

## Welcome to This Week's Asia on the Horizon

As August unfolds, the Indo-Pacific finds itself once again at the heart of shifting power dynamics, bold diplomatic overtures, and tectonic developments—both geopolitical and literal. This week's issue of Asia on the Horizon brings together the region's most consequential stories and trends, offering you clear context and sharp analysis as the landscape continues to evolve.

We open with Key Developments, where the focus falls on renewed momentum—and lingering uncertainty—in U.S.–China trade relations. High-level talks in Stockholm, urgent interventions on the Taiwan front, and the recalibration of U.S. economic leverage reveal a region balancing between competition and dialogue. Alongside, the region witnesses fragile peace between Thailand and Cambodia after their deadliest border clashes in a decade, and the Philippines and India mark a new chapter in maritime security cooperation. On the innovation front, China's push for a World AI Cooperation Organization signals its bid to shape global tech governance, even as its leaders deepen economic ties with Sweden and reaffirm multilateral priorities with South Korea and Japan.

In Statistics of the Week, we dissect China's H1 2025 economic data: robust GDP and export growth underpin headline resilience, but caution remains as domestic consumption and FDI flows falter, underscoring the challenge of achieving balanced, sustainable recovery.

Our Map of the Week turns to nature's power, charting the aftermath of a record-shattering magnitude 8.8 earthquake off Russia's Kamchatka Peninsula—an event that triggered Pacific-wide tsunami alerts and underscored the region's vulnerability to seismic risk.

For the Photo of the Week, we spotlight the face-to-face U.S.–China trade talks in Sweden. The carefully staged diplomacy, marked by cautious optimism and tactical goodwill gestures, offers both a snapshot of ongoing rivalry and a hint at possible detente.

Our Infographic of the Week delves deeper into China's vision for global AI governance, as presented at WAIC 2025—an initiative seeking to institutionalize transparency, open-source collaboration, and a more inclusive technological future for the Global South.

In Regional Alliances, the spotlight is on AUKUS. A surprise Pentagon review of its submarine pillar exposes the tensions and tests of trust shaping trilateral defense commitments, and sparks broader questions about the pace, reliability, and direction of U.S.-led security architectures in the Indo-Pacific.

Finally, our Analysis section unpacks China’s “two-speed” recovery. We examine how surging trade and high-tech output are powering the world’s second-largest economy, while real estate, private consumption, and investment remain stubbornly weak—posing crucial policy dilemmas for Beijing in the months ahead.

As always, Asia on the Horizon aims to connect the dots between headline events and regional undercurrents—providing you with the insights and foresight needed to navigate a complex, fast-moving landscape. Dive in, and stay ahead of the curve.



## 1. KEY DEVELOPMENTS

### U.S.–China Trade Talks Advance, with Key Policy Shifts and Rodeo Ahead

Top U.S. and Chinese economic officials wrapped up two days of talks in Stockholm by July 29, 2025, aiming to extend their 90-day tariff truce, which currently expires on August 12, as part of an effort to defuse escalating trade tensions. Though no major breakthroughs were announced, U.S. Treasury Secretary Scott Bessent described the interactions as “very constructive,” and affirmed that final authorization for any extension rests squarely with President Trump. At the same time, the U.S. Commerce Department has paused technology export controls to avoid disrupting negotiations and undergird Trump’s broader push for a deal with Beijing.

Though Trump publicly insisted on July 29 that he was “not seeking” a summit with President Xi Jinping, he added that he may visit China if Xi extends an invitation, potentially during the upcoming APEC summit in South Korea in late October or early November. That caution seems mirrored in Washington’s posture toward Taiwan: according to the Financial Times, a planned U.S.–Taiwan defense meeting involving Taiwan’s Defense Minister Wellington Koo was abruptly canceled in June, amid concerns in the administration about jeopardizing sensitive China trade negotiations. These moves signal U.S. leverage is being closely calibrated to maintain pressure on Beijing, while still preserving avenues for dialogue and potential high-level engagement, contingent on delicate diplomatic signals and final Trump approval.

### Thailand and Cambodia Agree to Immediate Ceasefire After Deadly Border Clash

Following the most intense fighting in over a decade, Thailand and Cambodia reached an urgent, unconditional ceasefire effective at midnight on July 28, 2025, after five days of fierce conflict along their disputed 817-km border. The talks—held in Putrajaya and mediated by Malaysian Prime Minister and ASEAN chair Anwar Ibrahim—included both countries’ leaders and drew diplomatic pressure from both China and the United States. President Donald Trump personally intervened via phone calls to Acting Thai Prime Minister Phumtham Wechayachai and Cambodian Prime Minister Hun Manet, warning that U.S. trade talks and tariff relief would halt if fighting persisted. The conflict displaced over 300,000 civilians and killed at least 38 people, predominantly noncombatants.

Though the ceasefire held following midnight, minor clashes and recriminations were reported in the subsequent hours. Thailand accused Cambodian forces of ceasefire violations—including small arms, RPGs, and mortar fire—while Phnom Penh called these allegations “false and misleading,” urging trust-building measures. Both governments agreed to keep military commanders on alert but committed to a planned defence ministers’ meeting on August 4 in Malaysia and a broader mechanism to enforce the truce, signaling cautious optimism but persistent mistrust.

## Promoting a “World AI Cooperation Organization” at WAIC

Chinese Premier Li Qiang, speaking at the opening of the World Artificial Intelligence Conference (WAIC) in Shanghai on July 26, 2025, proposed the creation of a “Global AI Cooperation Organization” headquartered in Shanghai. The initiative aims to establish an inclusive, UN-supported platform to harmonize global AI governance, pool regulatory frameworks, and ensure that artificial intelligence serves broad global interests rather than becoming dominated by a handful of countries or private entities. Li framed AI as both a growth engine and a significant security challenge, warning that the current fragmented governance — reflected in chip shortages and talent restrictions — risked cementing inequity between economies.

Following the launch of a 13-point Global AI Governance Action Plan, China emphasized its commitment to open-source collaboration and technology transfer, particularly focused on benefiting nations in the Global South. Major Chinese tech firms including Alibaba and DeepSeek have opened up their large language models to developers worldwide, while China positions itself as a counter-model to the U.S.'s low-regulation, America-first AI strategy. By promoting public goods, transparency, and multilateral forums, Beijing aims to position itself as a leader in ethical AI governance, even as tensions with Washington escalate.

## Swedish PM Meets Chinese Vice Premier to Deepen Bilateral Cooperation

On July 28, 2025, Swedish Prime Minister Ulf Kristersson hosted Chinese Vice Premier He Lifeng in Stockholm, as both nations reaffirmed their commitment to deepening cooperation and supporting free trade. Vice Premier He conveyed greetings from Chinese leadership and highlighted the significance of this year’s 75th anniversary of diplomatic relations, referencing recent congratulatory exchanges between President Xi Jinping and King Carl XVI Gustaf. He noted that under the strategic guidance of both countries’ leaders, China–Sweden ties have expanded across various sectors, especially in economic and trade domains, and expressed optimism for further development.

He Lifeng emphasized China’s readiness to enhance communication and deepen cooperation with Sweden, grounded in mutual respect, trust, equality, and benefit. He called for both countries to jointly uphold multilateralism and free trade, and to promote the stable growth of their bilateral relationship. During the meeting, He also briefed the Swedish side on the latest China–U.S. economic and trade talks, underlining Beijing’s interest in transparent and constructive engagement with European partners.

## Seoul Embraces Pragmatic Diplomacy with Japan and Beyond

South Korea's Foreign Minister Cho Hyun commenced his first international trip since taking office—starting with Japan on July 29, 2025—where he met with Japanese counterpart Takeshi Iwaya to underscore Seoul's new emphasis on pragmatic, interest-driven diplomacy. Cho stated that the administration of President Lee Jae-myung will pursue stronger partnerships with allies based on mutual trust, shared goals, and practical benefits. He highlighted that cooperation with Japan and the U.S. is key to South Korea's strategy for dealing with regional challenges and converting strategic uncertainty into opportunity.

During their Tokyo meeting, Cho and Iwaya pinpointed North Korea's deepening military ties with Russia, including troop deployments and cyber-enabled funding channels, as a primary regional threat. Both agreed to maintain close coordination with the United States through trilateral mechanisms to address security risks and support mutual stability in the Indo-Pacific.

## U.S.–Japan Trade Deal Locks in Premier Tariff Privileges for Chips and Pharma

On July 29, 2025, Japan's chief trade negotiator Ryosei Akazawa announced that the newly finalized U.S.–Japan trade agreement guarantees the lowest tariff rates on semiconductors and pharmaceuticals among all U.S. trade partners. Under this agreement, if the U.S. later negotiates lower rates with another country, those reduced tariffs will automatically apply to Japan as well—cementing Tokyo's preferential position in two critical technology and health sectors. The broader framework, struck the previous week, also sets a 15% U.S. tariff rate on autos and other Japanese imports, down from previous proposals, in exchange for a \$550 billion Japanese investment package in the U.S. consisting of equity, loans, and guarantees.

This arrangement offers Japan long-term economic security while the absence of a joint signed declaration—at least until an executive order from President Trump is issued to enact the tariff cuts—underscores Tokyo's strategic caution in ensuring policy implementation before formalization. The deal is viewed as a model for how countries can avoid punitive U.S. protectionism, placing pressure on rivals such as South Korea and the European Union to seek similar terms ahead of the August 1 deadline for widespread reciprocal tariffs. Critics in the U.S. automotive sector warn that the agreement may disadvantage North American producers.

## **Philippines' Marcos to Visit India as Defense and Trade Ties Deepen**

Philippine President Ferdinand Marcos Jr. is slated to make a state visit to India from August 4 to 8, 2025, his first since assuming office in June 2022, at the invitation of Prime Minister Narendra Modi. As confirmed by the Indian Ministry of External Affairs, the agenda will include high-level bilateral meetings, including with Indian President Droupadi Murmu, and a scheduled speech on August 6 focused on “partners for a rules-based order”.

The visit will coincide with the Philippines' and India's first-ever bilateral maritime cooperative activity (MCA), set to begin on August 3 near the disputed Scarborough Shoal in the South China Sea. Four Indian naval vessels—including INS Delhi, INS Shakti, INS Kiltan, and INS Sandhayak—will participate in port calls and joint drills aimed at enhancing interoperability and maritime coordination with the Philippine Navy, sending a clear signal of mutual concern over China's expanding maritime coercion.

## **Massive Russia Seismic Event Triggers Tsunami Alerts from Japan to Hawaii**

On July 30, 2025, a powerful earthquake — measuring 8.8 in magnitude and striking off the coast of Russia's Kamchatka Peninsula — unleashed a tsunami that prompted urgent evacuation orders across parts of Japan, Hawaii and other Pacific rim regions. Japan's Meteorological Agency detected waves surging up to 1 meter in height at certain coastal locales and issued warnings for a wider set of islands. Meanwhile, U.S. officials from Hawaii to California activated their tsunami response protocols, urging residents and fishermen to seek higher ground immediately. Critical lifelines, including shipping lanes and port operations, were suspended as precautionary measures.

Global scientific organizations such as the U.S. Tsunami Warning System, Japan Meteorological Agency, and the Pacific Tsunami Warning Center coordinated cross-border alerts, with real-time monitoring emphasizing the quake's atypical strength and potential to affect distant coastlines. While the initial tidal surge—notably less than the worst-case scenario—was reported manageable in most mainland areas, concerns lingered over lagging waves impacting remote islands and vulnerable low-lying communities. Seismologists stressed the importance of multi-hazard readiness in the wider Indo-Pacific, as this event underscores the region's acute vulnerability to ocean-borne natural hazards amid changing climate patterns and undersea seismic risk.

## **U.S.–Pakistan Trade Deal Marks Strategic Pivot in South Asian Economic Alignments**

On July 30–31, 2025, the United States and Pakistan finalized a trade agreement that Pakistan heralded as a significant win — notably a reduction in reciprocal tariffs for Pakistani exports to the U.S., though specific rates were not disclosed. Pakistan’s Finance Ministry described the deal as a transformative milestone in bilateral collaboration, aimed at expanding cooperation in energy, mining, IT, and cryptocurrency sectors. Senior Pakistani officials emphasized that the agreement transcends mere tariff relief, positioning trade and investment as integrated pillars of a more ambitious strategic partnership.

President Donald Trump accentuated the deal’s energy dimension, announcing America would assist in developing Pakistan’s “massive oil reserves” and is in the process of selecting a lead company for exploration. Trump hinted at the longer-term geopolitical implications of the pact, suggesting Pakistan may eventually export oil to India—a proposition met with skepticism given Pakistan’s modest proven reserves (estimated at around 234–353 million barrels, placing it roughly 50th globally). The agreement signals a recalibration in U.S. trade strategy: while it tightens tariffs on India and threatens broader protectionist measures, it opens the door for closer economic alignment with Pakistan—underscoring Washington’s intent to diversify South Asian partnerships.

## **Myanmar Sets Up Civilian-Led Interim Government, But Authority Remains with the Junta**

On July 31, 2025, Myanmar’s military regime announced a nominal transfer of power to a civilian-led interim government—part of what has been described as preparations for a national election expected in December 2025 or January 2026. Though state media reported the cancellation of the February 2021 emergency decree and formation of a caretaker administration and an 11-member election commission, these entities remain tightly controlled by the military leadership.

Despite this rebranding as a transition to civilian rule, Senior General Min Aung Hlaing continues to wield centralized authority as acting president, commander-in-chief of the armed forces, and head of both the election commission and the newly restructured State Security and Peace Commission. Western governments and domestic opposition figures view the planned vote as a managed process lacking democratic legitimacy, with critics—from human rights observers to rebel leadership—calling it a façade designed to consolidate military control while marginalizing legitimate political participation.



## Top U.S. Senator's Taiwan Visit Signals Congressional Support Amid Trade Diplomacy

U.S. Senator Roger Wicker, newly appointed chair of the Senate Armed Services Committee, is set to lead a high-profile congressional delegation to Taiwan in August 2025, a move confirmed by both Congressional sources and multiple media outlets. The visit comes amid bipartisan Congressional concern over the Trump administration's perceived de-emphasis on Taiwan-related security issues while negotiating a significant trade deal with China. Wicker, known as one of Taiwan's strongest advocates in Congress, plans to use the visit to reaffirm U.S. support for Taiwan's democracy and bolster deterrence against growing Chinese pressure.

Beijing has already voiced strong opposition, urging the delegation to cancel, citing the one-China principle and existing China-U.S. communiqués forbidding official U.S.–Taiwan exchanges. In Taipei, Wicker's visit is being viewed as a critical signal that despite Washington's growing emphasis on smoother trade relations with Beijing—evidenced by recent tariff negotiations—the U.S. Congress remains committed to maintaining robust defense and diplomatic ties with Taiwan.

## China Urges Deeper U.S. Engagement, Warns Against Escalation

On July 30, 2025, Chinese Foreign Minister Wang Yi called for expanded engagement and dialogue with the United States, emphasizing that increased communication channels are essential to managing misjudgments and strategic risk in bilateral relations. Speaking with a delegation of U.S. corporate leaders—including executives from Apple, Boeing, and Goldman Sachs—Wang said China is ready to pursue cooperation pragmatically, while cautioning against unilateralism and confrontational posturing by either party, a message underscored in the wake of recent trade negotiations in Stockholm.

Wang's remarks framed Sino-American relations as pivotal to global stability, asserting that both nations should cultivate objective strategic perceptions and mutual respect. He encouraged American companies to maintain confidence in China's market and to continue investing. This diplomatic overture arrives as both sides prepare to potentially extend their 90-day tariff truce, set to expire on August 12, and paves the way for a possible summit between Presidents Trump and Xi at the upcoming APEC forum.



## China's Emerging Sectors Drive Growth as Factory Activity Slows

Official statistics published on July 31 indicate that high-technology industries and new business formats continued to bolster China's economy. In 2024, these emerging sectors accounted for 18.01% of GDP, growing 6.7% year on year, while in H1 2025, high-tech manufacturing saw a 9.5% surge in value-added output—outpacing broader industrial growth. The nation also added 30,014 foreign-invested enterprises during the first half of 2025, representing 11.7% more than a year earlier, even as total FDI declined by 15.2% in real terms to ¥423 billion (≈ \$59 billion).

Despite these higher-value emerging sectors, traditional manufacturing is moderating. The official PMI for July dropped to 49.3, signaling contraction for the fourth straight month, while the non-manufacturing PMI edged down to 50.1, hovering just above stagnation. Meanwhile, June's total trade in goods and services reached ¥4.22 trillion (≈ \$588 billion)—a 6% increase year on year—leading to a surplus of \$70 billion.

## U.S. Pentagon Review Delays AUKUS Pillar 1 Amid Technical and Security Hurdles

The U.S. Department of Defense has ordered a comprehensive review of AUKUS Pillar 1, the trilateral pact's flagship plan to deliver nuclear-powered submarines to Australia, citing technical, industrial, and counterintelligence challenges that have put key timelines at risk. According to a July 30, 2025 report, the Pentagon's internal assessment comes after warnings from lawmakers and independent experts about strained U.S. submarine production capacity and potential security vulnerabilities in technology transfer to Australia and the U.K. The review will evaluate the feasibility of meeting delivery targets and the security architecture needed to safeguard sensitive nuclear and propulsion technologies, with findings expected to shape the program's future course.

This delay has raised concerns in Canberra and London over the pace and reliability of AUKUS submarine cooperation—a central pillar of their long-term Indo-Pacific security strategy. Australian officials reiterated their commitment to the pact but acknowledged the Pentagon review may mean adjusting expectations for submarine delivery dates and industrial integration. The development comes as China intensifies its diplomatic opposition to AUKUS and regional security competition deepens. The outcome of the Pentagon's review will likely determine whether AUKUS can deliver on its promise to transform Australia's naval deterrence and cement trilateral technology sharing among the U.S., U.K., and Australia.

## 2. STATISTICS OF THE WEEK

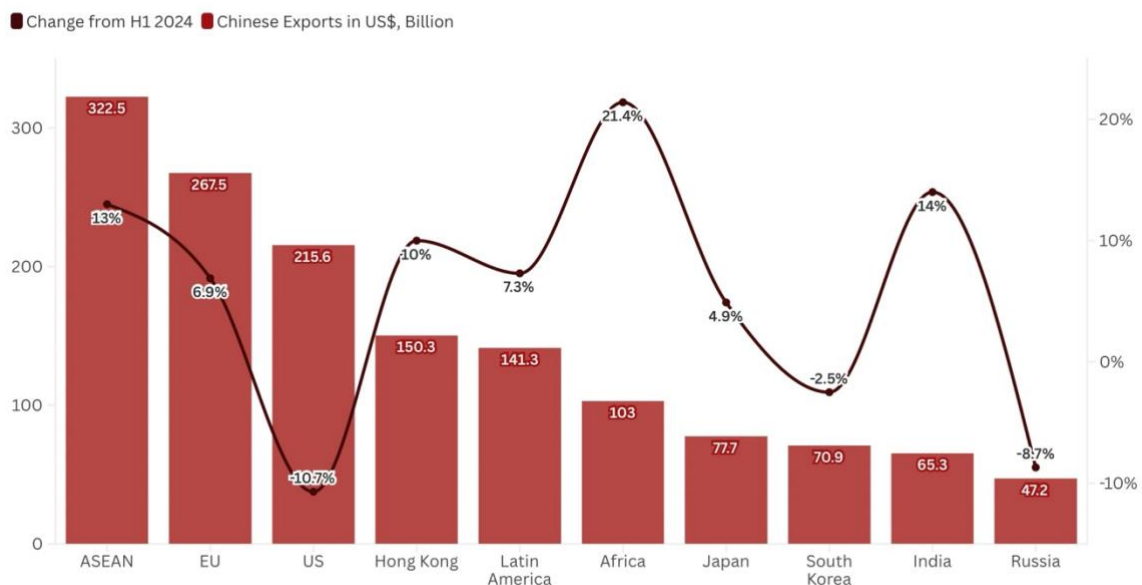
### China's Economy in H1 2025: Trade Surges Amid Uneven Recovery

China's economy grew 5.3% year-on-year in the first half of 2025, buoyed by robust industrial output and a resilient export sector, even as domestic consumption and real estate continued to lag. The country's GDP reached RMB 66.05 trillion (US\$9.24 trillion), driven by a 6.4% rise in industrial production and a 5.5% expansion in services. Retail sales grew by 5.0%, while manufacturing investment and high-tech industries were bright spots, with high-tech manufacturing output up 9.5% and equipment manufacturing up 10.2%.

Exports remained a key growth driver, particularly to ASEAN (up 13%), Africa (up 21.4%), and India (up 14%), helping offset a sharp 10.7% drop in exports to the U.S. (see chart). The trade surplus surged to a record US\$314.2 billion in Q2, powered by June's rebound in exports and strong demand for rare earths, steel, autos, and integrated circuits. Despite global volatility and ongoing tariff threats, China's export machine continues to find new markets—underscoring the importance of diversification as U.S. and EU protectionism intensifies.

Foreign direct investment (FDI) signals mixed confidence: over 30,000 new foreign-invested firms were set up in H1, but actual FDI inflows fell 15.2% year-on-year, reflecting investor caution. Looking ahead, the challenge for Beijing will be to broaden the base of recovery—by boosting household demand, supporting private business, and ensuring trade gains translate into lasting, balanced growth.

**Chinese Exports in H1, 2025**



Source: General Administration of Customs, People's Republic of China

<https://www.china-briefing.com/news/chinas-economy-in-h1-2025-gdp-trade-and-fdi-highlights/>

### 3. MAP OF THE WEEK

#### Megaquake in Eastern Russia Sends Tsunami Across Pacific

An enormous magnitude 8.8 earthquake struck off Russia's Far Eastern Kamchatka Peninsula on July 30, 2025, triggering tsunami warnings and evacuation orders from Japan to Hawaii and French Polynesia. The quake, the largest globally since Japan's 2011 Tohoku disaster, occurred along a "megathrust fault" where the dense Pacific Plate is subducting under the North American Plate—a geological setting notorious for unleashing the world's most powerful and tsunami-generating tremors.

The epicenter, mapped here, was just offshore from Petropavlovsk-Kamchatsky, radiating "severe" and "very strong" ground shaking across the Kamchatka region. With a shallow depth of just over 20 km, the quake generated tsunami waves of up to 4 meters (13 feet) that reached coastlines across the Pacific, though actual run-up heights varied by local topography. Waves of 1.7 meters hit Hawaii, and French Polynesia was bracing for larger surges. The event was immediately followed by at least ten significant aftershocks, and scientists caution that further large tremors can't be ruled out.



<https://www.reuters.com/business/environment/massive-russian-earthquake-struck-megathrust-fault-2025-07-30/>

## 4. PHOTO OF THE WEEK

### US–China Trade Talks in Sweden: Truce on the Table

Top U.S. and Chinese officials met in Stockholm this week in a high-stakes effort to extend their tariff truce beyond the looming August 12 deadline and to chart a new path forward on economic ties. Chinese Vice Premier He Lifeng and U.S. Treasury Secretary Scott Bessent led their respective delegations—marking their third face-to-face in under three months. Ahead of the talks, Bessent struck a positive note, declaring “trade is in a very good place with China,” and signaling that an extension is “likely.”

The agenda in Sweden covers not just the duration of the tariff pause, but also U.S. tariffs linked to fentanyl trafficking, China’s purchases of Russian and Iranian oil, and the status of TikTok’s U.S. operations. Beijing is pressing for the rollback of American tariffs and export controls on high-tech goods, while Washington is leveraging China’s strategic grip on minerals and rare earths in its own negotiating calculus. Both sides made goodwill gestures before the meeting: the U.S. temporarily lifted a ban on Nvidia chips, and China suspended an antitrust probe into U.S. firm DuPont.

Analysts say a successful extension could pave the way for a possible Trump–Xi summit later this year, potentially easing the world’s most consequential trade rivalry. The outcome of these talks will ripple far beyond Washington and Beijing—shaping the direction of global trade, technology flows, and economic security for months to come.



<https://mitkatadvisory.com/us-china-trade-talks-in-sweden/>

## 5. INFOGRAPHIC OF THE WEEK

### China Proposes “World AI Cooperation Organization” at WAIC 2025

At the 2025 World Artificial Intelligence Conference (WAIC) in Shanghai, Chinese Premier Li Qiang called for the establishment of a “Global AI Cooperation Organization” to be headquartered in Shanghai. Framing AI as both an economic driver and a security challenge, Li argued that AI’s future “must serve all humanity, not just a select few.” The proposed organization aims to create a UN-backed, inclusive platform for harmonizing global AI governance, pooling regulatory frameworks, and avoiding an AI landscape dominated by a handful of countries or corporations.

China’s 13-point Global AI Governance Action Plan, released at WAIC, highlights a commitment to open-source collaboration, technology transfer, and support for the Global South. Major Chinese tech firms—including Alibaba and DeepSeek—have pledged to open their large language models to global developers, with China positioning itself as a counterweight to the U.S.’s market-driven, low-regulation approach. The international community will be watching closely to see how this initiative fits into the evolving architecture of AI governance and interfaces with existing institutions, as Beijing seeks to lead the way on “AI for good” through transparency, inclusiveness, and public goods.



[https://www.linkedin.com/posts/eurohub4sino\\_china-pitches-global-ai-cooperation-activity-7355536000795721729-GDOP?utm](https://www.linkedin.com/posts/eurohub4sino_china-pitches-global-ai-cooperation-activity-7355536000795721729-GDOP?utm)



## 6. REGIONAL ALLIANCES

### AUKUS Under Review: Testing the Resilience of Indo-Pacific Security Alliances

The U.S. Pentagon's newly announced review of AUKUS Pillar I—the nuclear-powered submarine pact at the heart of the trilateral Australia-UK-U.S. alliance—has injected fresh uncertainty into one of the Indo-Pacific's most ambitious security initiatives. The review, ordered amid mounting industrial and security concerns, comes at a time of rising strategic competition in the region, putting the spotlight on alliance cohesion, long-term deterrence planning, and the delicate balance between ambition and deliverability. While Washington frames the review as prudent due diligence, officials in Canberra and London are quietly recalibrating their expectations, knowing that the outcome could reverberate through the region's entire security architecture.

#### Alliance Strains and Strategic Assurance: Navigating Delays and Doubts

At the center of the review is AUKUS Pillar I—the multi-decade plan for Australia to acquire conventionally-armed, nuclear-powered submarines based on U.S. and UK technology. Industrial constraints loom large: U.S. submarine yards are currently delivering about 1.1 vessels per year, well short of the 2.3 required to meet both domestic and alliance needs. This production shortfall has triggered bipartisan concern in Congress and warnings from think tanks such as the Center for Strategic and International Studies (CSIS) that delays could leave Australia with a capability gap well into the 2030s. Australia's Defense Minister Richard Marles and the UK's defense leadership have both stated their “unwavering” commitment to the AUKUS framework, emphasizing that a review could clarify timelines and help align industrial capacity with strategic objectives. Yet, behind the scenes, defense planners are bracing for potential slippages in delivery dates and reassessing how to sustain deterrence if schedules slip.

Security and counterintelligence also figure heavily in the Pentagon's calculus. Experts note that the transfer of sensitive propulsion and weapons technologies—unprecedented outside the Five Eyes intelligence partnership—raises complex challenges in managing both technical secrets and allied operational integration. Some in Washington see the review as a chance to reinforce controls and bolster political support ahead of an election cycle, while allies hope it will pave the way for smoother, more sustainable technology sharing.

#### Pillar II and Expanding the Alliance: Beyond Submarines

While the submarine deal headlines the news, AUKUS Pillar II—focused on advanced capabilities such as AI, quantum computing, cyber, undersea drones, and hypersonic weapons—is quietly gaining momentum. The Pentagon's review is formally limited to Pillar I, but the alliance's credibility now depends on progress across both fronts. Negotiations to involve like-minded partners, including Japan, South Korea, Canada, and New Zealand, in select Pillar II projects reflect growing recognition that security in

the Indo-Pacific cannot rest on submarines alone . Collaborative projects in AI and unmanned systems are already being piloted, aiming to build resilience against “grey zone” threats and boost technological edge in a rapidly evolving landscape.

Pillar II’s agility may prove critical if Pillar I timelines slip. Analysts at the International Institute for Strategic Studies (IISS) and RAND Corporation argue that success in new domains—such as maritime autonomous vehicles and AI-enabled threat detection—could partially compensate for delays in submarine delivery, while demonstrating to regional partners that AUKUS remains adaptable and forward-looking .

### **Conclusion: Alliance Durability in a Shifting Strategic Landscape**

The AUKUS review marks a pivotal moment not just for the alliance but for the future of Indo-Pacific security cooperation. If managed transparently and constructively, the process could strengthen AUKUS by clarifying its industrial and strategic foundation, shoring up confidence among allies, and creating a blueprint for next-generation defense collaboration . But if protracted delays or ambiguous messaging emerge, the risk is that adversaries could exploit gaps in regional deterrence—and partners may look elsewhere for reassurance.

Ultimately, the fate of AUKUS will hinge on whether the U.S., UK, and Australia can align vision with capability, adapting to industrial realities while keeping faith with their shared strategic commitments. As the region enters a new phase of competition, the resilience of alliances like AUKUS will be tested not only by external pressures but by the partners’ willingness to invest, innovate, and deliver—together.



## 7. ANALYSIS

### China's H1 2025 Growth: Trade Booms, Domestic Engines Sputter

China's economy defied bearish predictions in the first half of 2025, delivering 5.3% year-on-year GDP growth—a result that exceeds most G20 peers and signals continued global relevance. Yet, dig beneath the surface, and a story of imbalances emerges: industrial output and trade remain robust, but private consumption, real estate, and entrepreneurial investment are still lagging. Policymakers in Beijing are touting “hard-won achievements” amid global volatility, but economists from the IMF, World Bank, and private banks like Goldman Sachs increasingly warn that headline momentum could mask deep-seated vulnerabilities.

### Exports Surge as China Finds New Markets, But Risks Lurk

Trade is powering China's recovery. Despite a 10.7% plunge in exports to the U.S.—amid ongoing tariff wars and supply chain “de-risking”—China's exporters quickly pivoted to new and emerging markets. Exports to ASEAN soared 13%, Africa jumped 21.4%, and India climbed 14%, reflecting Beijing's aggressive diversification strategy under the Belt and Road Initiative and direct efforts to shield the economy from Western restrictions. Major categories such as rare earths, steel, autos, and integrated circuits posted record growth, underscoring China's grip on strategic supply chains.

The result: a record \$314.2 billion trade surplus in Q2, driven by an unusually strong June when firms rushed to ship orders ahead of possible new tariffs. However, analysts caution this surge may be temporary: UBS, Morgan Stanley, and Nomura all project a possible slowdown in H2, as frontloaded shipments subside and global demand—especially in Europe—softens further. The WTO has also flagged rising “deglobalization” risks, with protectionism likely to persist into 2026.

### Domestic Consumption and Real Estate: Still China's Achilles' Heel

Despite solid industrial output (+6.4%) and impressive growth in high-tech manufacturing (+9.5%) and equipment manufacturing (+10.2%), the consumer recovery is lackluster. Retail sales rose 5.0%, better than Q1 but still far below pre-pandemic “catch-up” booms seen elsewhere. Surveys by McKinsey and China Beige Book show households remain cautious, saving more amid worries over job security, wage stagnation, and falling property values.

The real estate sector—once the engine of urban prosperity and a critical pillar for local government finance—is still mired in contraction. Real estate investment dropped 11.2%, while new home sales and prices are falling in most major cities. Analysts from S&P Global and Oxford Economics warn that a continued property slump will sap consumer confidence and weigh on bank balance sheets, potentially requiring further policy easing or even managed bailouts.

Crucially, private sector investment—a key job and innovation driver—fell 0.6%, reflecting business caution. The government's targeted stimulus (e.g., consumer goods trade-in programs, modest tax cuts) has yet to reignite animal spirits, with many

entrepreneurs deterred by regulatory uncertainty and a patchy post-pandemic recovery.

### **Foreign Investment: Structural Shifts Behind Tepid Inflows**

The FDI picture is equally nuanced. On the one hand, over 30,000 new foreign-invested enterprises were registered in H1 2025—a sign that multinationals still view China as indispensable, especially in sectors like EVs, AI, and pharmaceuticals. Yet, actual FDI inflows fell 15.2% year-on-year, with Western companies in particular either delaying projects or repatriating profits at higher-than-normal rates. Surveys by the EU Chamber of Commerce in China and the AmCham China both report that while companies are not abandoning China, they are adopting a “China plus one” strategy—diversifying manufacturing to Southeast Asia and South Asia to hedge against policy and geopolitical risk.

Notably, sectors tied to high-tech and green transition—such as aerospace, e-commerce, and pharmaceuticals—continue to attract robust investment, often from Asian and Middle Eastern investors. But “traditional” FDI linked to property or mass manufacturing is declining. The disconnect between new company registrations and slower capital deployment suggests many firms are laying the groundwork for future growth, but are waiting for clearer policy signals before making major commitments.

### **Conclusion: Sustainable Growth or Policy Mirage?**

China’s headline growth in H1 2025 confirms its role as a global manufacturing and export powerhouse—but also reveals a recovery that is neither broad-based nor entirely self-sustaining. The “two-speed” economy, with external demand running ahead of domestic dynamism, presents risks if global trade headwinds intensify or if domestic sentiment remains subdued.

Looking ahead, the challenge for Beijing will be to unlock household spending, shore up the real estate market, and restore private business confidence—all while navigating persistent geopolitical friction. Most leading analysts agree that targeted policy support—such as consumer incentives, SME financing, and property easing—will be essential, but warn that true rebalancing will require a sustained effort to reduce reliance on debt-fueled infrastructure and exports. As the world’s second-largest economy faces this critical juncture, the durability of its recovery will be shaped by the choices policymakers make now, and by how quickly the next phase of “high-quality growth” can be delivered.