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Employees on the job at China's Dongguan ICT Technology, which makes automated systems that assemble circuit boards. GILLES SABRIÉ FOR WSJ

China Is Transforming Into Factory Supplier

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DONGGUAN, China—This city near Hong Kong helped turn China into the world's factory floor decades ago, churning out the cheap toys, shoes, clothing and electronics that powered the country's economic rise.

Note

These days, Dongguan is at the center of a new industrial transformation: China is becoming a factory for factories. No longer just a producer of low-value consumer goods, China is exporting more of the higher-value intermediate and capital goods that underpin global manufacturing, such as chips, precision machinery and robotic arms.

"In the past, advanced manufacturing was led by Germany and Japan," said Frank Jiang, vice president of international business at Topstar, one of China's largest industrial- robotics and machinery manufacturers. "But we believe our technology has caught up. For many products, we have surpassed them."

China's dominance over greater parts of global supply chains is making the country's export machine even more formidable—and resilient against tariffs, which tend to target finished goods. In the first five months of 2026, China's exports of intermediate and capital goods jumped 25% and 12%, respectively,

from the same period the previous year, while consumergoods exports increased 4%, according to a McKinsey Global Institute analysis of China's official customs data.

The transformation is threatening the economic moats of advanced-manufacturing economies such as the European Union, Japan and South Korea. Producers of chemicals, machines, batteries and other industrial goods in those economies once depended on Chinese factories as customers, but now China is a formidable competitor abroad and even in their home markets. For the first time in decades, Germany imports more advanced capital goods from China than it exports there.

The shift is raising alarms worldwide. European leaders are considering new protective measures against what many have dubbed "China Shock 2.0." And while South Korea and Japan have benefited this year from a surge in exports related to artificial intelligence, swaths of industry under the surface are losing global market share.

At the headquarters of Topstar in Dongguan, a screen displays the logos of its global client base: U.S. manufacturer Jabil, South Korea's Samsung, Taiwan's Foxconn and Chinese titans Huawei and CATL. It says it has more than 15,000 customers from more than 50 countries.

Topstar's business is booming. Its overseas sales climbed nearly 10% last year to roughly $92 million, fueled by surging demand in Mexico, Brazil and Vietnam. In the first quarter of 2026, Topstar's industrial robotics revenue jumped 81% year-over-year, while its computer- controlled machine tools business surged 63%. It expects first-half profit to more than triple from the previous year.

Note

China's evolution from the world's consumer assembly line to an advanced-manufacturing powerhouse was years in the making.

Policies encouraged higher local content, boosting production of components in China. Under the "Little Giants" initiative, China funneled subsidies, tax breaks and cheap loans to thousands of small and midsize firms in specialized, high-tech manufacturing sectors.

A large domestic market and cutthroat competition helped accelerate China's industrial upgrading. China's robust supplier networks and infrastructure also make production highly efficient.

In Dongguan, the life of Henry Wang encapsulates China's rise. When China joined the World Trade Organization in 2001, Wang was an 18-year-old junior-high graduate from the country's northernmost province arriving in Dongguan with nothing. He lived in a cramped, 12-person dorm room, working the assembly line at BBK Electronics, the precursor to smartphone giants Oppo and Vivo.

By 2012, Wang had cofounded what became Dongguan ICT Technology, an 80person firm exporting automated robotic systems that assemble circuit boards used in virtually all modern electronics. He says his company sells its machines to manufacturers worldwide and relies almost entirely on a domestic Chinese supply chain.

On a recent Saturday, workers inspected a production line bound for a client in Mexico. Overhead, corporate slogans captured the relentless serviceoriented ethos driving China's factories: "Everything except serving customers is nonsense."

Wang expects ICT's revenue to increase by at least 50% this year. The company is moving to a new headquarters twice the size of the current one.

"The era where China just served as the world's factory is over," Wang said. "Now, China is helping the rest of the world build their factories. China can't just export finished consumer goods forever."

Wang said tariffs haven't affected his company.

In São Paulo, German manufacturer Harting, which produces heavy-duty industrial connectors, is running into stiff competition from Chinese manufacturers. Chinese rivals offer discounts of 30% on high-volume products and produce goods of ever-higher quality, said Poliana Lanari, managing director for Latin America at Harting.

"It's affecting growth rates," Lanari said.
