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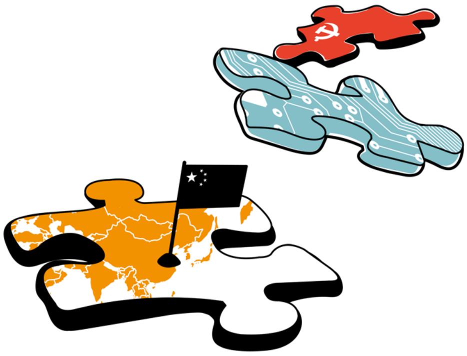
# MERICS China Essentials: The National People's Congress 2025



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## TOP STORY

### Xi is relying on local governments to make consumption kick in

China's Premier Li Qiang in early March used the annual Government Work Report to the National People's Congress (NPC) to place a new emphasis on boosting the country's domestic consumption – a lackluster 40 percent of gross domestic product (GDP) compared with a little over 50 percent in the EU and 70 percent in the US. Only days before, party and state leader Xi Jinping declared increasing consumption essential for economic security and so, by implication, for national security. These moves upped the pressure on local governments – which are responsible for 85 percent of public spending – to restore consumer confidence through social security and welfare provision.

Li acknowledged a host of other issues facing the country, from geopolitical tensions, tech rivalry, and security challenges in the international environment to structural issues in the domestic economy, including China's financial and fiscal systems. But he also pledged a GDP growth target of five percent for 2025, the third year in a row, a sign that Beijing expects domestic consumption to drive growth as US President Donald Trump's tariff policies threaten a trade war between the world's biggest trading nations. Years of economic uncertainty and weak stock and property markets have made consumers cautious, but the Chinese leadership now seems intent on reversing this trend.

This will not come cheaply, however. Beijing has significantly raised the allowable debt ceiling, setting the deficit ratio at around four percent, one percentage point higher than in 2024, and bringing the total projected new government debt to CNY 12 trillion (1.5 trillion EUR). China will issue 1.3 trillion CNY in special treasury bonds (including 300 billion CNY to subsidize trade-in of old consumer goods) and 4.4 trillion CNY in local governments bonds. Compared to 2024, this means an extra 2,9 trillion CNY (370 billion EUR) to boost public services and rural development, help localities refinance public debt, boost investment in infrastructure projects, and support research and development in critical sectors. It will also buy back properties in the slumping real-estate sector.

Boosting the private economy, consumption and technology development, ensuring employment and welfare, maintaining social stability, while cleaning up the balance sheets and restructuring public debt are now on the to-do lists of local governments. But they will still have a huge incentive to channel spending into tech policy given its prominence in policy plans and the ongoing AI hype. Also, with the Private Economy Promotion Law not put to a vote before NPC, local governments may feel they can continue offsetting their budgetary shortfalls by arbitrarily fining private companies.

> "The five percent growth target is a signal of confidence from Beijing, even though the state of the economy remains a sensitive issue in China. Given the policy wish list, geopolitical headwinds and domestic challenges, China's new fiscal space provides room to maneuver. But the lack of revenue sources for local governments to fund their to-dos means that boosting domestic consumption remains a long-term endeavor."
>
> ***Katja Drinhausen**, Head of Program Politics and Society at MERICS*

**Media coverage and sources:**

- Reuters: China ramps up stimulus to guard economy from changes 'unseen in a century'
- CNN: Key takeaways: How China aims to fix an ailing economy and transform into a high-tech power
- Caixin: CX Daily: China plans fiscal overhaul to fix crisis in local government finance
- Trivium: Decoding China's 2025 economic playbook

## METRIX

# 10%

This is the contribution of China's world-leading green technology industry to the country's GDP in 2024—accounting for 13.6 trillion of the total 135 trillion CNY. The government told NPC delegates of its ongoing commitment to the industry, which it sees as a means of slowing climate change but, more importantly, as a way of ensuring energy independence and export opportunities. With dominant positions in solar and wind technologies, batteries and electric vehicles, the sector will be key to China hitting its economic growth target of 5 percent this year. In 2024, the industry grew by 2.2 trillion yuan—one quarter of the 9 trillion CNY in GDP growth (Source: CREA)

## TOPICS

### Beijing bets its seed investment can mobilize private capital for future technologies

DeepSeek's success in AI seems to be emboldening China to invest in technologies that won't be marketable for a decade or two. The press conference on China's short-term economic development that traditionally flanks the NPC was so focused on long-term innovation that it appeared entirely "tech-focused", as Wu Qing, the head of China Securities Regulatory Commission, noted. Its highlight was the launch of a Government Guidance Fund (GGF) to channel one trillion CNY (127 billion EUR) into emerging technologies in quantum computing, biotechnology, "embodied" AI and next-generation wireless networks – all unlikely to come into general use in foreseeable future.

Beijing seems intent on reviving the private tech sector with the help of the state. Since noting the dwindling stream of Chinese tech unicorns in May 2024, Xi Jinping has called on state actors to invest early, small and long-term in the hard science of emerging technologies. While the investment horizons for GGFs – which use government seed money to attract private investment – have since been doubled from ten to 20 years, it remains unclear how successful GGFs are in boosting innovation long-term – they may crowd out, rather than multiply private investment and the 100 billion USD "Big Fund" for investment in chip making has had mixed results since it was launched a decade ago.

> "The success of DeepSeek has bolstered Beijing's appetite for betting big on future technologies. Although presented as spurring tech start-ups and the private sector, the new guidance fund may actually push out private investors and further boost the advance of the state at the cost of the private (国进民退)."
>
> ***Jeroen Groenewegen-Lau****, Head of Program Science Technology and Innovation at MERICS*

**Media coverage and sources:**

- Xinhua: China's economy shows positive momentum amid policy support
- 21st Century Business Herald (CN): 万亿创投"航母级"基金呼之欲出：承接新兴产业引导使命
- CSET: Understanding Chinese Government Guidance Funds

## China's trade retaliation punishes adversaries and spares potential partners

Beijing used the NPC to reaffirm its commitment to "autonomous opening up" (自主开放), or integrating into the global economy on its own terms and for its own reasons. But beyond those few days in March, China is expanding and refining a new toolkit to respond to trade-restrictive measures by the US and other governments – although it is not used equally against all players. China seems happy to distinguish between its rivals, actors it hopes to keep neutral, and those that are actual or potential partners.

When perceived adversaries like the US impose trade restrictions, China retaliates tit-for-tat, with occasional asymmetric flourishes. When the Trump administration doubled import levies on Chinese imports into the US to 20 percent, Beijing hit back with 15 percent tariffs on US chicken, wheat, corn and cotton, launched anti-trust probes into Google, Nvidia and Intel, and tightened export controls on rare earths. China seems to view Canada as an adversary or an appendage of the US: When Ottawa imposed import duties on Chinese electric vehicles (EVs), Beijing retaliated with tariffs on key Canadian goods.

With neutral actors, or those that China wants to adopt a benign stance, Beijing seems happy to ignore some trade restrictions. For example, Beijing avoided escalation after the EU imposed tailored tariffs on Chinese EVs. While Beijing initiated anti-dumping investigations into EU pork, dairy and brandy imports and threatened to scrutinize EU car exports, only the brandy investigation has so far led to new levies. With partners, China often chooses not to push back on, like on Brazil for its tariffs on some Chinese commodities or South Africa for its measures on some Chinese auto components.

> "China may be on a charm offensive towards the EU, holding back retaliation in the hope of encouraging EU neutrality in the face of US escalation. But this will not change the existing structural issues in EU-China trade relations. China is treating the EU differently than the US, but a lack of retaliation does not mean that Beijing will also solve the myriad problems Europe faces from the Chinese economic model."
>
> ***Jacob Gunter****, Lead Analyst at MERICS*

**More on the topic:**

- MERICS: It's not us, it's you: China's surging overcapacities and distortive exports are pressuring many developing countries too

**Media coverage and sources:**

- FT: China targets Google, Nvidia and Intel as Trump's tariffs bite
- Reuters: China hits back at Canada with fresh agriculture tariffs

## Beijing adopts a tougher tone towards the Trump administration

Chinese Foreign Minister Wang Yi used a press conference during the NPC to sharpen Beijing's tone towards Washington. He criticized the US for bringing chaos to the international order under a hegemonic "America First" approach and accused the Trump administration of being "two-faced" for trailing the idea of a "deal" between the US and China but failing to build mutual trust. Responding to questions about Trump's latest tariffs on China, Wang said, "No country should expect to suppress and contain China on one hand while developing a good relationship with it on the other." The Chinese Embassy in Washington tweeted on X: "If war is what the US wants, be it a tariff war, a trade war, or any other type of war, we're ready to fight till the end".

The harsher tone indicates that views on dealing with Trump may have converged within Beijing's decision-making circle. China's leadership had initially made only low-key statements about Trump's return to the White House, suggesting it was biding its time to assess the impact. But the recent escalation in rhetoric suggests that decision-makers are adopting a more confrontational approach to counter an assertive Trump administration. As a result, China is less likely to yield to Trump's tariffs or any other measures against China without at least retaliating with limited but targeted measures.

> "Having learned from the trade war during Trump's first term, Beijing's increasingly assertive rhetoric appears to signal that it is increasingly prepared to take a tougher position in trade and other areas. The 'two-faced' accusation highlights Beijing's deep mistrust of Trump, suggesting that greater assurances from the US will be needed to make any deal offer acceptable to Beijing."
>
> ***Claus Soong****, MERICS Analyst*

**Media coverage and sources:**

- New York Times: China says it offers stability as Trump sows chaos. The reality is complicated
- Shanghai Observer (CN): 王毅说的"两面人"，究竟是谁？ (Who is the "two-faced" guy, according to Wang Yi?)
- BBC: China says it is ready for "any type of war" with US

## MERICS CHINA DIGEST

German spy agency concluded COVID virus likely leaked from lab, papers say (Reuters)

According to a joint report by the German newspapers Die Zeit and Sueddeutsche Zeitung, Germany's foreign intelligence service BND had indications in 2020 that the COVID-19 virus was accidentally released from China's Wuhan Institute of Virology. (25/03/12)

China will increase its defense budget by 7.2 percent this year (AP News)

The budget adds up to about USD 245 billion and was announced at the National People's Congress. China's military spending remains the second largest behind the United States. Many experts say China's total spending on defense may be much higher because of items included under other budgets. (25/03/05)

Russia imposes fees to stem flood of low-cost Chinese cars (Financial Times)

In January, Russia raised "recycling fees", which function like tariffs, for most passenger cars. As the Financial Times reports, the country is trying to curb a flood of Chinese vehicle imports which hit seven times the level of 2022 last year. (25/03/10)

Chinese firm wants to acquire German air taxi start up Volocopter (BR24)

The Chinese Wanfeng Group wants to buy the insolvent German air cab manufacturer Volocopter for ten million EUR. This was revealed in a stock exchange announcement by the Chinese firm. Volocopter declined to comment on the plans. (25/03/12)

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