CP Global Insight

2025: where is PRC industrial policy heading?

APRIL 2025

China's 2025 Government Work Report drew a line under the past: it placed consumption first in its annual list of priorities. As support, it tossed the biggest fiscal stimulus since 2020 on the table—and signalled that more may be on the way, anticipating a fraught trade environment and looming renegotiations of global rules.

It's been painted as a shift away from 'supply side' industrial policy. Beijing's policies raised hackles in Washington and Brussels as its trade surplus soared, while it also leapfrogged from global factory to high-tech leader in strategic sectors. With Beijing's demand-side stimulus (more goods consumed at home), trade partners may think competition will cool.

The shift is real, but PRC officials do not see a binary choice between domestic demand and exports. Their ambitions are not limited to short-term economic balancing. They are convinced domestic demand growth will support their critical mission: pushing up the tech ladder, offering higher-value goods and services to the societies of tomorrow.

As Xi Jinping now frames it, prioritising consumption anchors the tech innovation growth model in domestic sales. If all goes well, US and European firms may face formidable PRC rivals. Expect more tech breakthroughs like Deepseek.

Given Trump's tariffs are likely to reduce Chinese exports this year, Beijing is likely to stick to the plan laid out in the GWR, while increasing the intensity of fiscal measures. That may not resolve two major economic challenges created by the transition from property to technology-fuelled growth: deflation and a weak labour market.

Trump 2.0 will lead to a new global trade and investment order. The PRC is in a position to shape that order, whether in the form of long-term multilateral or shifting 'minilateral' agreements.

Monthly **Insight Briefs** explores trends in PRC industry policy. Upcoming issues will feature:

- May: AI applications in the industrial sector
- June: Industrial decarbonisation strategies
- August: Trade dynamics—navigating tariffs and securing supply chain

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industrial policy in context

This report places industrial policy in the context of PRC economic growth strategy in 2025 and beyond.

The long-term aim of achieving ‘socialist modernisation’ by 2035 was outlined in the Communist Party’s Third Plenum last summer. Reaching that requires GDP growth averaging around 5 percent annually until then, according to policy advisors. Hence this year’s Government Work Report (GWR) set that as the growth target for a third successive year.

But the growth target is not the whole story. More important is the structure of the economy. To achieve the 2035 goal, ‘industrial transformation and upgrading’ was deemed necessary at the Plenum. The relative success of Made in China 2025 has convinced policymakers that targeting sectors is the right approach.

The PRC’s path is diverging from many advanced economies which de-industrialised as their economies matured. The Xi administration looks to Germany and South Korea (which have remained industrial powerhouses while developing) as examples to follow.

China’s size means development will largely have to be based on a ‘complete domestic demand system‘ according to the Plenum decision. By leveraging its vast domestic market, it wants an even more expansive industrial system than those countries have.

Beijing sees industrial success as not just the capacity to produce, but the capacity to innovate, control value-chains, and shield China from external vulnerabilities.

Western policymaking often draws a sharp distinction between ‘demand side‘ policies, chiefly monetary and fiscal easing, aimed at boosting growth in the short-run, and ‘supply side‘ policies which aim at longer term growth. That distinction has blurred in recent years, with the US and EU both shifting towards ‘industrial policy’, state-backed investment in infrastructure and energy as a stimulus and source of long-term economic productivity and security.

This report begins with an overview of PRC supply and demand-side policies for 2025, showing how they are interlinked. Beijing sees supply-side efforts aimed at raising productivity through technology as a strategy to mitigate its shrinking population.

The report details

- why the PRC is able to increase its fiscal and monetary stimulus this year, and where the increased funds are flowing
- the meaning of a pivot towards consumption: how policymakers are still testing the waters, and see a link between supporting household spending and supporting manufacturing

The Third Plenum focused on creating a ‘high-level socialist market economy’, breaking down regional trade barriers, which will, in theory, eliminate loss-making firms propped up by localities.

The report moves on to cover Beijing’s preference to resolve overcapacity gradually through market measures rather than top-down targets as it did a decade ago. This is something it felt able to do at the time because overcapacity was concentrated in just a few sectors, dominated by SOEs, while the overall economy (fuelled by real estate) was growing faster.

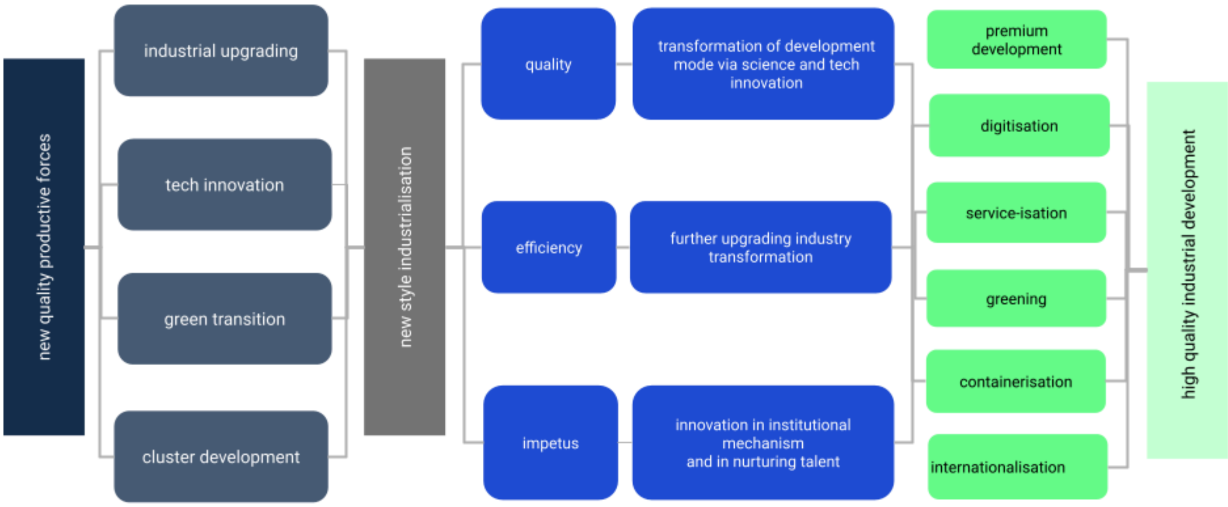
This market-driven approach is slower to operate as state banks and local governments continue to support loss-making firms, suggesting deflationary competition will persist this year.

With deflation set to continue in many sectors, it is crucial to recognise whether you are in an area like energy where officials prioritise supply and low prices over corporate profits, or downstream where they are serious about controlling investment to raise returns.

The GWR was direct about the shortcomings of the PRC economy. This report also explains

- how official worries about ‘involution’ are leading to a greater focus on raising investment returns, curbing local subsidies and promoting more market-oriented tools such as guidance funds
- policies to navigate a trade shock from the US
- the impact of unemployment created by structural shifts in the economy
- headwinds from the ongoing real estate correction and local government financial strains

Beijing also bets on future industries, even though it is uncertain when and if they will succeed. These bets should bring more DeepSeek moments; companies must monitor which sectors are being supported. Strategic opportunities may open up for countries to partner and learn from PRC firms—so long as Beijing sees those partnerships as in its interest.



main ingredients in the transition to 'high quality industrial development' as depicted by scholars at the Chinese Academy of Social Sciences Institute of Industrial Economics

PRC policy priorities 2025 and 2024

2025 Government Work Report priorities	2024 Government Work Report priorities
1. Vigorously boost consumption, improve investment efficiency, and comprehensively expand domestic demand.	Vigorously promote the construction of a modern industrial system and accelerate development of quality productive forces.
2. Develop quality productive forces based on local conditions and accelerate the construction of a modern industrial system.	Deeply implement the national strategy of rejuvenation through science and education and strengthen the fundamental support for high-quality development.
3. Deeply implement the national strategy of rejuvenation through science and education and enhance the overall efficiency of the national innovation system.	Focus on expanding domestic demand and promoting a virtuous economic cycle
4. Accelerate the implementation of landmark reform initiatives to better leverage economic system reforms as a driver.	Steadfastly deepen reforms and enhance the driving force for development.
5. Expand high-level opening-up and actively stabilise foreign trade and foreign investment.	Expand high-level opening-up and promote mutual benefits and win-win outcomes.
6. Effectively prevent and defuse risks in key areas, ensuring that no systemic risks occur.	Better balance development and security, effectively preventing and resolving major risks in key areas.
7. Focus on 'three rural' (agriculture, rural areas, farmers) work and deepen broad revitalisation of rural areas.	Firmly support 'three rural' (agriculture, rural areas, farmers) work and ensure broad rural revitalisation.
8. Promote the coordinated development of new urbanisation and regional integration, further optimising development spatial structures.	Promote urban integration and regional coordination to optimise economic spatial layouts.
9. Coordinate efforts to reduce carbon emissions and pollution while promoting green growth and accelerating the green transformation of society.	Strengthen ecological and environmental protection and promote green and low-carbon development.
10. Strengthen guarantees for improving people's livelihoods and enhance social governance capabilities.	Effectively ensure and improve people's livelihoods while enhancing innovative social governance.

change in **priorities**

The reshuffling of ten priorities in the 2025 Government Work Report (GWR) shows clearly that Beijing's top focus is boosting consumption growth.

Delivered by Premier Li Qiang 李强 at the Two Sessions on 5 March, the Report breaks with previous years. Typically, industrial modernisation, boosting science and technology, or the more general goal of stabilising growth topped the list.

Flagged at the Party's Economic Work Conference in December 2024, the shift reveals agreement at the top to prioritise stepping up consumption, without abandoning investment.

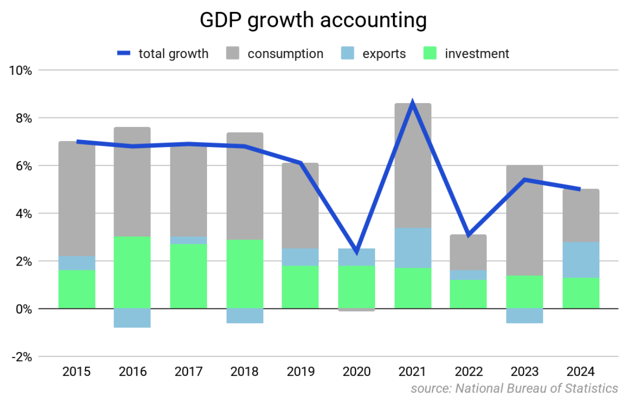
Beijing is expanding its fiscal deficit with new tools to lift consumption directly, but the stimulus is not a free-for-all or a cash handout. It is primarily earmarked for preferred areas of consumption, and for investment in favoured sectors to supply that consumption.

why the change?

Advisors have been calling for a shift since the pandemic, but officials have dragged their feet.

In December, Xi cited 'external pressure': code for US tech sanctions, and greater trade tensions with Europe. The GWR referred to an 'acceleration' of 'changes unseen in a century', the official phrase used for global instability led by Washington's shifting policy since the 2018 US trade war—now intensifying. Xi and the GWR notes 'growing domestic difficulties'. Advisers cite:

- two years of goods price deflation
- three years of declining property investment
- low contribution of consumption to GDP growth in 2024 (45 percent, down from some 60 percent pre-pandemic)
- high contribution of net exports to GDP growth (almost a third, tripling its pre-pandemic level)



Xi frames the change as a strategic move, not 'a matter of expediency'. It is also a question of 'economic security'. This suggests a multi-year project.

The PRC's toughest economic challenges—goods price deflation and youth unemployment—should improve this year, but they are not expected to resolve quickly.

better investment, less involution

Beijing has never considered consumption versus investment as a simple binary. That's why boosting investment 'efficiency' is identified directly after consumption as the joint top priority in the GWR.

> **Beijing has never considered consumption versus investment as a simple binary**

The emphasis on 'better' investment signals that officials worry more than ever about localities duplicating manufacturing projects. For decades they have engaged in fierce competition to lure investment via cheap land and tax breaks. A major source of industrial success, they hit inflection points resulting in races to the bottom.

Deflation results as companies compete on price, not quality. 'Involution', raised in the GWR for the first time, implies increased effort failing to yield higher rewards, a ratcheting of competition with little advance, and no escape route.

While consumers at home and abroad may benefit, deflation impacts producer profits, raising debt burdens. Industrial sector profits fell over 3 percent in 2024.

> **reining in local government 'investment promotion' is crucial for the PRC's future**

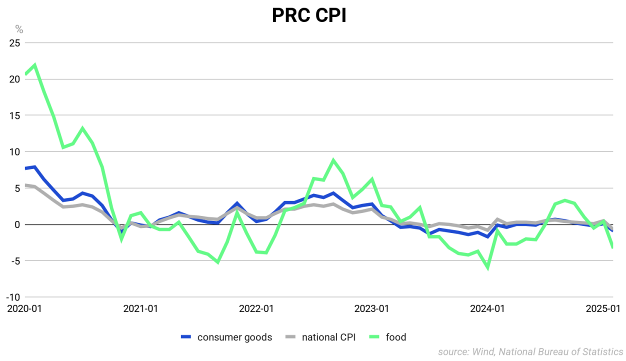
Reining in 'investment promotion' is crucial, insists Huang Yiping 黄益平 National Development Institute director. Beijing is to mastermind industrial policy, while local governments focus on services.

Tightening limits on land and tax incentives in 2024, an internal State Council 'Notice' strove to standardise local investment promotion and avoid low-quality investment. Said to have come into effect in August. Regulations on Fair Competition Review, issued under the *Anti-Monopoly Law* in August 2024, may also limit local policies in the name of fair competition.

prices stabilising, not inflating

Deflation has been deepest in manufactured goods, due to a structural decline in old growth drivers like property, heavy industry and ICE vehicles creating price wars in related sectors, together with cyclical overcapacity in new and emerging areas like solar panels and new energy vehicles, where localities rushed to support duplicate investments.

The GWR acknowledges that deflationary pressures will persist in 2025. First, the inflation target for consumer products (CPI) was lowered from 3 percent to 2 percent, a psychological threshold for officials who have kept the target unchanged for years.



More starkly, the fiscal target implies an overall GDP deflator, which measures prices of both consumer and investment goods, of about zero in 2025. That would barely be an improvement from its slight decline in the past two years, suggesting Beijing does not expect a quick fix to the issue of involution. Massive US tariffs are likely to fuel deflation as well.

'five key relationships'

There are many tensions among PRC policies. In December, Xi outlined five relationships that need to be balanced.

market vs. state: Both stronger market forces and state guidance

- **supply vs. demand:** Promoting demand to drive supply, creating demand with new supply
- **new vs. old growth drivers:** Encouraging new industries without forgetting to upgrade traditional sectors. This gained prominence following Xi's directive in late 2023 to 'build the new before breaking the old'
- **stock vs. incremental growth:** Ensuring high valuations for existing assets while encouraging new investment
- **quality vs. scale:** Producing more and also better goods and services

In each case, officials do not want to choose one option. They want 'both the above', with the balance between the two sides constantly being readjusted as it continues to swing on the trapeze between its old economic model and Xi's vision of a moderately prosperous advanced economy. Policymakers often manage these relationships clumsily, swinging from one to the other.

Beijing seems happy to let overcapacity persist in upstream sectors like energy, where abundance is viewed as more critical than ensuring industry profits.

That's because those sectors feed downstream manufacturing and services, where officials believe investment needs to be kept profitable to encourage dynamic and innovative private sector players. Low-price input exports can also win friends in Global South countries which lack their own industries.

Take steel: the official industry association denied that there would be mandated production cuts in February, even though Beijing has used that approach before.

> **how hard will Beijing enforce competition rules allowing industries to maintain production despite below-cost prices?**

The key question is how hard Beijing will enforce competition rules and curb local government intervention, allowing industries to maintain production despite below-cost prices.

The *Price Law* and *Bidding Law* prohibit companies from selling below cost, yet are often ignored. Now on the table at the National People's Congress (NPC), a new *Anti-Unfair Competition Law* is in the pipeline.

Exit mechanisms are also in progress. The *Enterprise Bankruptcy Law* is tabled for revision. China's state-owned enterprise administrator has said car companies should merge. Mergers are happening in solar as well.

Meanwhile, Beijing is directing state-controlled industry associations to curb capacity. Oversight of these associations recently moved from related ministries to a new CPC Social Work Department.

As it has done in the finance sector, by embedding Party leadership more deeply, Beijing wants to ensure industry associations act in line with central instructions rather than pursuing their sectoral advantage. This approach circumvents bureaucracy and can be more effective. But outcomes depend on the Party's resolve.

support for social security, services

Supporting consumption in the short-term is a matter of adding fiscal stimulus, with the 'headline' budget deficit expanding by C¥1.6 tn (~US$220 bn), or one percentage point of GDP, to 4 percent. Other consumption-focused measures announced in the GWR are moderate in size relative to GDP.

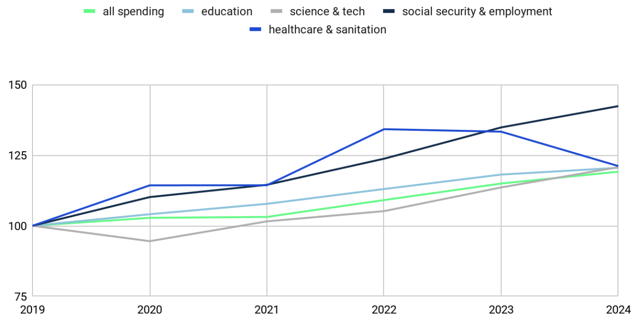
raising the headline deficit is an inflection point for senior officials, for decades wedded to a 3% upper bound

Raising the headline deficit is an inflection point for senior officials, for decades wedded to a 3 percent upper bound. A larger deficit allows Beijing to increase its ‘general’ budget spending (devoted primarily to state services, excluding most investment projects) by 4 percent year-on-year to some C¥30tn (~US$4 tn), even though revenue will barely grow.

An increasing share of that spending is handed to poorer localities, with transfers earmarked for education, health and other services set to rise by over 8 percent this year. This, in theory, frees up household income for consumption.

Pledging to tilt government spending toward ‘wellbeing’, the Ministry of Finance (MoF)’s annual work report highlighted employment spending, largely subsidising companies to hire workers. It has been the fastest-growing state spending category since the pandemic, amounting to a whopping 3 percent of GDP in 2024, about the same as went toward education.

government (general budget) spending growth by category (2019=100)



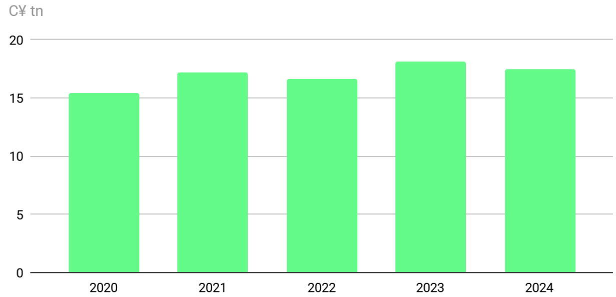
source: Ministry of Finance

such spending has only managed to control further job losses, not reduce unemployment.

However last year those subsidies in 2024 only managed to control further job losses without significantly cutting unemployment.

There is a limit to largesse. Because tax revenue as a share of GDP has been falling for a decade due to repeated tax cuts, even with a larger deficit, the share of China’s GDP spent on welfare-related services will remain low by international standards.

nationwide tax revenues



source: Wind

The Xi administration’s unwillingness to increase taxation means increased spending on health, childcare, education, pensions or other welfare can only be gradual, as seen by low single digit increase in the basic pension announced in the GWR.

Moreover, officials have focused on investment as their primary economic lever for decades. How to use consumption as a countercyclical tool is still in a ‘consensus-building phase‘, argues Li Chao 李超 of Zheshang Securities. In somewhat uncharted territory, they are proceeding with caution.

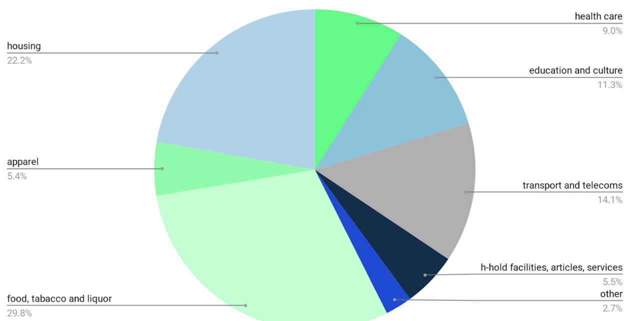
spending on services, while rising, will stay low as a share of GDP relative to advanced economies

A nationwide Consumption Action Plan released in March reveals where policy is heading longer-term: government-funded pre-schools, subsidies for new parents, and higher pensions.

Wealthier localities with higher tax income will enact more ambitious welfare spending, and the centre will assess impacts for broader roll-out. Several such cities have, for instance, launched birth subsidies for 2025.

Spending on services is listed ahead of goods in the Action Plan. Now China is firmly a middle-income country, consumer spending growth should shift to services. There is vast potential, with services accounting for less than 50 percent of total household consumption, dwarfed by over 70 percent in developed economies.

2024 consumption composition per capita



source: National Bureau of Statistics

Tourism, health, and aged care are heavily featured in the Action Plan, and they will likely get their own action plans later in 2025.

> **Beijing sees an explicit investment–consumption link in the case of services**

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The 'ice and snow economy' (consumption related to winter sports and cold-weather tourism) is mentioned in the Action Plan. Localities are on notice to spend on ski resorts, a sector envisaged to double by 2030.

The Plan also mentions the 'Silver Economy' driven by retirees. An aging population (300 million people over 60) represents a large market for senior-related services, potentially generating C¥3 tn (~US$420 bn) in additional annual consumption if each senior spends just C¥1,000 (~US$140) more annually.

Former top banking official Guo Shuqing 郭树清 urges more local government spending on schools, hospitals and aged care housing.

Beijing aims to improve service sector productivity by opening to more international competition. Foreign-owned hospitals were allowed in December 2024. Foreign investment in aged care was liberalised several years ago.

2025 major policy measures for ensuring and improving people's livelihoods

category	policy measures
employment and income	➤ public and enterprise training bases ➤ raise minimum wage
social security	➤ raise basic pensions ➤ improve service facilities for older people, people with disabilities, and other groups
healthcare	➤ raise the proportion of two- and three-person hospital wards ➤ build high-level obstetric and pediatric clinics, with high-quality wards, ample obstetric beds and more single and double in-patient rooms ➤ innovate in medicine, end shortages of high-end equipment, and constantly raise regional and grassroots medical facility standards
cultural tourism	➤ promote cultural and tourism consumption, and supply more high-quality and distinctive tourism goods ➤ unlock after-dark services and help them develop ➤ step up smart/digital improvement of visitor safety and convenience
sports and fitness	➤ build sports parks and national fitness centres ➤ improve 'ice and snow' facilities, launching high-quality global sports events
elderly and child care ('one elder, one child')	➤ develop the silver economy ➤ develop childcare institutions ➤ support single-person household childcare services

increasing household incomes through investment

The ultimate driver of consumption is identified in the Action Plan as household income growth. In Beijing's view, new investment, the 'investment multiplier' famous in Keynesian economics, creates jobs. Equipment upgrades raise worker productivity, which makes wage-rises sustainable.

This rationale is behind the ambitious growth target set for GDP of 'around 5 percent' for 2025, with household incomes rising at a similar pace. But the investment plans announced so far will likely not be sufficient to cause a large reduction in unemployment, requiring more stimulus later in the year.

> **Beijing needs a more ambitious job creation target to accelerate wage growth**

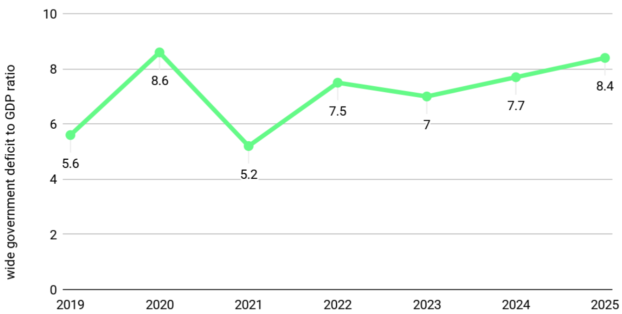
Officially, household incomes grew in line with GDP (some 5 percent) in 2024. The PRC lacks mechanisms (such as sectoral bargaining) for wage growth beyond workers switching jobs, something they are less likely to do when unemployment is high. Private surveys put wage growth at 2–4 percent last year.

rising headline budget deficit, with 'special' bonds to build the future

As its main short-term lever to raise GDP, Beijing set what is known as a 'wide' government deficit. This includes all government spending and, unlike the headline deficit, primarily reflects investment project spending, now at heights not seen since 2020.

The wider budget deficit consists of the 4 percent headline deficit, plus C¥1.3 tn (~US$180 bn) of 'special' ultra long-term central government bonds—up 30 percent from last year, and a local government 'special' bond quota—C¥500 bn (~US$70 bn) larger than last year.

wide government deficit to GDP ratio



source: Ministry of Finance

Massive stimulus is possible because output is below potential, as deflation shows, and because the central bank keeps interest rates low. Unlike pre-pandemic, Beijing, rather than the provinces, does the heavy lifting in credit issuance terms, given its debt-to-GDP ratio is lower than most provinces.

> **as in previous years, those 'special' bonds' will mostly be spent on construction projects**

As in previous years, those 'special' bonds ('special' because they are usually earmarked for specific projects) will mostly be spent on construction projects. These are intended to promote urbanisation, where Beijing sees a link between investment and consumption as urban residents earn and spend more.

> **Beijing will provide a 'negative list' of banned sectors, with anything else permitted**

Local officials have more freedom on how to spend their bond issuance on. Beijing will provide a 'negative list' of banned sectors, with anything else permitted.

'major national strategies'

Most of the central special bond issuance (C¥800 bn, ~US$110 bn to be spent in 2025) will be used for what the government calls 'major national strategies and security capacity- building in key areas'.

This is a grab-bag of projects with national-level implications, which are seen as the centre's responsibility. They are projects that need to be finished as part of the current five-year plan, which ends in December and provide a window into which economic areas Beijing sees as matters of national security, or where spillovers mean provincial governments will not act.

The National Development and Reform Commission (NDRC) divides this spending into 'hard' areas: building a network of national science laboratories; expanding the 'low-altitude economy' (electric flying vehicles and helicopter tourism) intercity railways, national highways and other projects that lower the cost of logistics; improving farmland and food security; and building water conservation and transfer infrastructure.

'Soft' areas include the industrial internet, the forest planting effort known as the 'green wall', creating a nationwide market for data, and a network of childcare facilities.

matching demand and supply

In December, just before his call for more action on consumption, Xi was still discussing supply-side reform to encourage new emerging hi-tech industries and upgrade conventional industries. In his view, consumer demand growth must be targeted towards high-quality supply.

Boosting demand and improving supply are seen as two sides of the same coin (demand leads supply, and supply creates demand, Xi said in 2020). 'Investment and consumption are mutually reinforcing,' Yang Zhiyong 杨志勇, China Institute of Fiscal Sciences, wrote in March 2025.

C¥300 bn or 0.2 percent of GDP (~US$40 bn) in 'special' central government bonds will support a consumer goods trade-in program.

> **trade-in program steers consumption towards favoured sectors with companies incentivised to produce higher-end goods**

The program is the prime expression of the policy aim for consumption: steering consumption to favoured sectors with companies incentivised to produce higher-end goods.

consumer goods trade-ins

The trade-in program, launched in the middle of 2024 to cover cars, electric bikes, and large household appliances, reduces sales prices by 15–20 percent. It has already had a material impact on retail sales and was expanded in early 2025 to include phones, tablets and smart watches.

The program encourages consumer goods companies to improve the quality of their products: households get larger discounts for more energy-efficient goods, for example. The scheme also promotes recycling and standardisation. To be eligible, goods must meet national standards on emissions.

Local governments provide supporting funds: for instance, the vehicle trade-in program is funded with C¥90 bn (~US$12.5 bn) from the centre and another C¥30 bn from local governments. The China Automobile Dealers Association (CADA) forecasts it will lead to 10 million cars being replaced in 2025.

In the case of new energy vehicles (NEVs), a lucrative 10 percent purchase tax exemption for qualified models comes on top of existing consumption support measures. Worth an estimated C¥200 bn (~US$30 bn) in 2025, the policy subsidises each car by up to C¥30,000 (~US$4200), which is set to be halved in 2026 when a 5 percent tax will be applied, incentivising purchases in 2025.

higher-value production

Alongside consumption, the GWR continues focusing on industrial policy but with more action to steer companies to invest in higher value-added production instead of capacity in existing products, which is leading to deflation.

C¥200 bn (~US$30 bn) of the central government bond issuance will encourage investment in advanced machinery through a trade-in program subsidising manufacturing companies to upgrade old equipment.

There is a C¥5 tn (~US$700 bn) annual equipment investment needed in sectors under threat of US sanctions like semiconductors and biomanufacturing, according to Central Party research office head Jiang Jingquan 江金权.

category	in 2019	in 2025	in 2030
world leading	➤ telecommunications ➤ advanced rail equipment ➤ power transmission/distribution equipment ➤ textiles ➤ home appliances	➤ telecommunications ➤ advanced rail transportation equipment ➤ power transmission/distribution equipment ➤ textiles ➤ home appliances ➤ power generation and equipment ➤ new energy vehicles	
world advance	➤ aerospace equipment ➤ new energy vehicles ➤ power generation and equipment ➤ steel ➤ petrochemicals ➤ building materials		➤ aerospace equipment ➤ aircraft ➤ high-end CNC machine tools and basic manufacturing equipment ➤ robotics ➤ construction machinery ➤ biomedicine
behind leading countries	➤ aircraft ➤ aviation equipment and systems ➤ high-end CNC machine tools and basic manufacturing equipment ➤ robotics ➤ high-tech ships and marine engineering equipment ➤ energy saving automobiles ➤ high-performance medical equipment ➤ new materials ➤ biomedicine ➤ foodstuff		➤ basic software and industrial software ➤ high-performance medical equipment ➤ agricultural equipment ➤ foodstuff ➤ instruments and meters
huge gap to the leading countries	➤ integrated circuits and special equipment ➤ operating systems and industrial software ➤ core information equipment for intelligent manufacturing ➤ aviation engines ➤ agricultural equipment		

source: China Manufacturing Key Fields Technology Innovation Green Paper: Technology Roadmap (2020 and 2023)

The industrial equipment trade-in program allows the centre to steer the direction of industrial investment: the NDRC decides what is supported.

For instance, it covers the scrapping and renewal of equipment in 26 advanced industrial sectors, including ships, trucks, agricultural machinery, new energy buses and power batteries.

private sector confidence

Xi Jinping's message of support when meeting private sector entrepreneurs in February 2025 was more credible than messages that followed the 2021 crackdowns on tech and other sectors, to say nothing of his 2022 COVID lockdowns, when the Party's heavy-handedness shattered faith in its commitment to economic growth—and to the private sector's very existence.

2021–22 is indeed receding into the past, but more to the point, the private sector has shown its worth. DeepSeek's December debut changed the conversation around PRC tech, and demonstrated that the Party needs private companies to meet national goals.

New local government reporting reveals the critical role of private firms. In Shandong, they generate 52 percent of GDP and over 80 percent of jobs. In Zhejiang, 67 percent and over 80 percent; in Hunan, 70 percent and 90 percent, respectively.

Two initiatives to boost private sector confidence were urged in the GWR:

- a 'special initiative' to reduce the notorious practice of 'distant water fishing,' (coercion and extortion of businesses in wealthier jurisdictions to supplement local finances). The State Council has held several meetings on the issue in 2025, hinting at further action. Delays in the *Private Sector Promotion Law* suggest that it is being beefed up after a draft last year that was widely criticised for being empty. A new draft reportedly contains a clause banning 'arbitrary fees and fines'.
- Solving the issue of local governments and SOEs failing to pay their bills, with arrears estimated in the trillions of yuan following the pandemic. Local government special bonds can be used to pay off a portion of those bills.

Beijing is still trying to work out the right approach between steering development and empowering private sector actors. Ongoing experiments involve giving private firms a stronger 'consultative' role in the policy-making process at all levels of government. After the emergence of Deepseek, the Hangzhou government, which adopts a relatively hands-off attitude to the private sector, has been promoted as a model.

Surveys show that the 2018 trade war marked a turning point in confidence as firms adjusted to a suddenly hostile international environment. While they are better-prepared this time, private sector confidence, especially in lower-tech 'light industry,' will take a hit from tariffs.

stock market and property sector confidence

The Consumption Action Plan covers another aspect of supporting consumer spending: targeting asset prices, specifically stocks and property. This represents relatively new thinking from Beijing.

As part of this, in autumn 2024, the Politburo approved a major People's Bank of China (PBoC) liquidity injection to fund equity purchases by securities and insurance firms, as well as stock buybacks by firms.

The financial landscape is shifting with Beijing consolidating its 'national team' of state-owned equity market buyers under the control of Central Huijin

Investment, a body directly owned by the PRC sovereign wealth fund, China Investment Corporation.

Ownership of China's huge distressed asset management corporations (AMCs), China Cinda, Orient Asset and Great Wall Asset, is being transferred to Huijin, now dubbed a 'super financial asset owner'.

The AMCs were set up decades ago to dispose of bad loans created by banks, but have become increasingly commercialised and focused on real estate. The aim is to have them return to their core function: helping the state stabilise financial markets.

Huijin directly intervened in the stock market in 2024, buying into exchange-traded funds. It also controls four brokerage firms that can now obtain funding directly from the PBOC to buy stocks. State media reports that Huijin is considering taking over more brokerages and merging the ones it owns.

That's in line with Beijing's sweeping reforms to the financial regulatory system in 2023, which aimed at centralising oversight of the financial sector, and putting more of that oversight under the explicit supervision of the party, rather than the government.

The overall message is that state intervention in PRC stock markets will continue, but officials want to centralise coordination of such moves. A huge correction in China's stock indexes following Trump's tariff announcement will be a test of this policy.

property policy

Economists agree that the housing market crash, which began in late 2021, remains the biggest drag on economic growth.

Despite years of support, the market is yet to bottom out in terms of prices or building activity, suggesting that more is needed.

The GWR called for the first time to 'prevent defaults' by real estate developers. If that policy is implemented, it would remove a major fear for consumers that new houses will not be delivered.

This year Beijing is allowing localities to use 'special' bonds to buy up unwanted land. The bonds can also be used to buy up excess housing stock, helping solve an inventory overhang deterring new construction. A central bank borrowing scheme for the same purpose was barely used because borrowing costs were too high. The new bond-based scheme should be cheaper for local governments.

Economists remain divided on whether the housing market will bottom out this year. By clearly stating that it sees a property recovery as needed for reviving consumption, Beijing suggests central support will be on hand, if needed.

transitioning at speed

future industries

Chinese policymakers agree the world is in a fourth industrial revolution. The introduction of 'new quality productive forces' in the Party's 2024 Third Plenum underlined this mindset, which is about reducing labour inputs in production, above all through AI and robotics, but also via renewable energy (which eliminates the energy system's need for continuous resource resupply).

> **Chinese policymakers agree the world is in a fourth industrial revolution**

For the first time, the GWR named 'industries of the future' as targets for support: biomanufacturing, quantum technology, embodied AI, and 6G technology.

Following the success of DeepSeek, AI was a central theme of the GWR, which reaffirmed the commitment to advancing the AI+ initiative, integrating AI with real-economy sectors like manufacturing. Its impact extends beyond technology into economic shifts, with global markets reassessing PRC assets, partially reflecting AI's role in driving economic development.

While the PRC and the US both lead the global AI industry, the PRC is well-positioned in the humanoid robot sector due to its complete industrial chains, says Wang Jiangping 王江平 former Ministry of Industry and Information Technology vice minister.

national venture capital guidance fund

Beijing believes the country is strongest at scaling up existing inventions, or process innovation, but looks enviously at the US when it comes to breakthrough innovation, and sees the country's venture capital sector as a model.

A C¥1 tn national venture capital guidance fund, announced by the NDRC to support future industries, generated a massive domestic buzz. This comes on top of a handful of other prominent national guidance funds providing substantial funding to make PRC a manufacturing powerhouse.

National funds are to encourage 'patient capital' to invest boldly and confidently in risky enterprises, identified as 'essential' at the October 2023 Central Financial Work Conference. The role of guidance funds was underlined in January when the State Council document on such funds was the first major policy document of 2025.

The new fund will seek to mobilise local government and private capital to target disruptive technologies. The point is to signal to private investors what kind of sectors to invest in, given that the country's capital markets are still developing and do not deliver such signals.

It will focus on AI, quantum technology, hydrogen storage and other cutting-edge sectors, primarily investing in seed and early-stage startups, while also supporting SMEs in early and mid-stages.

While more details on the fund are still scarce, if the parent fund contributes 30 percent of capital, it could leverage up to C¥4 tn (~US$560 bn) in sub-funds, making it a dominant force in the PRC VC landscape.

The need for it is reflected in a reduction in the number of new VC funds and a 50 percent drop in Chinese VC fundraising last year, with existing funds struggling to exit due to a suspension of domestic IPOs.

Local government equity guidance funds have been around for a decade, and now account for the bulk of China VC fundraising, as US-based funds have pulled out. They have achieved some successes but have also been limited by a short-term approach due to their need to protect state capital. In 2024, cases of state funds harassing company founders to return their invested cash were widely reported.

There are signs localities are learning: the city of Guiyang recently released new measures on government angel funds, with the VC circle impressed by it permitting them to incur losses of up to 50 percent of their actual paid-in capital over 15 years plus a five-year exit period.

the message is: fiscal stimulus will outweigh credit stimulus this year

The PBOC wants to keep total credit growth in line with nominal GDP growth, i.e. 5–7 percent depending on inflation. That could mean a further slowdown from about 7 percent growth in 2024. The message is that fiscal stimulus will outweigh credit stimulus this year.

The reticence has several drivers. First, after a decade of cuts to policy rates and bank reserve requirements, there is less room to cut, and officials want to keep some room for unexpected shocks. The cuts have also eaten into bank profits, reducing their capital, which, in theory, could slow their lending.

The GWR earmarked C¥500 bn ($US70 bn) in special bonds for state-owned commercial banks to replenish capital and improve ability to provide loans. Large interest rate cuts would mean more capital-raising would be needed.

Second, officials remain worried about devaluation: further rate cuts could fuel capital outflows as the US Federal Reserve is expected to hold rates steady, at least in the near-term. While it can help exporters, devaluation damages the renminbi's goal to become a more global currency.

Third, there is a widespread perception in financial circles that liquidity in the financial system is already

ample: the evidence for low bond yields and rapid growth of long-term bank deposits, while the growth of deposits used for transactions is low.

selected key government guidance funds

	Advanced Manufacturing Fund 先进制造业产业投资基金	The National Integrated Circuit Industry Investment Fund 国家集成电路产业投资基金	National SME Fund 国家中小企业发展基金	Venture Capital Guiding Fund for Emerging Industries 国家新兴产业创业投资引导基金	National Science and Technology Achievement Transformation Guidance Fund 国家科技成果转化引导基金	China Structural Reform Fund 中国国有企业结构调整基金
purpose	modernise traditional industry and boosts high-end manufacturing	First phase (2014-) target chip design, manufacturing, packaging and testing. Second phase (2019-) expanded focus to include equipment and materials. Third phase (2024-) to tackle bottleneck areas.	targets SMEs with high potential	invest in venture capital funds engaged in early, mid-term, and start-up investment in emerging industries	commercialisation and utilisation of scientific and tech achievements developed with public funding	supply-side structural reform and equip SOEs to dominate strategic sectors in future
reported incentive amount	C¥20 bn (€2.6 bn) initially in 2016	C¥647 bn (€85 bn) in 2024 in total	C¥108 bn (€14 bn) in 2024 in total	C¥288 bn (€38 bn) in 2024 in total	C¥24.7 bn (€3.3 bn) in 2018	C¥330 bn (€43 bn) initially in 2016

China Policy

loosening monetary policy

Actions outlined in the GWR are primarily fiscal. The Party made a major change in its monetary policy stance in December, shifting it to 'moderately loose' for the first time since 2011, but the PBOC continues to promise to loosen policy at an 'appropriate time', suggesting that time has not arrived.

In such an environment, more central bank funds would only circulate within the financial system, rather than leading to more consumption or investment. That means fiscal policy is needed to restore confidence and translate additional money into actual spending.

Policymakers seek to avoid financial activity that inflates bubbles but contributes little to the real economy. By anchoring financial investments in the real economy, Beijing hopes to minimise risk. But the investments are not required to have a high return.

Banks need to finance the development of the economy rather than boost their profits.

Risking low morale across the financial sector, the Xi administration has put it under tighter control, intensified anti-corruption inspections and cut bankers' bonuses, in an attempt to turn finance into a public utility. However, high unemployment means talent will still flow into the sector, with many young people choosing banking.

Banks are lending more to the private sector, and policymakers want to see funds flowing to innovative companies through the equity and bond markets. The policies launched in September to boost the stock market create conditions for Beijing to allow more IPOs. And the central bank announced a new scheme to allow private firms to tap the bond market, which state-backed issuers have dominated.

bond financing for tech

The PBoC will introduce a 'technology board' within bond markets, offering a dedicated channel for the tech sector to raise capital. The goal is to offer alternatives to IPOs for those who see the equity market as too unstable.

Innovation bonds first appeared in March 2021, with some C¥2.6 tn issued by March 2025, reports China Securities. A tech board would accelerate that issuance and improve the quality of issuers (30 percent of have been property developers).

The board will serve three primary issuers:

First, financial institutions such as commercial banks and securities companies will be allowed to issue technology innovation bonds to expand funding sources for

- tech loans
- bond investments
- equity investments

Second, growth and mature-stage technology companies will be able to issue medium- to long-term bonds to support

- R&D
- project construction
- mergers and acquisitions within the tech sector

Third, experienced private equity and venture capital institutions will be able to issue long-term technology innovation bonds to fund

- early-stage investments
- smaller tech companies
- hard-tech ventures like advanced manufacturing and clean energy technologies

Wind data shows that the bond markets issued 108 science and technology innovation bonds in the first quarter of 2025, with total issuance worth some C¥100 billion, up 30 percent y-o-y.

overseas investment

An emerging policy dilemma is posed by PRC firms' overseas direct investment (ODI) in manufacturing, which has surged since 2023, as companies seek to escape involutionary competition in China.

These investments help reduce trade frictions and enhance the global reputation of PRC firms. PBOC researchers have lauded profits from foreign investment as a stable pension income for China's growing retired population.

> **Beijing is worried about capital outflows weakening the renminbi, technology transfer and a hollowing out of its industrial base**

It provides an opportunity for countries to partner and learn from Chinese firms—so long as Beijing allows it. Beijing is worried about capital outflows weakening the renminbi, technology transfer and a hollowing out of its industrial base.

MofCOM is scrambling to keep up, mandating detailed asset disclosures for PRC firms overseas. Their audits for 2024, typically delivered late the following year, have been rushed to mid-year.

Central officials slammed the brakes on an earlier surge of ODI led by M&A transactions in 2016, and a risk is that it panics and does so again - that was somewhat eased by a Politburo vow in April to support firms overseas investment.

> **Beijng seeks to redefine industrial power as capacity to innovate, control value-chains, and shield China from external vulnerabilities**

Beijing knows that global MNCs still have the edge in many high-tech sectors, especially services, where it wants companies to bring their expertise. China is also becoming a crucial lab for R&D in sectors like autos, biotech and consumer goods.

Beijing is not cutting out international players. It wants foreign direct investment (FDI) into China to raise the sophistication of its industry and services sectors. If successful, the so-called 'strategic move' to boost consumption growth will make China an even more attractive destination for global companies, ensuring they have markets in China.

A draft public procurement policy released by the State Council in December clearly signals that foreign companies will be eligible for a 20 percent price preference so long as their goods consist mainly of domestic value-added, providing a detailed definition of 'made in China' for the first time.

After several years of falling foreign investment, the days of new companies flocking to the PRC are over. Beijing is focused on multinationals with a stake in the market, which can be encouraged to expand. Xi held a roundtable with 40 foreign executives in March. The CEOs of Hitachi, SK Hynix, Mercedes-Benz, Sanofi and Saudi Aramco sat in the front row.

All have made major investments in high-tech production in China in the last two years. Even AstraZeneca, which Beijing is probing over unpaid taxes, was invited weeks after it announced a US$2.5 bn R&D centre in Beijing.

As Washington rolls out an 'America first' investment policy, Beijing favours the Middle East's sovereign wealth funds as a source of dollar funding. But private Chinese companies still flock to US markets because of their unrivaled size, with nearly 50 Chinese companies listing on US exchanges last year, the most since 2021, with a shift towards small-cap companies.

headwinds

a trade shock

Beijing had been preparing for high US tariffs ahead of Trump's reelection. Former central bank advisor Wang Yiming 王一鸣 argued that the emerging trade war would make it impossible to rely on exports to support the growth target, meaning investment growth would need to be the main demand support.

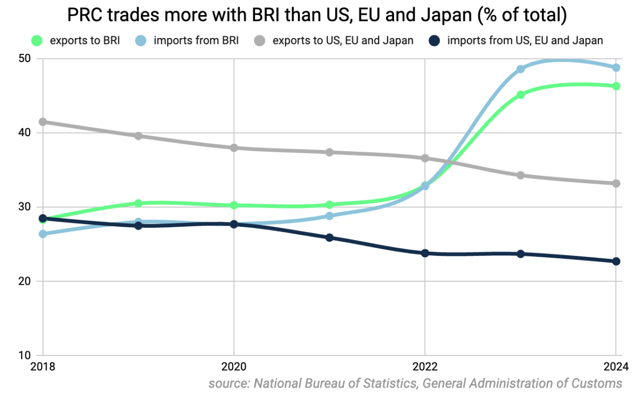
Depending on how the trade war evolves, exports could drag on growth. Haitong Securities calculated that total exports could fall 9 percent this year if Trump's liberation day tariffs were sustained. Adding in the impact of uncertainty, that could shave at least 1.5 percentage points off growth.

> **former central bank advisor Wang Yiming 王一鸣 argues officials should have contingency plans for zero export growth this year**

The commerce ministry (MofCOM), is trying to help exporters hit by tariffs to sell domestically, and the trade-in policy coincides with sectors likely to be most impacted by US trade restrictions.

China's imports are being pushed down by a combination of policies: more self-reliance in grain, 'Made in China' policies for industrial goods such as microchips and medical devices, the property crisis cutting demand for iron ore, and the EV shift lowering oil demand. CNPC, the leading oil company, expects oil consumption to peak this year. Transportation fuel demand reached its peak in 2023.

There are some exceptions: soybean imports will rise slightly this year, according to US estimates—likely benefiting Brazil, and China is hungry to import components for hi-tech factories at home, if the US permits it to.



response to the trade shock

Internationally, Beijing will try to secure diplomatic gains from US instability. With the US and Europe using different decoupling strategies, Beijing has launched its own extra-territorial legal toolbox. Companies must consider how to separate operations inside and outside the PRC to mitigate these risks.

As a new global trade order emerges following Trump's tariffs, moves by PRC diplomats, much more comfortable leading on trade than in security, will be key in deciding what order emerges. Beijing's ability to strategically use its leverage at the head of global supply chains will also be crucial.

As the PRC became the first major economy to respond in kind to Trump's tariff threats, domestic commentary struck a proud nationalist tone, with Beijing presented as 'leading by example'.

The PRC has increasingly adopted asymmetric responses: investigating prominent US companies, restricting PRC firms' supply of inputs such as rate earths, and reportedly placing Chinese FDI into the US and a deal over TikTok and Chinese port investments on hold.

Beijing stands ready to weaponise its advantage further in critical goods. Washington may destroy demand, but Beijing can destroy supply.

Since 2020, a broad export control regime with extraterritorial reach has been built, plus an 'entity list' and anti-sanctions law boosted with new measures in March.

Some of these moves look like Beijing gathering chips for a negotiation, as it did in the first Trump administration. But the tone expressed by state-media and official statements suggests Beijing may be less eager to strike a deal this time.

resilience

The 2025 GWR declares, the nation must be 'steadfast despite external change'. 'We have not closed the door to negotiations, but we also do not harbor any wishful thinking,' the party's official newspaper said following Trump's announcement.

That's in part because it views efforts to build technological resilience as largely a success and also because of diversified trade partnerships, such as with Belt and Road Initiative (BRI) partners, who made up over half of 2024 PRC foreign trade, up from 30 percent in 2021.

Further stimulus to boost economic resilience is likely. Domestic economists predict cuts to bank reserve requirements and an additional C¥1.5-2 tn to fund investment and consumption support to be on the table at a Politburo meeting in late April.

Reports that the US is pressuring other economies to raise their own China tariffs mark a difference from the first Trump administration. The PRC is likely to use its toolbox of export and investment restrictions to try to deter third countries from following Washington. Promises of FDI from Chinese firms can also be a significant inducement to resist US demands.

selective opening

With the Trump administration representing protectionism, China wants to be seen pursuing free trade deals. Raising imports from Global South states is a hot policy topic. Agricultural goods are the most promising area.

A proactive response is 'institutional opening', a slogan that emerged during Trump 1.0, urging bilateral FTAs reflecting high-standard trade agreements like CPTPP and the Digital Economy Partnership Agreement (DEPA), two groupings that the PRC wants to join. Beijing is also negotiating a China-Gulf Cooperation Council (GCC) agreement.

To get deals over the line, other countries need concrete signs Beijing is going to follow trade rules.

One option to show sincerity aligns with a mounting Xi administration priority: scrutiny over local subsidies and protectionism.

A Third Plenum priority was reiterated in a March 2025 State Council decree: local policy must align with WTO rules. Policy set at county and higher level administrations—not just State Council agencies—must comply.

Officially, Beijing wants to increase the relevance of multinational bodies like the UN, WTO and WHO, and disdains 'minilateralism' which the US is charged with adopting as a tactic to 'contain China', evidenced in the QUAD, AUKUS and other groupings. Dismissing these as 'pseudo-multilateralism', Beijing still nurtures its own variants: the Shanghai Corporation Organisation, BRICS, and the BRI.

Xi Jinping's visit to Vietnam, Malaysia, and Cambodia later in April can give signals. A BRICS Summit is scheduled for July. Now counting China and 10 other members, they together stand for nearly 40 percent of the global economy.

PRC major export sectors to the United States (billion USD)

category	2020	2021	2022	2023	2024 (Partial)
machinery, electrical equipment, and components	2066	2487	2519	2133	2182
miscellaneous products (including furniture, toys, etc.)	570	817	771	655	646
textile fabrics and related products	506	517	519	457	494
shoes and related products (including rubber, plastic, etc.)	230	335	344	262	302
plastics and related products	244	328	306	261	266
vehicles, aircraft, ships, and transport equipment	171	258	242	206	253
chemical and associated industrial products	159	201	233	163	180
hats, clothing, down products, and other apparel	124	204	214	160	165
optics, medical equipment, instruments, and watches	119	145	138	129	137
total for the current year	**4519**	**5761**	**5818**	**5003**	**5247**

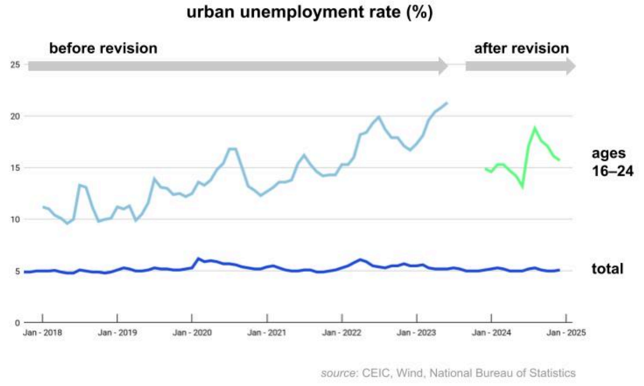
unemployment

The GWR shows that Beijing has not resolved the disconnect between its high-tech vision and creating jobs.

> **'pronounced structural employment problems', suggests a quick countercyclical stimulus will not fix the job problem**

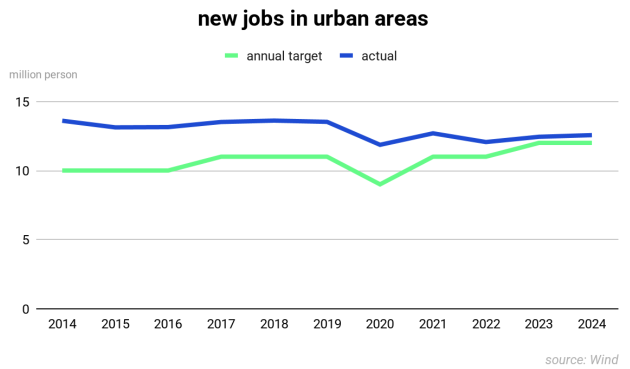
The GWR notes a situation with 'pronounced structural employment problems', suggesting Beijing doesn't think a quick countercyclical stimulus can fix the job problem.

Lack of jobs is an issue among young workers, with the jobless rate for 16–24 year olds standing at nearly 17 percent in February. Unemployment among the young could quickly pose a challenge to PRC social stability.



The situation is unlikely to improve this year, with an additional 12 million students exiting education. The target for 2025 is a surveyed urban unemployment rate of around 5.5 percent.

The Ministry of Human Resources and Social Security estimated that for every 1 percent rise in GDP, the PRC can support around two million jobs. So even if this year's 5 percent GDP growth target is achieved, a target in the GWR of 12 million new urban jobs will be tough to meet.



Beijing aims to create 'high-quality jobs' that are better than those in routine or low-skill service sectors.

> **China has only 60 million 'highly skilled' workers; advanced country comparisons indicate the number should rise to 100 million**

China has only 60 million 'highly skilled' workers; advanced country comparisons indicate the number should rise to 100 million, says Jiang Jinquan 江金权 CPC Central Policy Research Office head.

That points toward more government effort to train up skilled workers. But the rest of China's 734 million working population is less of a policy focus.

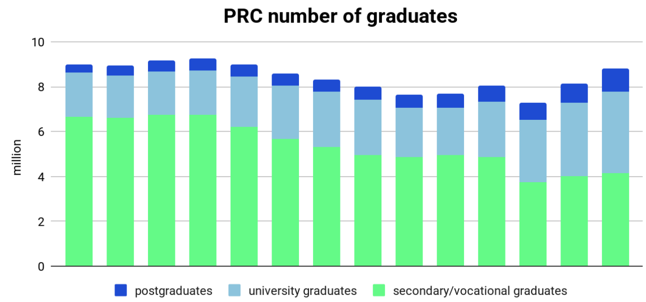
Policymakers are embracing robotics, a leap showcased on the CCTV New Year Gala, the year's most watched TV show. On the show, humanoid robots provided the dancing chorus.

Advanced manufacturing sectors, by their very 'high quality' positioning, generate fewer jobs than traditional industry even as they increase economic output. They are highly automated, and firms have also moved from aggressive expansion to cutting costs.

Textile and assembly jobs are more and more automated. Combined with falling job demand in the property crisis hitting migrant workers, that is creating a polarised job market.

Beijing is trying to match university training with the economic growth areas, expanding university admissions for AI-related majors.

A 15-year plan to better align education with industry needs and demographic shifts was issued in January 2025. Education will focus more on science and technology. In an attempt to ensure ideological conformity and respect for the Party's leadership, it will also come with a heavy dose of 'political' instruction.



China's most recent economic census, released December 2024, showed that job growth has been fastest in service sectors like delivery, retail and IT. But wages in those sectors are stagnating for new hires, according to recruitment companies.

low-skilled and insecure

The economic census showed that some 180 million people work as 'sole proprietors'. These are tiny businesses (consisting of two people on average); about half are in wholesale and retail. Some overlap with the gig economy, which is characterised by job insecurity and employs about 200 million people.

Zhang Dandan 张丹丹 of Peking University found delivery drivers hold jobs for just six months on average. While the largest delivery companies recently promised social insurance, most riders do not want to contribute to such schemes, doubting their long-term benefit.

Fang Changchun 方长春 of Nanjing University cautions that the rapid growth of low-skilled flexible jobs traps workers in deskilling, with a risk of eventually being pushed out of the labour market altogether.

Employment is insecure in sunrise sectors, like aged care, where some companies see one in two young employees leaving within two years due to work intensity and low social status, state media reported.

> **Beijing struggles to find a way to combine a tech-driven economy with broad prosperity delivered through the labour market**

The upshot is that Beijing has not found a way to combine a tech-driven economy with broad prosperity delivered through the labour market, something Western and East Asian economies have struggled with since the 1980s.

One obvious policy mentioned in Beijing's action plan is raising minimum wages, but enforcement will fall to local governments wary of increasing business burdens.

For policy advisor Cai Fang 蔡昉, the only answer to polarisation is state welfare to compensate those left behind in the labour market. 'Now human capital competes with AI. Now, the state's role is ever greater and its expenditure responsibilities are larger,' he said.

longer-term approach to consumption

With Beijing's shift to consumption coming as it drafts its next 5-year plan (to start in 2026), economists are proposing longer-term policies.

Liu Shijin 刘世锦, a former central bank advisor, argues that goods consumption is near 'saturation'. He argues the central government should fund consumer discounts for services, and more than triple the basic meagre state pension.

Liu also calls for Beijing to set a target to raise the consumption share of GDP to a 'reasonable level'. Liu Qiao 刘俏, head of the Guanghua Management School, suggests that services should account for 60 percent of household consumption. Incorporating such goals into the next 5-year plan would need better statistics on consumer spending.

Economists argue that a dramatic shift toward consumption demands a shakeup of the PRC fiscal system. Beijing is committed to more redistribution, but it will take years.

For a quicker fix, advisors like Wang Yiming 王一鸣 and Li Daokui 李稻葵 want Beijing to further de-regulate service sectors to unleash consumer demand (Li, a motorcyclist, points to restrictions on where they can be driven in cities as an example of regulations to be scrapped).

local finances strained

For all the stimulus and stepped-up transfers to local governments, the GWR left local government finances grappling with uncertainty.

Beijing is taking on more, yet localities still must fund an array of services themselves—many struggle to do so because of debt service burdens and the property market downturn. Households are left feeling insecure.

Days after Trump's election victory in November 2024, the NPC announced a C¥6 tn (~US$830 bn) rise in local government bond quotas for debt relief. Localities can use the bonds (paid out over three years) to repay 'hidden' financing platform loan obligations, replacing them with low-interest bonds.

Total hidden debt is now set to fall from C¥14.3 tn (~US$2 tn) (the first published official tally) to C¥2.3 tn (~US$300 bn) by 2028, effectively wrapping up the issue, claims MoF.

In reality, 'hidden debt' is much larger than the MoF tally (over C¥60 tn, ~US$US8 tn, as reported by the IMF).

Remaining wary of condoning irresponsible borrowing by local governments, Beijing eschewed more debt swaps in the GWR. Many localities, especially inland regions with higher debt-burdens, will struggle to service their 'hidden' debt rather than supporting the real economy with welfare spending or investment.

Beijing sees an upside to this—it means less cash for what it sees as irresponsible investment-promotion by local governments.

Existing swaps stave off the worst financial risk, but the scheme will probably need to be enlarged.

Funds earmarked for localities and financed by central government borrowing are shaping up as a short-term measure to buy time for a longer-term fix. Beijing must push through fiscal reform to increase tax revenues (real estate, inheritance, and redistributive income taxes), reliably distributing revenues to poorer areas.

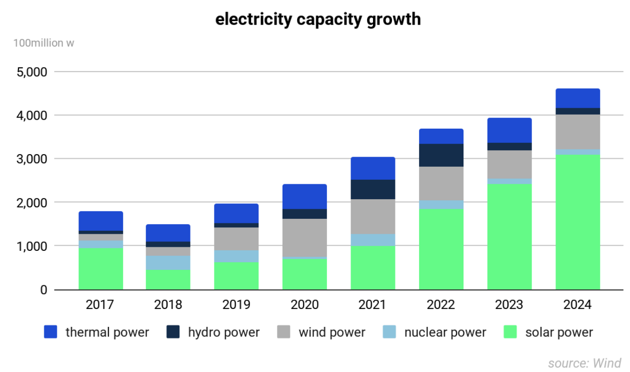
That's no easy political sell at any time; Beijing is averse to increasing taxes this year, harming confidence when the economy is shaky.

maturing energy and emissions policy

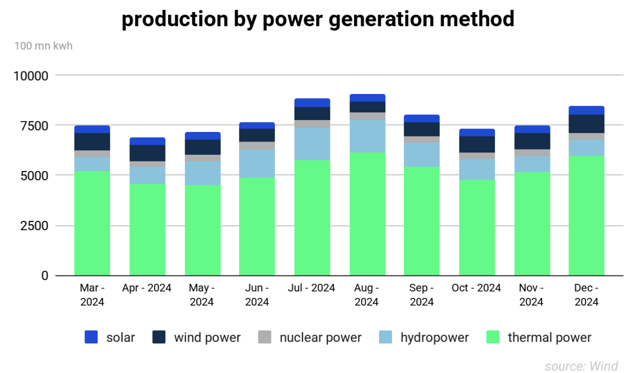
GWR set a target of 3 percent reduction in energy consumption per unit of GDP, which means that the mandatory energy consumption goal set in the current 5-year plan will not be met should the economy grow as planned.

A revised approach that excludes non-fossil fuel consumption, encouraging greater use of renewable energy, will likely stay within the target.

The change reflects the disconnect between energy use and emissions as the share of renewables has increased rapidly to about 20 percent of primary energy consumption, pushing coal's share down to just over half.



Likewise, the 2025 carbon intensity target set in the 14th 5-year plan (a planned 18 percent reduction from 2020 to 2025) is not mentioned in the GWR and is also unlikely to be met. No quick fix to replace the dominant role of coal in the energy system has been found.



The mindset here is recognisable from other areas of industrial policy: support traditional industries alongside new ones, and worry more about increasing supply than guaranteeing returns for investors.

Beijing recognises that while many sectors are inefficient and suffer from overcapacity, lower input costs can benefit the economy as a whole. Cheap electricity is bad for power companies but great for domestic downstream industries and export competitiveness.

> **Beijing is concerned more about growth and energy security; it will peak emissions by 2030 and decarbonise steeply thereafter**

The policy to hold back on the energy-use reduction push has implications for overcapacity in energy-intensive sectors like aluminium. Leading firms in these industries had hoped stricter energy use standards would help eliminate less efficient competitors.

Growth and energy security is still a bigger concern; it will peak emissions by 2030 and decarbonise steeply thereafter.

Yet the slowdown in real estate and the fast rollout of renewables mean that total emissions may start declining in 2025 or 2026, with uncertainty depending on the growth of energy-intensive industries like cement and aluminium.

> **what comes next is more action targeted at developing the wider low-carbon energy system**

What comes next is more action targeted at developing the broader low-carbon energy system. Key priorities concern market design and institution-building.

A major reform to renewable pricing was unveiled in early 2025, moving to contracts for difference (CfD) to be signed with developers for new projects. Yet, unlike in most other markets where governments provide the financial guarantee for CfDs, the state-owned grid companies have been mandated to bear this responsibility. This raises critical questions: Will these costs ultimately be passed on to industrial consumers, leading to higher electricity prices? Will coal power continue to act as the marginal price setter, as gas does in Europe?

Local governments can pursue strategies based on their regional energy mix, industrial structure, and investment priorities. Some provinces may aim to absorb costs internally to maintain competitiveness, while others might seek alternative financing mechanisms or industrial subsidies to offset potential price increases. This dynamic is particularly relevant as provinces with abundant renewable resources compete to attract investment, while increasingly posing a challenge to neighboring regions with incumbent capacity.

In the short term, this policy strongly incentivises the grid firms to optimise the system, as it now has a vested interest in balancing supply, reducing curtailment, and integrating renewables more efficiently. However, the transition to a 'unified national power market' remains gradual. State-controlled pricing mechanisms continue to coexist with market forces, ensuring price stability in the near term.The GWR notes that support for the green economy will come from expanding coverage of the national carbon market beyond the power sector, starting with steel, cement and aluminium.

An emissions cap to drive absolute reductions—rather than just improving efficiency and technology—should come before 2030, and the current priority is strengthening emissions monitoring while setting up carbon labelling and certification, and preparing for green electricity certificates to increase the pressure on mandatory renewable energy consumption targets for provinces. Beijing is piloting new technologies and developing standards across all emitting industries (leading to 500 key standards by 2030).

> **the GWR signals that China intends to play an active role in shaping global environmental and climate governance**

These actions are also encouraged by the need to respond to green trade barriers, such as the EU's CBAM. The GWR signalled for the first time that PRC intends to play an active role in shaping global environmental and climate governance.

Unpredictable geopolitics is likely to accelerate Beijing's belief in the green energy transition to boost its energy security and position it as a leader in sectors of the future.