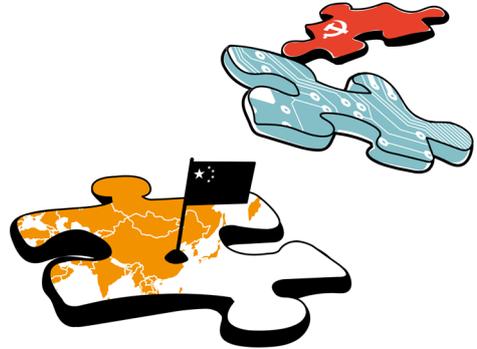


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MERICS China Essentials



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TOP STORY

Faced with Iran war oil shock, China's bet on energy security is paying off

Years of shock-proofing its energy system have made China remarkably resilient to the oil price hikes triggered by the US-Israeli war on Iran and closure of the strait of Hormuz – even though China is highly dependent on oil from the region. China's investments in green tech, electrifying its energy system, diversifying fossil fuel imports, and expanding coal capacities have raised its energy self-sufficiency to 85 percent, according to 2024 data. Its latest Five-Year Plan (FYP) for 2026-2030 aims to further boost energy security.

Strategically and systemically, China's decarbonization efforts are not primarily about fulfilling UN emissions targets to limit climate change, creating green tech champions to dominate global markets, or decoupling energy use from foreign suppliers. While these all play their part, China's main goal is to minimize risks and volatility in what leaders see as an increasingly volatile global order – especially in fossil fuels.

China may have a critical advantage

China's ballooning energy needs are the reason. In 2025, China became first in the world to surpass demand of 10 trillion kilowatt hours of electricity, exceeding the combined power consumption of the EU, Russia, India, and Japan. This is only projected to grow as manufacturing capacities expand alongside China's big bet on AI, which requires large amounts of power to run servers. AI industry leaders Sam Altman, Jensen Huang, and Elon Musk have suggested China may be at a critical advantage given its massive investments in reliable electricity, mainly from renewable sources.

Coal is still China's largest energy source, but Beijing is pushing the energy transition and scaling its clean energy capacities faster than any other nation. Investments in clean energy led to a slight decline in emissions in 2025 – a first for China, which has pledged to peak before 2030. The recent FYP puts renewables at the center of energy system development, with large energy bases and a pledge to double capacity in 10 years and create a flexible grid powering its expanding industrial juggernaut.

China also sees these investments in resilience as an opportunity for technological leadership via innovation. China wants to dominate the industries and markets of the future, and it views green tech and clean energy as winners. Domestically, green tech sectors now provide 10 percent of GDP and are the key drivers of growth. With exports booming and innovative products increasingly made in China, global markets are in Beijing's sights.

“So far, Beijing's calculus seems to hold up: Green is good for security, for the climate, and for business. A clean energy system with diversified sources is a smart bet if you want to minimize the impact from external shocks like war in the Middle East and an increasingly volatile global energy environment.”

Nis Grünberg, Lead Analyst, MERICS

Media coverage and sources:

- Foreign Policy: [Green energy and the new metabolic world order](#)
- China's State Council: [China's power consumption hits 10-trln-kWh milestone in 2025](#)
- Economist: [Is cheap energy the key to China gaining AI supremacy?](#)
- Carbon Brief: [Analysis: China's CO2 emissions have now been 'flat or falling' for 21 months](#)

METRIX

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...is the number of times the new 15th Five-Year Plan (FYP) uses the term “ethnic minorities” – down from 12 in the last FYP and 31 before that. The National People's Congress earlier this month approved a new law promoting “ethnic unity” and penalizing acts seen as hindering the assimilation of non-Han ethnic groups, including Uyghurs, Tibetans, and Mongols. Mentions of regional ethnic autonomy – once commonplace – are entirely absent from the new FYP, highlighting how assimilation into a unified Chinese national identity – the “Zhonghua Nation,” mentioned 10 times in the document – now takes precedence over preserving China's ethnic mix. (Source: [国民经济和社会发展第十五个五年规划纲要（草案） 15th Five-Year Plan \(Draft\)](#))

TOPICS

Opportunism allows Xi to brush off Trump's late-March no-show in Beijing

Beijing's outwardly calm reaction to US President Donald Trump's postponement of a meeting with his Chinese counterpart Xi Jinping reflects strategic opportunism over any sense of disrespect. After Trump said the summit would shift from the end of March to likely mid- to end-May on account of the Iran war, Beijing left the door open for a top-level engagement by saying that the timing of the meeting was still being discussed. While the postponement could be read as a sign of China's limited relevance to US policy in the Middle East, it does allow Beijing to maintain last year's truce in relations with the US and defer any renewed pressure from Washington over industrial policy or market fairness.

The delay also lowers the risk of navigating the high-level meeting while the Iran war is still in full swing. China has condemned the US-Israeli attacks but has stopped short of explicitly backing Iran – a balancing act Xi might find hard to maintain in any joint appearances with Trump. But a Xi-Trump meeting in late May – or possibly even later –

also increases the danger of new flashpoints. Washington recently launched new probes into industrial overcapacity and forced labor in China and other countries, raising the possibility of fresh escalation of last year's trade war. With public hearings slated for late April and early May, Beijing has said it will defend its legitimate rights and interests.

“The postponement of Trump's visit to China allows Beijing to maintain the tense but stable status quo with the US – and continue with its industrial agenda without immediate scrutiny of industrial subsidies, export controls, and market-access restrictions.”

Esther Goreichy, Visiting Fellow, MERICS

More on the topic:

- MERICS: [China offers its partners economic lifelines and diplomatic cover – not military guarantees](#)

Media coverage and sources:

- AP News: [China warns about Trump's tariff strategy after high-level talks end](#)
- Bloomberg: [Trump delaying his visit to Beijing is a big relief for Xi](#)
- MOFCOM: [商务部新闻发言人就美贸易代表办公室宣布以“未禁止进口强迫劳动产品”为由对包括中国在内的 60 个经济体发起 301 调查答记者问](#)

Beijing eyes reining in local subsidies that have fueled industrial overcapacity

China's leadership is discussing a step-change to increase fiscal discipline among local governments, which have been incentivized to drive economic growth at the cost of mounting debt, real estate imbalances, broader financial risks, and industrial overcapacity. Premier Li Qiang used a State Council meeting on March 13 to call for better control of local government subsidies through a “negative list” to block harmful practices. Beijing has long struggled to control local officials, who often prioritize local growth over national goals like risk control. Localities have developed creative ways to support local corporate champions, including masking public debt and creating alternative revenue sources.

China uses negative lists in other areas, notably to regulate domestic market access and foreign investment, defining sectors and activities that are prohibited or subject to conditions, while allowing everything not explicitly restricted. A negative list for subsidies could help to rein in some bad habits – although local officials would also find new ways to support local champions, while avoiding the restrictions it would clearly impose. But even if only partially successful, such a measure could help address one driver of China's huge industrial overcapacity: Local governments that prevent market consolidation by keeping poorly performing companies afloat through subsidies.

“A ‘negative list’ for local subsidies would continue Beijing's long battle to rein in unsustainable fiscal practices at local level. Such a move could help global markets hit by China's overcapacity-induced export glut. But it could also disappoint – local

officials are good at getting around restrictions imposed by Beijing. As the Chinese saying goes, 'the mountains are tall, and the emperor is far away.'"

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

Media coverage and sources:

- China's State Council: [Li Qiang chaired an executive meeting of the State Council, which discussed and approved the "Division of Responsibilities for Key Tasks of the State Council in 2026," among other things.](#)
- Xinhua: [State Council Executive Meeting: Implement Negative List Management for Local Government Subsidies](#)
- Reuters: [China to tighten oversight of local government subsidies](#)

OpenClaw phenomenon shows the Chinese public is embracing AI and its risks

Unlike the Silicon Valley model of pursuing expensive tech breakthroughs first adopted by corporates, China is sending up test balloons for speedy consumer use – as seen in the recent craze over the open-source AI tool OpenClaw, built by Austrian developer Peter Steinberger. The AI assistant automates everyday tasks, from writing emails to shopping. While the “throw things against the wall and see what sticks” model can potentially speed up commercial developments of AI, it also puts Beijing under pressure to regulate the uncontrolled and potentially risky use of the cutting-edge technology.

The OpenClaw boom speaks to the Chinese public's embrace of technology, bolstered by Beijing's messaging that consumers and companies should use AI to boost productivity. The preference for open-source models and tools helps disseminate them widely. OpenClaw's promise to support so-called one-person companies (OPCs) is a key selling point, speaking to a collective anxiety of being left behind by the AI train.

Nicknamed “lobster” for its crustacean logo, OpenClaw has dominated headlines in recent weeks. Tech giants Tencent, Alibaba, VolcEngine, and Baidu have all released plans for its quick deployment. Hundreds lined up for Tencent's free install event. In response, the government of Shenzhen has already released policy to support new businesses built around OpenClaw. And, after reports of serious security breaches such as deleted inboxes and exposed data, national agencies have warned against the risks of using OpenClaw on government devices, leading to an early wave of uninstalls.

“OpenClaw may be a uniquely Chinese phenomenon – a widespread fad with an incredibly fast lifecycle. The speed and scale of this phenomenon is boosted by China's embrace of open-source development and the government's strong support for AI. This is a very different path for pursuing AI supremacy – one focused on applications over breakthroughs.”

Wendy Chang, Senior Analyst, MERICS

Media coverage and sources:

- [Xinhua](#) (CN): National Computer Network Response Technical Team / Coordination of China (CNCERT) issues risk guidance for OpenClaw
- [China Digital Times](#) (CN): Big Leap for little lobster: from “Lobster 10” to withhold deployment unless necessary

MERICs CHINA DIGEST

[Pop Mart and Sony to produce Labubu film](#) (Reuters)

The film is part of Pop Mart’s strategy to market its popular characters beyond collectable toys. BAFTA-nominated filmmaker Paul Kind is slated to produce, direct and co-write it. Earlier in 2026, Pop Mart announced that London would become its European headquarters. (03/26/19)

[EU sanctions two Chinese companies for cyberattacks](#) (Reuters)

The EU alleges that Integrity Technology Group enabled hacks of over 65,000 devices across six member states, while Anxun Information Technology provided hacking services aimed at critical infrastructure. China’s foreign ministry said that it opposed the sanctions and urged Brussels to “correct its erroneous approach.” (03/26/16)

[Wang Wentao discusses trade opportunities with German CEOs](#) (Reuters)

On the sidelines of the China Development Forum in Beijing, China’s Minister of Commerce met with executives of the German multinationals Bosch, Volkswagen and BASF to encourage foreign investments in China. According to a ministry statement, he emphasized the need to “properly resolve trade frictions through dialogue and consultation.” (03/26/23)

[New national security rules allow Hong Kong police to demand phone passwords](#) (BBC)

Amendments to a bylaw under the wide-ranging National Security Law (NSL) now allow Hong Kong police to demand phone or computer passwords from people suspected of breaching the NSL. Refusal alone can lead to a jail sentence of up to one year and a fine of up to HKD 100,000, while providing “false or misleading information” can result in a jail sentence of up to three-years. (03/26/23)

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