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China draws 'red lines' around its economic model ahead of EU, US trade talks

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Cars are stuck in traffic on an elevated highway as buildings are reflected on a glass surface in Beijing's central business district (CBD), China, November 12, 2025. REUTERS/Maxim Shemetov [Purchase Licensing Rights](#)

Summary

China's Politburo flags policy continuity

Commerce Ministry paper dismisses "so-called" overcapacity

Party journal defends weak consumption rate

Analysts say Beijing posturing ahead of US, EU trade talks

China growing in confidence it can handle Western pressure

SINGAPORE/BEIJING, Aug 3 (Reuters) - China is energetically defending its economic policy mix that favours advanced industries over consumption, adopting a posture analysts see as demonstrating increasing confidence ahead of looming trade talks with Europe and the United States.

President Xi Jinping and U.S. counterpart Donald Trump plan more face-to-face meetings this year, while Brussels has set an October deadline for Beijing to settle disputes as worries grow over China's trillion-dollar-plus trade surplus.

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Western countries frame China's policies as mercantilist and opposing global trade rules, saying its priority for producers over households pushes cheaper goods into global markets, hollowing out industry in nations seeking more balanced growth.

But a meeting of top Communist Party leaders signalled policy continuity on Thursday, calling for targeted support rather than the consumer-focused stimulus and structural changes long urged by China's trading partners and many economists.

Days earlier, the commerce ministry accused the West of protectionism in a position paper on "so-called industrial overcapacity" that rejected the notion as rooted in "logical flaws" and "ulterior motives".

The ruling Communist Party's flagship theoretical journal, Qiushi, also defended China's low consumption in July, as a "historically justified" outcome of the investment-led, catch-up development model.

Such messages stop short of telling the West that China will not change course, said Xu Tianchen, a senior economist at the Economist Intelligence Unit, but send two posturing signals.

"The first is about hoping others understand where it comes from. A better mutual understanding helps in negotiations," Xu said. "The second is about drawing a red line."

The commerce ministry paper "made clear that China doesn't accept discriminatory measures against its firms and products," he added.

CHINA TRIES TO REVERSE 'SHOCK 2.0' NARRATIVE

China says its model reflects the needs of a country still converging with advanced economies. Its products are not only cheaper, but increasingly better, while its tech and science investments can benefit the entire world.

This month, Premier Li Qiang countered warnings of a "China shock 2.0", or a scenario in which Chinese firms crowd out Western competitors in advanced manufacturing, portraying it as "China opportunity 2.0" for the global economy.

This is a "narrative that is falling flat in countries at the receiving end of those exports", said Eswar Prasad, a professor of trade policy at Cornell University and a former China director at the International Monetary Fund.

"China's heavy dependence on exports to power its own growth in light of weak domestic demand is going to make it difficult to argue that Chinese exports are a gift to consumers worldwide."

Washington's effort to boost pressure on China through tariffs of more than 100% last year floundered as Beijing used its dominant position in production of rare earths, key for a wide range of global industries, to regain strategic ground.

Now the European Union, whose trade deficit with China averaged \$1 billion a day last year, is pursuing its own industrial and domestic procurement policies to defend its market.

This month, German Chancellor Friedrich Merz criticised Beijing for keeping its currency undervalued.

But the latest statements from China suggest Beijing's confidence is growing that it can soften trade disputes without making significant concessions.

"The U.S. tariff episode appears to have supplied a template of managed engagement that Beijing is also applying to Europe —essentially buying time," said Alicia Garcia-Herrero, chief Asia-Pacific economist at Natixis.

"Beijing's messaging on its economic model does come across as more confident and tightly framed than a year or two ago," she added.

MOVING SLOWLY AGAINST FAST 'EVIDENCE'

To be sure, Beijing has slowed investment this year, primarily by tightening scrutiny on local government spending, which economists blame for driving overcapacity in manufacturing and infrastructure.

Officials publicly recognise a supply-demand "contradiction" and pledge to end deflationary price wars among producers battling for market share at the expense of profits.

They often promise to boost consumer demand, even without major structural reform plans.

"Historical justification does not mean long-term justification" of weak consumption, the Qiushi article said, adding that a change in the model was "necessary".

Analysts say this means China recognises imbalances but wants to move carefully, fearing disruptive changes.

But a growing body of international research warns Beijing's policies threaten both the global economy and its own.

For nearly 60% of Chinese firms, their "market share gains can be explained by subsidies received", the Organisation for Economic Cooperation and Development said in a recent report.

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A McKinsey Global Institute report said China is adding three times more productive assets each year than Europe and the United States combined, while its capital returns are roughly 40% lower.

"Chinese arguments are more frequent and formal now because the evidence of systemic domestic economic problems leading to spillovers on the rest of the world is mounting even faster," said Daniel Rosen, co-founder of researcher Rhodium Group.

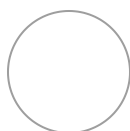
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