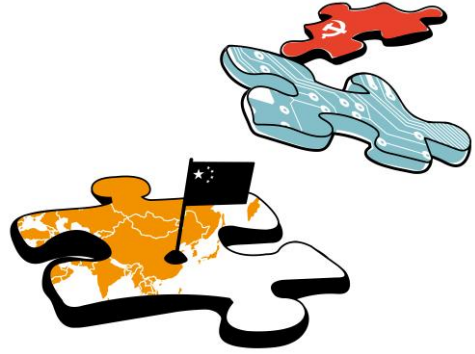


DECEMBER 5, 2024

MERICS China Essentials

Special Issue: China in 2025



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INTERNATIONAL RELATIONS

US-China competition will challenge Europe in 2025

With Donald Trump back in the White House in 2025, China will use expected transatlantic tensions to court Europe while building a coalition of like-minded partners to resist pressure from the US. Europe cannot hedge between both sides, or it will risk the derailment of its de-risking agenda and its longer-term China policy.

China's leadership is gearing up for stronger geopolitical and economic competition with Washington. It expects Trump to follow through on his threats of high tariffs on Chinese imports and tougher restrictions on tech exchanges. But China's response will depend on its assessment of Trump's true intentions. If it thinks Washington wants to bring China to the negotiating table, the response could be more restrained. But chances are Beijing will conclude the US is out to contain China's development. Then the response will be much tougher.

For Europe, this will mean a more globally assertive China building its own coalition of countries to resist US pressure. Russia will be its key partner in this, but Beijing will also likely reach out to Europe. While any offer to improve relations may have little substance, Beijing will try to leverage transatlantic tensions stoked by Trump. Positioning itself as a more reliable partner and a champion of free trade, China will approach member states and businesses most affected by (or resistant to) Washington's pressure, hoping they may overlook Beijing's stance on Ukraine.

For others in Europe, Beijing will continue to use investments, market access to China and the threat of economic retaliation to shape their behavior and upset Europe's de-risking agenda.

The situation in the Indo-Pacific might be a brighter spot. Beijing will be wary of Trump's unpredictability, at least at first. And the ongoing anti-corruption purge of People's Liberation Army (PLA) leaders, which might have brought down Defense Minister Dong Jun, won't inspire much confidence among top party leaders in the military's ability to prevail in a conflict. Current pressure tactics against Taiwan, the Philippines and other regional powers will remain, but Beijing won't have much appetite for conflict in the region.

MERICS analysis: "China will try to have it both ways next year, stepping up its support for Russia while reaching out to Europe to get relations back on track," said **Helena Legarda**, Lead Analyst at MERICS. "If EU member states try to stay on the good side of both the US and China, the EU's China policy and de-risking strategy could become paralyzed. Without a clear strategy and set of objectives, Europe could turn into an arena of US-China competition."

ECONOMY

As China's economy worsens in 2025, don't count on reform or mass stimulus

Economic headwinds and a possible trade war with the US look set to undermine China's economy in 2025. The country is grappling with deflation, and economic growth is forecast to be even lower than the 4.8–4.9 percent expected in 2024. But Western businesses and policymakers should not bet that Beijing will resort to stimulus or market-friendly reforms to ramp up growth. It has repeatedly shown a strong discipline in its economic agenda of stability, security and resilience – even at the cost of great hardship for Chinese consumers.

Rather than stimulating growth, Beijing has in recent years focused on managing its fundamental fears – a domestic crisis caused by local government debt and/or the bursting of the country's real estate bubble, and an external crisis caused by the US squeezing China's access to foreign technology and markets. This stopped local governments from providing stimulus, sapping consumer confidence as Beijing concentrated on supply-side measures to boost manufacturing and industrial upgrading.

Beijing will extend this economic policy agenda into 2025, with any changes only at the margins. China's leadership could well feel vindicated in its pursuit of tech self-reliance and diversification, as a second Trump administration raises the chances of the US-China trade and tech wars escalating – a situation that China is better placed to manage now than in 2016 or 2020. But three events could change this.

In the unlikely event that the threatened Trump tariffs come into force at the high rates being named, Beijing might turn to more stimulus to cushion the blow to exports while companies adjust. Second, a US-EU deal to prevent a transatlantic trade war could include joint action on China issues, which could pressure Beijing towards aggressive stimulus – at some point. Third, significant social instability as a result of China's weak economy could create political fears that drive a change in economic policy.

MERICS analysis: “Western expectations that China could soon unleash major stimulus are based on the assumption that all policymakers at some point have respond to the plight of households and markets,” said **Jacob Gunter**, Lead Analyst at MERICS. “But state planners in Beijing have demonstrated for years how much economic pain they are willing to inflict on China in pursuit of stability, security and resilience. Indeed, they are likely to feel vindicated in their choices as they prepare for Trump 2.0.”

SCIENCE, TECHNOLOGY AND INNOVATION

Global advances in AI will urge Beijing to invest in computing power

Beijing will in 2025 take more steps to avoid ceding ground to the US in the race for artificial intelligence (AI). Huawei and other technology companies that spearhead China's all-of-nation effort to develop better semiconductors and more efficient AI software will receive significant state support. Beijing will expand the market for domestic tech companies by expanding the *xin Chuang* (新创) campaign to replace foreign-made digital

hardware and software beyond the electronics and automotive industries. It will also deploy its National Data Administration to better tackle the bottleneck of computational power, fast becoming a key production factor.

The US will step up efforts to limit China's access to cutting-edge AI hardware. It again expanded its export controls on December 2 to include high-bandwidth memory and semiconductor manufacturing equipment (SME). These controls and new restrictions on exports to certain “designated entities” apply to products made anywhere in the world with any US technology, reducing the previous US-input threshold of 25 percent to zero. Dutch SME champion ASML has been exempted under the assumption that the Dutch government will harmonize its controls with those of the US — still, the entity-specific restrictions effectively give Washington the power to tell ASML who it can sell to.

The investment and reforms needed to expand computing – and electricity – capacity will put a strain on China’s economy but may just keep Beijing in the tech race. China will in the short term rely on less advanced, more power-hungry technologies. It is nearing its 2025 target of 300 exaflops (or 300 quintillion floating-point operations per second) of computing power in data centers, which are expected to account for six percent of electricity demand. US companies are building clusters of hundreds exaflops – together consuming about four percent of US electricity.

MERICS analysis: “Keeping up with global AI advances in 2025 will require tremendous efforts from China, especially as its access to the latest Western technology is increasingly limited,” said **Jeroen Groenewegen-Lau**, Head of Program Science Technology and Innovation Policy at MERICS. “Next year will see the launch of the first autonomous AI agents that can independently control computers and execute tasks – and China will do everything it can to keep pace.”

POLITICS AND SOCIETY

Beijing will place more emphasis on social welfare, cohesion – and public security

2025 looks set to be a year in which Beijing flanks its supply-side and industry-focused policies with initiatives to bolster welfare and social cohesion – and public security. China’s focus on industrial upgrading over domestic consumption has left people struggling to make ends meet. A series of mass killings by desperate citizens – with more than 40 people killed in November alone – has alarmed the leadership and added urgency to reforms of taxes, welfare services, pensions and support for migrant workers.

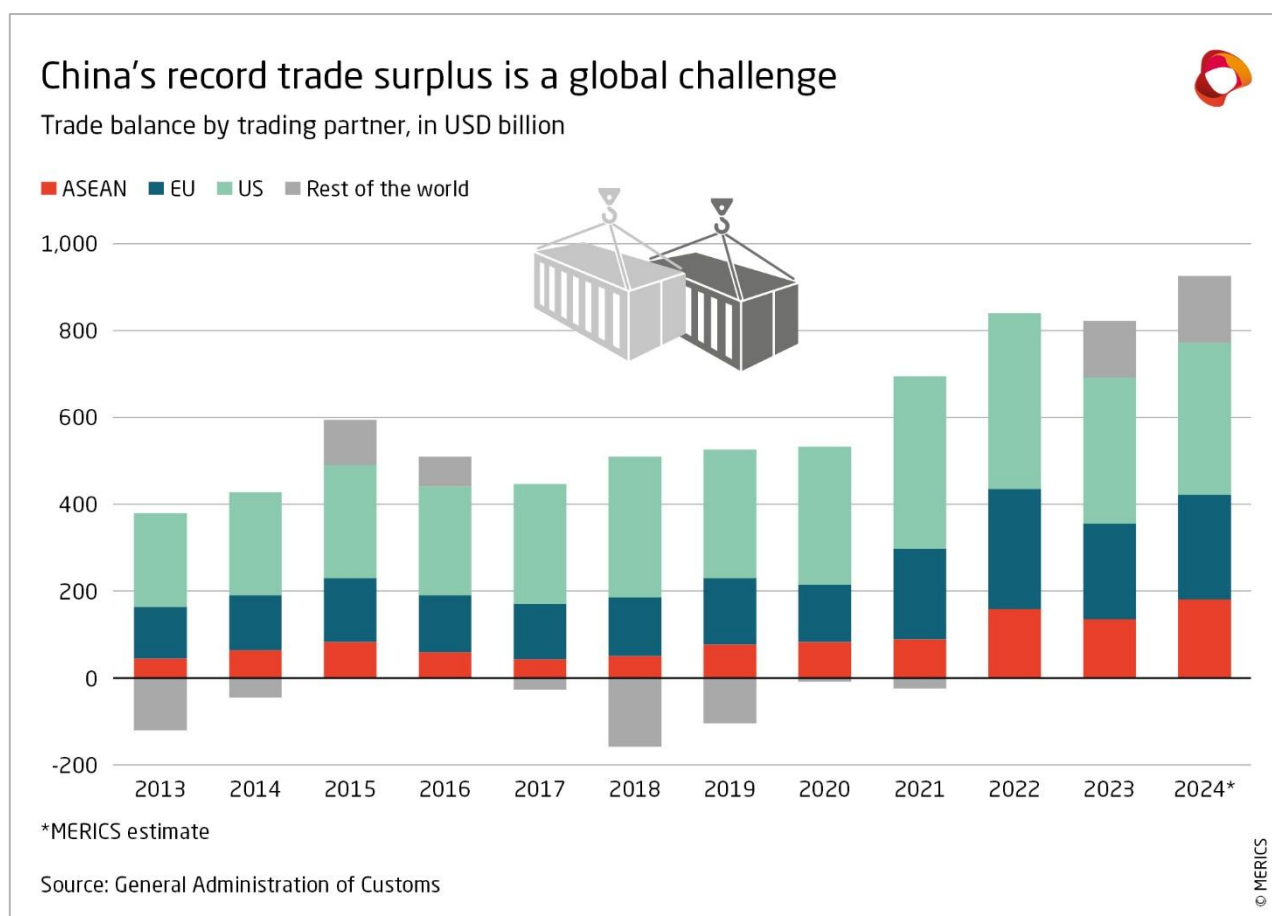
Beijing will seek to improve access to healthcare, psychological support, and education. It is also considering new tax rules to give strained public coffers more means for welfare provision. But the sharp end of the system will also get a boost from new security initiatives including predictive policing, more surveillance and political education in residential areas. The National People’s Congress in March will likely consider several new policies to boost public safety and social stability.

At high-level meetings in 2024, China announced to bolster social stability and public safety. The Third Plenum of the Central Committee of the Chinese Communist Party (CCP) addressed social governance under the section of public security rather than its own chapter and underscored the need for grassroots stability. Xi Jinping supports more CCP control and presence at the local level, which will see more resources invested into the physical and digital presence of state and party authorities in everyday life.

Politburo’s security chief Chen Wenqing recently said that China must "resolve risks arising from contradictions", indicating that the leadership is fully aware that it needs to tackle the consequences of rising inequality and the near breakdown of growth in household wealth. In an opinion piece in People’s Daily, a ranking official from Zhejiang province urged judges to focus their work on preventing social risks from escalating.

MERICS analysis: “Xi Jinping likes to exhort China’s citizens to be resolute in the struggle for national greatness, but this is an increasingly hard sell,” said **Nis Grünberg**, MERICS Lead Analyst. “Xi has a clear vision of Chinese society as a hybrid service-security state that has a presence close to every citizen.”

GRAPHIC OF THE WEEK



China's trade surplus is set to hit a new record of more than USD 900bn this year, almost tripling since Xi Jinping took power in 2013. Surging exports have recently created trade imbalances with emerging economies alongside traditional surpluses with the US and the

EU. This suggests that more and more exports are reaching the US via third countries such as Vietnam and Mexico – and that any additional US tariffs will further shift flows without changing China’s global manufacturing dominance. The fact that China sells more to all regions of the world than it buys from them has become a global problem.

MERICS CHINA DIGEST

[China dials up US trade tension with tit-for-tat metals ban \(Bloomberg\)](#)

Following a White House decision on Monday to restrict the sale of high-bandwidth memory chips made by US and foreign companies to China, the Chinese Ministry of Commerce said on Tuesday that it would no longer allow Gallium, germanium, antimony, and superhard materials to be shipped to the US. The metals are used in many high-tech appliances from semiconductors to satellites and night-vision goggles. (12/03/24)

[A visit to China with noble appeals \(Tagesschau\)](#)

During a visit to Beijing on Monday, German Foreign Minister Annalena Baerbock addressed China's relationship with Russia and its tacit support of Moscow’s war against Ukraine. Both sides emphasized that differences of opinion in some policy areas should not be an obstacle to cooperation in other fields. (12/2/24)

[China condemns expulsion of three diplomats from Lithuania \(Reuters\)](#)

China's foreign ministry said on Monday that it strongly condemned and firmly opposed Lithuania declaring three Chinese diplomats stationed in the country as personae non gratae. Lithuania's foreign ministry cited violations of the Vienna Convention and Lithuanian legislation as reasons for the expulsions, but gave no further details. (12/02/24)

[China’s share of global electric car market rises to 76 percent \(Guardian\)](#)

China’s share of the global electric vehicle (EV) market reached 76 percent in October, the country’s automotive trade body said. Between January and October, EV sales reached 14.1 million units, according to the China Passenger Car Association, with 69 percent of those sales in China. Strong demand for EVs in China continues even as additional Western tariffs threaten to hamper exports. (12/03/24)

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