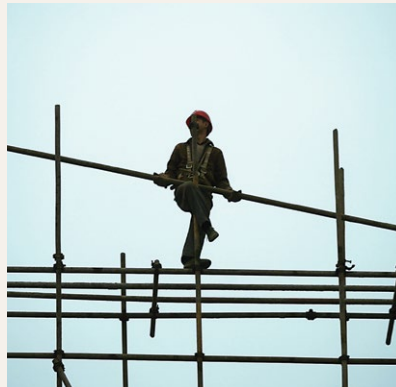


CHINA 2025

WHAT TO WATCH



A REPORT BY
ASIA SOCIETY POLICY INSTITUTE'S
CENTER FOR CHINA ANALYSIS

December 2024



With a solution-oriented mandate, the Asia Society Policy Institute tackles major policy challenges confronting the Asia Pacific in security, prosperity, sustainability, and the development of common norms and values for the region. The Asia Society Policy Institute is a think-and-do tank designed to bring forth policy ideas that incorporate the best thinking from top experts in Asia and to work with policymakers to integrate these ideas and put them into practice. The Asia Society Policy Institute's Center for China Analysis unravels China's complexities and delivers independent policy-relevant analysis from a holistic, nuanced, and humanistic perspective.

The authors wish to express their deep appreciation to Inger Marie Rossing, Ian Lane Smith, and Clara Lambert for their dedication, *esprit de corps*, and outstanding support in the preparation and publication of this report.

The Asia Society Policy Institute and the Asia Society take no institutional positions on matters of public policy and other issues addressed in the reports and publications they sponsor. All statements of fact and expressions of opinion contained in this report are the sole responsibility of its authors and may not reflect the views of the organization and its board, staff, and supporters.

© 2024 The Asia Society. All rights reserved.

THE ASIA SOCIETY POLICY INSTITUTE'S CENTER FOR CHINA ANALYSIS

Web: AsiaSociety.org/Policy-Institute

Twitter: @AsiaPolicy

Facebook: Facebook.com/AsiaPolicy

Email: cca@asiasociety.org

NEW YORK

725 Park Avenue
New York, NY 10021
+1 212 288 6400

WASHINGTON, D.C.

1779 Massachusetts Avenue NW, Suite 805
Washington, D.C. 20036
+1 202 833 2742

CONTENTS

Preface China 2025: Navigating Persistent Challenges and Familiar Uncertainties Jing Qian & Jennifer Choo	4
About the Authors	8
Pressure Will Grow Between Xi's Political Power and His Ability to Deliver Results Neil Thomas & Lobsang Tsering	10
Internal Party Governance Challenges Will Intensify Guoguang Wu	13
Significant Fiscal Reform Initiatives Are in the Pipeline Bert Hofman	16
China Will Continue to Develop New Quality Productive Forces Qiheng Chen	19
Tensions Over Industrial Policy and Trade Will Escalate Lizzi Lee	22
COVID-19's Impact on Society Will Linger G.A. Donovan	25
Economic Slowdown and Post-COVID Challenges Will Continue to Drive People Toward Religion John Osburg	27
Beijing Will Struggle to Manage Relations with the New U.S. Administration Rick Waters	30
U.S.-China Diplomatic Divide Will Widen Lyle Morris	33
Risk of Volatility Will Loom Large Across the Taiwan Strait Rorry Daniels	35
The Year of Complex Challenges Will Intensify the Need for Robust Climate Action Li Shuo	38
China's Public Health Challenges Will Present Risks and Opportunities Patrick Beyrer & Bob T. Li	40

Preface

China 2025: Navigating Persistent Challenges and Familiar Uncertainties

Jing Qian and Jennifer Choo

In the *China 2024* report published last year, the authors captured China's prospects with the phrase "a vexing year ahead for China." The report forecast an overall erosion of trust in China, intensifying economic headwinds, continuous political purges, widening social discontent, a deteriorating geopolitical environment, and unremitting climate events in 2024.

This forecast has borne fruit. Under President Xi Jinping's iron grip, the party-state reigned supreme. Yet, under its appearance of control, China found itself mired in continued loss of investor confidence, a deepening real estate crisis, ballooning local government debt, a volatile stock market, deflationary pressures, and increasing popular discontent. Bureaucratic inertia, social ennui, and political distrust—especially among the urban middle class—percolated beneath the surface. China also faced heightened geopolitical tensions, especially with the United States and its allies, and increasing

U.S. election results mark the return of Donald Trump, intensifying U.S.-China strategic competition and placing further pressure on China's policies.

economic decoupling, particularly in technology. As relations with the West soured, Beijing strengthened its ties with the Global South. But global economic challenges, such as inflation and slowing growth, put downward pressure on China's exports, further burdening its economy.

China faces an intricate web of internal and external challenges in 2025. Economic and social strains threaten the social order, while the party-state seeks to maintain control amid complex governance issues and rising public discontent. Xi Jinping's centralized power hinders governance adaptability and fosters new factional rivalries. Still, there are promising signs of fiscal reform, improvements to the social security system, and a whole-of-government effort to advance cutting-edge technologies. As yet, however, the outcomes of these initiatives are unclear.

Internationally, one factor has become clear. The recent U.S. election results mark the return of Donald Trump and an administration bent on "outcompeting" China, intensifying the U.S.-China strategic competition and placing further pressure on China's policies across a wide range of issues. During his campaign, Trump floated revoking China's most-favored-nation status, promising tariffs of 60% on all imports from China and phasing out imports of "essential goods" such as electronics, steel, and pharmaceuticals from China. He also hinted at a more transactional approach to Taiwan, suggesting

it contribute more to its own security while still supporting Taipei's right to self-defense. He remains a strong advocate for U.S. tech independence, especially in fields like artificial intelligence, which he sees as crucial to countering China's technological rise.

The coming year will prove pivotal in testing Beijing's resilience and adaptability as it confronts an increasingly hostile geopolitical environment while navigating extremely complex domestic challenges. The country's response in 2025 will shape its trajectory for years to come.

China's Domestic Politics: The Governance Dilemma

In the report's first essay, **Neil Thomas** and **Lobsang Tsering** analyze China's domestic politics and conclude that Xi Jinping's consolidation of power has increased the gap between his authority and the regime's ability to nimbly deliver good governance outcomes. This dynamic, they assert, could worsen policy volatility and economic uncertainty in China. Xi's own reaction to these pressures will prove determinative in 2025 as his record reflects a mix of some ideological flexibility when it serves his political interests, alongside strong tendencies toward political control, economic statism, and nationalism.

Xi Jinping's consolidation of power has increased the gap between his authority and the regime's ability to nimbly deliver good governance outcomes.

Guoguang Wu brings to the fore the misaligned incentive structures that bedevil China's cadre management. While Xi might continue with tighter controls, he could also consider new approaches if his policies generate popular pressures and persistent challenges. But as Wu argues, persistent anticorruption campaigns will shape the political landscape, possibly intensifying factional rivalries as the post-Xi succession dynamic evolves. The likely increase in factional competition and the promotion of younger cadres could mark a shift, although the direction of this shift is unclear.

Economy: A High-Stakes Transition

Even as China faces a ballooning local debt crisis stemming from its weakening property sector, **Bert Hofman** points to Third Plenum reforms that promise to revitalize China's fiscal system. Yet, with debt levels high and local governments financially strained, balancing short-term stimulus with long-term restructuring will be a delicate task. Nevertheless, as the leadership pushes for a state-led, structural transformation of China's economy, Hofman avers that the Third Plenum highlighted China's commitment to fiscal reform, driven by the need to stabilize local government finances and more effectively distribute resources.

Both **Qiheng Chen** and **Lizzi Lee** provide analyses that describe a whole-of-government approach to economic transition in China. Under the ideological framework of "new quality productive forces," Beijing is betting on transformative breakthroughs in frontier technologies such as semiconductors, electric vehicles, artificial intelligence, advanced manufacturing, and quantum computing.

The incoming Trump administration may revive or intensify trade tariffs, technology sanctions, and other economic measures against China. Trump's first administration pushed for "decoupling," which

affected supply chains and led to China prioritizing technological independence. His victory will most likely heighten these pressures, adding urgency to China's domestic innovation efforts in critical industries. Risks of "unmanaged decoupling" loom large.

Society: Continuing Erosion of Trust and Its Implications

Both **G.A. Donovan** and **John Osburg** describe a social landscape in China where the scars of COVID-19 are still fresh. Economic insecurity, inequality, and disillusionment have fostered a sense of unfairness and despair, leading some citizens to seek economic opportunities abroad. Individuals are also turning toward religion and spirituality as economic prospects deteriorate and dissatisfaction with the state's ideological efforts grows. This shift away from state-promoted ideology could challenge Beijing's influence over its citizens and incubate a potential ideological shift. As popular trust continues

to erode, Beijing may struggle to regain public confidence, especially if social policies do not address issues pertinent to the middle- and lower-income populations.

Trump's policies could also heighten U.S.-China frictions and further inflame nationalist sentiments in China, where anti-U.S. senti-

The trust deficit is firmly entrenched. China's leadership believes that the United States ultimately seeks to undermine the party-state, and this shapes China's foreign policy calculus.

ment is already elevated. Higher tariffs would not only exacerbate China's economic slowdown but also have broader implications for social cohesion, public confidence, and overall stability.

Foreign Policy: Trump's Second Term and Intensifying Strategic Competition

Rick Waters underscores how the Trump administration may revive hardline trade policies, including tariffs, stricter export controls, and limits on China's technology investments into the United States. Beijing will push back, however, with its own array of retaliatory measures while portraying itself as the champion of free trade to the rest of the world. Ultimately, however, whether Beijing perceives U.S. actions as aimed at unilateral decoupling or as driving toward a deal will determine whether the relationship remains intact. The trust deficit is firmly entrenched. China's leadership believes that the United States ultimately seeks to undermine the party-state, and this shapes China's foreign policy calculus.

Both **Rorry Daniels** and **Lyle Morris** stress how fraught U.S.-China relations will be in 2025. Already at their lowest point since 1979, diplomatic relations will grow increasingly volatile as the United States and China intensify strategic competition and focus on technological rivalry, trade tensions, and security issues, especially in the Taiwan Strait and the South China Sea.

China is expected to increase its pushback on U.S. policies, especially regarding Taiwan and technology, highlighting a shift toward more defensive and possibly assertive foreign policy actions. Beijing will take targeted actions against Taipei, such as diplomatic poaching, while indirectly managing Taiwan policy to frame the United States as the main barrier to unification.

Climate and Public Health: Can the United States and China Find Common Ground?

Climate: Complex Challenges Ahead Heighten Need for Increased Climate Action

Li Shuo highlights a pivotal moment in China's climate policy as the growth of clean energy is stabilizing emissions but rising geopolitical tensions and the country's economic slowdown present significant obstacles to continued progress. While there are signs that China may reduce coal dependency and ramp up green technology production, its alignment with global targets remains uncertain. Trump's election victory adds complexity, as his climate skepticism could signal a U.S. retreat from global climate cooperation. This scenario may force China to either assume greater climate leadership or scale back its commitments, jeopardizing its nationally determined contribution and reducing its efforts to meet the Paris Agreement's 1.5 degrees Celsius goal. Engaging both state and non-state actors to bolster increased global climate action will be crucial, with China's active participation playing a key role.

Public Health: Healthcare Challenges and Opportunities in China and Beyond

Patrick Beyrer and **Bob T. Li** identify key structural issues in China's healthcare system, including demographic pressures and inefficiencies that require comprehensive reform. The increased promotion of private insurance schemes and the potential easing of regulatory constraints imply a growing role for the private sector. Importantly, the authors note that China's need for improved healthcare capacity may prompt Beijing to relax restrictions on foreign investment, creating opportunities for international collaboration—a critical step to address its public health challenges—which will have global implications.

Conclusion: Navigating Persistent Challenges and Familiar Uncertainties

In 2025, China stands at a crossroads fraught with uncertainty and contradiction. The year will test the country's resilience amid deepening domestic strains and escalating international pressures. The party-state's centralized grip, while projecting control, masks profound challenges: economic instability, social discontent, and a political landscape riddled with factional tensions. Meanwhile, heightened U.S.-China friction under a second Trump administration, coupled with a strained global economy, will further test Beijing's capacity to effectively maneuver on the world stage. Despite domestic challenges and geopolitical turbulence, there remains a narrow but crucial window for China to meaningfully contribute to global climate action and healthcare reform, areas where domestic innovation and international cooperation may remain tenable.

All in all, navigating these deep and complex challenges in 2025 will demand strategic adaptability, political openness, and policy pragmatism by China's leadership. The choices made this year will reshape the nation's trajectory, not just domestically but regionally and globally. The path forward will be both pivotal and perilous.

About the Authors

Patrick Beyrer is Research Associate on Global Public Health, Center for China Analysis at the Asia Society Policy Institute (ASPI). He is also an associate at the China Practice of McLarty Associates, a global strategy firm in Washington, D.C. Beyrer worked as a China analyst at the Asia Group and interned for the Center for Strategic and International Studies' China Power Project.

Qiheng Chen is Affiliated Researcher on Technology and Economy at ASPI's Center for China Analysis. He is also an Economist at Compass Lexecon, where he provides economic analysis for antitrust and competition matters in a range of industries such as semiconductors, software, and technology platforms. His research interests also include China's technology regulation, data governance, and cyber legal system. He has worked with Eurasia Group and the Atlantic Council.

Jennifer Choo is Director of Research and Strategy at ASPI's Center for China Analysis. Previously, she served in various leadership roles at Stanford University, first as the associate director of the Stanford China Program at the Walter H. Shorenstein Asia-Pacific Research Center and then as the strategic policy advisor at the Stanford Center on China's Economy and Institutions.

Rorry Daniels is Managing Director of ASPI, where she leads and oversees strategy and operations, and is Senior Fellow at the Center for China Analysis. She was previously with the National Committee on American Foreign Policy, where she managed the organization's research portfolio on Asia security issues, with a particular focus on the Taiwan Strait, U.S.-China relations, and the North Korean nuclear program.

G.A. Donovan is Fellow on Chinese Society and Political Economy at ASPI's Center for China Analysis. He leads research initiatives on the social, cultural, and intellectual trends shaping China's future. Over the course of three decades, he experienced China's transformation firsthand while working for Hong Kong's securities commission, the Harvard Business School, and the U.S. Department of State.

Bert Hofman is Honorary Senior Fellow at ASPI's Center for China Analysis. He is also a professor at the National University of Singapore's East Asian Institute, a senior fellow at MERICS, and a fellow of the World Association for China Studies at the China Academy of Social Sciences. At the World Bank, he served as country director for China from 2014 to 2019 and as chief economist for East Asia and the Pacific from 2011 to 2014.

Lizzi Lee is Fellow on Chinese Economy at ASPI's Center for China Analysis. She holds a PhD in economics from MIT and has been published in the *Harvard Business Review*, *Foreign Policy*, and the *Diplomat*, among others. Her research and insights have been featured by Bloomberg, NPR, the *South China Morning Post*, and Al Jazeera.

Bob T. Li is Senior Fellow on Global Public Health at ASPI's Center for China Analysis. He is an Australian medical oncologist and at the time of writing served as Physician Ambassador to China and Asia-Pacific, and Vice President Global Research Affairs at the Memorial Sloan Kettering Cancer

Center, New York. He is currently the Global Head of Medical Affairs, Oncology at AstraZeneca. His career is dedicated to bringing the world together to accelerate the cure for cancer.

Lyle Morris is Senior Fellow on Foreign Policy and National Security at ASPI's Center for China Analysis. From 2019 to 2021, he served in the Office of the U.S. Secretary of Defense as the country director for China, and he was a senior policy analyst at the RAND Corporation from 2011 to 2022.

John Osburg is Fellow on Chinese Society at ASPI's Center for China Analysis. An associate professor of anthropology at the University of Rochester, he has been conducting ethnographic research in China for over twenty years. Osburg is the author of *Anxious Wealth: Money and Morality Among China's New Rich*, and he is currently completing a book on religion and spirituality among China's urban middle class.

Jing Qian co-founded ASPI's Center for China Analysis alongside the Hon. Dr. Kevin Rudd, to whom he served as a senior advisor for almost a decade. As the center's Managing Director, he leads strategy, research, and policy work on China, including a series of Track 1.5/2 dialogues. He also co-leads the Decoding Chinese Politics and Cure4Cancer projects and serves as an advisory board member of Bloomberg New Economy.

Li Shuo is Director of ASPI's China Climate Hub and Senior Fellow at the Center for China Analysis. His work focuses on analyzing China's environmental and energy policies and supporting the international community's engagement with China's climate agenda. He has more than a decade of experience in United Nations environmental negotiations, including on climate change, biodiversity, the ocean, plastic pollution, and ozone.

Neil Thomas is Fellow on Chinese Politics at ASPI's Center for China Analysis, studying elite politics, political economy, and foreign policy. He co-leads the Decoding Chinese Politics project, which maps formal institutions, informal networks, key decision-makers, and major policy trends in China. He was previously a senior analyst at Eurasia Group, a senior research associate at MacroPolo, and a lecturer at the University of Chicago's Harris School of Public Policy.

Lobsang Tsering is Senior Research Associate on Chinese Politics at ASPI's Center for China Analysis. He worked as a political specialist at the U.S. Consulate General in Chengdu from 2003 to 2020 and at the U.S. Embassy in Beijing from 2020 to 2023. He holds a PhD in world history from Sichuan University, where he studied great-power politics in the Indo-Pacific region.

Rick Waters is Honorary Senior Fellow at ASPI's Center for China Analysis and Managing Director of Eurasia Group's China practice. Drawing on decades of experience in the U.S. Foreign Service, he leads Eurasia Group's China expertise and client offerings. His research interests include China's global and regional diplomacy, U.S.-China relations, and China's domestic political economy.

Guoguang Wu is Senior Fellow on Chinese Politics at ASPI's Center for China Analysis and Senior Research Scholar at the Stanford Center on China's Economy and Institutions. An author or editor of ten books, including *China's Party Congress: Power, Legitimacy, and Institutional Manipulation* and *Globalization Against Democracy: A Political Economy of Capitalism After Its Global Triumph*, his research specializes in Chinese politics and comparative political economy.

Pressure Will Grow Between Xi's Political Power and His Ability to Deliver Results

Neil Thomas and
Lobsang Tsering

What We Are Watching

What is good for Xi Jinping is not always good for China. Since Xi cemented his political dominance at the 20th Party Congress in October 2022, the country has endured a difficult post-COVID recovery marked by economic pessimism, weak consumption, and an enduring property crisis. Next year may see a worsening disconnect between Xi's personal power and his ability to deliver governance outcomes, which could bring even greater policy volatility and economic uncertainty. However, Xi's own decision-making remains a key variable, as he has shown a degree of ideological flexibility when it serves his own political interests.



Photo by Greg Baker/AFP via Getty Images

The Context

Xi believes that his policies are right for China. He wants to shift the focus of the country's political economy from the pace of growth to the quality of growth, which he believes should be more equal, green, innovative, open, and coordinated between regions. He wants to make China's future more economically sustainable and geopolitically secure by changing its primary growth driver from debt-fueled property investments to advanced manufacturing, emerging technologies, and high-productivity industries. He is also convinced that the move toward "high-quality development" requires the party-state to play a stronger role in guiding capital, companies, and entrepreneurs to meet his strategic and social objectives. This is why Xi stuck to his guns on domestic policy at the Third Plenum in July 2024. He dismisses concerns about consumer difficulties and trade frictions as short-term "problems of transition" as China completes a long-term economic evolution. Recent stimulus measures do not negate this plan; rather, they aim to stabilize short-term growth and local government finances to enable a longer-term focus on high-quality development.

Xi thinks that China's problems stem less from the content of his policies and more from cadres not implementing them properly. This is perhaps the key difference between Xi and the many observers

who disagree with him. In January, he complained at length to the Politburo that many cadres have “inadequate understanding,” “old-fashioned concepts,” and “insufficient ability” when it comes to executing high-quality development. His response was to double down on internal discipline and ideological control. Several Chinese Communist Party (CCP) directives have sought to enhance cadre supervision and improve policy implementation. Last year, the CCP opened disciplinary investigations against 87 centrally managed cadres, the highest annual figure since Xi's first term. Unfortunately for Xi, these measures often create fear and paralysis among officials and are unlikely to solve China's fundamental economic problems.

However, Xi is a more complex figure than is often recognized. In one of his most revealing speeches, after the 19th Party Congress, he admitted to senior cadres that even though he said the CCP would be around for a millennium, he actually felt “a deep sense of worry” because even the greatest Chinese dynasties eventually collapsed amid corruption and rebellion. This anxiety about regime security infuses

Next year may see a worsening disconnect between Xi's personal power and his ability to deliver governance outcomes, which could bring even greater policy volatility and economic uncertainty.

Xi's worldview and is evident in the growing tension between short-term and long-term economic policies. Long-term economic policy, as expressed in the Third Plenum decision, remains focused on structural reforms, but many of them involve difficult adjustments—such as limiting investor options and absorbing losses in the property sector—which put downward pressure on GDP growth. Short-term economic policy allows more consideration of fiscal and monetary stimulus, though bazooka-style stimulus, greater direct support for consumers, and marketization remain unlikely. Xi understands that some baseline level of growth is necessary to maintain social stability, propel high-tech industries, and realize his ultimate goal of national rejuvenation.

What to Expect in 2025

- Xi will continue to dominate elite politics. Handpicked loyalists fill key leadership roles across the party, state, and military. An increasingly empowered disciplinary system enforces cadre loyalty, while a sophisticated domestic security apparatus keeps a lid on elite discontent and public dissent. Xi has also ensured that he has no obvious successor by cultivating rival power centers within his own political network.
- Xi may increasingly struggle to enact his agenda. Fiscal strain in local governments, low confidence among entrepreneurs, broader skepticism about Beijing's agenda, and the possibility of a tariff war with the United States will limit the effectiveness of Xi's efforts, such as the proposed Private Economy Promotion Law, to revitalize the business environment. A key watchpoint for Xi's stimulus measures is the extent to which they strengthen indicators of real economic activity, such as private investment, rather than how much they boost the stock market.

Pressure Will Grow Between Xi's Political Power and His Ability to Deliver Results

- There are two main ways that Xi could respond to the growing gap between his power to lead the CCP and his power to get things done. He could double down on political control, economic statism, and assertive nationalism, or he could consider new approaches to policymaking. Xi's record implies the former ideas will remain important themes of his governance, but he is at least somewhat sensitive to economic distress and popular discontent, as shown by moves such as the sudden elimination of COVID-19 lockdowns and the recent loosening of restrictions on private tutoring. A best-case scenario would see Xi encourage policy experimentation and invest major political capital in an ambitious implementation plan for Third Plenum reforms related to central-local finances, the household registration system, and private sector participation in innovation, manufacturing, and technology.
- The key watchpoint for whether recent stimulus measures portend a broader economic rethink will be Xi's proposals for the formulation of the 15th Five-Year Plan—Beijing's overarching goals for national development from 2026 to 2030—which he should outline at the Fifth Plenum of the 20th Central Committee in late 2025. Xi may reiterate his current policies, as seems likely, or he could use this process as an opportunity to shift gears.

Internal Party Governance Challenges Will Intensify

Guoguang Wu

What We Are Watching

Xi Jinping's leadership continues to struggle to tighten political control over the governing elite while at the same time providing incentives for them to promote economic development and effectively carry out their governance functions. Balancing the trade-off between political control and elite incentives will be a major challenge in 2025 and beyond.

There will be no easy solution, though the promotion of young cadres and more intense factional competition may serve the leadership's interests. In 2025, anticorruption campaigns will persist.



The Context

Xi Jinping's successful concentration of power and harsh party discipline have greatly tightened control over the political system. This has heightened cadres' sense of insecurity, limited their autonomy, and reduced incentives to effectively fulfill their governance and development responsibilities. Xi's economic policies have also made it harder for cadres to amass personal fortunes.

This partially explains why China's state-led development has stagnated even as the state has grown politically stronger. To preserve his political gains and perpetuate his reorientation of China's political economy, Xi must ensure that cadres have sufficient incentives to carry out effective governance and drive development. This is a major challenge for Xi and his regime, and efforts to tackle this challenge will decisively shape internal party governance in 2025.

Elite promotion and skillful personnel selection have greatly contributed to the Xi regime's political and policy achievements. He and his leadership have unleashed powerful anticorruption campaigns and strategically executed regular leadership reshuffles across various levels of the party-state hierarchy to facilitate elite circulation. The leadership will sustain its anticorruption campaigns, though it may take a politically more selective approach than in the past decade. First, purges will prioritize protecting and promoting cadres' incentives; and second, factional competition at levels below Xi will play a larger role in shaping who becomes the targets of purges.

A major personnel reshuffle at the provincial level in 2025 will define the political landscape ahead

of the 21st Party Congress in 2027. Under the current age limit for cadre retirement, by the end of 2025, 4 provincial party secretaries, 1 governor, 11 deputy secretaries (one-third of the nationwide total), and at least 48 nonmilitary members of provincial standing committees will retire. Roughly one-fifth of incumbent provincial leaders will be replaced, and this will set off a chain of leadership changes at various levels of the regime. Younger cadres, especially those born in the 1970s, will be promoted to provincial standing committees. Those born in the 1980s will primarily be promoted to leadership positions at the sub-provincial level, although a tiny group of frontrunners will reach the deputy provincial level. The younger cadres are generally well-educated, often in STEM fields, though seldom at Western institutions. They tend to be technocratic and have acquired grassroots experiences across various roles, as directed by the Organization Department at both central and provincial levels.

Younger cadres will have strong incentives to meet the main criteria for promotion: excelling in their governance and development responsibilities and closely following Xi. This will strengthen Xi's control and cement regime security. These cadres will also need to navigate within Xi's political framework to address economic stagnation and improve governance in their jurisdictions. In the long run, the rise of younger cadres will affect the politics of succession, not only with respect to Xi but for the entire party-state leadership.

Factional rivalry will inevitably intensify with the advancement of younger cadres primarily as competition among sub-factions under Xi, including those led by Li Qiang, Cai Qi, Ding Xuexiang, Peng Liyuan, and Chen Xi. Any decline in Xi's health would further fuel such competition, as leaders under Xi position themselves for succession politics. Anticorruption campaigns will become a powerful weapon in these rivalries. This new dynamic, combined with Xi's own political considerations, will drive elite purges and make the politics of internal party governance and cadre management more volatile in 2025.

The mid-term reshuffling of local party standing committees will define the new factional landscape ahead of the 21st National Party Congress in 2027.

What to Expect in 2025

- The political system will face challenges providing adequate incentives for party-state cadres to effectively perform their duties in development and governance. The promotion of young cadres—namely, those born in the 1970s to the provincial level and those born in the 1980s to the sub-provincial level—will speed up, and this will help incentivize those who are most promising.
- The mid-term reshuffling of local party standing committees will result in the replacement of roughly one-fifth of current members at the provincial level, marking the most significant turnover among the governing elite until the next round of provincial party congresses in 2026-2027. This

Internal Party Governance Challenges Will Intensify

will define the new factional landscape ahead of the 21st National Party Congress in 2027 as well as the succession politics of the post-Xi era. It could also intensify factional competition nationwide.

- Anticorruption campaigns will continue and become even more politically selective as the Xi regime struggles to incentivize cadres while also maintaining tight control over them. These campaigns will be bolstered by factional competitions at levels below Xi as cadres attempt to block others' proteges from strategic or powerful positions.
- Governance decay, developmental efforts aimed more at fulfilling formal requirements than at effecting meaningful improvements, and volatility in power competition will greatly shape the political landscape.

Significant Fiscal Reform Initiatives Are in the Pipeline

Bert Hofman

What We Are Watching

The Third Plenum in July 2024 finally promised serious fiscal reforms. These had become urgent in the wake of the property downturn and the economy's lackluster post-COVID performance, which left local governments strapped for cash and deep in debt. The fiscal system is in dire straits. China not only needs a stronger fiscal basis to meet its policy goals but also better distribution of resources, for which fiscal policy is key. A key question is whether the reforms will go far enough to turn fiscal policy into a powerful tool for resource allocation, economic stability, and income distribution. Measures announced since the plenum, such as the use of special bonds to restructure local government debt, will certainly help, but they will need to be complemented by structural reforms in the fiscal system. A stronger fiscal response may be needed if Trump administration trade measures affect growth.



Photo by zhihao via Getty Images

The Context

The COVID-19 pandemic and its aftermath heavily strained China's fiscal policy. It exposed weaknesses that had built up since the last major revamp of the fiscal system in 1994, when major reforms helped reverse the erosion of the tax-to-GDP ratio and centralized the bulk of revenues. From that time, local governments were not officially allowed to borrow, but they found a way through so-called local government financing vehicles, which helped pay for much of the infrastructure that China is known for.

After the global financial crisis of 2008, China's massive stimulus program had put local governments and local government financing vehicles into overdrive. More recently, under pressure from the pandemic and attempts to control the property sector through the "three red lines" policy, government revenues as a share of GDP declined sharply, and augmented government debt skyrocketed to 127% of GDP in 2024. Local governments are not willing to spend because of their debt burdens, and signs of fiscal distress have emerged, such as cuts in salaries and payment arrears. The recently announced plan for an additional RMB 12 trillion (\$1.7 trillion) in local government bond issuance over the next five years—comprising RMB 6 trillion in structured debt swaps

within three years, RMB 4 trillion in special-purpose bonds to address “hidden” debt, and RMB 2 trillion designated for shantytown redevelopment—aims to mitigate the risk of government defaults. It will do little, however, to lift local government spending.

The fiscal system is also performing poorly in income redistribution—the distribution of pre-tax and transfer income is about as unequal as that of post-tax and transfer income. This is mainly due to China’s heavy reliance on value-added tax (VAT) and consumption taxes. The limited redistribution of income through the fiscal system seems at odds with a central plank of Xi Jinping’s agenda: common prosperity. He has personally made clear, though, that he does not want China to become a “European style” welfare state. Nonetheless, with a tax-to-GDP ratio of 14%, total government

debt exceeding 100% of GDP, and weak redistribution of income, the system is no longer fit for the “New Era.”

There are hopeful signals that long-awaited reforms are now in the pipeline. The resolution of

Fiscal reforms are now clearly tied to the Chinese Communist Party’s core goal of “high-quality growth.”

the Third Plenum of the 20th Central Committee called for better macroeconomic management, anticyclical policies, and fiscal and tax reforms, as well as “improving the income distribution system” and “the social security system.” Expectations for major reforms were further raised in a *People’s Daily* article by Han Wenxiu, one of the resolution’s drafters, who stressed the urgent need for reforms to achieve three goals: macroeconomic stabilization, better resource allocation, and improving social equity.

Next, the readout from the September Politburo meeting put fiscal policy front and center. The meeting recommended the issuance of ultra-long-term special treasury bonds, local government special bonds, and support for local governments to meet necessary spending goals and the “three guarantees” (i.e., compulsory education, basic medical insurance, and housing security). Then in November, the National People’s Congress approved a package of RMB 12 trillion (\$1.7 trillion) in local government bonds over the coming five years to help local governments consolidate their debt and that of local government financing vehicles. Fiscal reforms are now clearly tied to the Chinese Communist Party’s core goal of “high-quality growth,” and the leadership recognizes that reforms should result in a fiscal system that can deliver on efficiency, equity, and stability.

What to Expect in 2025

- Fiscal policy will likely be more expansionary than it has been in recent years, especially if the Trump administration’s policies vis-à-vis China lower growth. Some of the special bonds will be used for the consolidation of local government debt, and budget system reforms could be used to better signal the government’s macroeconomic stance.
- A revamp of the transfer system will likely give more resources to local governments, and the

Significant Fiscal Reform Initiatives Are in the Pipeline

distribution of these resources across provinces should improve. At the grassroots level, local pensions and welfare payments are likely to increase.

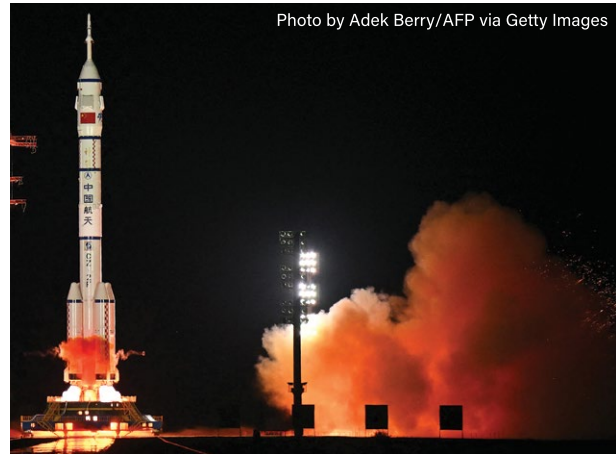
- If the economy shows renewed signs of strength in 2025, fiscal consolidation can begin. The government is likely to gradually phase out the tax cuts of the past four years, thereby restoring some of the eroded tax base. Over time, more widespread use of the personal income tax and an increase in the standard rate for VAT are the most obvious steps to further strengthen revenues. However, the introduction of the long-debated property tax is unlikely—the real estate sector will at best be stabilized, and a new tax would be too disruptive.

China Will Continue to Develop New Quality Productive Forces

Qiheng Chen

What We Are Watching

China's leaders recently introduced the concept of “new quality productive forces” (NQPF) as a way to promote indigenous innovation. This is a top priority for Beijing as they seek new drivers of economic growth and contend with technology competition with the United States. As China fleshes out the substance of NQPF and implements it through experimental policies, the meaning of the concept—and hence the means by which China plans to realize it—will evolve through further elaboration in party documents and official speeches.



The Context

The NQPF concept first emerged in a speech by Xi Jinping during his provincial inspection in Heilongjiang and was later underscored during the December 2023 Central Economic Work Conference. The concept repackages two familiar concepts, high-quality development and innovation-led growth, both of which reflect China's intention to break from an investment-led growth model. Any enhancement in total factor productivity can be considered a new quality productive force. However, the concept extends beyond incremental improvements in productivity to include activities that might not immediately contribute to growth as well as improvements that fall short of transformative innovation. NQPF provides a theoretical framework for the broader examination of supply-side reforms as well as transformative ways to boost productivity.

The Politburo Group Study Session in January 2024 concluded that the concept should constitute at least three pillars: revolutionary technological breakthroughs, innovative allocation of production factors, and the transformation of traditional industries. Scholars generally agree that China's pursuit of productivity growth should unfold in three directions: (1) new manufacturing, which involves strategic emerging industries such as industrial robotics, electric vehicles, and commercial spacecraft, as well as future industries such as quantum computing and brain-computer interfaces; (2) new services, which are represented by producer services and value-added services that complement physical products; and (3) new business forms, which are typically driven by global-

ization and informatization in the industrial context, such as by more efficient ways of matching local producers and global customers.

There is ongoing debate about the scope of NQPF. A narrow focus on a few high-tech industries could inadvertently reduce the concept to mere industrial policy, potentially leading to overinvestment as capital floods into these sectors. Conversely, too broad an interpretation risks misapplying the concept to preserve obsolete industries and production modes. The pursuit of innovation-led growth will require concurrent improvements in socioeconomic institutions to attract talent, improved access to capital for innovative firms, and the mitigation of local protectionism as well as firm-level anti-competitive conduct. NQPF, a Marxist concept in itself, will not change the underlying party-state relationship in China, but it may create more room for enacting bolder, more coherent policies.

Another area of uncertainty is whether developing NQPF might exacerbate existing overcapacity issues or intensify foreign governments' concerns about China's state subsidies. Against the backdrop of weak domestic demand, excess supply could lead to structural trade imbalances that cause concerns for China's trade partners, as evidenced by the rising wave of tariffs on Chinese electric vehicles. Ideally, an innovation-led growth strategy should help phase out capacity in low-value-added or pollution-generating industries, but overcapacity could resurface in strategic industries that China dominates or aspires to dominate, especially in products with global externalities. Nonetheless, taking action on the supply side is a safer bet than stimulating demand, which carries the risk of fueling inequality and inflation.

Developing “new quality productive forces” is a top priority for Beijing as they seek new drivers of economic growth and contend with technology competition with the United States.

What to Expect in 2025

- NQPF will form the bedrock of China's 15th Five-Year Plan (2026-2030), which is expected to be released at the Fifth Plenum of the 20th Central Committee in late 2025.
- China will implement NQPF through experimental policies such as promoting government guidance funds and shrinking negative investment lists to allow foreign capital to enter a wider range of fields. Beijing will also ramp up investment in both basic research and the commercialization of research, betting that some, if not all, of its high-stakes gambles on emerging and future industries will pay off and drive high-quality growth.
- The political imperative to implement Xi's vision for NQPF will present new challenges, including the risk of overinvestment or efforts to protect vested interests under the framework.
- China will continue to develop its data-driven economy as a core pillar of its NQPF strategy. Efforts will focus on integrating consumer-facing digital technologies into industrial applications

China Will Continue to Develop New Quality Productive Forces

to enhance productivity, as well as refining regulations to encourage data sharing, improve cross-border data flow, and stimulate innovation in emerging fields, while continuing to shore up data security and privacy protection. These initiatives aim to release China's untapped potential for growth in the data-driven economy.

- Overseas tariffs on Chinese goods and weak domestic consumption will reduce the demand for outputs from China's advanced manufacturing sector, exacerbating overcapacity issues and leading to more trade disputes with developed economies.

Tensions Over Industrial Policy and Trade Will Escalate

Lizzi Lee

What We Are Watching

China is shifting from investment-led growth to technological self-reliance, with semiconductors, electric vehicles, biotechnology, and advanced manufacturing leading the way. The 2024 Third Plenum underscored a break from traditional export-driven manufacturing as Beijing attempts to consolidate oversupplied industries, retool trade partnerships, and advance technological sovereignty. These moves threaten to exacerbate persistent trade tensions stemming from China's industrial overcapacity and its attempts to extend its global economic influence.



The Context

China's industrial policy has pivoted from a pure growth model to asserting control over critical technologies, focusing on zero-to-one innovations to spearhead the "fourth industrial revolution." While semiconductors, artificial intelligence, and electric vehicles are focal points, the modernization of traditional sectors such as manufacturing and shipbuilding with advanced technologies remains a priority. This dual approach not only drives innovation but also elevates legacy industries to the status of emerging frontiers.

At the same time, China's sectoral performance presents a mixed picture. Its dominance in electric vehicles and batteries is indisputable, accounting for two-thirds of global production. In nuclear energy, China is advancing with fourth-generation reactors and is poised to surpass U.S. nuclear power generation by 2030. Yet, semiconductors remain China's weak link, relying on foreign expertise and supply chains, with U.S. export restrictions continuing to pose formidable barriers.

China has moved from a "throw everything at the wall" approach to a more calculated and coordinated strategy. Earlier state-driven policies and subsidies in sectors such as solar panels and electric vehicles spurred rapid growth but also inefficiencies, price wars, and corruption, particularly in semiconductors. Since 2024, Beijing has imposed tighter controls, raised entry barriers, and enforced stricter production standards to foster robust, competitive firms, curb overcapacity, and promote sustainable development.

China's industrial policy has pivoted from a pure growth model to asserting control over critical technologies, focusing on zero-to-one innovations.

State-owned enterprises (SOEs) have taken on a more prominent role as strategic orchestrators within a dual-layered competition model. Internationally, state-backed champions receive government support to strengthen their global standing, while domestically, private players engage in intense competition to drive efficiency, innovate, and ensure the survival of the fittest. China's relationship with foreign firms has also evolved. Previously, market access was leveraged to acquire

technology—as was the case with Tesla's Shanghai Gigafactory. However, as China's industrial capabilities have matured, domestic companies now increasingly dominate market competition with foreign firms.

China just recorded its weakest year of venture funding in a decade, but Beijing is nonetheless expanding the role of venture capital to close technological gaps and

foster indigenous innovation. Key initiatives include streamlining funding for high-tech startups and refining exit mechanisms to provide more flexibility for investors. Furthermore, China is increasingly discerning with foreign capital, now emphasizing domestic "patient capital" that prioritizes the long-term, high-risk investments essential for technological advancement. The government has pushed for a deeper and more dynamic venture capital ecosystem—the "distribution-in-kind" model—which allows investors to retain shares rather than liquidate them, and this could potentially reduce market volatility.

China's industrial overcapacity continues to strain global trade relations, and producers of electric vehicles, lithium batteries, semiconductors, and solar panels face tariffs and anti-dumping measures. Efforts to redirect surplus production to emerging markets have met resistance, with countries wary of the impact of low-cost imports on local industries. Meanwhile, the United States has adopted a more interventionist industrial policy, as exemplified by the CHIPS Act, which aims to strengthen the semiconductor industry amid its national security concerns and rivalry with China.

What to Expect in 2025

- SOEs will play an increasingly central role in directing China's industrial strategy, coordinating efforts across key sectors, channeling resources, and harmonizing initiatives to sharpen China's competitive edge. China's dependence on "patient capital" from SOEs and government-backed funds will deepen, serving as a buffer against market volatility and geopolitical risks.
- China will further consolidate priority sectors and address technology bottlenecks. Its semiconductor strategy will continue to channel heavy investment into research and development, and an oversight body will aim to reduce the sector's foreign dependence.
- China is expected to further align its education system with its industrial priorities, emphasizing

Tensions Over Industrial Policy and Trade Will Escalate

artificial intelligence, robotics, and smart manufacturing to build a workforce equipped with specialized skills in these key sectors.

- China will prioritize its domestic innovation ecosystem, becoming more selective in its foreign partnerships. Foreign firms will face heightened competition and a diminishing role in strategic sectors.
- China will likely navigate its EU relations with a blend of incentives, including investments, and apply subtle pressure, such as through selective retaliatory measures. As China directs surplus goods to emerging markets, it will likely face resistance from countries hoping to protect their nascent industries.
- China's industrial policy will harness frontier technologies to unlock underutilized resources like data and address domestic challenges, particularly those posed by an aging society. Data will take center stage as an economic engine, building on 2024 reforms that formalized it as an asset, with initiatives to drive innovation through collateralization and integration into artificial intelligence (AI) and traditional industries.
- China's biotechnology sector will focus on precision medicine and treatments for age-related diseases, accelerated by AI and strong state backing, while AI-powered healthcare will tackle medical workforce shortages, modernize hospital management, and transform diagnostics and surgery. These improvements are expected to cut costs and boost efficiency to meet the demands of an aging population
- During the second Trump administration, China's strategic competition with the United States is set to escalate, with Beijing poised to counter U.S. tariffs and technology restrictions with stiffer regulations. Leveraging the Anti-Foreign Sanctions Law, cybersecurity reviews, the Unreliable Entity List, and other tools, China will target foreign firms seen as aligned with U.S. sanctions. Additionally, China will leverage its control over critical minerals and legacy chip technologies to improve its negotiating position and strengthen its ability to resist U.S. pressure.

COVID-19's Impact on Society Will Linger

G.A. Donovan

What We Are Watching

Popular sentiment has shifted in the two years since China ended its strict COVID policies. People are now more pessimistic and uncertain about the future, and more of them think that the status quo is unfair—especially when it comes to the distribution of wealth and resources. Disillusionment has prompted some to emigrate, and others have taken steps to move their money overseas. A persistent lack of confidence in the country's leadership and institutions will complicate Beijing's efforts to achieve its economic and social development goals.



The Context

The COVID-19 pandemic was a transformative event with profound and lasting effects on Chinese society. In the early days, the public welcomed the government's efforts to control the spread of the virus, even when its policies were intrusive and, at times, draconian. But frustration grew as lockdowns became more common and the battle against the disease consumed the whole of society to the detriment of business activity and social engagement. Life eventually returned to normal, but the lingering effects of the COVID experience have perpetuated a crisis of confidence. This has major implications for China's governance, economic performance, and social cohesion.

Dissatisfaction with government policies. When the zero-COVID policy was summarily scrapped in December 2022—following a series of public protests the month prior—relief accompanied the end of mass testing, strict quarantine requirements, and apps that tracked potential exposure to the virus. But the suddenness of the leadership's reversal fostered a sense that its insistence on sticking to the zero-COVID policy had been arbitrary, unrealistic, and self-serving.

Growing economic insecurity. Economic growth and private investment have slowed over the past two years, and falling property values have worried homeowners. In response to increasing concerns about employment and wage growth, the government announced new initiatives to promote social welfare, but its economic policies remain biased toward supply-side stimulus.

Persistent insecurity has been a brake on growth as anxious consumers spend less and save more, creating a vicious cycle that counteracts efforts to stimulate the economy.

Concerns about inequality. Surveys conducted after the end of zero-COVID found that, compared to a decade earlier, more Chinese people reported that their families were worse off or pessimistic about the future. In addition, more believed that poverty was the result of structural factors rather than a lack of education, skill, or initiative. Many of those who are struggling economically blame unequal opportunities and a lack of fairness in the system for the financial hardship they face.

What to Expect in 2025

- **Confidence gap.** “Enhancing social confidence” was a top priority at the first Politburo meeting held after mid-July’s Third Plenum. This will be a heavy lift in the face of deep-seated popular concerns and a pandemic experience that has cast a shadow on the government’s credibility. Business and consumer sentiment will remain weak despite renewed efforts to boost consumption in the long term.
- **Livelihood challenges.** The government will stay focused on high-quality development at the expense of the livelihood issues of greatest concern to low- and middle-income residents. Direct stimulus and initiatives to boost employment will target favored industries, while economic uncertainty will continue to hold back consumer demand.
- **Crisis of faith.** Amid declining confidence in the government and its official ideology, people will increasingly turn to religious and spiritual practices in search of meaning and moral guidance.
- **Signs of discontent.** Authorities will maintain tight control of the internet and public expression, but indications of deepening dissatisfaction will include emigration, capital flight, and more frequent displays of protest or dissent, whether public or private.

Economic Slowdown and Post-COVID Challenges Will Continue to Drive People Toward Religion

John Osburg

What We Are Watching

To foster loyal citizens and cultivate “traditional” Chinese values, Beijing has exerted tighter control over religious communities and taken an increasingly heavy-handed approach to promoting the party-state’s official ideology. However, these efforts have largely failed.

In the wake of zero-COVID policy excesses, the post-pandemic slump, and high youth

unemployment, narratives of national pride and cultural rejuvenation no longer align with ordinary citizens’ lived experiences. Despite growing restrictions on online religious content and tighter management of religious institutions, more people are turning to religion and spirituality.



The Context

As Chinese citizens have grown more affluent, increasing numbers have taken up religious or spiritual practices as a source of meaning and ethical guidance. Protestant Christianity and Tibetan Buddhism have arguably witnessed the fastest growth. A decade ago, the Pew Research Center estimated the number of Protestants in China to be around 58 million, up from less than 1 million during the early Mao years. Several well-known Tibetan monks now have millions of followers on Weibo, and thousands travel to remote Tibetan Buddhist academies for formal retreats and training. Facing long odds on the job market and civil service exams, many young people are reserving spots at popular temples to burn incense. Members of the business elite, shaken by the anticorruption campaign and the economic slump, have followed suit, making offerings of cash and luxury cars to prominent monks and taking up meditation. Elites who emigrate are encountering Buddhist and Christian groups in Chinese communities overseas and then proselytize to their family and friends back home.

Among China’s youth, efforts to promote nationalism through education have cultivated a deep-seated patriotism and defensiveness toward criticism of China. But as they reach adulthood and face a stagnating economy and limited career prospects, younger generations are finding

such nationalism of little use. Moreover, the failure of zero-COVID shook the faith of many “little pinks” in the infallibility of their country’s leadership. Narratives of the “great rejuvenation of the Chinese nation” no longer correspond to their own life trajectories, and growing numbers of young Chinese—especially the more affluent—are turning to religion.

Under Xi, Chinese Communist Party (CCP) policies toward religion have sharply veered from the relative tolerance of the early reform period. City officials have forcibly removed crosses from churches, architecturally Sinicized mosques, and scaled-down Buddhist monasteries. Government directives have instructed religious leaders to integrate patriotism, faith in the CCP, and nationalism into their teachings. Fears of foreign influence and alliances have motivated a harsher treatment of Islam, Christianity, and Tibetan Buddhism relative to Chinese Buddhism and Daoism. Beijing is also aggressively promoting its party-state ideology and attempting to shape Chinese citizens’ beliefs through initiatives like the “Study the Great Nation” (*Xuexi Qiangguo*) app and the creation of a civic morality that blends Confucian and Marxist principles.

A number of factors have driven these policies. Xi believes that a loss of faith in the CCP and its ideals was a core reason for the rampant corruption of the Jiang and Hu eras. The moral vacuum of those eras led China’s leaders to recognize the need to foster civic virtues to counterbalance the rampant materialism encouraged by the single-minded pursuit of economic gains. Around the start of Xi’s second term, the crackdown on unofficial religious activity intensified. Popular religious websites were taken down, and faith-oriented WeChat groups disbanded or self-censored under stricter regulations. However, attempts to Sinicize and bureaucratically control religion have tended to backfire—one survey estimates that 64% of Protestants in China currently worship with unregistered churches rather than those officially recognized by the state.

The growth of religious belief in China highlights the limitations of state-promoted ideology. The party-state must compete within a diverse media landscape to attract an increasingly cosmopolitan, sophisticated, and cynical citizenry. As China’s middle class contends with caring for aging parents, high divorce rates, financial uncertainty, and youth unemployment, Xi Jinping’s exhortations to “eat bitterness” and “dare to struggle” for the nation’s “great rejuvenation” are likely to ring hollow.

Despite tighter regulation, forms of religious expression will continue to proliferate, in many cases inspired by the economic challenges people face.

What to Expect in 2025

- Despite tighter regulation, forms of religious expression will continue to proliferate, in many cases inspired by the economic challenges people face. With more people turning to religion for solace and guidance, the increased demand will also create opportunities for fraudsters, which will be used as justification for further government crackdowns.

Economic Slowdown and Post-COVID Challenges Will Continue to Drive People Toward Religion

- The crackdown on religious activity in unofficial spaces and online will continue, but the root causes of the growing interest in faith and spirituality will persist. Attempts to Sinicize and bureaucratically manage religion will be counterproductive and lead believers to seek out religious content perceived to be less tainted by the party-state's exhortations to follow its own teachings about ethics and the good life.
- This transfer of loyalty and faith from the CCP's chosen ideals and institutions to Tibetan monks, Christian pastors, and other sources of spiritual authority will make it harder for Beijing to win the hearts and minds of its most important constituency—the urban middle class. Partly inspired by teachings that prioritize their spiritual well-being, increasing numbers of educated young people will choose to “lie flat” and opt out of the mainstream pursuit of marriage and career advancement.

Beijing Will Struggle to Manage Relations with the New U.S. Administration

Rick Waters

What We Are Watching

The United States and China are on a collision course over trade. The new Trump administration appears poised to revive hardline trade policies: higher tariffs, stricter export controls, and more intense scrutiny of China's technology investments in the United States. This could spark a major confrontation. Whether the U.S.-China relationship remains intact will

depend on whether China perceives U.S. actions as setting the stage for a deal or concludes that the Trump administration's aim is to pursue unilateral decoupling. More broadly, China's strategy toward the United States will depend on multiple factors that go beyond trade.



The Context

In the run-up to the U.S. election, Chinese policymakers and analysts were unsure how literally to take the Trump campaign's threats to impose 60% tariffs and repeal China's permanent normal trade relationship status. Beijing's bureaucracy and academic institutes considered different responses in light of uncertainty over whether Trump's goal was to reach a deal or pursue unilaterally decoupling.

A two-fold approach emerged from these deliberations: positioning China as the champion of global trade among third countries, particularly in the Global South, while making an initial offer to the United States to address the trade deficit and simultaneously reinforcing China's "counter-containment" framework of defenses. These include a range of retaliatory measures such as imposing export controls and retaliatory tariffs on U.S. imports and letting the currency devalue.

After Trump's election, Xi Jinping quickly reached out with a congratulatory message stating that "both China and the United States stand to gain from cooperation and lose from confrontation." Nonetheless, China's leaders have coalesced around a fatalistic view that the ultimate goal of U.S. policy is not just to compete with China but to undermine the regime. Actions by the United States

across military, economic, and technological domains have reinforced Beijing's perception that the United States is determined to "contain" China's rise. This dark conclusion underpins everything from China's support for Russia as a hedge against U.S.-led groupings, to the emergence of an economic strategy that aims to maximize China's autonomy from points of U.S. leverage.

In his meeting on November 16 with Joe Biden at the 31st APEC Economic Leaders' Meeting, Xi Jinping underscored the "four red lines" that the United States should not cross: the Taiwan question, democracy and human rights, China's political system, and its right to development—signaling

Whether the U.S.-China relationship remains intact will depend on whether China perceives the administration's actions as setting the stage for a deal or that its aim is to pursue unilateral decoupling.

an expansion beyond Beijing's historical focus on Taiwan. This statement serves as a clear warning to the Trump administration, cautioning that actions perceived as undermining these red lines could further heighten tensions.

With such signs of increasing friction, only tactical diplomatic pauses appear realistic. This has been the case since the Woodside Summit in Novem-

ber 2023, as China's leaders sought space to deal with domestic economic problems. Limited, issue-specific agreements between the United States and China are still theoretically possible if the Trump administration's primary goal is to use tariffs as leverage for negotiating a deal.

However, it will be challenging for China's leadership to discern consistent signals emanating from Washington amid the "noise," as technology and immigration restrictions, restatements of U.S. positions on China's "core issues," and occasional actions targeting Chinese Communist Party elites will inevitably arise. Each side has different views of the other's relative position, with many in Washington believing that Beijing's position is weak. Many in China, by contrast, argue that the United States will be less able to withstand the political impact of its inflationary tariffs.

What to Expect in 2025

- If formal communication channels are not established before the U.S. imposes tariffs on Chinese goods—beyond just announcing them—then it will take months or longer for the U.S. and China to return to talks once a trade war begins. The most likely scenario is that tariffs will come before serious talks can take place.
- Washington will have the stronger hand as China's leaders remain focused on addressing domestic challenges, prioritizing stability over creating opportunities to improve key external relations. However, U.S. fiscal and trade policies may also create near-term pain in the United States, weakening Washington's leverage.
- Despite rising barriers to exports, China will stay the course set out at the July 2024 Third Plenum. With China's economy rigidly locked into a supply-driven framework, and in the absence of support

Beijing Will Struggle to Manage Relations with the New U.S. Administration

on the demand side, record deficits will likely overwhelm Beijing's mechanisms for managing its fiscal policy.

- One or more channels will emerge to replace the “strategic channel” between National Security Advisor Jake Sullivan and Foreign Minister Wang Yi that helped stabilize relations since 2022. The role played by such a channel, however, will be more modest as Beijing remains skeptical of Trump's new national security team at this stage and perceives structural limits to using such back channels within the U.S. system to stabilize ties.

U.S.-China Diplomatic Divide Will Widen

Lyle Morris

What We Are Watching

U.S.-China relations have been in a downward spiral since 2016 and the sense in both capitals is that they are at their lowest point since diplomatic relations were established in 1979. Simmering tensions over trade wars, the pandemic, technology, the South China Sea, and the Taiwan Strait—and deep disagreements about how to resolve global crises such as the Russia-Ukraine conflict—have contributed to increasingly acrimonious diplomatic exchanges. Each side portrays the other as intent on undermining their fundamental national security interests, and this rhetoric reinforces perceptions that the other side seeks to “dominate” in a contest to determine the future of the international system that has been in place since the end of World War II. How will the election of Donald Trump change these dynamics, and what can we expect in 2025?



The Context

Xi Jinping’s November 2023 meeting with U.S. President Joe Biden in Woodside, California, stabilized a relationship in free fall. The two leaders attempted to strike a conciliatory tone and announced a range of deliverables on economic and security issues. They also conveyed that they could effectively manage their differences, including by the restoration of military-to-military dialogue.

But even state visits cannot arrest some of the systematic forces at play in the bilateral relationship. To take one example, trade and national security are now entwined, typified by U.S. export controls on advanced technology to China. In response, China has initiated a campaign to tighten its national security by vetting foreign investments and strengthening counter-intelligence laws.

During an August 2024 meeting in Beijing with U.S. National Security Advisor Jake Sullivan, Chinese Foreign Minister Wang Yi avoided the phrase “strategic competition” and instead focused on the need to get the relationship “back on track” and “correctly identify the sources of tension.” To Minister Wang, this includes “upholding the principles of mutual respect, peaceful coexistence, and win-win cooperation and implementing the common understandings reached between the

two heads of state to promote the stable, sound, and sustainable development of bilateral relations.” He also called for both sides to “treat each other as equals” and that “acting from a position of strength is not the right way of interaction between countries.”

The following month, U.S. Deputy Secretary of State Kurt Campbell testified before the House Committee on Foreign Affairs that China presents “the top challenge to the United States in all of its history, surpassing the Cold War.” Privately, Minister Wang and the Chinese foreign policy bureaucracy have come to terms with the fact that Washington’s strategic competition framework will be the prevailing mode of bilateral relations for the foreseeable future. Whether China likes it or not, it has absorbed this reality and is taking steps to outcompete Washington on the global stage.

What to Expect in 2025

- China will focus its rhetoric on areas of potential cooperation with Washington, which will include attempts to establish a “fresh start” with the newly elected U.S. president. However, Beijing will likely adopt more aggressive language over U.S. actions that it regards as harming its core interests, including Taiwan and the South China Sea. It will also call out Washington for unilateral trade policies that harm its “legitimate developmental interests.”
- The United States will reach a consensus that China is its biggest strategic competitor, and China will continue to dominate the trade and national security agenda in Washington. Trump will likely maintain the Biden administration’s “pacing challenge” policies and emphasize the need to prevail in the competition with Beijing for economic advantage and global leadership. However, he may inject a measure of uncertainty about the role of U.S. alliances in this competition while adopting a more aggressive stance on trade—to possibly include heavy tariffs on Chinese manufactures—that may destabilize an already fragile relationship.
- Forging discrete areas of cooperation will remain key to arresting acute strategic competition. Even though the chances of a genuine thaw that resolves fundamental differences and leads to greater cooperation are low in 2025, recent agreements to enhance military-to-military communications and working groups to combat the illicit fentanyl trade are examples of the kinds of cooperation that can build positive momentum.
- Diplomatic engagement will remain a key source of structural stability in the bilateral relationship, and active diplomacy by both sides can keep ties from further fraying in 2025. As Jake Sullivan’s August visit to China made clear, more regular high-level meetings can help smooth over the more contentious elements of the relationship.

Risk of Volatility Will Loom Large Across the Taiwan Strait

Rorry Daniels

What We Are Watching

Beijing views Taiwan President Lai Ching-te as a dangerous separatist, only deterred from crossing Beijing's red line of Taiwan independence by threat of force. Lai, for his part, sees no reward in trying to meet Beijing's minimum acceptable standards for rhetoric and policy, especially as he navigates an opposition-led legislature, local governance challenges, and Taiwan's relationship with a new U.S. administration. The risk of volatility in the Taiwan Strait will remain high over the next four years, as Beijing currently has no intention of resuming contact with Taiwan under the Lai administration.



The Context

Despite holding large-scale military drills around Taiwan in 2024 following Lai's inauguration in May and his National Day speech in October, Beijing likely feels it has restrained itself from fully expressing its displeasure. Not only can it never forgive Lai for calling himself a "pragmatic worker for Taiwan independence," Lai's Democratic Progressive Party (DPP) has long included independence as a plank in its party charter. Moreover, Lai's statements that the two sides of the Taiwan Strait are not subordinate to each other and that Taiwan may be the motherland of the people of the People's Republic of China—as well as his extensive remarks on Taiwanese identity—carry the threat of permanent separation, if not total abandonment of the idea that the two sides belong to one China. In short, Beijing is incensed that a leader of Taiwan would dare challenge the core tenets of its "One China" principle, much less that other governments would view this rhetoric as acceptable.

The military drills advanced Beijing's military planning and preparedness but were more warnings and deterrents rather than indications of a specific intention or timeline to resolve the Taiwan issue through force. Beijing has reiterated a Taiwan policy of "peaceful reunification" through integrated economic and social development. It has launched new programs to facilitate trade, investment, and exchange with Taiwan through Fujian Province and continues to have exchanges with the political parties it views as friendlier, including the opposition Kuomintang and the Taiwan People's Party.

What will most shape developments in 2025 is how Beijing views the Trump administration's resolve on the Taiwan issue. The first Trump administration's relationship to the Taiwan issue was twofold. On the one hand, many of Trump's military and foreign policy advisors viewed defense of the island as the linchpin in a strategy to prevent China's regional—or even global—hegemony. On the other hand, Trump himself set a high bar for committing troops and resources abroad and held a low opinion of allies and partners hiding behind U.S. defense resources.

The anxiety in Beijing is less that Trump himself cares about the sovereignty of Taiwan and more that, in his pursuit of U.S. dominance in its competition with China, Trump would “play the Taiwan card” as leverage for unrelated issues. The idea that Trump might engage in political or military brinkmanship in order to test China's invasion bluff—at a time when Beijing does not yet feel ready to prevail in a conflict—must keep some Chinese officials up at night.

However, Beijing can take comfort that it may be able to utilize two related dynamics to its advantage. First, Beijing would prefer to bypass Taipei and manage the Taiwan issue as part of its broader relationship with the United States. This triangulation allows Beijing to avoid the DPP while asserting that U.S. resistance, rather than Beijing's own policies, is the primary barrier to progress on unification. Second, Chinese officials understand that they have a one-person audience in the Trump administration—Donald Trump himself. More than any other president, Trump was willing to override key advisors on policy decisions that he deemed secondary to his main priorities. Beijing is comfortable with its assessment of Trump's priorities and “America First” agenda and will attempt to navigate the Taiwan issue through direct, top-level engagement.

At the same time, Beijing recognizes that many others—such as Taipei—will compete for Trump's attention and support. It will be worth closely watching Trump's personnel appointments and Taiwan's own strategy for engaging with the new administration. Despite substantial political differences on domestic issues between Lai and Trump, Vice President Bi-khim Hsiao, who served during Trump's first term as Taiwan's unofficial representative in the United States, built solid relationships with Trump appointees. Her success suggests that as long as Hsiao and Lai are well-coordinated, Taipei can navigate Washington politics over the next four years.

What will most shape developments in 2025 is how Beijing views the Trump administration's resolve on the Taiwan issue.

What to Expect in 2025

- Beijing will take a series of coordinated and calibrated coercive actions against Taiwan, targeted as much as possible at Lai's deep green and independence-leaning supporters. As part of this effort, it is likely to seize opportunities to poach Taipei's remaining diplomatic allies and to coerce international actors and institutions to acknowledge its One China principle.

Risk of Volatility Will Loom Large Across the Taiwan Strait

- The U.S. Congress will maintain its support of Taiwan as a democracy and technological powerhouse and will continue to bolster Taiwan's defense. In the likely absence of robust U.S.-China diplomacy under a Trump presidency, Beijing's reactive policy responses to a growing U.S.-Taiwan relationship will be viewed by Washington not only as threatening but also worthy of a counter-response. This downward spiral could easily lead to policy miscalculations and a cross-strait crisis.
- The U.S.-Taiwan unofficial relationship will be shaped in large part by Trump's high-level personnel appointments. Few of the rumored candidates have deep experience with the Taiwan issue, and some have called for the United States to pull back from Europe to devote more resources to countering China in Asia, and particularly to defending Taiwan. But even at lower ranks, Beijing is likely to face U.S. officials who believe in Taiwan's cause and willingly take risks to bolster unofficial relationships below the level of Trump's attention.

The Year of Complex Challenges Will Intensify the Need for Robust Climate Action

Li Shuo

What We Are Watching

China's climate agenda will reach a critical crossroads in 2025. Driven by rapid clean energy growth, its carbon emissions will finally plateau, but as the country struggles with an economic slowdown, more forceful policies to decrease emissions may be difficult to implement. As the source of 90% of global emissions growth since 2015, China must keep the

Paris Agreement target of limiting global warming close to 1.5 degrees Celsius on course. Whether Beijing decides to pledge strong climate targets under the Paris Agreement, transition away from coal, and double down on its clean energy development are key things to watch in 2025.



Photo by Greg Baker/AFP via Getty Images

The Context

In recent years, China's climate action has faced significant headwinds. An economic slowdown has placed climate priorities on the backburner as Beijing hesitates to rapidly transition away from carbon-intensive, polluting industries. A troubled relationship with the West has prompted Beijing to pivot back to coal, a cheap source of baseload energy that can be supplied domestically. Geopolitical tensions have also fueled skepticism about the value of international cooperation, a critical condition for sustainable global progress on climate action. The rightward swing in recent European elections, Donald Trump's election victory in the United States, and the social and economic challenges faced by other major emitters have reinforced China's view that climate change is no longer an international priority.

At the same time, China has become a green technology superpower, a sanguine development in an otherwise worrisome drift away from climate action. Chinese companies supply the world market with 80% of solar panels and battery cells, 70% of wind turbines, and close to 60% of electric vehicles. The country's green transformation is helping combat climate change, and clean energy is now China's largest driver of economic growth. The alignment of China's economic interests and climate ambitions offers a powerful incentive for continued action.

These challenges and opportunities will come to a head in 2025 and present tough choices for China's leaders. China is expected to soon submit its nationally determined contribution, the 2035 climate targets required by the Paris Agreement. For the first time, China's pledge will contain an absolute emissions reduction target, and the level it commits to is critical. A survey by the Asia Society Policy Institute has found that China must cut 2023 greenhouse gas emissions levels by at least 30% by 2035 to limit global warming to 1.5 degrees Celsius. China can achieve meaningful emissions reductions by this date if it can continue to deploy clean energy at the current rapid pace. A major risk is that policy inertia and conservative thinking prevent Beijing from capitalizing on the progress it has made.

Beijing will also need to react to significant changes on the global stage, chiefly the outcome of the U.S. presidential election. Donald Trump is expected to shelve U.S.-China climate dialogue at the official level, and the two sides will need to rely on non-state and subnational actors to carry out bilateral exchanges. The sidelining of climate action on the U.S.-China bilateral agenda—as well as in U.S. domestic politics—will fuel Beijing's doubts about Washington's commitment.

What to Expect in 2025

- China will submit its nationally determined contribution to the United Nations, but its targets will likely fall short of achieving the 1.5 degrees Celsius goal, leaving much work to be done to accelerate emissions reduction.
- China will slow approval of domestic coal projects. With the power market already saturated, project approval finally decelerated in the second half of 2024, and the complete cessation of coal power projects is now a potential reality.
- China's lead in manufacturing and deploying green technologies such as solar, wind, electric vehicles, and batteries will continue. This will exacerbate trade tensions with the United States, the European Union, and parts of the Global South.
- The world will see increasingly divergent responses to China's dominance. With a shared desire to economically benefit from a low-carbon economy, some countries will be more open to Chinese products and investments than others. The United States will continue closing its market to China while struggling to meet the competing objectives of decarbonization and reindustrialization at the same time.
- Severe weather and other climate change events will become more frequent. This will likely trigger public awareness of the urgent need for climate action, forcing China to re-examine its adaptive capacities.
- Great-power politics will shape China's climate choices. The European Union and China will scramble to realign their climate agendas after the U.S. presidential election, but thorny political and trade disputes will make this difficult. If managed effectively, the European Union and China could mitigate the damage caused by Trump's policies while meaningfully engaging on their respective nationally determined contributions and addressing ongoing climate-trade tensions.

China's Public Health Challenges Will Present Risks and Opportunities

Patrick Beyrer and
Bob T. Li

What We Are Watching

China's healthcare system did not emerge from the COVID-19 pandemic unscathed. The confluence of heightened chronic disease incidence, demographic headwinds, and domestic policy challenges has brought it to the edge of functionality. Beijing has not yet responded with an effective remedy, and hospitals, private companies, and government agencies are under pressure to find lasting solutions to address the structural trends plaguing China's healthcare industry. Government agencies attempted to roll out new policies to welcome foreign investment as an antidote for the medical sector's problems toward the end of 2024, but it remains unclear if such policies will succeed.



Photo by Noel Celis/AFP via Getty Images

The Context

Toward the conclusion of the pandemic, Chinese patients were strapped with massive medical bills as the national insurance system struggled to bear the costs of China's zero-COVID apparatus. Combined with local governments' post-COVID debt crunch, the healthcare system's financial strain was a top priority for government reform in 2023. Over the past two years, tens of millions of citizens canceled their enrollment in China's state healthcare system, an unprecedented rate, and this resulted in higher insurance premiums and narrower treatment options.

Demographic trends are also troubling. As the proportion of China's population over 60 rose to more than 20% in 2023, the need for advanced treatment and care options for China's elderly population has become dire. China expects to have 500 million citizens over 60 by mid-century, with the elderly accounting for most of the country's disease profile for cancer, cardiovascular disease, Alzheimer's disease, and chronic obstructive pulmonary disease, which all require specialized, long-term treatment.

China recently conducted a sector-wide corruption probe reaching across its healthcare industry. Since August 2023, over 170 hospital executives across China have been investigated for corruption, while ten provinces kicked off year-long crackdowns on the healthcare sector. In January 2024, at the third plenary session of the Central Commission for Discipline Inspection, officials went so far as to identify medicine as a principal area for grassroots corruption probes. The anticorruption

Failure to restore public trust in the healthcare sector would likely inflame public resentment, undermine faith in government services, and even inspire intermittent protests.

probes may persist for some time, but they do not address patients' immediate concerns.

To meet the scale of China's pressing public health challenges, government agencies and officials may feel an urgency to open the healthcare sector to greater international collaboration and domestic transparency. But as a result of

the ongoing crackdown, foreign medical collaboration has become more complex. Hospitals face serious challenges taking on new partnerships with foreign institutions, and Chinese physicians are now hesitant to prescribe imported drugs or attend international industry conferences.

Restoration of public trust and confidence in the healthcare sector is paramount. Failure to achieve this would likely inflame public resentment, undermine faith in government services, and even inspire intermittent protests against the health system as seen in 2023. Xi Jinping has stated that China must "build a healthcare structure to protect the people's health in all directions." In 2025, achieving this will be one of the country's most critical tasks.

What to Expect in 2025

- **Insurance industry overhaul.** With the public insurance system seemingly tight on funding and resources, officials will continue to promote the use of private health insurance and clinic schemes in select areas, such as Hainan Province. Private insurance options are poised to attract high-quality investment from pharmaceutical and medical device companies.
- **Further regulatory easing.** Although corruption probes may persist in 2025, China will likely slow the pace of its crackdown on the health sector to restore consumer confidence and increase national insurance scheme enrollment. In 2024, several areas of responsibility for regulatory and security review of health data were passed to the National Health Commission from the more security-focused organs like the Ministry of Science and Technology. China will continue to make its healthcare data regulatory systems more consistent, transparent, and conducive to innovation.
- **Faster drug approval process.** The pharmaceutical industry remains one of the few sectors with high growth potential for foreign businesses in China. Beijing will attempt to implement reforms that accelerate foreign drug registration and clinical trial access—including the State Council's "24 Measures," the Third Plenum's decision document, and the Healthy China 2030 action plan.

China's Public Health Challenges Will Present Risks and Opportunities

- **Incentives for foreign investment.** Foreign pharmaceutical companies have doubled down on the China market, not just because of its size but as a source of global innovation in research and development through partnerships with its dynamic and growing biotechnology industry that is second only to the United States. China will seek to build on this momentum and offer more investment incentives in 2025.

EXAMPLES OF FOREIGN PHARMACEUTICAL INDUSTRIAL INVESTMENT IN CHINA, PARTNERSHIPS AND RESULTS IN 2023-2024

FOREIGN COMPANY	CHINESE PARTNERS	RESULTS
AstraZeneca	Gracell Biotechnologies AbelZeta Keymed Biosciences Eccogene	Over 200 China-specific R&D projects and clinical trials, licensing agreements for cancer and cardiometabolic conditions (e.g., CAR-T), antibody-drug conjugates and oral GLP-1 agonists
Bayer	N/A	Opening of Shanghai Life Science Incubator, seven projects focusing on cell and gene therapy platform creation
Eli Lilly	N/A	Diabetes drug approvals, major manufacturing expansion (\$200 million) of Global Gateway Lab incubator in Suzhou
Johnson & Johnson	Legend Biotech	Carvykti CAR-T clinical trial, treatment approved by U.S. FDA for multiple myeloma
Merck KGaA (EMD) / Millipore Sigma	N/A	Expansion of Biologics Testing Center (\$31 million), increase of drug quality control and reagent manufacturing capacity
Novartis	SanReno Therapeutics	Acquisition of SanReno, expansion of kidney disease drug pipeline
Roche Diagnostics	N/A	Manufacturing expansion (\$420 million) in Suzhou

For more content from the Asia Society Policy Institute's Center for China Analysis
visit AsiaSociety.org/ChinaAnalysis

