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Highlights

- China Shock 2.0 Set to Continue as China's Trade Surplus Exceeds $1 Trillion
- IMF Links Undervalued Yuan to Distortions
- Xi Purges His Top Generals, Shocking Many
- Beijing Scrutinizes Manus Acquisition
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China Shock 2.0 Set to Continue as China's Trade Exceeds $1 Trillion

China's trade surplus reached a record $1.2 trillion in 2025 as domestic economic imbalances from overproduction and weak domestic consumption led to a flood of low-priced Chinese goods in global markets.[1]

- The widening trade surplus was driven by $3.8 trillion in exports, which rose 5.5 percent year-on-year (see Figure 1).[2] Imports were essentially unchanged from last year due to persistently weak domestic demand as well as China's efforts to reduce reliance on foreign producers.[3] Renminbi (RMB) depreciation contributed to the surplus by making imports

Figure 1: China's Trade Surplus, 2020-2025

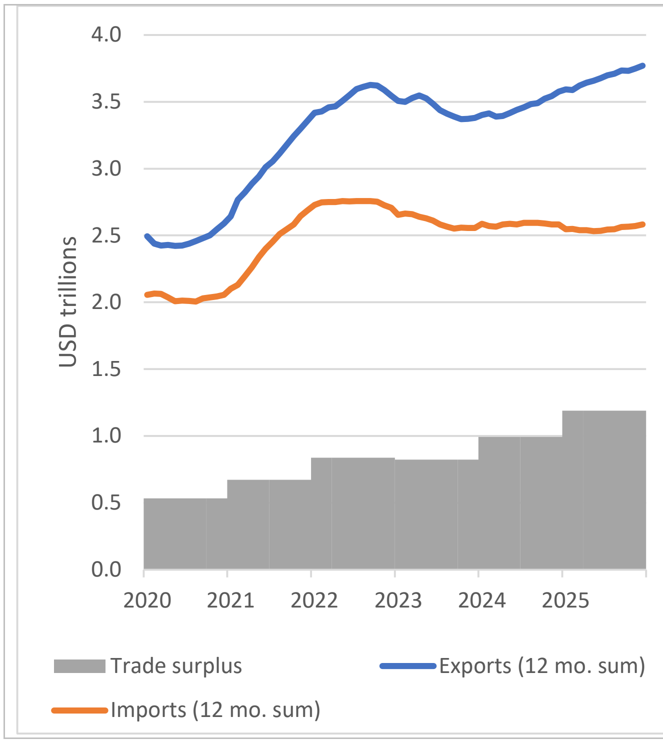
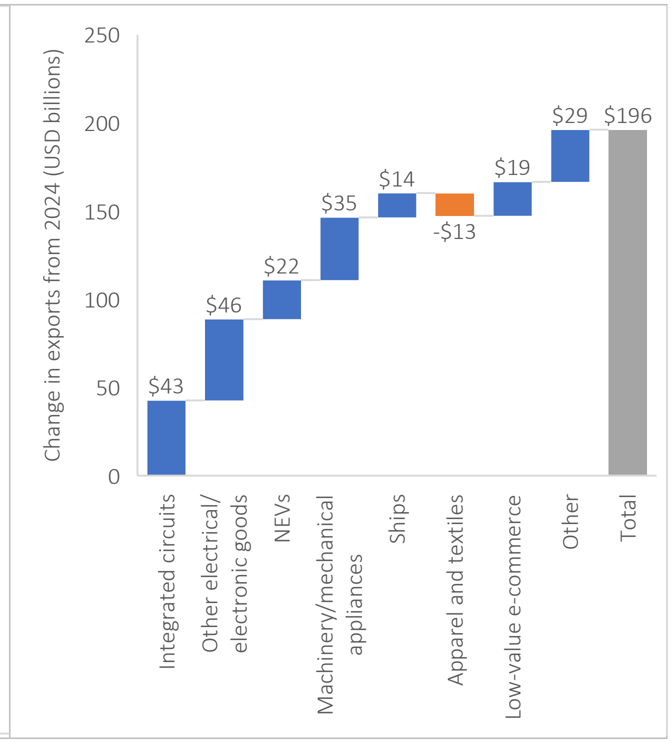


Figure 2: Chinese Export Growth Drivers, 2025



Source: China's General Administration of Customs, Haver Analytics.

more expensive for China while exports became cheaper for China's trade partners.[*] [4]

- As shown in Figure 2, exports of electronics and industrial inputs drove most of export growth, reflecting China's expanding role as the world's leading supplier of manufacturing components.[5] In particular, exports of integrated circuits rose by 26.8 percent in 2025, accounting for roughly one-fifth of the $196 billion change in overall exports.[6] Exports from China's now world-leading new energy vehicle (NEV) industry also bolstered growth, expanding 50 percent year-on-year to total $66.9 billion in 2025.[7]

The rest of the world has continued to bear the brunt of a "China Shock 2.0."[†] As exports to the United States dropped following tariff hikes, Chinese exporters pivoted toward other markets, particularly in developing countries.

- China's exports to the United States decreased 20 percent to $419.5 billion, according to Chinese customs data, as trade diverted to other markets.[8] Exports to countries in Africa, Southeast Asia, and Latin America accounted for nearly three-quarters of China's overall export growth, growing 25.8 percent, 13.4 percent, and 7.3 percent, respectively, in 2025.[9] The shift was driven partially by demand for low-cost Chinese automobiles and other consumer goods, intensifying competitive pressure on local producers in these regions.[10]

- The reorientation of China's exports also likely reflects some level of transshipment, as well as sales

[*] The RMB fell 3.5 percent in value against the China Foreign Exchange Trade System (CFETS) basket of currencies. However, it appreciated relative to the dollar, from RMB 7.19 per dollar at the start of 2025 to RMB 7.03 per dollar by December 31. China Foreign Exchange Trade System via Haver Analytics.

[†] For more, see U.S.-China Economic and Security Review Commission, Chapter 8, "China Shock 2.0," in *2025 Annual Report to Congress*, November 2025, 429–471.

of unfinished goods for final assembly, due to Chinese exporters attempting to circumvent tariffs.* [11] U.S. tariffs on China averaged 47.5 percent as of November 2025.[12]

- Exports of low-value packages to the United States,† including sales from Shein, Temu, and other e-commerce platforms, declined 30.4 percent.[13] The United States eliminated its e-commerce customs duty exemption known as de minimis in August 2025 (the Commission had made a similar recommendation in 2024).[14] This drop was more than offset as Chinese sellers pivoted to other regions. Low-value exports to Southeast Asia rose 32.7 percent to $26.3 billion, and shipments to the EU increased by 41.8 percent to $26.9 billion (though the EU is slated to eliminate its de minimis exemption in 2026).[15]

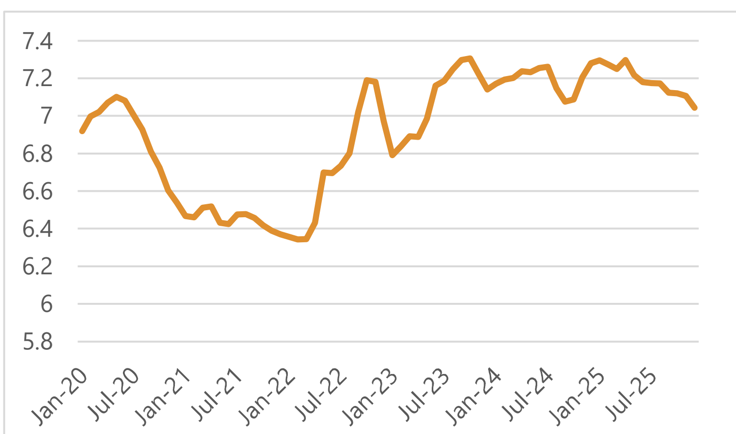
IMF Links Undervalued Yuan to Distortions

While stopping short of recommending the People's Bank of China (PBOC) pursue RMB appreciation, International Monetary Fund (IMF) officials pointed to undervaluation of the RMB as a contributing factor in China's growing trade imbalance.

- A July 2025 IMF assessment found RMB undervaluation of 8.5 percent.[16] Using the same methodology based on updated October 2025 IMF data, experts calculated that the RMB may be undervalued by 18 percent.[17] Goldman Sachs puts the figure higher at 25 percent undervalued in its 2026 outlook.[18]

- The IMF's statements and broad recognition of undervaluation portend increasing pressure on the yuan to appreciate in 2026, as China's trade partners allow devaluation of their own currencies to keep their exports competitive.[19] The yuan appreciated against the dollar in 2025 for the first time since 2021.[20] Some analysts believe China's trade surplus could continue to grow toward $1.5 trillion even as the currency appreciates, given the current high level of undervaluation.[21]

Figure 3: RMB/US$ Exchange Rate (2020-Present)



Source: Federal Reserve Board via Haver Analytics.

* For more, see U.S.-China Economic and Security Review Commission, Chapter 8, "China Shock 2.0," in *2025 Annual Report to Congress*, November 2025, 429–471, and U.S.-China Economic and Security Review Commission, Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws," in *2024 Annual Report to Congress*, November 2024, 278–292.

† Low-value exports refer to exports reported under the commodity code 9804, which records exports that qualify for China's simplified customs procedures.

- Xi Jinping has called for the RMB to become a "powerful currency" with global reserve currency status, a sentiment recently amplified when CCP outlet *Qiushi* published a Xi speech from two years ago on making China a "financial powerhouse."[22] The PBOC has indicated a commitment to "slow and orderly" appreciation as it looks to balance export-led growth, efforts to stabilize domestic consumption, and RMB internationalization.[23] Recently, a former chief economist of the State Administration of Foreign Exchange (SAFE) outwardly suggested looser capital controls are needed to internationalize the RMB and should be incorporated into the upcoming 15th five-year plan.[24]

Xi Purges His Top Generals, Shocking Many

The ousting of two senior generals from the Central Military Commission (CMC)—China's top military decision-making body—raises questions: Who is providing Xi Jinping military advice? What does this mean for military readiness? And is anyone safe from Xi's purges?

- On January 24, China's Ministry of National Defense announced that General Zhang Youxia, China's most senior military officer and the vice chairman of the CMC, and General Liu Zhenli, chief of staff of the CMC Joint Staff Department, are both under investigation for "serious disciplinary and legal violations." [25] The two generals were responsible for overseeing the People's Liberation Army's (PLA) military modernization plans and preparations for future combat.[26] Zhang was viewed as a close ally of Xi Jinping, both "princelings"—children of former Chinese Communist Party (CCP) leaders—who had known each other since childhood.[27] The investigation raises questions about military decision-making, military readiness, and the potential for miscalculation by China's military.

- The short statement from China's Ministry of National Defense did not provide details on the allegations, but a *PLA Daily* editorial published the same day accused both generals of seriously undermining Xi and the Party's absolute leadership over the military and causing "immense damage to the military's political building … and combat effectiveness."[28] The editorial leads analysts to believe the investigation likely stems beyond corruption charges and suggests potential political disagreements over military training and development with Xi, who serves as Chairman of the CMC.[29]

- Other possible explanations for the purges put forth by analysts include Zhang Youxia's political influence within the PLA and his potential to mobilize an opposition to Xi, Zhang's connections to the PLA's Equipment Development Department—which has been the center of widespread anticorruption investigations, and unsubstantiated allegations that Zhang had leaked nuclear weapons data to the United States.[30]

- Xi has now purged five of the six uniformed members of the CMC since 2022, leaving just General Zhang Shengmin, who was reappointed Secretary of the Discipline Inspection Commission in 2023. However, Zhang Shengmin lacks the operational and combat experience of Zhang Youxia and Liu Zhenli.[31] Experts noted if Zhang and Liu were removed due to disagreements with Xi on military timelines and plans, their replacements could be more incentivized to implement Xi's policies regarding Taiwan and heighten the risk of miscalculation.[32]

- China's state-media published subsequent commentary on January 31 likely intended to reassure a domestic audience that the investigations strengthen the PLA in the long term, despite short term "difficulties and pain."[33] The *PLA Daily* commentary referred to corruption cases as the precise uprooting of "diseased trees," and underscored optimism for a "new-era" of officers who are nurtured by Xi Jinping thought and thus trustworthy to advance the PLA's combat capabilities and transform the PLA into a world-class force.[34]

Beijing Scrutinizes Manus Acquisition

China's Ministry of Commerce (MOFCOM) launched an investigation into Meta's late December acquisition of China-rooted, Singapore-based artificial intelligence (AI) startup Manus, alleging its transfer of technology and data may have violated export controls and other regulations. The inquiry potentially presages greater efforts to prevent Chinese AI startups from relocating.

- Overshadowed in headlines by the success of DeepSeek, Manus nonetheless made waves in the tech world in early 2025 with the launch of an AI agent that could perform a variety of complex tasks on behalf of users.[35] A month before Manus's acquisition by Meta, Microsoft announced a partnership to incorporate Manus into its Agent 365 platform.[36]

- Originally a Chinese company, Manus moved its headquarters to Singapore and distanced itself from Chinese state investment—a strategy called "Singapore washing"—to boost its access to foreign funding, customers, and software.[37] For Beijing, Manus's success could have been a triumph for China's AI ambitions but instead underscores challenges in its domestic market and fundraising ecosystem, particularly after U.S. outbound investment restrictions went into effect last year.[38]

- Following Meta's acquisition of Manus, which occurred several months after Manus relocated to Singapore, MOFCOM reportedly launched an investigation into whether the deal complies with Chinese export controls, technology import and export regulations, and foreign investment law.[39] MOFCOM is ostensibly examining whether Manus' technologies were barred from overseas transfer under China's Catalogue of Export Prohibited and Restricted Technologies.[40] Subsequent reporting by Bloomberg indicated Beijing's investigation was expanding into potential violations related to taxes and cross-border currency flows.[41]

- The ambiguity of the investigation provides Beijing future options to negotiate with Chinese companies in overseas markets, even if they have relocated out of China. Beijing is likely weighing its next steps carefully, balancing promoting corporate global expansion versus sending a warning to homegrown AI companies that might follow Manus' Singapore-washing playbook.[42] In the long run, Beijing will likely deploy both sticks and carrots, preventing strategic technology and talent loss while simultaneously trying to address the underlying factors that prompted Manus to relocate abroad in the first place.

New Gray Zone Threat: China Marshals Thousands of Fishing Vessels in Coordinated Drills to Impede Movement in the East China Sea

Thousands of Chinese fishing boats formed a line hundreds of miles long in a novel operation revealing a potential tactic for a future blockade or invasion of Taiwan.

- Analysis of AIS data revealed large mobilizations of Chinese civilian fishing vessels in the East China Sea, one on Christmas Day involving 2,000 vessels, followed by another on January 11 with 1,400 vessels.[43] While fishing boats have long been part of China's gray zone toolkit, this mobilization was of unprecedented scale, with the formations stretching for around 200–290 miles.[44] See this link for a fascinating interactive graphic from the *New York Times*.

- The mobilizations bracketed China's December 29–30 Justice Mission 2025 military drills around Taiwan, which practiced encirclement, blockading, and obstructing transit.[45] While there was no Chinese reporting directly connecting the fishing vessel mobilizations to the Taiwan exercises, the timing suggests China may be practicing mass mobilization of civilian vessels for use during a Taiwan contingency, where they could complicate U.S. military operations by overwhelming radars and sensors, confounding targeting for missiles and torpedoes, and complicating navigation.[46]

- The apparent coordination of civilian vessel mobilization with the recent military drills suggests the maritime militia may begin to play a greater role in gray zone pressure against Taiwan than it has to date.[47] The province of Fujian across the Taiwan Strait has prioritized strengthening its maritime militia, most recently with measures to increase monetary and other benefits for participating in militia work.[48] Civilian vessels are also likely to play a role in enhancing China's sealift capacity in the event of an invasion of Taiwan, and they could be called upon for missions like reconnaissance, search and rescue, and mine laying in addition to participating in a blockade enforcement.[49]

Figure 4: Vessel Mobilization on January 11, 2025

Source: ingeniSPACE.

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