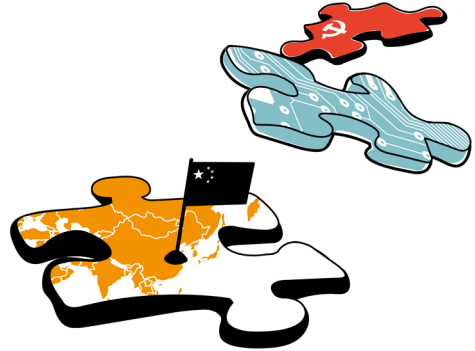


JANUARY 16, 2025

MERICS China Essentials



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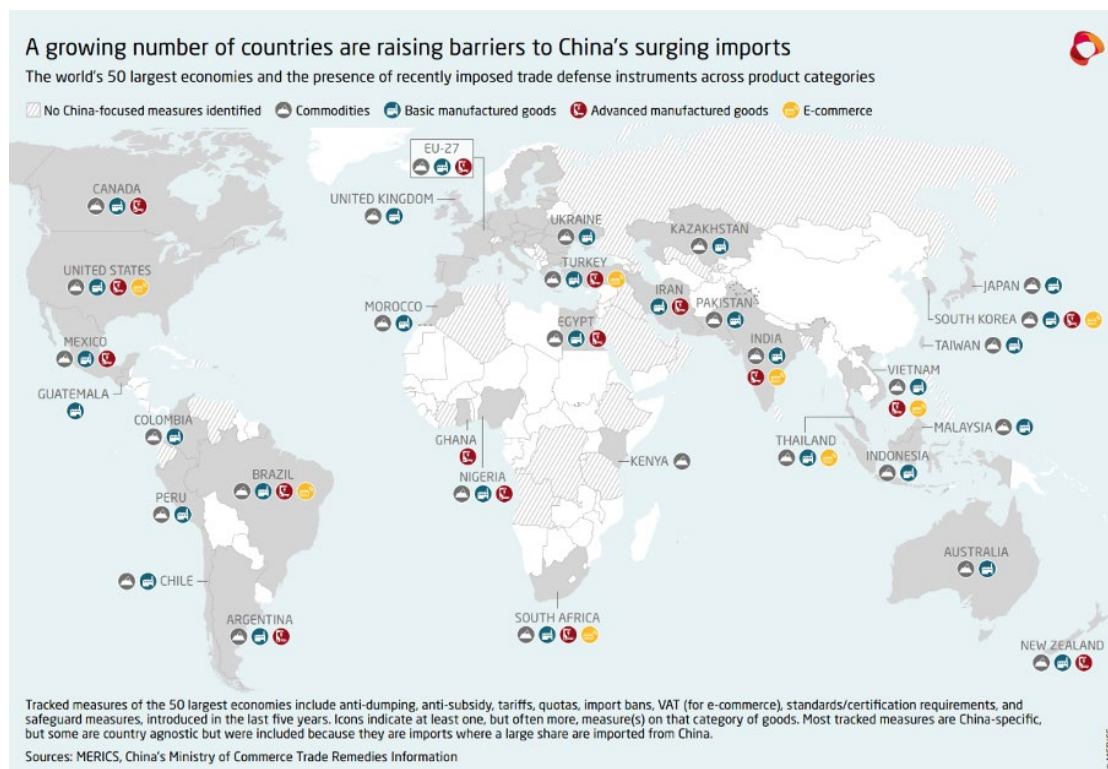
TOP STORY

China's trade surplus nears record USD one trillion as Trump's tariff threats loom

China's export surge set a new record in 2024, flooding markets around the world with cheap goods, threatening jobs and growth, and prodding developed and developing countries alike to address growing trade imbalances. Chinese customs data showed a surplus of USD 992 billion for 2024, a leap from the record USD 838 billion surplus in 2022. Steel exports hit a nine-year high, EVs were up by 13 percent and "high-end equipment" by nearly 40 percent, all while China's e-commerce trade more than doubled since 2020. Companies may be stockpiling ahead of Donald Trump's return to the White House amid tariff threats, but this does not explain all of the surplus increase.

China's growing trade surplus, weak consumption growth, deflation risks and declining profitability make a deeply unhealthy cocktail for its economy. Meanwhile, corporate profits declined by 4.7 percent on average from January to November while revenues increased by 1.8 percent. Fixed asset investment in manufacturing was strong all year.

Yet, Xi Jinping's must-read speech published at the end of 2024 (delivered to Communist Party cadres in Feb. 2023) and the 2024 Third Plenum document doggedly adhered to a singular economic path: China must remain focused on self-reliance and industrial resilience to achieve its modernization goals. Future support for households is hinted at, but only after sufficient progress on national interests, after which the country can return to a focus on Common Prosperity for the Chinese people.



Whatever other countries make of that, they face problems today and tomorrow with China's surging exports. The spillover effect of China's overinvestment, overcapacity, and overproduction across a range of industries is not something uniquely affecting the US or

Europe. More and more middle income and developing countries have raised barriers to certain exports from China where they themselves have nascent or established industries, or where they aspire to climb the value chain. China's new record trade surplus is likely to convince these and more countries to seriously consider what additional steps need to be taken to prevent their own China shock.

MERICS analysis: "In 2024, China's trade surplus broke records – again; growth of domestic consumption was weak – again; corporate profitability weakened – again; and the resources in the system were invested in production rather than consumption – again," said **Jacob Gunter**, Lead Analyst at MERICS. "There is little surprise that more and more developed and developing countries alike are applying trade defense measures on China's ever-increasing exports, and European leaders should be following suit."

More on the topic: [It's not us, it's you: China's surging overcapacities and distortive exports are pressuring many developing countries too.](#) MERICS China Global Competition Tracker

Media coverage and sources:

- NYT: [China's trade surplus reaches a record of nearly USD 1 trillion](#)
- The State Council Information Office: [Press conference on customs, import and export situation for 2024](#)

METRIX

56,887

That is how many cars Porsche sold in China in 2024 – 28 percent fewer than the 79,283 seen in 2023. The luxury brand has joined the ranks of other foreign carmakers who have been hit by a significant drop in sales in the world's biggest car market. Weak Chinese consumer demand is one reason for this trend and, more worryingly, changing consumer tastes are another: Foreign brands have lost significant market share to Chinese rivals in recent years as the latter have pioneered affordable electric vehicles. (Source: [Reuters](#))

TOPICS

Xi's anti-corruption campaign takes aim at grassroots, but could backfire

The facts: Xi Jinping and officials at the January meeting of China's highest anti-corruption authority, the Central Commission for Discipline Inspection (CCDI), vowed to fight corruption at all levels in 2025 – from senior government officials to local administrators. But an inordinate widening of efforts – seen by observers as a way to consolidate power and keep rivals in check – at a time of scarce resources could stymie those tasked with the

legwork. The financial sector, state-owned enterprises, energy, tobacco, and infrastructure projects, the pharmaceutical industry, medical services and higher education were all named as areas for further investigation. Authorities in 2024 investigated 58 senior officials, many at vice-ministerial level or above. Now, the CCDI wants to hold high-ranking Communist Party cadres and grassroots officials accountable in order to bolster public trust.

What to watch: Investigations increasingly target people for failure to implement top-level policy and disloyalty to Xi and the Communist Party (CCP). CCP members and public servants are governed by the CCDI and the adjoined State Supervision Commission, whose investigative powers were recently expanded. Suspects can face lengthy detention and harsh punishments. Because central goals and local realities, such as a lack of funding, often clash, the authority has said it will “strengthen political supervision” of the recent economic stimulus and political programs. Central. Last year, for example, reports showed local governments imposing arbitrary fines on enterprises to raise funds, hampering efforts to promote the private economy.

MERICS analysis: “The continued anti-corruption campaigns are upping the pressure on cadres and officials to be more accountable for their actions,” says **Katja Drinhausen**, Head of Program Politics and Society, MERICS. “But high expectations and limited resources may persuade many that inertia is safer than proactively implementing the party’s goals.”

Media coverage and sources:

- Reuters: [China's Xi cites corruption as 'biggest threat' to ruling Communist party](#)
- SCMP: [China vows to protect businesses from arbitrary inspections in bid to boost weak economy](#)
- CNN: [China is building new detention centers all over the country as Xi Jinping widens corruption purge](#)

Beijing seems intent on hampering de-risking by foreign companies

The facts: Foreign companies keen to reduce their dependence on China might find de-risking easier said than done, new evidence suggests. US tech giant Apple was one of the first big foreign players to announce the transfer of factories, spurred on by closures during China’s zero Covid policy. But Beijing is now reportedly delaying Apple contract manufacturer Foxconn from exporting specialized machines and rotating engineers to new factories in India. Indian media have cried foul at a perceived effort by China to derail de-risking and retaliate against a geopolitical rival. Apple has been more successful at quickly moving production out of China than expected – and Foxconn for now has enough Taiwanese workers and equipment to keep production in India going.

What to watch: China’s government had already taken steps to restrict the export of production equipment in areas in which the country is dominant, such as solar panel manufacturing. These restrictions will also impact Chinese companies looking to set up production outside of China, but they will likely have an outsized impact on European companies, in particular. Many of the latter have moved most of their high-tech

manufacturing to China and increasingly localized production with Chinese engineers. If companies now have trouble moving Chinese equipment and workers to other Asian manufacturing sites, diversification away from China could become very costly.

MERICS analysis: “The pitfalls of moving a lot of manufacturing to China are becoming increasingly apparent to a growing number of foreign companies,” said MERICS Senior Analyst **Antonia Hmaid**. “But diversifying and de-risking will not necessarily be easy. Apple’s experience shows China’s government has many ways to make problems.”

Media coverage and source:

- Rest of World: [Foxconn stops sending Chinese workers to India iPhone factories](#)
- Global Times: [Can India, Vietnam replace China in contract manufacturing? Foxconn's new investment says no](#)
- Asia Tech review: [China obstructs India’s manufacturing rise with Foxconn bans](#)

Beijing silent on Trump - but actions speak louder than words

The facts: Xi Jinping has kept a low profile regarding Donald Trump’s return to the White House, with Beijing remaining silent on Trump’s tariff threats and recent bids to take over Greenland and the Panama Canal. Rather than take any strategic risks by accepting – or turning down – an unprecedented invitation to attend Trump’s inauguration, Xi is expected to send a personal envoy from Beijing. Indeed, actions say more than words: This week, China unveiled its newest 6th-generation jet fighter and the amphibious vessel *Sichuan*. Both are regarded as milestones in acquiring advanced weapons capable of penetrating the Pacific’s first island chain – Taiwan, Japan, and the Philippines – and countering the presence of the United States in the region.

What to watch: Despite uncertainty about the actual capabilities of these new weapons systems, China is conveying political messages on multiple levels by showcasing them. Internationally, it aims to deter Taiwan’s independence, demonstrate military parity with global powers – especially the United States – and signal strength ahead of Trump’s presidency. The message to Washington is clear: China is now better equipped with advanced military capabilities, and the US should proceed cautiously in the region to avoid provoking China. Domestically, the announcements aim to boost morale following anti-corruption crackdowns on military leaders and defense firms.

MERICS analysis: “Trump’s return and Xi’s build-up of military capabilities in China will make many Asian countries think twice about joining US efforts to contain China,” says MERICS analyst **Claus Soong**. “Beijing’s strategic focus and actions send a clear message – not only that China is powerful enough to compete militarily with the US, but also that Xi is actively pursuing his belief that ‘the East is rising while the West is in decline’.”

Media coverage and sources:

- DW: [China launches new generation assault ship 'Sichuan'](#)
- The Telegraph: [Why does China’s secret next-gen stealth plane have three engines? This could be the answer](#)

- United Daily: [China's consecutive displays of sixth-generation fighter jets and small aircraft carriers reveal three key objectives behind its military posturing. \(聯合報: 陸接連展示六代戰機、小航母 大秀軍事肌肉背後有 3 目的\)](#)

MERICS CHINA DIGEST

[Users flock to Chinese Xiaohongshu, or 'RedNote,' with TikTok ban looming \(AP News\)](#)

The Chinese TikTok alternative Xiaohongshu is currently the top downloaded app in the United States. A Supreme Court is due to rule on a law that stipulates TikTok must be divested from its Chinese parent company or face a ban in the country over national security concerns. (24/01/14)

[Biden unveils last round of AI chip curbs aimed at China, Russia \(CNN Business\)](#)

Washington has issued new export restrictions on US-developed computer chips that power artificial intelligence AI systems. The new curbs aim at preventing rivals like China from accessing the advanced technology. (25/01/14)

[EU accuses China of “systematic discrimination” against medical device manufacturers \(Euractiv\)](#)

In a report summarizing the findings of a nine-month investigation, the European Commission said that China's procurement system puts European medical device producers at disadvantage. (25/01/14)

[Xi Jinping to send top-level China envoy to Donald Trump's inauguration \(Financial Times\)](#)

China's party and state leader Xi Jinping will send a high-level envoy in his place to Washington to attend the presidential inauguration according to the Financial Times. It is not yet known who the envoy will be (25/01/10)

[HMPV: What to know about China's human metapneumovirus cases \(BBC\)](#)

The spread of the human metapneumovirus (HMPV) in China has raised fears of another pandemic. Experts say the flu-like HMPV virus is not like Covid, and point out it has been around for many years. (25/01/09)

[China boosts consumer subsidies, vows more funding to aid demand \(Bloomberg\)](#)

To bolster domestic consumption, the Chinese government has announced more subsidies for products such as home goods, smart phones and tablets. In addition, a car trade-in program aims at boosting the sales of electric vehicles and hybrid cars. (25/01/08).

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