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Analysis of China's 2025 Two Sessions: the Road to Technological and Economic Rebalancing

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China's Two Sessions, comprising the National People's Congress and the Chinese People's Political Consultative Conference, have long been a bellwether for the nation's strategic priorities. These meetings allow domestic and foreign investors to gain insights into Beijing's evolving policy landscape and market environment. The 2025 Two Sessions are particularly pivotal as they mark not only the concluding year of the 'Made in China 2025' initiative and the 14th Five-Year Plan but also serve as a transitional period leading into the formulation of the 15th Five-Year Plan. Given its ambitious technological agenda, China aims to achieve "technological autonomy" while engaging in "global co-opetition" against escalating global geopolitical tensions.

Macroeconomic Policy: "Expanding Domestic Demand" as the Top Priority

In a departure from previous years, the 2025 meetings have made "expanding domestic demand" its primary development objective—shifting from traditional supply-side strategies towards bolstering consumption. However, the effectiveness of these measures in reversing the current economic downturn remains uncertain. The real estate sector poses a significant challenge, as property assets constitute 50-70% of Chinese household wealth, contrasting sharply with the 15-30% observed in developed economies. This over-reliance on real estate has constrained consumption, leaving many households asset-rich but cash-poor or hesitant to spend amidst market uncertainty. Consequently, while fiscal

stimulus may mitigate the rate of decline, its ability to fundamentally reverse weak domestic demand is widely questioned.

The evolving legislative landscape further underscores a significant policy shift. The draft 'Private Economy Promotion Law', currently in its second reading, marks a decisive move away from the traditional "state advances, private sector retreats"[1] approach. By prioritizing improved business environments and enhanced legal and market-based conditions, particularly for high-tech foreign investors, Beijing aims to unlock the true potential of its private sector. This recalibration seeks to inject vitality into the domestic economy and attract crucial foreign capital, especially within strategic technology domains.

Looking ahead, achieving China's 2035 goal of becoming a moderately developed nation necessitates annual GDP growth of at least 5%. Given the nation's high fixed asset investment relative to other major economies, expanding production capacity presents a seemingly expedient path to meeting these targets. However, this strategy carries inherent risks. Should domestic demand fail to absorb the increased output, a new wave of overcapacity could ensue, potentially exacerbating existing economic imbalances.

Technology Innovation: Striving for Autonomy and Industrial Upgrading

China's unwavering commitment to technological autonomy and industrial advancement was a key takeaway from the Two Sessions. This was coupled with a dual message: while China reiterated its desire to avoid escalating tensions, it also signaled a firm resolve to tackle technology restrictions imposed by competitors, indicating a readiness to engage in a technology war if provoked by Western nations. With technological innovation now a top priority, especially in AI and semiconductors, China's more discreet approach to strategic planning since the US-China trade war makes its full technological ambitions challenging to assess.

Establishing the Low-altitude Economy Department of Development by the National Development and Reform Commission (NDRC) on 28 December 2024 marks a particularly strategic development. This initiative, reinforced by supportive policies from major cities like Beijing, Shanghai, Shenzhen, and Suzhou, signals Beijing's intent to leverage the low-altitude economy as a significant growth driver. While the United States currently leads in this sector—encompassing drone technology, urban air mobility, and associated logistics and safety regulations—China's comprehensive supply chain positions it as a powerful second contender. The potential for this sector to ignite a new chapter in US-China technological competition is significant. However, given the state's undeniable role in guiding these initiatives—"the sky belongs to the party"—balancing ambitious scientific goals with adaptable regulatory frameworks at both central and local levels will be paramount.

The emergence of DeepSeek during the Lunar New Year, with its impressive performance, has significantly boosted confidence in China's tech sector. In line with the 'Made in China 2025' initiative, China is pursuing a dual strategy of advancing mature manufacturing processes and cutting-edge technologies. This aims to create a "new quality productive force" better able to withstand the USA's "choke point" strategy.

Talent Strategy: The Critical Role of High-Caliber Human Capital

Recognizing that talent is the cornerstone of emerging industry development, the

1 "guo jin, min tui" (國進民退)

2025 Two Sessions emphasized improving talent quality through education, innovation, and global recruitment to achieve Chinese "high-quality development".

China's approach to talent development is multifaceted. Domestically, there is a strong push to cultivate homegrown talent through enhanced education initiatives prioritizing STEM subjects from an early age. Simultaneously, Chinese authorities are making concerted efforts to attract top-tier talent from overseas (e.g., recruiting semiconductor experts from Taiwan and South Korea), reinforcing the country's position as an emerging global leader in high-end, precision, and cutting-edge industries. Local governments are also actively participating in this talent war by relaxing household registration (hukou) restrictions, offering start-up support, and providing direct subsidies.

The rallying cry of "seizing talent is seizing the future" has become emblematic of the fierce competition between central and local authorities to secure the best human resources, indispensable for driving the next wave of technological revolution.

Implications for Global and Regional Stakeholders

The 2025 Two Sessions have delivered a comprehensive signal of China's determination to recalibrate its economic and technological strategies amid a rapidly evolving global landscape.

The escalating US-China rivalry, with its potential to deter foreign investment and disrupt Chinese exports, undeniably impacts China's domestic economic stability. As a result, technological autonomy has become a strategic imperative. The forthcoming 15th Five-Year Plan is expected to prioritize technological innovation and reduce reliance on external markets to overcome developmental constraints. This plan aligns with China's 'dual circulation' strategy—balancing robust domestic economic growth with active international trade—and its distinctive approach to 'major-country diplomacy with Chinese characteristics'. The success of these measures will largely depend on the government's ability to boost domestic demand and implement meaningful reforms in sectors burdened by inefficiencies.

On the geopolitical front, China is actively championing a multilateral approach and reinforcing Belt and Road Initiative collaborations, capitalizing on waning US credibility to challenge the existing international order. The US-China tech war has already prompted supply chain reconfiguration. To counter global supply chain restrictions, Chinese companies are actively building independent supply networks. This strategy enhances trade and technological cooperation with emerging markets while reducing reliance on Western markets. Ultimately, it aims to create a resilient and independent supply chain ecosystem that can function beyond Western-dominated frameworks, potentially reshaping the landscape of industrial competition.

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