

FRONTLINE CHINA REPORT

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CHINA: TO BE CONSTRAINED OR ALLOWED TO GROW?

by Simon Hunt



“United States Department of State drops ‘we do not support Taiwan independence’ from its website about US–ROC Taiwan relations, despite continuing to recognize the Communist China (Peoples Republic of China, the PRC) as the ‘de facto legal government of China’. **Larry Johnson**, what is Trump’s Strategy Towards Russia & China, 18th February 2025

“But the big question has always been whether or not Trump is a ‘China Hawk’, and the indications are the decisions being rolled out will not be detrimental to China’s current system and structure”, **China Economic Review**, 14th February 2025

“We believe Monday’s symposium is of great significance for the high-quality development of the private sector. It will help boost business confidence, bolster the risk appetite of investors, eliminate concerns about domestic policy uncertainties and stabilize the stock market.” **Zhang Jun**, Caixin Global, 18th February 2025

SUMMARY

- Relations between America and China will have their tense moments but will not break out into conflict at least for the next three years. A positive business relationship will be born out of these tense periods.
- Nor will President Trump be able to break the strategic alliance between Russia and China; both countries are natural bed fellows.
- No major new economic stimuli will emerge from the NPC meetings next month. What will evolve will be to legitimize the measures agreed last December. Growth should then begin to recover quite strongly by mid-2025.
- The High-Tech symposium chaired by President Xi is an important milestone for both the rebirth of the private sector and the strengthening of economic activity. The state will fully support the tech sector. In return, the tech sector will share fully their social responsibilities.
- Provincial governments’ primary focus that emerges from their annual January conclave is stabilization and support for their consumers and industries. New measures are needed by central government to fire-up growth which will arise from legalizing the government’s measures agreed last December.

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- One route chosen by Beijing is to encourage consumer spending and increase per-capita income in the rural community. Per capita income in the rural community is still too wide compared with their urban counterparts. Last year, rural per capita income was RMB23,116 compared with urban of RMB54,188
- GDP should be somewhat better than last year providing that America does not turn the screw on China's growth prospects. If so, China has the capacity to retaliate. Both Marco Rubio and Elon Musk know this only too well.

INTRODUCTION

This is a note putting together our views on whether President Trump's policies with China are to constrain the country's growth or by using aggressive tactics to encourage China into a mutually responsible and positive relationship.

In addition, the note includes comments on what stimulus plans may be forthcoming from the NPC Meeting that starts on 4th March, and last Monday's meeting between President Xi and High-Tech entrepreneurs in the private sector.

US-CHINA RELATIONS

US Relations with Taiwan

U.S. Relations With Taiwan
FACT SHEET
BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS
MAY 28, 2022

U.S.-Taiwan Relationship

As a leading democracy and a technological powerhouse, Taiwan is a key U.S. partner in the Indo-Pacific. Though the United States does not have diplomatic relations with Taiwan, we have a robust unofficial relationship. The United States and Taiwan share similar values, deep commercial and economic links, and strong people-to-people ties, which form the bedrock of our friendship and serve as the impetus for expanding U.S. engagement with Taiwan.

Through the American Institute in Taiwan (AIT), a non-governmental organization mandated by the Taiwan Relations Act to carry out the United States' unofficial relations with Taiwan, our cooperation with Taiwan continues to expand. Taiwan has become an important U.S. partner in trade and investment, health, semiconductor and other critical supply chains, investment screening, science and technology, education, and advancing democratic values.

The United States approach to Taiwan has remained consistent across decades and administrations. The United States has a longstanding one China policy, which is guided by the Taiwan Relations Act, the three U.S.-China Joint Communiqués, and the Six Assurances. We oppose any unilateral changes to the status quo from either side. **we do not support Taiwan independence** and we expect cross-Strait differences to be resolved by peaceful means. We continue to have an abiding interest in peace and stability across the Taiwan Strait. Consistent with the Taiwan Relations Act, the United States makes available defense articles and services as necessary to enable Taiwan to maintain a sufficient self-defense capability – and maintains our capacity to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of Taiwan.

U.S. Relations With Taiwan
BILATERAL RELATIONS FACT SHEET
BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS
FEBRUARY 13, 2025

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While omitting the important words 'we do not support Taiwan independence' from the State Department's website is not a complete renunciation of the One China policy, it is a certainly a step in that direction.

China reacted strongly stating that the omission sends the wrong signal to the ‘separatist’ forces on the island’ adding ‘We urge the US ...to stop emboldening and supporting Taiwan independence to avoid further damaging China–US relations and the peace and stability of the Taiwan Strait’ said ministry spokesman Guo Jiakun.

Since the start of 2024, America has imposed a number of sanctions and restrictions on China mostly on chips and semiconductors; and since Trump became president, he has imposed a 10% tariff on all Chinese goods entering America and on 6th February 2025, US Treasury imposed sanctions on individuals and tankers involved in shipping Iranian oil to China. It is estimated that about 15% of the country’s oil imports come from Iran.

China has retaliated hard by banning the sale of critical minerals to America. Here is a list of the more important ones together with America’s dependence on them from China.

| Mineral | Dependence % |
|-------------|--------------|
| Arsenic | 100% |
| Gallium | 100 |
| Graphite | 100 |
| Scandium | 100 |
| Tantalum | 100 |
| Yttrium | 100 |
| Bismuth | 96 |
| Rare Earths | 95 |
| Antimony | 83 |
| Germanium | 50 |
| Tungsten | 50 |

Source: US Geological Survey

These critical minerals are used widely in electronics, auto, medical and in the military industrial complex in some cases in critical usages.

China has also imposed sanctions on a number of other goods such as 10% and 15% retaliatory tariffs on selected natural resources and machinery.

Trump would like to break up the strategic alliance between Russia and China and in so doing break up the BRICS grouping of nations by cozying up to Russia and isolating China. Many US businesspeople, academics and politicians believe that this strategic alliance is not a natural one and can be broken.

Trump is attempting the reverse of the Nixon Doctrine by using Russia as a wedge against China. The attempted policy won't work: Russia and China are natural bedfellows. What Russia has is the natural resources that China needs and what China has are the manufactured goods that Russia requires. Moreover, the two countries share a 4,300km long border. As friendly nations, there is peace along that border except for the odd skirmish and customs disputes.

President Trump's ultimate objective in our view is to redesign the global structure into spheres of interest such as America over North and South America, China the Deep South (includes the Middle East) and Russia central Asia.

To achieve that ultimate objective which will take years, he needs to adopt threatening tactics to gain concessions. Secretary of State Marco Rubio knows China very well. His team produced a remarkable report on China in November last year, the World that China Made from which we quoted extensively in our report, China: A Paradigm Shift of 15th November 2024. The report was full of facts whose basic conclusion was – if America messes with China, China can mess with America.

Musk also knows China well. When Premier Li was governor of Shanghai, he worked with Musk to help get the Tesla giga-factory off the ground. Both Li and Musk know each other well. The Shanghai plant produces some 50% of Musk's total global production. How much influence does Musk have with his president and how influence does Li have with his president?

In summary, our view is that there will be tense periods of friction but out of those periods will emerge a working relationship at least over the next three years.

THE ECONOMY

This is not a detailed review of China's economy (prior reports have focused on that issue) but to focus on what stimuli may emerge from the NPC meetings and the importance of President Xi's meeting with private sector 'High-Tech' entrepreneurs.

-Stimuli Policies

China announced a series of measures to boost consumer spending and to create the ability for local governments to start specific infrastructure projects last December. We don't expect any significant change to what has been announced. What will emerge from the NPC meetings will be to legalize those stimulus measures that have been announced so that infrastructure projects can begin to be implemented, and consumers can start benefiting from them.

This is why we will start seeing recovery, gaining strength in the second quarter. Meanwhile, the recovery from the Lunar holidays has been slow with many metals such as copper, cement, and steel experiencing rising inventories.

–High–Tech Symposium

On Monday, President Xi chaired a symposium with a group of business leaders involved in the ‘High–Tech’ sector. The last similar meeting was in November 2018 which resulted in boosting market confidence that led to a bull market for Chinese equities that lasted for three years.

Monday’s symposium was designed to encourage these business leaders to help China’s economy by driving the High–Tech sector forward. The High–Tech sector still only accounts for a small part of GDP. For instance, EVs, solar panels, and lithium–ion batteries accounted for just over 10% of GDP last year but its importance extends far beyond the direct contribution to GDP.

The Deep Seek narrative exploded the myth that AI model technology was confined to America. As Semi–Analysis writes (and any further comments of Deep Seek or AI come from these high–tech consultants), *‘Deep Seek now has grown into a serious, concerted effort and are by no means a ‘side project’ as many in the media claim. We are confident that their GPU investments account for more than US\$500M even after considering export controls.’*

Apart from galvanizing the AI world, the Deep seek announcement clearly made Beijing aware that China can create its own AI and high–tech sectors to rival America. Global investors have started to realize this phenomenon. As Jeff Weniger has noted that China’s Terrific Ten have crushed the US Magnificent 7 over the past 8 months.

This brings us to the geopolitics of AI. The Bank of China announced a US\$140bn subsidy over the next five years for the AI industry chain. The goal of this subsidy is explicitly to empower China to become completely self–reliant in science and technology including basic research as well as industrial applications and development.

Some in the US industry heavily support export controls leading to a continued debate especially for AI models. AI diffusion controls are already set in place and are unlikely to be lifted. Semis Analysis reports that there was a huge cancellation of H2O orders in January from Nvidia in their Accelerator model despite a huge demand which likely precedes an upcoming US ban.

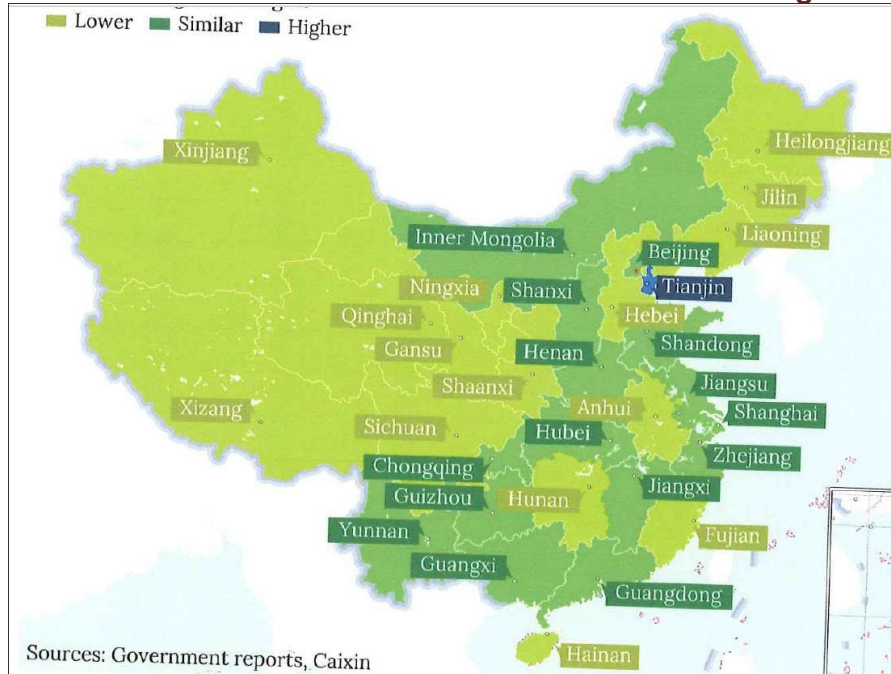
The bottom line is that China’s government and its high–tech sector understand the urgent need to become self–reliant and that by supporting the ‘high–tech’ sector it can power domestic economic growth. The Xi symposium called on entrepreneurs to remember that they are Chinese and as such should support their social responsibilities. This was really what the symposium chaired by President Xi was all about.

–Need to Boost Consumption

December 2024’s Central Economic Work Conference set out a special campaign to stimulate consumption and to increase the income of the low–to–middle income groups.

In January this year, provincial level governments held their annual meeting to discuss their economic plans for the coming year. The conclusion was that 2025 will be a difficult year. For instance, 15 regions set their 2025 GDP growth targets lower than the ones they had set last year whilst another 15 kept their targets unchanged. Provincial governments’ policymakers are focusing on stabilizing and supporting their economies rather than stimulating growth.

Around Half of China’s Provinces Set Lower GDP Targets



No wonder Beijing needs to introduce policies to ensure that growth at least matches last year’s growth of 5%.

One sector that will be given priority is the rural sector where per capita income levels are significantly below their urban counterparts even though rural per capital income has risen faster than urban ones.

Per Capita Income – RMB

| | Urban | Rural |
|------|--------|--------|
| 2024 | 54,188 | 23,119 |
| 2020 | 43,309 | 11,422 |
| 2015 | 31,195 | 11,422 |
| 2010 | 18,779 | 6,282 |
| 2000 | 6,256 | 2,286 |
| 1990 | 1,510 | 686 |

Source: NBS

This table epitomizes the World that China Made. Rural incomes rise by over 10 times and urban ones by nine times in 24 years.

Another reason is that even though rural incomes have risen faster than urban ones the number of rural households is still a huge 185 million though falling to 131 million by 2030.

Chinese Households – Millions

| | 2020 | 2025 | 2030 | 2040 |
|--------------|------------|------------|------------|------------|
| Rural | 201 | 185 | 182 | 131 |
| Urban | 332 | 357 | 404 | 489 |
| Total | 523 | 542 | 586 | 620 |

Source: Dr Clint Laurent, Global Demographics

40-odd years ago China only had elementary infrastructure. Air travel was infrequent and mostly run by Russian pilots in Russian planes. Rail travel was rudimentary and most roads outside the main arteries were dirt all of which we experienced in our travel around China in the early 1990s.

As a result, consumption as a percentage of GDP was the main contributor to GDP until in the early 2000s when investment as a percentage of GDP kicked in to power economic growth. China needed to establish a sophisticated and efficient infrastructure of air, rail and road networks so as to build a competitive supply chain for its exports and so that central government could better control the local government fiefdoms. The table below tells its own story.

Percent of GDP

| | Consumption | Investment |
|------|-------------|------------|
| 2023 | 56% | 43% |
| 2015 | 54 | 43 |
| 2010 | 49 | 47 |
| 2000 | 64 | 34 |
| 1990 | 63 | 34 |
| 1980 | 65 | 35 |

Source: NBS



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