

Welcome to This Week's Asia on the Horizon

Welcome to this week's Asia on the Horizon, where we dissect the pivotal developments shaping the Indo-Pacific's geopolitical and economic landscape. China's Two Sessions have set the tone for its domestic and foreign policy priorities in 2025, with a strong emphasis on economic stability, industrial upgrading, and military modernization. Meanwhile, concerns over the future of AUKUS and U.S. security commitments loom large, particularly in the wake of controversial remarks from a key Trump administration defense nominee questioning the feasibility of selling Virginia-class submarines to Australia.

On the economic front, Beijing's Government Work Report outlines ambitious fiscal and monetary policies aimed at stabilizing growth at around 5%, while also addressing risks in the property sector and enhancing domestic consumption. However, rising trade tensions are threatening economic stability, with China imposing retaliatory tariffs on Canadian agricultural products amid ongoing friction with the U.S. and its allies. Our Statistics of the Week provides a detailed breakdown of China's latest economic figures, highlighting both strengths and vulnerabilities in its growth strategy.

Security concerns continue to dominate the regional agenda, as demonstrated by the latest Map of the Week, which tracks the path of a Chinese PLA Navy task force operating near Australia's coastline. Elsewhere, Manila's strategic realignment takes another step forward, with the Philippines set to sign a new defense agreement with Canada, strengthening its web of security partnerships amid rising tensions in the South China Sea.

In our Infographic of the Week, we provide a visual analysis of China's policy priorities for 2025, covering economic growth, industrial upgrades, foreign investment strategies, and environmental goals. Additionally, our Photo of the Week offers a glimpse into the opening of the Two Sessions, an event that serves as a crucial barometer for China's political and economic direction.

As we examine these developments, key questions emerge: Is the U.S. still a reliable partner for its Indo-Pacific allies, or are we witnessing the beginning of strategic drift? How will China's economic roadmap impact its global trade relationships, and can Beijing navigate mounting economic pressures? What are the broader implications of the Philippines' expanding defense partnerships for regional stability? This edition provides the insights needed to make sense of these critical shifts and anticipate what lies ahead in the Indo-Pacific.



1. KEY DEVELOPMENTS

China Opens Annual Political Advisory Session Amid Economic and Strategic Challenges

China's top political advisory body, the Chinese People's Political Consultative Conference (CPPCC), officially opened its annual session on March 4, 2025, in Beijing. Attended by President Xi Jinping and other senior Chinese leaders, the gathering marks the beginning of China's pivotal political period known as the "Two Sessions." Wang Huning, Chairman of the CPPCC National Committee, delivered the work report highlighting efforts to enhance consultative democracy mechanisms and encouraged delegates to actively contribute to national governance through informed policy discussions and recommendations.

This year's session convenes amidst significant economic and geopolitical challenges, including escalating trade tensions with the United States and persistent domestic deflationary pressures. Analysts suggest that the meetings will emphasize boosting domestic demand, high-tech innovation, and economic stabilization measures. With an estimated 5% GDP growth target set for 2025, China seeks to reassure both domestic and international observers of its economic stability amid potential trade disruptions with the U.S. Notably, the presence of emerging tech leaders in this year's meetings signals China's strategic intent to prioritize innovation-driven sectors to bolster economic resilience.

Japan Maintains Neutrality Amid U.S.-Ukraine Diplomatic Dispute

Japanese Prime Minister Shigeru Ishiba stressed on Monday that Japan will remain neutral following an unprecedented diplomatic clash between U.S. President Donald Trump and Ukrainian President Volodymyr Zelenskyy. Addressing the incident publicly during a Budget Committee meeting, Ishiba expressed astonishment at the televised confrontation that resulted in Zelenskyy being ejected from the White House without finalizing a crucial minerals agreement. "From what I saw on TV and in the news, I can't help but wonder how this could have happened," Ishiba commented.

The Prime Minister underscored Japan's cautious diplomatic stance, explicitly stating that Tokyo would avoid involvement in the dispute. His remarks reflect Japan's careful diplomatic balancing act, as Tokyo navigates its strategic relationship with Washington while preserving diplomatic flexibility amid increasing geopolitical volatility.

China Retaliates Against Trump Tariffs with Targeted Levies on U.S. Agriculture

China has announced a new round of retaliatory tariffs against the United States, further escalating trade tensions after U.S. President Donald Trump's recent imposition of increased duties on Chinese imports. Beginning March 10, Beijing will enforce tariffs ranging from 10% to 15% on several critical American agricultural and food products. Notably, products such as chicken, beef, pork, dairy, wheat, corn, and a variety of fruits

and vegetables will be impacted by these new measures, intensifying pressure on American farmers and agribusiness sectors already vulnerable from prolonged trade tensions.

Beyond tariffs, Beijing expanded its strategic response by adding 10 additional U.S. companies to its "unreliable entity list," effectively prohibiting them from engaging in trade and new investments within China. Notably targeted were prominent American defense firms, including General Dynamics and General Atomics. These moves, coupled with China's newly imposed export controls on 15 U.S. aerospace and defense companies, signal a clear escalation in economic hostilities. As both economic giants reinforce their hardline positions, these latest developments suggest an increasingly precarious future for U.S.-China trade relations.

New Zealand Recalls UK Ambassador After Criticism of Trump's Historical Knowledge

New Zealand's government has recalled its High Commissioner to the United Kingdom, Phil Goff, after he publicly questioned U.S. President Donald Trump's understanding of history during a recent panel discussion in London. Speaking at a public event, Goff compared Trump's diplomatic overtures towards Russia unfavorably with Winston Churchill's resolute stance against Nazi Germany during World War II. His comments specifically highlighted Trump's restoration of Churchill's bust to the Oval Office, rhetorically asking, "But do you think he really understands history?"

The remarks triggered immediate diplomatic repercussions, prompting Wellington to swiftly remove Goff from his post. The decision underscores New Zealand's cautious approach to its sensitive diplomatic relations with the United States amid heightened geopolitical tensions. Bede Corry, New Zealand's leading foreign affairs bureaucrat, has initiated the process of transitioning to a new ambassador in London, emphasizing the importance New Zealand places on maintaining stable and neutral diplomatic relationships, particularly with key allies like the U.S.

Thailand Defends Uyghur Deportation, Citing Fear of Chinese Retaliation

Thailand has defended its controversial deportation of Uyghurs to China, claiming the decision was necessary to avoid possible economic retaliation from Beijing. Vice Minister of Foreign Affairs Russ Jalichandra stated that sending the Uyghurs back to China was in the country's "best interest," as alternative resettlement proposals—reportedly made by countries such as the United States, Canada, and Australia—could have provoked punitive measures from China, adversely affecting Thai livelihoods.

The secretive deportation, strongly criticized by the United Nations and various human rights organizations due to fears of persecution and torture upon the Uyghurs' return, highlights Thailand's delicate balancing act amid China's increasing influence in Southeast Asia. The move underscores the broader geopolitical pressures faced by

countries in the region, forced to weigh human rights obligations against economic and diplomatic repercussions from Beijing.

U.S. Moves to Impose Port Fees on Chinese-Linked Ships Amid Maritime Tensions

The United States is preparing to introduce port fees on vessels belonging to fleets that include Chinese-built or Chinese-flagged ships, significantly escalating economic tensions in maritime trade. A draft executive order by the Trump administration proposes imposing charges on all vessels docking at U.S. ports if their fleet comprises any ships built or flagged in China. The measure seeks to counter China's dominance in global shipbuilding, where Chinese shipyards now account for over half of the world's merchant vessel capacity—a dramatic increase from just 5% in 1999.

This policy, driven by bipartisan concerns over declining U.S. naval readiness and China's maritime ascendancy, may profoundly impact global shipping operations, affecting major international carriers like Maersk, MSC, Evergreen Marine, and Maersk. Industry leaders have already warned of potential disruptions, including reduced port visits to the U.S. and increased shipping costs. The planned fees represent a significant escalation in maritime tensions between Washington and Beijing, further deepening economic friction and intensifying strategic competition in the global maritime and logistics sectors.

China Takes Tariff Dispute with U.S. Back to WTO Amid Renewed Trade War

China has submitted a revised request for dispute consultations at the World Trade Organization (WTO) in response to the latest round of tariffs imposed by the United States under the Trump administration. The WTO announced that China filed the updated request following the recent implementation of increased U.S. tariffs, now up to 20%, targeting a broad array of Chinese imports. These new measures have reignited concerns about escalating trade tensions between the two largest global economies, potentially disrupting international markets and supply chains.

This move positions the WTO as a critical forum once again for addressing disputes arising from President Trump's aggressive trade policies, particularly after similar actions by Canada, which recently challenged Washington's 25% tariffs on its exports. Under WTO procedures, the U.S. and China have 60 days to resolve their differences through consultations. Failing a mutual agreement, the dispute could progress to formal adjudication by the WTO's dispute settlement body. The outcome of this trade confrontation will be closely watched as a barometer for the strength of global trading rules amid growing economic nationalism.

Japan Raises Concerns Over Trump's Tariffs, Warns of Impact on Investment

Japanese Prime Minister Shigeru Ishiba expressed serious reservations about the impact of U.S. President Donald Trump's recent trade policies, emphasizing that Washington's newly imposed tariffs could significantly undermine Japanese investments in the United States. Ishiba's comments come amid escalating trade tensions and growing anxiety among Japanese businesses, nearly 90% of which believe Trump's tariff-driven strategy will negatively affect their operations, according to a recent Reuters survey. Ishiba underscored the necessity of clearly communicating how Japanese investments have historically bolstered U.S. economic growth and job creation.

Highlighting these concerns publicly, Ishiba's remarks reflect Tokyo's heightened unease over Trump's protectionist measures, which threaten the stability of bilateral economic relations. During his recent summit with President Trump, Ishiba stressed the importance of recognizing mutual economic benefits. However, the prevailing uncertainty is causing alarm among Japanese corporations, with many reconsidering their future U.S. investment plans. Japan's diplomatic outreach underscores efforts to mitigate potential damage, though Ishiba's public comments reveal growing apprehension about the future trajectory of U.S.-Japan economic ties amid escalating trade tensions.

European Parliament Lifts Restrictions on Engagements with Chinese Officials

The European Parliament has removed restrictions that previously prevented official meetings and visits involving Chinese parliamentarians, marking a significant shift in the EU's stance toward diplomatic interactions with Beijing. European Parliament President Roberta Metsola initiated the decision, reversing guidelines imposed during heightened tensions over alleged human rights abuses in China's Xinjiang region. These guidelines had previously prohibited official visits and strictly limited parliamentary interactions between European and Chinese officials.

The lifting of these restrictions signals an effort by the EU to recalibrate its diplomatic approach toward China, potentially reopening channels of dialogue and cooperation. However, similar restrictions related to officials from Russia and Belarus remain firmly in place, suggesting that the EU's reassessment is selective rather than a broader relaxation of diplomatic policies. This development may reflect a pragmatic attempt by the European Parliament to balance human rights concerns with economic and diplomatic necessities amid an increasingly complex global geopolitical landscape.

China Retaliates Against Canada with New Agricultural Tariffs Amid Escalating Trade Dispute

China has announced significant retaliatory tariffs on Canadian agricultural products worth \$2.6 billion, deepening an ongoing trade dispute and signaling increasing economic tensions. Scheduled to take effect on March 20, these tariffs will impose duties of 100% on Canadian rapeseed oil, oil cakes, and peas, and 25% on aquatic products and pork imports. The move is Beijing's response to Ottawa's earlier decision to levy similar duties on Chinese electric vehicle imports, initiated amid broader geopolitical tensions largely influenced by U.S. trade policies.

Despite the aggressive stance, Beijing notably refrained from imposing tariffs on Canadian canola—currently under investigation for alleged dumping—a move analysts interpret as leaving diplomatic channels open for negotiations. Observers view the timing of the tariffs as strategically significant, suggesting China is exerting pressure on Canada ahead of upcoming national elections. The tariffs also underline Beijing's strategic calculation, targeting products with limited alternative markets, thus maximizing economic pressure on Canada while signaling openness for dialogue to resolve the trade impasse.

U.S. Considers Banning Chinese AI App DeepSeek on Government Devices

The U.S. government is reportedly evaluating a potential ban on the Chinese artificial intelligence chatbot DeepSeek from federal devices, citing significant national security concerns related to data privacy. U.S. authorities have raised alarm over the app's practice of storing user data on servers based in China, sparking fears of possible misuse or espionage risks. This development comes amid broader apprehensions about China's expanding influence in the global technology sector, where DeepSeek's cost-effective AI models have already disrupted markets and prompted intense scrutiny from Western policymakers.

The proposed ban follows pressure from a group of 21 state attorneys general, who recently called on Congress to enact legislation explicitly prohibiting DeepSeek's use on government-issued devices. DeepSeek's rapid rise has unsettled global AI markets, undermining confidence in established industry leaders and provoking sharp reactions from U.S. regulators. As Washington continues to scrutinize technology security risks linked to China, the debate around DeepSeek underscores broader anxieties about technological competition, data sovereignty, and geopolitical tensions between the United States and China.

Philippines and Canada Set to Sign Defence Cooperation Pact Amid Growing Indo-Pacific Tensions

The Philippines and Canada are poised to finalize a Status of Visiting Forces Agreement (SOVFA), significantly deepening their bilateral defence ties as geopolitical tensions escalate across the Indo-Pacific region. This agreement, aimed at enhancing military interoperability and establishing clearer frameworks for joint defence activities, marks an important milestone in Manila's broader strategy of diversifying international security partnerships. The Philippine defence ministry highlighted the agreement's potential contribution to regional stability, emphasizing its significance for cooperative security in an increasingly contested strategic environment.

Canada has actively supported Philippine sovereignty in the South China Sea, notably backing Manila's position following the landmark 2016 arbitration ruling against China's expansive maritime claims. This pact with Canada follows similar recent arrangements with New Zealand and Japan, underlining the Philippines' strategic shift towards a multilateral security approach while continuing to strengthen its foundational alliance with the United States. The SOVFA underscores both countries' growing commitment to regional security cooperation, aiming to counterbalance increasing tensions and security challenges in the Indo-Pacific.

French Carrier Charles de Gaulle Strengthens Indo-Pacific Partnerships with Joint Exercises

France's sole aircraft carrier, Charles de Gaulle, has concluded a significant deployment to the Asia-Pacific under Mission Clemenceau 25, marking an expansion of French naval engagement in the region. The five-month mission focused on deepening interoperability with key regional allies, including Australia, Japan, the Philippines, and the United States. A highlight of the deployment was Pacific Stellar 2025, a joint exercise involving the U.S. Navy's USS Carl Vinson and Japan's JS Kaga, where French Rafale M fighters conducted cross-deck operations with U.S. F/A-18 Super Hornets. The carrier strike group also engaged in tactical data link testing and logistical cooperation, underscoring France's commitment to a free and open Indo-Pacific.

Beyond operational drills, the deployment reinforced France's strategic presence in the region, with port visits to Singapore, Indonesia, and Vietnam. French officials emphasized that the mission showcased France's maritime power projection capabilities and commitment to multilateral security partnerships. Following its Asia-Pacific engagement, Charles de Gaulle will participate in the annual Varuna naval exercises with the Indian Navy, further strengthening bilateral defense ties. French military leaders acknowledged the region's growing strategic importance and expressed interest in extending future deployments to enhance regional cooperation and knowledge-sharing.

Trump's Defense Nominee Questions AUKUS Submarine Deal Amid U.S. Capacity Concerns

Elbridge Colby, Donald Trump's nominee for Undersecretary of Defense for Policy, has raised doubts over the feasibility of the AUKUS submarine deal, arguing that selling Virginia-class nuclear submarines to Australia could weaken U.S. naval capabilities. Colby warned that, given escalating tensions in the Indo-Pacific—particularly around Taiwan—diverting attack submarines to allies could leave U.S. forces vulnerable. He emphasized that unless the U.S. can accelerate its submarine production, supplying Australia with the vessels under AUKUS could be a "very difficult problem." His remarks come amid broader concerns that the U.S. submarine-building industry is falling short, producing only about half the number of boats needed annually to meet both domestic and AUKUS-related commitments.

Compounding the uncertainty, a recent U.S. Congressional Research Service report suggested an alternative to the submarine sale, proposing that the U.S. instead deploy additional Virginia-class submarines to Australian bases while retaining operational control. The issue gained further prominence when President Trump appeared unfamiliar with the AUKUS acronym during a press event, prompting renewed concerns in Australia over Washington's long-term commitment to the agreement. While Australian officials sought to downplay the moment, it highlighted a growing debate about whether AUKUS will ultimately deliver sovereign nuclear-powered submarines to Australia or if Canberra will instead play host to U.S.-controlled assets in the Indo-Pacific.

2. STATISTICS OF THE WEEK

China's 2025 Government Work Report in Numbers

China's 2025 Government Work Report outlines ambitious economic targets and key policy priorities aimed at sustaining growth and stability. The GDP growth target has been set at around 5%, while the surveyed urban unemployment rate is expected to remain at approximately 5.5%, with over 12 million new urban jobs projected for the year. The government also aims to keep inflation in check, setting a consumer price index (CPI) increase of about 2%, while striving to reduce energy consumption per unit of GDP by around 3%.

Reflecting on 2024's achievements, China reported a 5% GDP growth rate, contributing nearly 30% to global growth, while urbanization reached 67%. Inflation remained low at just 0.2%, and manufacturing investment grew by 9.2%, signaling industrial resilience. Notably, disposable income rose by 5.1%, aligning with economic growth. In the green transition, non-fossil fuel power generation surpassed 40%, and renewable energy capacity reached 370 GW. The high-tech sector expanded, with new energy vehicle production exceeding 13 million units and digital services accounting for 10% of GDP.

China's 2025 policy agenda emphasizes economic reforms, industrial upgrades, and sustainability, reinforcing the government's commitment to high-quality growth while navigating domestic and external challenges. With a strategic focus on technological advancements, energy efficiency, and consumer-driven expansion, Beijing's approach seeks to balance economic stability with long-term structural transformation.

KEY FIGURES IN CHINA'S 2025 GOVERNMENT WORK REPORT

中国2025年政府工作报告核心指标

KEY TARGETS FOR 2025

2025年发展主要预期目标



KEY ACHIEVEMENTS IN 2024

2024年重点工作成效



CGTN

https://news.cgtn.com/news/2025-03-05/Graphics-Key-figures-in-China-s-2025-government-work-report-1BuaA2JvTPO/share_amp.html

3. MAP OF THE WEEK

PLA Navy's Far-Seas Training Near Australia

A newly released Chinese military map illustrates the PLA Navy's (PLAN) latest far-seas training exercise, tracing the route of a Type 055 destroyer, a Type 054A frigate, and a replenishment vessel as they maneuvered through waters near Australia and the South Pacific. The naval formation, which began its journey in early February, conducted operations across key maritime chokepoints, including the Torres Strait, the Solomon Sea, and the Coral Sea, before approaching Australian waters.

A significant moment in this deployment was the live-fire exercise near New Zealand on February 21-22, signaling China's growing confidence in projecting power beyond its immediate periphery. The route taken by the task force—from the **South China Sea, through Southeast Asian straits, and into the Indian Ocean—**demonstrates Beijing's strategic focus on long-range naval operations, maritime presence, and interoperability within contested waters.

This deployment underscores the evolving dynamics of naval power projection in the Indo-Pacific, particularly in response to U.S. and allied maritime activities. The PLA Navy's presence so close to Australia reinforces Beijing's interest in shaping regional security narratives while testing the limits of its access and operational reach. As tensions persist over freedom of navigation, alliances, and strategic influence, such naval maneuvers will likely become more frequent, raising new challenges for Australia and its partners in the region.



https://x.com/indopac_info/status/1898320891102322788?s=46

4. PHOTO OF THE WEEK

China's "Two Sessions" Set the Course for 2025

The opening meeting of the third session of the 14th National Committee of the Chinese People's Political Consultative Conference (CPPCC) took place at the Great Hall of the People in Beijing on March 4, 2025. As part of the highly anticipated "Two Sessions" (两会, Liǎnghuì)—which also includes the National People's Congress (NPC)—this annual gathering serves as a key platform for shaping China's policy direction and governance strategies.

Against the backdrop of economic challenges, technological shifts, and evolving global tensions, this year's Two Sessions are expected to highlight economic revitalization, industrial innovation, and social stability. The CPPCC's role as China's top advisory body ensures that a broad range of perspectives—spanning business, academia, and regional leadership—inform major policy decisions. As China navigates a complex geopolitical landscape, the discussions and proposals emerging from this high-profile meeting will offer valuable insight into Beijing's strategic priorities for the year ahead.



The opening meeting of the third session of the 14th National Committee of the Chinese People's Political Consultative Conference (CPPCC) is held at the Great Hall of the People in Beijing, capital of China, March 4, 2025. [Xinhua/Zhai Jianlan]

http://en.qstheory.cn/2025-03/04/c_1074806.htm

5. INFOGRAPHIC OF THE WEEK

Key Takeaways from China's 2025 Government Work Report

This week's Infographic of the Week presents a comprehensive overview of China's 2025 Government Work Report, highlighting key economic targets, fiscal policies, and policy focus areas that will shape the country's economic trajectory in the coming year.

The GDP growth target remains around 5%, with a focus on job creation (12 million new urban jobs) and controlling inflation (around 2%). To support economic expansion, the deficit-to-GDP ratio is set to rise to ~4%, pushing the fiscal deficit to RMB 5.66 trillion (US\$776 billion).

Key policy areas emphasize boosting domestic consumption, high-tech industrial upgrading, and risk management. The government is prioritizing foreign investment through enhanced Free Trade Zones, rural revitalization, and green energy initiatives. However, concerns over local government debt and external trade uncertainties remain.

China's leadership is also doubling down on science and education reforms, aiming to enhance its talent pool and technological competitiveness. While these initiatives indicate Beijing's commitment to long-term growth, global economic uncertainties and geopolitical tensions could challenge implementation. The success of these policies will determine whether China can sustain economic momentum amid a complex global landscape.



6. REGIONAL ALLIANCES

Uncertainty Over Aukus and Its Impact on U.S. Commitments in the Indo-Pacific

The Aukus security pact, once heralded as a transformative agreement to bolster Australia's defense capabilities and reinforce U.S. commitment to the Indo-Pacific, is now facing serious doubts. Recent statements from Elbridge Colby, Donald Trump's nominee for Undersecretary of Defense for Policy, have cast uncertainty over whether the U.S. will proceed with selling Virginia-class submarines to Australia. The debate has been further complicated by concerns over the U.S.'s strained shipbuilding capacity, with a recent Congressional Research Service (CRS) report suggesting that the U.S. Navy may not meet its own submarine production needs, let alone supply Australia. These developments have sparked concerns not only in Canberra but also among other U.S. allies in the region, who increasingly question Washington's long-term reliability in security commitments.

Challenges to Aukus and U.S. Commitments

Colby's remarks highlight a growing divide in U.S. strategic thinking, where prioritizing American naval superiority in the Pacific—especially in a potential conflict over Taiwan—may come at the cost of long-term alliance-building. If the U.S. hesitates to transfer submarines to Australia, it could redefine the Aukus pact from an effort to bolster Australia's independent defense capabilities to merely positioning U.S. forces in Australian territory. This shift would have profound implications for Canberra, as it risks becoming a forward operating base for U.S. military interests rather than an autonomous security actor. Australia has already committed \$3 billion to enhance U.S. shipbuilding, yet doubts persist over whether the submarines will ever be delivered. Some in Washington now propose an alternative model in which U.S. submarines, rather than Australian-owned vessels, would be stationed in Australia—an approach that erodes Australia's sovereign defense ambitions.

Ripple Effects on Regional Partners

The uncertainty surrounding Aukus extends beyond Australia, raising concerns among other U.S. partners in the Indo-Pacific. Japan and South Korea, key allies in the region, have already been reassessing their security policies due to shifting U.S. priorities. If Washington's commitment to Australia wavers, Tokyo and Seoul may accelerate their defense investments, focusing on indigenous capabilities rather than relying solely on American military support. The Philippines, another key regional player, has also been diversifying its defense partnerships, evidenced by its recent decision to sign a Status of Visiting Forces Agreement (SOVFA) with Canada, in addition to strengthening ties with New Zealand and Japan. These moves reflect a broader trend where Indo-Pacific nations hedge against potential U.S. retrenchment by forging alternative security arrangements.

Conclusion

The Aukus pact was designed to be a cornerstone of U.S. strategy in the Indo-Pacific, reinforcing deterrence against China while deepening ties with regional allies. However, if the U.S. proves unable or unwilling to fulfill its commitments, Aukus may be seen as a symbolic rather than substantive initiative. The consequences of this uncertainty extend beyond Australia, potentially weakening trust in Washington's long-term strategic vision. As Indo-Pacific nations navigate this evolving security environment, they may increasingly look beyond the U.S. for stability, whether by expanding their own military capabilities or fostering alternative alliances. The question remains: can the U.S. sustain its leadership role in the region, or will the Aukus dilemma be a turning point in America's Indo-Pacific engagement?

7. ANALYSIS

China's Two Sessions 2025 and Its Strategic Implications

The 2025 Two Sessions mark a pivotal moment in China's political and economic trajectory. As the country approaches the final year of its 14th Five-Year Plan (2021–2025), policymakers face mounting domestic and international challenges. The key themes of this year's Government Work Report (GWR) signal a cautious yet determined approach to stabilizing economic growth, managing financial risks, and reinforcing China's global positioning amid heightened geopolitical tensions, particularly with the United States. With a GDP growth target of around 5%, an expanded fiscal deficit of 4%, and increased focus on technological self-sufficiency and industrial modernization, the Two Sessions 2025 reflect China's efforts to balance short-term economic recovery with long-term structural transformation. However, this policy direction also underscores Beijing's concerns about external economic pressures, weak domestic demand, and strategic competition with the U.S. in critical sectors such as AI, semiconductors, and defense. This analysis examines the economic priorities, policy shifts, and geopolitical implications arising from China's latest legislative session.

Economic Stabilization and Growth Targets

Premier Li Qiang's government work report reaffirmed a GDP growth target of around 5%, reflecting both the leadership's confidence in China's economic resilience and its recognition of persistent headwinds. While the 5% growth rate is aligned with Beijing's past targets, it highlights an increasingly pragmatic approach that acknowledges weak consumer demand, local government debt burdens, and external trade tensions.

To support this growth, China will implement a more aggressive fiscal policy, including:

- Raising the deficit-to-GDP ratio to 4% (from 3% in 2024).
- Issuing RMB 5.66 trillion (US\$776 billion) in government debt to finance infrastructure projects and economic stimulus measures.
- Expanding local government special-purpose bonds to RMB 4.4 trillion (US\$603 billion) to stabilize public investment.

This shift toward greater government spending aims to counterbalance weak private sector confidence and stimulate investment in high-tech industries, green energy, and industrial modernization.

Despite Beijing's continued emphasis on expanding domestic consumption, the GWR reveals deep structural challenges. Chinese households remain cautious, with low consumer confidence and persistent income inequality dampening private spending. The government's response includes:

- Subsidies for trade-ins of cars, home appliances, and digital products (RMB 300 billion or US\$41.3 billion).

- Measures to boost service consumption in healthcare, elderly care, and tourism.
- Support for e-commerce, digital entertainment, and AI-driven commerce models.

However, structural issues remain, particularly the lack of broad-based income growth and inadequate social security measures, which continue to limit long-term consumption expansion.

Strategic Industrial Policy and Technological Self-Sufficiency

A major theme of Two Sessions 2025 is the promotion of “New Quality Productive Forces” (NQPF)—a term signifying China’s push for innovation-driven growth. The government is prioritizing:

- AI development under the “AI+” initiative, integrating large-scale AI models into manufacturing, finance, healthcare, and logistics.
- Strengthening semiconductor self-sufficiency, with increased investment in chip manufacturing, quantum computing, and advanced computing clusters.
- Expanding low-altitude economy projects, including drones, urban air mobility, and smart logistics systems.
- Enhancing national industrial parks for biomanufacturing, synthetic biology, and quantum technology.

The strong government support for high-tech industries signals Beijing’s resolve to reduce dependence on Western technology while positioning China as a leader in next-generation industries.

Geopolitical and Security Dimensions

The return of Donald Trump to the White House has rekindled fears of heightened U.S.-China trade tensions. With Washington imposing new tariffs on Chinese goods, Beijing has retaliated with countermeasures, including tariffs on U.S. agricultural products. While the GWR avoids direct confrontation, key policy signals indicate China’s strategic response:

- Strengthening domestic supply chains to reduce vulnerability to external trade pressures.
- Expanding economic partnerships with ASEAN, the Belt and Road Initiative (BRI), and Global South countries to counterbalance Western economic restrictions.
- Enhancing supply chain resilience in critical sectors like semiconductors, AI, and green energy.

While China has refrained from outright escalation, its long-term strategy appears to prioritize economic self-sufficiency over immediate trade negotiations with the U.S.

Defense Spending and Military Modernization

China's defense budget continues to grow, though official figures maintain that military spending remains below 1.5% of GDP. However, real military expenditures may be higher, given China's increasing investments in advanced weapons systems, naval expansion, and AI-driven defense technologies.

Key areas of focus in 2025 include:

- Expanding naval capabilities, with an emphasis on South China Sea security and Taiwan contingency planning.
- Boosting strategic deterrence through hypersonic missile development, space-based defense systems, and AI-enabled warfare technologies.
- Strengthening joint military exercises and defense partnerships with Russia and regional allies.

While China portrays its military expansion as defensive and stability-oriented, its modernization drive raises concerns among neighboring states and U.S. allies in the Indo-Pacific.

Foreign Investment and Market Reforms: Limited Liberalization

Despite China's commitment to expanding high-level market access, foreign investor sentiment remains fragile due to:

- Concerns over political and regulatory unpredictability.
- Ongoing U.S.-China trade restrictions and technology decoupling.
- Beijing's increasing state control over key industries.

To counteract investor skepticism, China's leadership has pledged:

- Further opening in technology, healthcare, and finance sectors.
- Strengthening Free Trade Zones (FTZs) and the Hainan Free Trade Port.
- Providing better legal protections for foreign enterprises.

However, deep structural challenges—such as China's strict data regulations, unpredictable legal environment, and limits on capital outflows—continue to deter large-scale foreign investment.

Conclusion

The Two Sessions 2025 highlight China’s strategic balancing act—attempting to stabilize economic growth, strengthen industrial competitiveness, and manage geopolitical risks amid an increasingly uncertain global environment.

While the government remains committed to high-tech modernization and economic resilience, challenges such as weak domestic consumption, financial instability, and U.S. trade pressures pose long-term risks. Furthermore, Beijing’s reluctance to fully liberalize its economy or implement deep structural reforms could limit China’s ability to attract foreign investment and restore confidence.

In the broader geopolitical landscape, China’s policy direction signals a preference for “strategic patience”—escalating self-sufficiency efforts while avoiding outright confrontation with the U.S. However, with heightened U.S.-China tensions, unresolved economic vulnerabilities, and an ambitious industrial policy agenda, the success of Beijing’s long-term vision remains uncertain.

As China navigates this complex transition, the next phase of U.S.-China relations and global economic shifts will determine the effectiveness of Beijing’s policy decisions in shaping China’s economic and geopolitical future.

