinated allied framework. Raising legacy-chip tariffs while Chinese capacity is still being built is the right sequencing. The difficulty is that it requires the domestic investment, the allied coordination, and the cross-administration commitment to hold at once — all currently uncertain.

The 2025 tariffs make the point in real time. China's surplus *with the United States* fell sharply — yet its *total* surplus barely moved, because exports reoriented toward other markets, with the surplus to countries outside the U.S. and EU swelling to over a third of the total in 2025.[9] The pressure was displaced, not dissolved — a tariff closes one bilateral channel while the production architecture behind it keeps running and simply re-routes. Europe, meanwhile, was squeezed from both sides rather than picking up any slack: Germany's surplus with the U.S. shrank from €69.6bn to €51.9bn as tariffs hit its carmakers, while its deficit with China widened from €66.9bn to €89.3bn and China overtook the U.S. as Germany's largest trading partner.[10] That is a structural shift in Europe's exposure, not a rebalancing among allies — and it is the same lesson the chokepoints teach, expressed in the trade ledger.

A technical gap rarely surfaces: most Chinese foundational chips enter the U.S. embedded inside finished products, and tariffs apply to the finished good at final assembly, not to the chip inside. A phone assembled in Vietnam pays the Vietnam rate; the chip inside pays nothing. Closing that requires component-level tracing through multi-country supply chains — a problem the trade architecture was not built to handle. Tariffs are a market instrument aimed at a problem markets did not create. They can be part of the response; they cannot be the whole of it.

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[9]Bruegel, "European and Chinese exports kept growing despite the 2025 Trump trade shock" (Feb 2026): the EU's and China's surpluses with the US fell significantly while their overall surpluses stayed remarkably stable; China's surplus with countries outside the US and EU rose to over a third of its total in 2025, reflecting export reorientation. Some of the bilateral decline also reflects re-routing through Mexico and Vietnam, whose US deficits widened. https://www.bruegel.org/analysis/european-and-chinese-exports-kept-growing-despite-2025-trump-trade-shock

[10]German Federal Statistical Office (Destatis), 20 Feb 2026: China overtook the US as Germany's top trading partner in 2025; trade with China grew 2.1% while trade with the US fell 5.0%. Germany's surplus with the US fell from €69.6bn (2024) to €51.9bn (2025), and its deficit with China widened from €66.9bn to €89.3bn. https://www.destatis.de/EN/Press/2026/02/PE26_056_51.html

The Lever Washington Still Holds

If tariffs work at the margin, the more fundamental pressure point is one Beijing has spent two decades hardening against: oil, and a strait 1.7 nautical miles wide at its narrowest. China is the world's largest oil importer, with about 70% imported and most of that crude passing through the Strait of Malacca — the passage Hu Jintao named China's "Malacca Dilemma" in 2003. A hostile naval power controlling that strait could throttle the Chinese economy without striking Chinese territory, and the U.S. and its partners, not China, patrol it.

Beijing has hedged hard: Russian crude overland via the ESPO pipeline, the China–Pakistan corridor, reserves of well over a billion barrels, a blue-water navy, and fast transport electrification with peak oil demand projected late this decade. The scale of the hedging is itself the tell — states do not spend this much against a vulnerability they discount.

But the hedging is incomplete, and the essential caveats matter. Overland pipelines fall well short of seaborne volumes; the corridor crosses unstable terrain; reserves buy months, not security. China is energy-hedged, not energy-secure. And yet: a Malacca blockade is an act of war, not a peacetime lever — the realistic instruments are secondary sanctions on tankers and refineries, far lower on the escalation ladder. The lever also cuts the user, since choking Chinese oil would convulse a global economy tied to Chinese demand. And it is a *depreciating* asset, losing value as pipelines, navy, and reserves mature. The window is narrowing — an argument for sober assessment, not for romanticizing a lever that would be catastrophic to pull.

Hormuz as Test Case

It is tempting to read the 2026 Hormuz blockade as a clean demonstration of naval economic leverage. The reality is messier, and the distinction matters: it did not occur in peacetime as a freestanding tool. It occurred inside an active war. Iran had effectively closed the Strait of Hormuz in late February 2026; the U.S. ran an aerial campaign through March to reopen it; and on 13 April 2026, after talks in Islamabad collapsed, Washington blockaded vessels travelling to or from Iranian ports — not the strait itself.[11] The

[11]The 13 April 2026 U.S. naval blockade targeted vessels to/from Iranian ports during the 2026 Iran war, after Iran's late-February closure of the strait and a March U.S. air campaign. CNN, April 2026. https://www.cnn.com/2026/04/13/middleeast/us-iran-hormuz-blockade-minesweeping-explainer-intl-hnk-ml

distinction is legally load-bearing: under UNCLOS the strait is an international waterway where transit passage is guaranteed, so a port-specific blockade sits in contested territory while a full closure would not. Washington chose the narrower version; even that drew objections on behalf of neutral shipping, and China's freedom-of-navigation complaint was not, on the narrow legal point, baseless.

There is a genuine inversion here. The Washington that spent two decades asserting, through freedom-of-navigation operations, that transit rights cannot be suspended by security claims conducted a blockade restricting transit near an international strait without Security Council authorization. The Beijing that dismissed the 2016 South China Sea ruling now invoked maritime law to protect its oil. Both established precedents they will struggle to disown — and a U.S. blockade in Hormuz hands Beijing a ready-made template for restricting transit through the Taiwan Strait.

The framing worth holding: this is not simply "China is the hypocrite." It is that *both* great powers subordinate legal principle to interest when stakes run high, and the order erodes from both ends. The lesson is not Western high ground on chokepoints; it is that chokepoint leverage, once normalized, becomes available to everyone — which is precisely why the side that depends on more chokepoints staying open should be wariest of normalizing it. Interdiction near Malacca would face the same legal and escalation complications, against the country with the world's largest navy by hull count. The Malacca test is not hypothetical; it is plausibly next, and far harder than a clean reading suggests.

The GDP Machine

The system that makes energy control so consequential — China's growth engine — is more fragile than the headline suggests. Reported growth is best read not purely as a measurement but partly as a target, sustained by a loop that can substitute activity for value and defer the recognition of losses. The center sets a growth target; local officials, judged on hitting it, borrow to build; construction generates income that circulates and shows up in GDP. The road is built and credited — regardless of whether it carries traffic. When the asset cannot service its debt, the loan is often rolled forward rather than written down, and a new project sustains the velocity. Recorded activity and genuine value diverge, invisibly, because the soft budget constraint keeps the loss from surfacing.

Michael Pettis of Peking University puts it precisely: reported Chinese growth is a joint function of output, credit expansion, and the deferral of loss recognition; so long as losses can be capitalized and rolled forward, headline growth can stay stable as underlying returns deteriorate. The evidence of deferral is accumulating. Independent estimates put real 2024 growth at roughly half the official 5%, concentrated in the investment component;[12] the share of assets held by zombie firms — companies whose earnings cannot cover interest — has climbed;[13] total non-financial debt has risen past 300% of GDP, reaching about 302% in 2025;[14] and the property sector, once near a third of GDP, is in structural contraction.

The corrective to declinism: "fragile" is not "about to collapse," and predictions of Chinese collapse have a long, embarrassing record. China retains a dominant manufacturing base, world-leading positions in EVs, batteries, and solar, and genuine technological depth, plus tools — financial repression, capital controls, directed lending — for managing a slow workout rather than a crash. Captive domestic savings mean state banks face little funding pressure. The accurate claim is that the model is reaching its limits and the numbers overstate its health, not that the system is near failure.

What is fair to say is narrower and still important: the export surplus is not merely a trade outcome but a structural necessity, because the domestic loop needs external revenue to stay solvent. That is why the efficiency trap is also a domestic-stabilization mechanism — subsidized overcapacity in solar, EVs, chips, and steel sustains employment and local revenue while property contracts. Pressure on exports is therefore not only trade pressure; it tightens the constraint that lets Beijing defer its reckoning. That is a more fundamental lever than a tariff schedule describes — and using it well requires knowing what the numbers actually measure.

The Measurement Problem

[12]Rhodium Group and the Atlantic Council ("New numbers, same overstatement," Feb 2026) argue official 2024 growth overstates real activity, with the gap concentrated in investment / gross fixed capital formation; Rhodium's real estimate is well below the official 5%. https://www.atlanticcouncil.org/blogs/econographics/chinas-economic-performance-new-numbers-same-overstatement/

[13]Federal Reserve Bank of Dallas, "China debt overhang leads to rising share of 'zombie' firms" (23 Dec 2025): the share of assets held by zombie firms rose from ~5% (2018) to ~16% (2024). https://www.dallasfed.org/research/economics/2025/1223

[14]China's National Institution for Finance and Development reported the macro leverage ratio at 302.3% for 2025 (Yicai). The Dallas Fed and Capital Economics similarly place total debt above 300% of GDP. https://www.yicaiglobal.com/news/chinas-debt-ratio-tops-300-last-year-despite-slowing-growth-think-tank-says

China's figures are distorted in three directions at once, and two of them push against each other — which is what the standard "China fakes its numbers" debate misses. **Overreporting from below:** local officials are promoted on hitting targets, so NBER research found local GDP estimates summing several points above the national figure, with actual 2010–2016 growth materially below official numbers after correction.[15] **Institutional smoothing:** the statistical apparatus, built to track physical output, tends to undercount services and overcount investment, and official growth lands year after year within a fraction of a point of target — a precision no genuine market economy achieves. **Understatement that cuts the other way:** the same NBER work found the investment and savings rate *lower* than official data imply and consumption playing a *larger* role — so the official picture is not simply "too high" but mis-shaped, presenting China as more investment-driven and industrial than it is.

The distortion is not only top-down. Regulators found Evergrande had inflated revenues by tens of billions; Luckin Coffee fabricated sales before its Nasdaq delisting. Where stated performance gates credit, promotion, and support, the incentive to overstate runs through every layer. The bureau smooths the result; the IMF incorporates it; officials cite the IMF as validation; the circle closes.

The discipline this section demands of itself: "the numbers are unreliable" does not license substituting a preferred number. The directional corrections come from serious empirical work, but they carry their own error bars, and the honest register is wide uncertainty, not a confident counter-figure. The strategic implications still follow as conditionals: *if* investment is overstated, debt-to-GDP is worse than 300% suggests; *if* the export surplus is a larger share of genuine output, pressure on it bites harder; *if* the growth figure is partly a commitment, hitting it requires whatever spending, credit, and export revenue the target demands. Those conditionals are the appropriate register.

What Comes Next

The Nexperia episode ended in a Dutch reversal and a settlement; the lines resumed. What did not end was the dependency — or the lessons each side drew. Beijing learned something about the short-run reliability of supply-chain leverage; European

[15]Chen, Chen, Hsieh, and Song, "A Forensic Examination of China's National Accounts," NBER Working Paper 25754 (2019): the sum of local GDP exceeds national GDP by 5–6 points; after correction, 2010–2016 growth is ~1.8 points lower than official, and the investment/savings rate ~7 points lower. NBS corrections appear to have drifted from accuracy after 2008. https://www.nber.org/papers/w25754

governments learned something about a vulnerability they had not tracked. Both lessons are now in the system.

Responses exist and are underway — domestic processing, diversified suppliers, strategic stockpiles, procurement rules favoring non-Chinese inputs, and, in rare earths and chips, real public capital. Some are serious, some nascent, none fast. Dependencies built over two decades will not unwind in one policy cycle, and the sustained cross-party commitment required is exactly what democratic systems find hardest — part of why the gray-zone strategy works.

But the picture is not Western helplessness, and an honest conclusion resists that melodrama. The same openness that created the vulnerability generated the consumer surplus, the innovation, and the alliances that remain real advantages. China's leverage is genuine and, near-term, hard to counter; it is also bounded by mutual dependence, by the corrosive domestic costs of its own model, and by the way each use of leverage spurs the diversification that erodes it.

The world did not choose to depend on China for the chips in its cars, the cranes in its ports, or the panels on its roofs. It drifted there one rational procurement decision at a time, while Beijing built a strategy around precisely that drift — assembling leverage in the gray zone below the threshold of decisive response. Naming that clearly is the first task. Naming it *accurately* — including where the leverage is bounded, mutual, or self-limiting — is what keeps the response proportionate to the risk rather than to the fear of it. That is the difference between strategy and panic, and it is the whole of what this essay argues for.

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