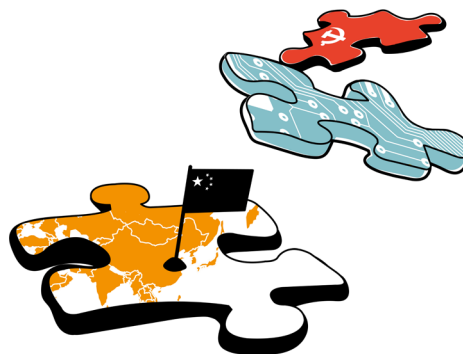


OCTOBER 30, 2025

MERICS China Essentials



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MERICS

Mercator Institute for China Studies

TOP STORY

China bets on manufacturing to carry growth in the next 5 years

By **Alexander Brown**

European businesses need to prepare themselves for ever fiercer competition from Chinese firms in a growing number of sectors. At the Fourth Plenum last Thursday, China's top officials proposed that strengthening the manufacturing sector should be the top priority for the 2026-2030 Five-Year Plan (FYP). Over the last ten years, Chinese firms have risen to be at least on par with, if not ahead of, foreign firms in areas like electric vehicles, wind turbines and machinery. They are now poised to make similar advances in many more areas.

The formal proposals for the 15th FYP, signed off by the Chinese Communist Party's Central Committee, list building a "modern industrial system" as the first key objective. This means both fostering emerging and future industries (like aerospace, biomanufacturing, hydrogen, new materials, and quantum) as well as upgrading traditional industries (such as mining, chemicals, and machinery). Officials are to accelerate the application of digital, smart, and green technologies in all areas to drive innovation and productivity.

Despite the geopolitical frictions, China's leaders are betting that industry can remain a leading growth driver. Sustained investments in research and development capabilities, as well as advantages in data, communications, energy and logistics systems, will help. Yet achieving this outcome will require continued heavy public and private investment in industry, at the expense of the service sector and demand-side policies.

Overcapacity will very likely remain a recurring feature of China's model, even though policymakers have proposed making the fight against "involution" a long-term goal. The term refers to the destructive competition that has led to falling profitability in sectors such as solar and electric vehicles. China's leadership hopes to refine its industrial policy to avoid excessive duplication of efforts and protectionist behavior by local governments. This year, officials have introduced some soft measures, like requiring carmakers to pay suppliers in a timely manner. However, they have been reluctant to impose new constraints on public and private funding or to force consolidation.

China's professed goal to open markets further and promote the "balanced development of imports and exports" does not seem credible given current trends. Market opening has been negligible in recent years and domestic firms are under intense pressure to localize and secure supply chains. This year China's ballooning trade surplus is on track to surpass the almost USD 1 trillion reached last year.

More on the topic:

- MERICS Economic Indicators Q3/2025: [China's economic policy holds line as growth weakens](#)

Media coverage and sources:

- Xinhua: [Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development](#)
- Reuters: [China's new five-year plan sharpens industry, tech focus as US tensions mount](#)

METRIX

By Katja Drinhausen

61

This is the number of Chinese Communist Party top brass missing from this year's Fourth Plenum of the Central Committee. Some 168 full members and 147 alternate members attended – roughly one sixth short of the 205 full and 171 alternate members appointed to the Central Committee from 2022 to 2027. Most absentees appear to have been members of the military establishment. Since 2022, the CCP has removed many top officials through ongoing anti-corruption and political discipline campaigns. But Xi Jinping does not appear to be in a rush to fill key positions until he has found replacements he considers both capable and loyal to him – as the significantly downsized Central Military Commission most starkly shows. (Sources: [Bloomberg](#), [BBC](#))

TOPICS

Fourth Plenum ranks “putting the people first” second after party leadership

By Alexander Davey

The Central Committee's main objectives for its Five-Year Plan period are guided by six principles – first by “upholding the party's overall leadership,” and only second by “putting the people first,” according to the Fourth Plenum communiqué. This hierarchy shows how political authority and party control take precedence over welfare-oriented governance priorities. Yet, Beijing acknowledges that sustained productivity and welfare gains require large investment in both industrial and social infrastructure.

The leadership's priority remains the expansion of total economic output. Employment and production continue to serve as the preferred levers of welfare, rather than direct income transfers. Social stability is understood to stem from participation in the productive economy, not from welfare dependency. The concept of “steadily advancing” common prosperity reflects a long-term, structural approach rather than a redistributive agenda. The party's notion of fairness is based on earned improvement, not entitlement.

The forthcoming Five-Year Plan reaffirms Beijing's reliance on state-led investment as the engine for both growth and welfare. According to a senior party-state leader, upgrading core manufacturing sectors – like chemicals, machinery, and shipbuilding – is projected to create new market space worth around EUR 1.209 trillion over the next five years.

In parallel, China plans to build or renovate over 700,000 kilometers of underground pipelines, representing more than EUR 600 billion in new investment, and accelerate the cluster development of strategic emerging industries – notably, new energy, advanced materials, aerospace, and the low-altitude economy, which they expect to generate multiple markets worth several hundred billion euros. This strategy is explicitly framed as a long-term mechanism for stimulating domestic demand.

In their view, social welfare investment functions as an economic multiplier rather than a redistributive instrument – productive spending designed to raise growth and improve livelihoods through participation, not transfers. Growth is the prerequisite for welfare, not its consequences.

China's next development phase thus reinforces a distinctly supply-side vision of social progress. The party's wager is that sustained investment, guided by central coordination and executed through state-led industrial policy, can generate productivity gains that underpin social welfare. Yet this approach also exposes a structural tension: redistribution remains contingent on growth, and growth on the continued effectiveness of state capital deployment. Whether this model can translate infrastructure and industrial upgrading into genuine domestic demand and social inclusion will define the success – and the limits – of the “common prosperity” agenda in the years ahead.

Media coverage and sources:

- Xinhua (CN): [CCP Central Committee press conference on the Fourth Plenary Session](#)
- Xinhua (CN): [CCP Central Committee Proposals for the 15th Five-Year Plan](#)

PLA purges display Xi's grip on power and lack of trust in his military leadership

By **Helena Legarda**

Xi Jinping's mistrust of his military leadership was on display in the days around the Fourth Plenum. On October 17, just three days before the plenum, China's Ministry of National Defense announced that nine People's Liberation Army (PLA) generals had been expelled from both the military and the party. Among them were Central Military Commission (CMC) vice-chairman He Weidong and CMC member Miao Hua, reducing China's central military leadership to four from the previous seven.

The purge is not the first under Xi – and not the first of CMC members. But this latest round demonstrates that, after over ten years of anti-corruption campaigns, Xi still sees the PLA as a breeding ground for corruption and even disloyalty.

With these disciplinary actions, Xi has proven that he still holds a firm grip on power over the military and the levers of power. The lack of announced replacements for the CMC also

suggests Xi is comfortable centralizing power and operating with a downsized commission. He will likely only fill the posts if or when he identifies candidates he deems loyal enough. It is possible that Xi won't appoint any new members until the 21st Party Congress in 2027.

The reasons given for the dismissals include "serious violations of party discipline" and "serious job-related crimes," focusing attention on loyalty and commitment. Further anti-corruption campaigns and purges are likely as Xi pushes to clean up the PLA and ensure its loyalty to the party – and to him.

There will likely be only a limited impact on the PLA. Such a large organization should continue to function despite top leadership shake-ups, and its regular missions around Taiwan or in the South China Sea should continue unabated. Yet, more purges could create a sense of crisis in the ranks, hitting morale and even bringing a degree of paralysis to the remaining mid- and top-level officers. Any decision to move against Taiwan will ultimately be political, but Xi's mistrust of the PLA suggests that Beijing's appetite for conflict may be low while the purges continue, reducing the likelihood that he will give marching orders in the near future.

Media coverage and sources:

- Xinhua (CN): [He Weidong, Miao Hua, and eight others were expelled from the Party and the military for serious violations of discipline and law](#)
- Jamestown Foundation: [Cronyism and Failed Promotions: Xi's PLA Purge - Jamestown](#)

EU will face even tougher tech competition from China in next five years

By **Jeroen Groenewegen-Lau**

China's challenge to Europe's technological competitiveness will intensify in the coming five years. The Fourth Plenum heralds bolder support for frontier tech, more risk taking and large-scale, state-led programs in semiconductors, machine beds, high-end instruments, basic software, advanced materials and biotechnology. China's leadership continues to project confidence in its policy of tech self-reliance, and the Plenum showed it is doubling down on its bold import replacement and export expansion approach. None of this is good news for European companies or for efforts to make Europe less reliant on Chinese technology.

"Extraordinary measures" should be taken to "seize the commanding heights of scientific and technological developments," the CCP recommended at the close of the Plenum. This includes a "new-style whole of nation system" that "concentrates resources to do great things." National champions like semiconductor maker SMIC, tech giant Huawei and battery maker CATL stand to benefit most. Beijing envisions that they will co-innovate with tech unicorns (which Beijing wants more of), small- and medium-sized enterprises and research labs in comprehensive industrial clusters.

To support this, Beijing will expand its multi-tiered talent and company recruiting efforts, reduce risks for venture capital, raise super-deductions for corporate R&D expenses (now

at 120%), and procure more domestically innovated products. Support for the future industries should also be seen as part of this comprehensive and long-term ecosystem approach to tech self-sufficiency, with the Party flagging the quantum, biomanufacturing, hydrogen, nuclear fusion, brain-computer interfaces, embodied intelligence and 6G sectors for investors.

Artificial intelligence is particularly important to Beijing, said Yin Hejun, the minister of Science and Technology. In the next five years, China will invest in foundational technology such as basic theory, new models, and advanced chips, while expanding the application of AI across a broad range of industries through the AI+ initiative. The recommendations embed this in a wider promotion of data as a national resource for innovation, by greatly expanding the national network of data centers and by promoting a secure and unified national data market. Separately, the NPC amended the Cybersecurity Law last week for the first time since 2016, mainly to encourage AI research and promote the use of AI for cybersecurity purposes.

Media coverage and sources:

- Xinhua (CN): [The CPC Central Committee's Proposal on Formulating the 15th Five-Year Plan for National Economic and Social Development](#)
- Geopolitechs: [Press Conference on Interpreting the Spirit of the Fourth Plenary Session of the 20th CPC Central Committee](#)
- NPC website: [NPC press release on the Cybersecurity Law update](#)

PROFILE

Jiang Jinquan: One of the thinkers behind Xi Jinping's programmatic policies

By **Nis Grünberg**

A key official tasked with drafting China's Five-Year Plan, Jiang Jinquan (江金权, born in 1959) is one of Xi's trusted men in the CCP's central leadership and has been part of the small circle developing party ideology for over a decade. Officials like Jiang are essential for coordinating strategic policy to foster integration across policy spheres and disseminate party ideology. They are the thinkers behind Xi Jinping's programmatic policies.

It was Jiang Jinquan who spoke first to introduce the plan at the Fourth Plenum press conference last week, indicating his central role in its creation. While the drafting team is formally chaired by Xi Jinping and four members of the Politburo Standing Committee (Wang Huning, Cai Qi, Ding Xuexiang and Li Qiang), bringing central policy together into a plan relies on key aides such as Jiang. The Hubei native also helped draft the last Five-Year Plan and is a seasoned planner with decades working in party organs.

Although not considered one of Xi's closest aides, Jiang has been an important theoretician behind party ideology. He heads the Central Policy Research Office (CPRO), an office in the CCP Central Secretariat (the nerve center of the party leadership), which oversees policy

development and the drafting of key party documents and ideology, including the body of “Xi Jinping thought.” His former boss was Wang Huning, with whom Jiang worked together closely and whose office he took over in 2020 – arguably the most important thinkers behind party ideology of the past two decades, and an architect of Xi’s party programs.

Xi has placed capable and loyal technocrats and ideologues like Jiang in key positions. They are the brains behind current policy, and they define the strategic and integrated planning that goes into industrial policy, statecraft and party ideology. It is via these officials that Xi Jinping’s ideology, worldview, and policy preferences are constructed and formulated into concrete policy documents.

Jiang holds a PhD in development economics focusing on China and wrote a book (2007) on how to study the “China Model.” The book discusses how China has squared the circle by mixing socialist planning and market economics. He has criticized electoral democracy as being a “[game for capitalist interest groups](#),” and shares [Wang Huning's view of the West's decline](#). In a [recent article](#), inspired by dialectical analysis, Jiang presented a rather positive view on China’s current economic situation and rejected the analysis that China is in distress as unfounded. Interestingly, he has also written on self-criticism (*The Art of Intra-party Criticism*, and *How to Properly Conduct Criticism and Self-Criticism*) and is a supporter of Xi’s hard disciplinary course.

MERICS CHINA DIGEST

[Xi: ready to work with Trump to build solid foundation for US-China relations \(Xinhua\)](#)

During their meeting in South Korea, Chinese President Xi Jinping told US President Donald Trump that “China and the United States should be partners and friends.” While Trump announced the end of the rare earth “roadblock”, in Xinhua’s readout, Xi emphasized that both countries could work together on issues such as combating illegal immigration but also among other topics. (25/10/30)

[China and ASEAN, hit by US tariffs, sign upgraded free trade pact \(Reuters\)](#)

China and the 11-member ASEAN bloc of Southeast Asian nations signed an upgrade to their free trade agreement on Tuesday. The agreement covers the digital and green economy as well as other new industries. (25/10/28)

[Beijing, Berlin downplay tension after German foreign minister cancels China trip \(Reuters\)](#)

Johann Wadephul was originally expected to visit China this week as the first minister of Chancellor Friedrich Merz’s government. The trip was canceled at the last minute after the Chinese acceded to just one of his meeting requests. (25/10/27)

[China’s youth unemployment remains high after record graduation season \(South China Morning Post\)](#)

China’s unemployment rate for the 16-to-24 age group, excluding students, decreased to 17.7 percent in September from 18.9 percent in August, according to the newest data.

Many young people struggle to find work in a challenging and crowded job market. (25/10/22)

[China eases drug procurement rules, keeps winning bids secret \(Caixin Global\)](#)

China has adjusted the rules for its volume-based drug procurement program. In addition, Beijing has for the first time not publicly disclosed the winning prices, signaling a policy shift aimed at easing the fierce price wars in the sector. (25/10/29)

[China opens probe into Taiwan lawmaker for 'separatist activities' \(Hong Kong Free Press\)](#)

China has opened a probe into prominent Taiwanese lawmaker Puma Shen from the ruling Democratic Progressive Party (DPP). Beijing already imposed sanctions on Shen a year ago, barring him from entering mainland China or the special administrative regions of Macau and Hong Kong. (25/10/28)

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