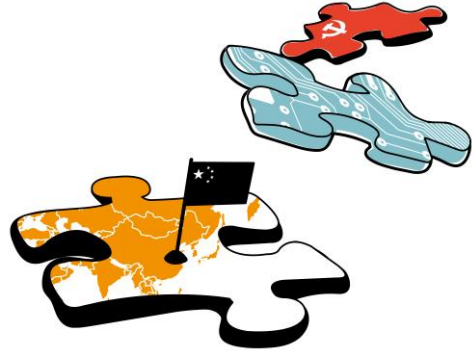


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MERICS China Essentials



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TOP STORY

China is making a costly bet on cheap energy and massive infrastructure in AI race

Earlier this month, China's government reportedly directed state-funded data centers to get rid of foreign AI chips. Although the move will spell trouble for US chip designers like Nvidia, AMD and Intel, it will also come at a big cost to Beijing. Facilities that are less than 30 percent complete are allegedly being told to rip and replace chips already in use. Official Chinese sources have not confirmed the news. Most Chinese data centers have some kind of state funding, and Chinese semiconductor stocks have soared as the party state tries to create demand for their products.

This is part of a U-turn in Chinese policy for computing infrastructure. Nvidia CEO Jensen Huang, who has been lobbying the US government to let his company sell its AI accelerators in China despite national security concerns, warned last month that it expected Nvidia's share of China's market for Graphics Processing Units (GPUs) to drop from 95 percent to zero due to Washington's restrictions on AI chip sales to China. This is likely exaggerated, considering that the Trump administration has greenlit Nvidia's sales of H20 chips and that Nvidia still holds roughly 54 percent of the Chinese market. But Huang's words came as Beijing had begun discouraging domestic firms from buying those chips.

Beijing is placing a big and costly bet on domestic players. Despite significant improvement, companies like Huawei and Moore Threads still face major hurdles in achieving performance and production capacity comparable to Nvidia's.

However, the assumption in Beijing seems to be that China can simply afford to subsidize the industry until the bet pays off – whatever it takes. Domestic chips are estimated to require between 30 and 50 percent more electricity than an H20 chip to generate the same output, due to their less efficient processes. To lower costs, the government just promised an electric power discount of up to 50 percent for data centers using domestic chips. Electricity in China is already much cheaper than in the United States.

“The push for import substitution does not mean that China can do without NVIDIA. It rather shows Beijing's commitment to nurturing indigenous alternatives at almost any cost. In the US, the rush to build massive AI data centers is encountering a societal pushback unthinkable in an authoritarian country. Unlike liberal market economies with free societies, China tolerates inefficiency and incurs enormous losses in pursuit of strategic objectives.”

Rebecca Arcesati, Lead Analyst, MERICs

Media coverage and sources:

- Reuters: [China bans foreign AI chips from state-funded data centres, sources say](#)
- Ifeng (CN): [用国产芯片电费最多降 50% 贵州等为字节阿里腾讯数据中心提供补贴](#) (Electricity costs reduced up to 50 percent if domestic chips are used, Guizhou and others provide subsidies for ByteDance, Alibaba, Tencent data centers)

- South Reviews (CN): [Full substitution, Nvidia disillusioned](#)
- SemiAnalysis: [Huawei AI CloudMatrix 384 – China's Answer to Nvidia GB200 NVL72](#)

METRIX

3.6 Terawatts

That is how much installed solar and wind power capacity China has pledged to reach by 2035 – announced just before the climate conference COP30 in Brazil. China’s renewable power expansion continues apace. Between January and July, China connected 50 gigawatts (GW) of wind and 210 GW of solar to the grid, bringing its total installed wind and solar capacity to roughly 1,668 GW, and likely making 2025 the third consecutive year it has added over 300 GW of the two. In comparison, the EU’s total installed capacity at the end of 2024 was 231 GW of wind and 338 GW of solar. While China is still adding coal power, the fast rollout of renewables, and the fact that CO2 emissions have plateaued for 18 months, offer hope that the emissions of the world’s largest emitter have peaked. (Source: United Nations Climate Change: [China’s 2035 National Determined Contributions](#))

TOPICS

China enhances economic integration with Southeast Asia

A day after US President Donald Trump’s meeting with Malaysian Prime Minister Anwar Ibrahim, on October 28, Chinese Premier Li Qiang joined Anwar for the signing ceremony of the China–ASEAN Free Trade Area (CAFTA) 3.0 protocol. The new agreement seeks to create a market of two billion people by integrating China and ASEAN economies. It emphasizes nine key areas of cooperation, including the green economy and supply chain connectivity. Without explicitly mentioning US-China tensions, Li Qiang remarked that “both sides should exclude external disruptions, uphold their legitimate interests through mutual dependence, and foster growth through enhanced cooperation.”

Under pressure from the US, Beijing is aiming to further diversify its exports to Southeast Asia. But the countries in the region are intent on preventing an influx of cheap goods resulting from China’s industrial overcapacity. Keen to develop their own manufacturing base, these countries have adopted trade-restrictive measures – and Beijing appears willing to accept the prospect of relatively limited economic gains in exchange for new geopolitical leverage when dealing with Southeast Asia countries.

The new CAFTA protocol can be seen as a strategic win for China in its competition with the US. Economically, it opens new markets for Chinese solar panels, electric vehicles, and batteries, helping to ease domestic overcapacity. Politically, it strengthens China's ties with ASEAN, especially under a more intensified US-China competition and Trump's "America First" approach. According to the Chinese government readout of the meeting, the signing aimed to "uphold multilateralism and free trade, promoting an open, inclusive, and rules-based regional order for win-win cooperation."

“ How far the ASEAN market can compensate for a reduction in China's exports to the US remains to be seen. However, the new CAFTA protocol positions Beijing as a normative leader in regional integration and allows the country to position itself as a positive force for the rules-based international order, in contrast to the US.”

Claus Soong, Analyst, MERICs

More on the topic:

- [It's not us, it's you: China's surging overcapacities and distortive exports are pressuring many developing countries too](#) - MERICs China Global Competition Tracker No. 3 2024

Media coverage and sources:

- China State Council: [China, ASEAN sign FTA upgrade to turbocharge high-level collaboration](#)
- Bloomberg: [China Expands Trade Pact With Asian Economies Courted by Trump](#)
- Reuters: [China and ASEAN, hit by US tariffs, sign upgraded free trade pact](#)

China's new program to tackle trade imbalances overlooks their core causes

As China's trade surplus reached new summits, Premier Li Qiang and Commerce Minister Wang Wentao, on November 4 presented a plan for "actively expanding imports" from third countries. This new program, "Big Market for All: Export to China," will feature over 100 events a year, including initiatives to connect foreign producers and Chinese consumers, as well as matchmaking at regional and sectoral levels. The plan also pledges to raise the visibility of foreign companies through publicity campaigns and trade fairs.

The import-promotion campaign was announced ahead of the eighth China International Import Expo (CIIE), an event brought into being by Xi Jinping in 2018 to address growing criticism that China's trade with many countries remains persistently one-sided. But China's trade surplus has still nearly doubled in the last five years, expanding by 89.9 percent – and this year's surplus will likely exceed the 2024 record of USD 1 trillion.

Lackluster Chinese imports are mainly the result of weak household demand, which remains an issue despite the efforts by Beijing, the real estate slowdown which is depressing demand for intermediary goods, and China's drive for industrial self-sufficiency. As a result, Li and Wang's announcement is unlikely to rebalance trade. The European Chamber of Commerce in China in 2023 already called the CIIE a "political showcase."

“*The weakness in Chinese imports is the result of issues that reach far beyond the information frictions that the ‘Big Market for All: Export to China’ plan is meant to address. Foreign companies should not expect a meaningful improvement in imports to China without a comprehensive policy to tackle weak household demand, the real estate slowdown, and the country’s self-sufficiency oriented industrial policy.*”

Esther Goreichy, Visiting Fellow, MERICS

More on the topic:

- [China’s economic policy holds line as growth weakens](#). MERICS Economic Indicators Q3/2025
- ECB: [China’s growing trade surplus: why exports are surging as imports stall](#)

Media coverage and sources:

- Securities Times (CN): [“共享大市场·出口中国”系列活动正式启动](#) (“Shared Market, Export China” Series of events officially launched)
- Reuters: [China plans events to boost imports, promises “win-win cooperation”](#)
- Bloomberg: [China Launches Import Promotions to Address Imbalance Concerns](#)

UK investigation of Chinese state interference in academia exposes weakness in confronting threats to free speech

After a UK university shut down a human rights researcher’s work under pressure from China earlier this year, the British government is now investigating Chinese state interference in academia. The incident highlights how democratic governments and institutions currently lack ways to confront such threats to free speech. The UK is now reportedly expanding its China audit, which aims to assess economic and security aspects of its relationship with China, while counter-terrorism officials are also looking into the matter.

Sheffield Hallam University has apologized to Laura Murphy, the human rights professor who for years has led research into Uyghur forced labor in Chinese supply chains. Murphy’s lawyers say university documents show the decision to cease a related research project was taken after threats from Chinese security services.

Self-censorship due to threats and intimidation is likely much more widespread than known, as those affected often want to avoid backlash, legal fees or other financial losses. At the same time, there is a lack of guidance on how to engage (or refuse to do so) with Chinese state security agencies and of how to strengthen reporting and law enforcement response mechanisms. Universities, on their part, should be more proactive in denouncing acts of coercion that infringe on their academic integrity.

“*The legal and physical threats to universities and research institutions, as well as their staff, are real. Governments need to work much harder to provide better tools*

such as reporting requirements and research security training, and they should incentivize academic institutions to speak out when threatened.”

Daria Impiombato, Senior Analyst, MERICs

Media coverage and sources:

- The Guardian: [MPs preparing to examine Chinese state influence at British universities](#)
- Human Rights Watch: [Chinese government threatens academic freedom in the UK](#)
- The Guardian: [UK university halted human rights research after pressure from China](#)

VIS-À-VIS

Joseph Torigian on Xi Jinping’s father, Xi Zhongxun

MERICs China Essentials Briefing spoke with Joseph Torigian, Associate Professor at the School of International Service at American University in Washington, DC. He is a leading scholar on China’s political elites and Xi Jinping’s personal history. In June this year, he published the first biography written in English of Xi’s father, Xi Zhongxun, who played a significant role in China’s Communist revolution, but was also purged and imprisoned several times during his career.

Xi Zhongxun, father of Xi Jinping, was seen as a model party member. Why is he not better known outside of expert circles that look at the history of the Communist Party?

Xi Zhongxun stands out for being someone who was promoted to very weighty positions at a young age. He was the youngest candidate member of the Central Committee in 1945 at the Seventh Party Congress. He was also by far the youngest vice premier in 1959. It is interesting to wonder why he climbed so quickly but never got to the very top.

I think one big reason for that is Deng Xiaoping. They had a somewhat fraught relationship, although I wouldn’t go so far as to say that they were outright enemies. In addition, you had different kinds of experts within the party – military experts, foreign policy experts, economic experts – but Xi Zhongxun was a people person. He was an expert on political contradictions, which meant that he was often running the day-to-day affairs for someone more powerful than him.

In many ways, he was the guy who figured out how policies were going to be executed. And people might think that sounds boring, but I think his life shows that these deputies found themselves in a really nightmarish political environment. They are given guidelines but figuring out what exactly to do is actually very hard and very dangerous because you don’t want to screw up. You don’t want to be accused of ideological heresy. And you don’t want to be accused of not doing what the top leader wants you to do, even if you’re not exactly sure what it is.

How do you think your book would be different if the CCP had written it?

The CCP has written it in the sense that there is an official biography, there is an official chronology, and there is also a TV show. With regard to official party history publications, people who aren't familiar with them might immediately suspect they are just total garbage and their only purpose is to make Xi Zhongxun look good. But surprisingly, they are serious historical productions and typically, they are misleading in what they don't include – not that they make things up.

The problem is, if you tell the truth, then you also talk about the mistakes. And if you think of the party as an inevitable world historical force, and if you talk about all the times it screwed up, then you make it harder to talk about this as an organization that deserves the kind of idealism and dedication that Xi Jinping thinks it needs to survive.

After Mao's death and after the beginning of reform and opening, Xi Zhongxun spent a lot of time making sure that he was understood correctly.

Exactly. If your whole sense of purpose and meaning in life is how the party characterizes your past, then you really care about it. The problem is that there was a lot of infighting with the party and there were a lot of mistakes. So, who you blame is really a big deal.

Xi Zhongxun was upset that basically everything good that ever happened was credited to Deng Xiaoping, and all these other people were whitewashed out of history, like Hua Guofeng, Mao's initial successor, and the leading figures of the 1980s named Hu Yaobang and Zhao Ziyang.

In fact, during the 16 years Xi Zhongxun spent in the political wilderness, he was writing self-histories over and over again, trying to get his version of the past approved by the party. I think this also says something about the party.

This interview is an excerpt from an upcoming MERICS China podcast.

MERICS CHINA DIGEST

[Spain's King Felipe VI meets with Xi Jinping \(Reuters\)](#)

The Chinese President welcomed Felipe at the Great Hall of the People in Beijing on November 12. Felipe is the first Spanish monarch to travel to China on an official state visit in 18 years. Beijing seeks Spanish support to move past trade frictions in the EU, while Spain looks to secure Chinese investment. (25/11/13)

[German government coalition pledged to set up China Commission \(Deutscher Bundestag\)](#)

The German government coalition of Christian Democratic and Social Democratic Parties aims to set up a commission tasked with the review of security relevant economic relations between Germany and China. The committee of experts will be expected to annually present the review results and recommendations for action to the German parliament. (25/11/12)

[German Federal Minister of Economics calls on China to loosen restrictions on rare earths \(Handelsblatt\)](#)

In a phone call with her Chinese counterpart Wang Wentao, German Federal Minister of Economics Katherina Reiche requested an ease and more reliability on Chinese export controls on rare earths. The recent lack of shipments of Nexperia semiconductor chips was cause for concern in the German automobile industry, but China has since eased exports. (25/11/11)

[European Commission moves to ban Chinese entities from participating in Horizon Europe \(Research Professional News\)](#)

The commission's draft work program for Horizon Europe 2026 details that legal entities established in China shall be blocked from the program's clusters focusing on health, civil security and society, and digital industry and space. Chinese institutions linked to China's Ministry of Industry and Technology, namely Chinese universities with close military links, would be ineligible to participate in the program at all. (25/11/11)

Report: [Germany deports Uygur woman to China in a bureaucratic blunder \(Hong Kong Free Press\)](#)

According to the report, the woman whose request for asylum was rejected by the German federal migration office, was sent to China, despite immigration orders to deport her to Turkey. The woman, who only held a Chinese passport, managed to quickly leave for Turkey, but the incident sparked widespread condemnation. (25/11/11)

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