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China's 2025 Economic Playbook in a New Phase of Trade War

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Beijing's economic targets for 2025 appear ambitious amid serious domestic and external challenges. This year's plans show adjustments from previous years, focusing on domestic consumption, financial stability, and private sector support, where policy support is indeed essential. They also maintain continuity in technological advancement, reflecting Beijing's enduring conviction that technology serves as the primary engine of economic growth. Meanwhile, Beijing has made extensive preparations for the greatest uncertainty of the year: the trade war. Are the proposed solutions sufficient to keep China on track? With Washington's tariff increases and Beijing's retaliatory measures now escalating into a full-scale trade war, a reassessment of China's economic playbook has become urgent. This issue brief examines the problems facing the Chinese economy and evaluates Beijing's proposed solutions considering the latest developments. Although Beijing and Washington have recently agreed to a 90-day truce to ease trade tensions, the analysis and conclusions of this brief remain relevant and timely.

Amid mixed economic conditions, the Chinese government set major economic goals for 2025 during the country's annual Two Sessions in early March—the 3rd sessions of both the 14th National People's Congress (NPC) and the 14th Chinese People's Political Consultative Conference (CPPCC). Among others, these goals include: maintaining last year's GDP growth target of around 5 percent, allowing moderate increase of the urban unemployment rate to 5.5 percent, lowering the inflation target to 2 percent to combat deflation, and maintaining competitive advantages in foreign trade.[1] While state media framed the goals as pragmatic and forward-looking,[2] international observers see them as ambitious given China's challenging domestic and global circumstances.[3]

With Washington's tariff increases and Beijing's retaliatory measures now escalating into a full-scale trade war, a reassessment of China's economic playbook has become urgent. This issue brief examines the problems facing the Chinese economy and evaluates Beijing's proposed solutions considering the latest developments.

Perceived Problems

China has demonstrated impressive momentum in global competition in recent years, particularly in artificial intelligence (AI), electric vehicles (EV), semiconductors, and new energy technologies. Further, its foreign trade reached record levels in 2024, achieving all-time highs in both export value and trade surplus. However, despite reportedly meeting the official 5 percent GDP growth target, Beijing has acknowledged—explicitly and implicitly—that the economy simultaneously faces acute problems.[4]

Sluggish Domestic Market

China's economy continues to rely heavily on investment and exports, while domestic household consumption remains significantly lower than OECD country averages.[5] Given that both investment and exports are under pressure, weak domestic demand poses greater risks to the economy. The situation has deteriorated since the COVID-19 pandemic, with demand showing a continued decline instead of recovery. For example, consumption's contribution to GDP growth in 2024 fell by nearly half compared to 2023.[6] The persistent sub-1 percent Consumer Price Index (CPI) over the past year indicates growing deflationary pressures.[7] These concerning trends are rooted in several structural challenges, including sluggish household income growth that remains weak as a proportion of the Chinese economy,[8] inadequate social welfare provisions, and low market confidence caused by regulatory crackdowns, rising youth unemployment,[9] and the property market crisis.

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China's financial instability also worsened. Although construction activity showed some stabilization in late 2024, the property market did not return to growth. A persistent oversupply of unsold homes continues to depress prices and strain developers.[10] This property market decline created fiscal shortfalls for local governments, which have depended on land sales revenue for more than a decade. Throughout 2024, the overall debt burden of many local governments continued to rise, and their fiscal positions remained precarious.[11] The property crisis and local government debt overhang have become major drags on real growth, with private sector investment and infrastructure spending likely shrinking or remaining flat.

Perilous International Environment

In contrast to its guarded stance on domestic issues, Beijing spoke openly about the increasingly hostile external conditions. Despite government initiatives to enhance the investment climate, foreign investment into China plunged by 27.1 percent in 2024, the steepest decline in decades.[12] A much greater concern stemmed from trade tensions and technological decoupling with key trading partners, particularly the U.S. and, to a lesser extent, the EU. Since 2018 during President Donald Trump's first term, Washington has intensified pressure on China through tariffs, sanctions, and restrictions on investment and technology. The EU has also increased its trade investigations and tariff measures[13] while partially collaborating with the U.S. to implement various China-focused controls—particularly in high-tech sectors.[14]

Beijing anticipated that Trump's second term beginning in 2025 would bring heightened pressure and an escalating trade war. Although China has reduced its U.S. dependence—with U.S.-bound exports dropping from a 19.2 percent share in 2018 to 14.7 percent in 2024[15]—the U.S. has remained China's largest trade surplus source and crucial technology supplier. As a result, higher tariffs would inevitably strain China's already slowing economy.

However, what Beijing—and nearly everyone else—did not seem to anticipate was that the Trump administration would escalate trade tensions so dramatically and swiftly, as occurred in early April 2025. Instead, Beijing had actively sought to establish connections with Trump's team right after his 2024 victory and remained open to continuing negotiations on the 2019 Phase One agreement.[16] On the contrary, Trump's isolationist stance and open hostility toward traditional allies could present a rare and welcome opportunity for Beijing to leverage divisions to counterbalance Washington, especially by strengthening ties with the EU and America's Pacific allies.[17]

> ***"Beijing is working to form an international coalition against the trade war. It positions itself as a "free trade defender" to prevent a broader anti-China trade coalition and to diversify its supply chains and export markets. Since late 2024, it has actively engaged with key partners, particularly the EU, Japan, South Korea, and Southeast Asian nations.***

Proposed Solutions

To address these problems, Beijing pledged to implement three main approaches, as outlined in Premier Li Qiang's 2025 *Government Work Report* during the Two Sessions and other official documents and remarks.

Stimulating Domestic Consumption

Specific measures outlined to boost consumption include a RMB 300 billion subsidy program for home appliances and electric vehicles—double the amount allocated last year. The government also plans to boost spending in the service sector by easing market restrictions. To raise household incomes, policies would be rolled out to promote wage growth and adjust minimum wages. Efforts to reduce financial burdens on families include tax relief and improved access to credit. Additionally, expanded social welfare programs will also align with the push for consumption, particularly elderly care and childcare.[18]

Building on the momentum from President Xi Jinping's February symposium with Chinese entrepreneurs, Beijing pledges to introduce a series of confidence-boosting measures. These include streamlined market access procedures, reduced regulatory oversight, and investment from state capital. To provide immediate support, state-owned banks have been directed to extend targeted financial assistance to private enterprises.[19] Since last year, Beijing has been drafting the *Private Economy Promotion Law* as an effort to stabilize expectations, foster fair competition, and encourage long-term investment in the private sector.[20]

To stabilize the financial system, Beijing will increase lending support for qualified property developers.[21] It will authorize RMB 4.4 trillion in special-purpose bonds to fund infrastructure projects and relieve local government fiscal pressures. Additionally, RMB 500 billion in sovereign bonds will be issued to strengthen state-owned banks' capital reserves, improving their capacity to handle non-performing loans.[22]

Accelerating Technological Advancement

In line with long-standing principles that have gained renewed urgency in recent years,[23] Beijing's technological strategy emphasizes self-reliance in critical technologies while driving innovation in frontier fields. Foci for 2025 included strengthening basic research, accelerating R&D in strategic emerging industries (e.g. biomedicine, new energy vehicles, and commercial spaceflight), and achieving further breakthroughs in semiconductors and artificial intelligence (AI).[24]

Riding the wave of enthusiasm generated by the Chinese AI application DeepSeek, AI received special attention during the sessions. Beijing announced the "AI+" initiative to combine digital technology with manufacturing capabilities and market strengths, advance large language model applications, and develop smart devices, particularly intelligent connected new energy vehicles.[25]

Beijing's total science and technology budget for this year will increase by 8.3 percent to over RMB 1.2 trillion, second only to the U.S. Additionally, it plans to establish a RMB 1 trillion national venture capital fund to foster technology companies. Local governments are encouraged to participate in the competition for innovation hubs by developing industries that leverage their regional strengths.[26]

> ***"Among the three major tasks for China's leadership—managing the trade war, stimulating consumption, and advancing technology—addressing the trade war demands immediate attention, while developing consumption and technology represent long-term strategies for economic transformation.***

Getting Ready for Trade War

Beijing repeatedly emphasizes stabilizing foreign investment and trade, with proposals to open more sectors to foreign investment.[27] Chinese leaders intensified efforts to reassure foreign investors through Premier Li Qiang's[28] and President Xi Jinping's[29] consecutive meetings with multinational executives. They promised to improve the business environment while calling on global businesses to join China in opposing protectionism and economic decoupling.

Initially, Beijing attempted to resolve trade tensions through negotiations, seeking partial or temporary agreements. The strategy included increasing purchases of U.S. goods and expanding Chinese investment in the U.S. After Trump's re-election, it repeatedly sought to establish dialogue channels with his team, emphasizing its preference for diplomatic solutions over confrontation.[30] Meanwhile, Beijing maintained a measured public response, avoiding rash reactions to preserve negotiating flexibility while developing contingency plans.

However, China has made it clear that it will not accept any agreement that compromises its core interests and is prepared to escalate if pressured. Its actions since April 10 indicate a readiness to swiftly retaliate with reciprocal measures should the Trump administration dramatically raise tariffs.[31] Among others, U.S. agricultural exports are one of the most vulnerable to China's tariff retaliation. Sanctions are also part of Beijing's policy toolkit, including placing U.S. companies on its export control list, suspending imports, restricting the operations of American firms, and imposing export controls on select rare earths and critical raw materials targeting high-tech industries. Moreover, to cushion the trade war's impact, mobilizing state funds to stabilize the stock market is also part of the countermeasure.[32]

Equally important, Beijing is working to form an international coalition against the trade war. It positions itself as a "free trade defender" to prevent a broader anti-China trade coalition and to diversify its supply chains and export markets. Since late 2024, it has actively engaged with key partners, particularly the EU, Japan, South Korea, and Southeast Asian nations. Xi Jinping and other senior leaders have launched an intensive diplomatic campaign, deepening ties with its respective countries while urging them to "jointly resist" Trump's tariff pressure.[33]

> ***"The policy toolkit for addressing a full-scale trade war escalation is narrow in scope. While Beijing's countermeasures are forceful and carried out in a calibrated manner, sufficient support for affected industries such as tax relief and transformation assistance, or social security for workers, remains limited.***

Is China on the Right Track?

Beijing's economic targets for 2025 appear ambitious amid serious domestic and external challenges. This year's plans show adjustments from previous years, focusing on domestic consumption, financial stability, and private sector support, where policy support is indeed essential. They also maintain continuity in technological advancement, reflecting Beijing's enduring conviction that technology serves as the primary engine of economic growth. Meanwhile, Beijing has made extensive preparations for the greatest uncertainty of the year: the trade war.

Among the three major tasks—managing the trade war, stimulating consumption, and advancing technology—addressing the trade war demands immediate attention, while developing consumption and technology represent long-term strategies for economic transformation. China's leadership believes that expanding domestic demand and achieving technological self-sufficiency, combined with effective countermeasures, will ultimately help China win the trade war.

Are these proposed solutions sufficient to keep China on track, especially in light of the full-scale outbreak of the tariff conflict with the U.S. since early April? Current observations raise concerns in three dimensions.

First, the announced stimulus measures appear overly cautious and may fall short of their intended goals. The focus is primarily on the consumption side, while neglecting fundamental constraints like low household incomes and inadequate social welfare.[34] In addition, efforts to boost market confidence remain largely rhetorical and lack concrete action—notably, the anticipated *Private Economy Promotion Law* remains unpassed.

Second, the policy toolkit for addressing a full-scale trade war escalation is narrow in scope. While Beijing's countermeasures are forceful and carried out in a calibrated manner, sufficient support for affected industries such as tax relief and transformation assistance remains limited. Not to mention the social safety nets for workers in these sectors, which have consistently remained on the margins of policy attention. During a top leadership meeting on April 25, Beijing announced plans to boost financial support for tariff-affected enterprises, assist their domestic market expansion, and increase unemployment insurance refunds to stabilize employment.[35] However, the timing and effective implementation of specific measures are yet to be seen.

Finally, structural problems persist in the Chinese economy. They manifest in three areas: excessive state intervention in the market,[36] overconcentration of resources in selected industries,[37] and trade frictions with major partners arising from overcapacity, dumping practices, and restricted and opaque market access.[38] While the prescribed solutions may ease immediate symptoms, they do not address these deep-seated problems.

Conclusion

For China, the year 2025 marks more than the escalation of a new trade war—it is a transitional moment in the nation's economic trajectory, marking the end of the 14th Five-Year Plan and setting the stage for the next phase of development. Beijing's current playbook reflects a clear recognition of mounting pressures and a desire to respond with calibrated strategies, particularly in consumption, technology, and trade. Yet these strategies remain constrained by cautious stimulus, insufficient institutional reform, and a reluctance to address deeper structural imbalances. Without stronger social protections, deeper market reforms, and a genuine reckoning with structural inefficiencies, China risks falling short of its own aspirations. How China navigates this critical juncture will define not just its economic resilience in 2025 but the sustainability of its growth model in an increasingly uncertain global landscape.

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