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'Prepared for any kind of war'

Sergio Grassi, from Beijing, on the Chinese National People's Congress, the trade conflict with the US and rising defense spending

What are the main takeaways from the Chinese National People's Congress?

The signals from this year's National People's Congress (NPC) were clearly aimed at strengthening the economy, given that it has not returned to a stable growth path since the pandemic. The course was set against the backdrop of a difficult international environment, falling foreign direct investment (FDI), weak consumer demand, deflationary pressures, a tight labour market, a property crisis and an ageing population. Nevertheless, China's leadership remained confident that it would achieve a growth rate of around five per cent in 2025 and promised to further open up the economy.

On the supply side, innovations and talent are to drive the modernisation of the industrial sector through key technologies. Both state-owned and private companies will benefit from this, particularly in the fields of energy and environmental technology, electric mobility, digitalisation, artificial intelligence, quantum technology, 5G and 6G, and semiconductors. The surprise coup of the AI start-up DeepSeek in January further spurred these ambitions. AI was particularly present at this year's NPC and in Chinese reporting. In his work report, Prime Minister Li announced plans to further unleash the creativity of the digital economy. The 'AI plus' strategy is designed to promote the widespread application of AI computing models and to further develop intelligent, networked vehicles, AI-capable smartphones and computers, and industrial robots. It is expected that AI will be declared a strategic priority in China's five-year plan until 2030. But concerns about possible risks are growing in parallel: NPC delegates expressed doubts as to whether the existing legal framework for AI is sufficient.

In the run-up to the NPC, a realignment in favour of the private sector had already been initiated and was reaffirmed at the congress – both at a meeting between President and General Secretary Xi Jinping

and the delegation from Jiangsu Province as well as in Prime Minister Li Qiang's work report. State supervision remains unchallenged. Apparently, the insight has once again prevailed that China's most innovative private-sector technology companies must play a key role in the long-term vision of global technology leadership. Two weeks before the NPC, Xi met with leading tech entrepreneurs from Huawei, Alibaba, Xiaomi and the shooting star DeepSeek, attracting a lot of media attention.

Which statements came as a surprise and were unexpected? What new priorities will be set as a result?

The Prime Minister's announcement in his work report that ruinous cut-throat competition must be combated was surprising. In doing so, he used the word *Neijuan*, which has so far been used primarily in colloquial speech. He thus indicated that the state would increasingly have to take-action itself to reduce system-related overcapacity. At the same time, this indicates the hope that competition within China could be defined more by quality and technology rather than price in the future. It also emphasises China's efforts to counter deflationary pressure, at least in small steps.

To strengthen domestic demand, the social security system for China's 1.4 billion inhabitants is being further expanded. Simultaneously, care for the elderly and the so-called 'silver hair economy' are to be promoted in a targeted manner. In addition, a 'Special Action Plan to Increase Consumption' has been announced for 2025. China's leaders have been promising to strengthen domestic consumption for 15 years, but the problem of excess supply has been known for a long time and there is still no system for real wage negotiations. So far, pressure has been mitigated by municipal debt and the export of surplus capacity under the Silk Road initiative. But with domestic demand still weak and protectionism on the rise abroad, the market for Chinese products continues to shrink in many industries, while the number of unprofitable companies is increasing. In addition, the weakening real estate market is drying up, one of the main sources of financing for local governments.

Beijing has responded to the US tariff increases with an ambitious economic programme. How does Beijing view the new US administration and the current geopolitical situation?

Beijing emphasises that it does not want an economic war with the US, but it is also not bowing to pressure from Washington. Officially, it has long been preparing for a possible second Trump term. In the run-up to the NPC, the Chinese Foreign Ministry made a deliberately

martial statement that China was 'prepared for any kind of war' – a statement that may also reflect uncertainty about the course of a second Trump administration. So far, US President Donald Trump has not made China a foreign policy priority during the first six weeks of his second term, contrary to earlier announcements. In Beijing, however, there is speculation as to whether this is just the calm before the storm or whether the self-proclaimed 'best dealmaker in the world' is preparing an unfavourable bargain – with small pinpricks as a harbinger.

Mantra-like, Chinese decision-makers declare that China is an anchor of stability in an increasingly uncertain world, while other major nations are causing unrest and acting unreliably. At his press conference, Foreign Minister Wang Yi warned that a 'my country first' policy is driving the world towards the 'law of the jungle'. Regarding relations with the US, he once again referred to three fundamental principles that should enable a partnership and shared prosperity: peaceful coexistence, mutual respect and mutual benefit. Trade Minister Wang Wentao admitted that China's exports are facing major challenges in the face of geopolitical tensions. The government has therefore taken various measures to stabilise foreign trade. At the same time, Wang emphasised that China is becoming less dependent on exports to Western countries as it has opened up new markets through the Silk Road Economic Belt initiative.

Addressing Europe, Beijing emphasised that there are no geopolitical conflicts with the EU. The 'comprehensive strategic partnership' should be continued, global challenges should be tackled together and unilateralism should be fought. With regard to the current dispute over EU countervailing duties on Chinese electric cars, China's top diplomat Wang Yi expressed confidence that both sides would be able to resolve their differences through consultations. However, Wang was vague when it came to Europe's hopes and corresponding questions from journalists as to whether Beijing would use its influence on Moscow to put an end to Russian aggression in Ukraine.

A budget deficit of four per cent is being accepted in order to attract additional investment. There are definitely certain parallels to developments in Germany. How are these being discussed in China?

Indeed, China has set the highest budget deficit since the mid-1990s at 4 per cent to achieve its growth targets and counter the effects of US tariffs and the threat of a trade war. The main tool for achieving this goal is likely to be the issuance of additional debt. Long-term bonds worth around USD 182 billion are planned for 2025, while local governments are allowed to issue up to USD 610 billion in special bonds. The funds raised will help to mitigate the weakness in

the property sector through investment in construction, land acquisition and the purchase of building materials. China's road and high-speed rail network, as well as its research infrastructure, are already world class, thanks to massive investment over the past 20 years. At the NPC, however, Premier Li announced plans to expand the social security system as a way to improve living standards while strengthening consumption and domestic demand. While Germany is currently debating increased infrastructure investments and selective cuts to the welfare state, China is moving in the opposite direction.

Defence spending is also set to increase, thereby maintaining China's position as the world's second largest military power after the United States. What does this mean for China's security and foreign policy?

Military spending is set to rise again – as it has in the last two years – by 7.2 per cent. This means that China's official military budget will grow to 1.78 trillion yuan (approximately 246 billion US dollars) in 2025, which corresponds to 1.7 per cent of the country's GDP. According to the guidelines of President, Party leader and Commander-in-Chief Xi Jinping, the military must 'carry out military operations', 'prepare for war at the same time' and achieve 'world-class levels' by 2027.

China wants to defend itself against all opponents, prevent Taiwan's independence at all costs and resolutely protect its economic interests. However, the constant annual increase in military spending and a military budget of less than two per cent of GDP do not necessarily imply that Beijing intends to use military force to achieve its foreign policy goals in the future. The question remains, however, why the country is rapidly expanding, modernising and diversifying its nuclear arsenal – without providing any transparency regarding the underlying motives and goals.

This interview was conducted by Philipp Kauppert.



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