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MERICS China Essentials



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TOP STORY

Xi's new Indian "dancing partner" pointedly leaves Beijing ahead of military parade

Indian Prime Minister Narendra Modi was conspicuously absent from Wednesday's "Victory Day" military parade in Beijing, marking the 80th anniversary of the end of World War II. While Chinese President Xi Jinping was joined by Russian President Vladimir Putin and other leaders who had just attended the Shanghai Cooperation Organisation (SCO) summit, Modi's departure highlighted ongoing limits to any China-India rapprochement and to the notion of a growing non-Western unity in favor of a multipolar world order – narratives very publicly showcased at the meeting in Tianjin.

Modi's trip to China – his first in seven years – and his bilateral meeting with Xi were widely interpreted as marking a thaw in traditionally strained China-India relations and the growing significance of the SCO as a platform for cooperation among non-Western countries. Modi's conciliatory stance towards China was seen as New Delhi's response to the doubling of tariffs on Indian imports to 50% by US President Donald Trump at the end of August. Viewed as a diplomatic victory for Xi, any lasting rapprochement could bend the Quad grouping of the USA, India, Japan and Australia into a triangle, potentially weakening US containment efforts against China across the Indo-Pacific region.

In their bilateral meeting, Xi called for the "dancing together of the elephant and the dragon," emphasizing that China-India relations should not be weakened by long-standing territorial disputes in the Himalayas. Modi responded by stressing that India and China are partners, not rivals. The Tianjin Declaration, issued by the SCO member states after the summit, condemned April's terror attack in Kashmir, which India blames on Pakistan. It also condemned Israeli and US attacks on Iran – a similar statement against Israel issued in June had lacked unanimity, due to India's opposition.

But these gestures only paper over the fact that border disputes continue and that both countries remain competitors in many fields – India had worked hard in recent years to cast itself as an ideal manufacturing alternative to China. The Indian government emphasized the importance of the Quad grouping ahead of Modi's visit to Japan in late August – and it declined to join the rest of the SCO member states in endorsing China's Belt and Road Initiative in the Tianjin Declaration, highlighting its ongoing concerns about the power China can wield in its immediate neighborhood and further afield.

“With Modi's attendance, the SCO served Beijing's purpose of demonstrating its capacity to lead and of promoting its narratives to a non-Western audience, positioning itself as an alternative to the West. The rapprochement between India and China may have started the 'dragon and elephant dancing together,' but limited common ground will likely prevent them from moving in the same rhythm. Modi's absence from 'Victory Day' reflected more than a mere scheduling issue.”

Claus Soong, Analyst, MERICS

More on the topic:

- [China's meeting with India and Russia was about more than Trump](#). Comment piece by MERICS Senior Associate Fellow **Manoj Kewalramani**

Media coverage and sources:

- Official Chinese Government website (CN): [上海合作组织成员国元首理事会天津宣言](#) (Tianjin Declaration of the Shanghai Cooperation Organization)
- Official Chinese Government website (CN): [习近平会见印度总理莫迪](#) (Xi Jinping meets with Indian Prime Minister Modi)
- The Strait Times: [Xi, Putin and Modi huddle in Tianjin as China pitches SCO unity against shifting US order](#)
- DW: [SCO summit: Xi pushes his vision, but is it resonating?](#)

METRIX

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This is the number of initiatives Xi Jinping has launched since 2021 to advance a more China-centric alternative to the US-led world order: the Global Development Initiative, Global Security Initiative and Global Civilization Initiative, now joined by the Global Governance Initiative (GGI) following its unveiling Shanghai Cooperation Organization summit in Tianjin. At a time of growing international frustration with Washington, the GGI renews China's calls to reform of the existing international order, emphasizing the underrepresentation of the Global South, the erosion of international law, the need for more sustainable development as well as rules for AI, cyberspace and outer space. (Source: [Reuters](#))

TOPICS

China aims to diffuse AI widely abroad while democracies stand by

China's "AI Plus" (人工智能+) initiative is gaining much attention abroad. In August, the State Council released a three-year roadmap to infuse China's economy and society with artificial intelligence technology, like agents and embodied AI, much like a public utility. This focus on real-world applications has been a big part of Chinese AI policy, but one dimension is gaining increased prominence: Diffusing Chinese AI infrastructure and products overseas. This threatens to erode the commercial, political and normative interests of technologically advanced democracies if their game plan fails to address AI needs in places like the Global South.

Briefly mentioned in the State Council's domestically focused guidelines, Beijing articulated its vision for international AI cooperation in its Global AI Governance Action Plan, published in July. While the plan's contents are not new per se, the emphasis on enabling access to AI as a global public good contrast starkly with the US's more inward-focused approach. The White House's own AI Action Plan, released weeks before China's, is silent on the Global South's participation in AI innovation, adoption and governance.

China's blueprint for global AI development and governance reflects its digital foreign policy: provision of infrastructure, technology and capacity building abroad to lock in the market dominance of Chinese firms such as Huawei, while generating consensus for the CCP's state-led approach and norms in multilateral fora. For many developing and emerging economies, Huawei's affordable network gear and add-on services that meet local needs are highly attractive.

“Democracies have a choice: they can either sleepwalk into a world where entire countries rely on the Chinese AI stack, thereby losing commercial, geopolitical and normative influence as they did with telecommunication infrastructure – or do something. Countries want safe and affordable AI that works for them too, not just for US Big Tech.”

Rebecca Arcesati, Lead Analyst, MERICS

More on the topic:

- [There's been a shift in US-China tech competition – and it's not good news for the rest of the world](#). MERICS Comment by **Rebecca Arcesati** and **Antonia Hmaid**

Media coverage and sources:

- State Council: [Guiding Opinions on the In-Depth Implementation of the “Artificial Intelligence+” Action](#)
- State Council: [Action Plan for Global Governance of Artificial Intelligence](#)

Beijing wins one battle against “involution”, but is unlikely to win the war

As Chinese industry struggles with cut-throat competition and declining profitability caused by overcapacity, Beijing has for the first time managed to rein in what is known as economic involution – in this case, in the courier sector. After sharp declines, delivery prices in key regions have increased again, following campaigns by the State Post Bureau, local governments and industry bodies – including measures on price floors – against a cycle of low profits and low innovation. With the Politburo warning against “vicious ‘involution’ competition”, authorities will attempt to apply these lessons to other sectors.

But Beijing should bear in mind that what works in one context doesn't automatically work in another. Involution – companies producing more without creating real growth – arises in one of two ways: First, a Silicon Valley-approach to competition, which involves tolerating massive losses (borne by investors) in order to rapidly gain market share and drive out competition; second, a pattern of overinvestment and industrial overcapacity,

whereby companies continue to produce and accept losses (offsetting them with local government subsidies) while waiting for weaker competitors to exit the market.

As the courier sector suffers from the first type of involution – in which demand is high enough to absorb supply – authorities were able to put a stop to it relatively easily by preventing companies from lowering prices artificially without any of them failing. But such straightforward measures are unlikely to work in manufacturing, where involution is of the second type, the result of ever-growing supply outstripping stable demand, which drives prices down to ruinous levels. Price intervention in this context would see the least efficient companies fail, likely leading to politically unwelcome mass layoffs.

“Telling courier companies in a market of generally balanced supply and demand to raise their prices is an acceptable step for investors that tolerate the companies they back to make losses to gain market share. But dealing with involution in the electric vehicles sector, for example, would require companies to raise their prices, which would destroy the thing that low-quality EV makers can pitch to consumers: dirt-cheap prices made possible by local subsidies. This would force some companies to close, leading to job losses that local governments want to avoid at all costs.”

Jacob Gunter, Head of Program of Economy and Industry, MERICS

Media coverage and sources:

- Caixin: [Courier sector's "anti-involution" drive sees Yiwu, Guangdong services to collectively raise prices](#)
- Qiushi: [Deeply understand and comprehensively rectify "involutionary" competition](#)
- The Paper: [The curtain has been raised on the anti-involution of courier services](#)

Beijing bets on new urban renewal guideline for economic recovery

Last week, China's highest decision-making bodies jointly released a guideline for transforming the country's cities by 2035 – key to getting the economy on track. The guideline seeks to boost domestic demand, but its success rests on local government compliance and whether measures address actual needs on the ground rather than favoring immediate revenue-generating projects.

Beijing has heavily emphasized urban renewal since last year's Third Plenum – the party's most important policymaking meeting, hoping this key lever will put the economy back on track and steer it toward greater stability and sustainable development.

The guidelines follow a slew of high-level urban-development-focused meetings and policies. They encourage cities to focus on economies that suit their strengths; tackle the duplication of efforts and misallocation of resources; repurpose underutilized infrastructure to reduce waste and generate economic activity tied to urban renewal; and renovate old apartment complexes to drive demand in real estate and construction sectors. These consumption-driving policies also have a strong social aspect, using welfare infrastructure to address the needs of vulnerable groups such as offering rural migrant

laborers a pathway into pension and health care. However, experience shows that equitable outcomes in local governance are driven more by local political will than by enforceable regulations, as local governments often prioritize spending to generate revenue, sometimes at the expense of central policy goals.

“*Local allocation decisions may prioritize short-term revenue-generating projects over residential area improvements for migrants, thus harming a key target to boost consumption.*”

Alexander Davey, Analyst, MERICS

Media coverage and sources:

- Xinhua (CN): [Opinions of the Central Committee of the Communist Party of China and the State Council on promoting high-quality urban development](#)
- Reuters: [China unveils blueprint to improve life in its cities](#)
- SCMP: [China's dated urban-development model must change, Beijing says at rare meeting](#)

MERICS CHINA DIGEST

[Taiwan flags huge cost of China's military parade in growing war of words \(Reuters\)](#)

Taiwan's Mainland Affairs Council stated that Beijing's largest-ever military parade on Wednesday cost 36 billion CNY (4.3 billion EUR), equivalent to two percent of China's official defense budget for 2025. (25/09/01)

[Homegrown robots help drive China's global export surge \(Financial Times\)](#)

China's robot makers are enabling factories to keep producing labor-intensive goods at competitive costs. Despite rising wages, China has increased its global market share in several labor-intensive goods from 2019 to 2023. (25/09/02)

[China extends probe into EU dairy products as trade tussle goes on \(Reuters\)](#)

Beijing extended its anti-subsidy investigation into dairy imports from the EU by another six months. The probe is one front in a wider trade dispute with Brussels and Washington that erupted when the EU launched an anti-subsidy investigation into Chinese electric vehicles in 2023. (25/08/18)

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