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# Weekly China Insight

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**China sets stricter climate targets with a historic shift away from coal power**

On 29 July, the Chinese environment regulator (MEE) along with several other central government agencies released a national climate response plan for the 15th Five-Year Plan period, setting a target to reduce carbon dioxide emissions per unit of GDP by 17% from 2025 levels in the next five years. The plan introduces a broader system for controlling both total emissions and carbon intensity, calls for faster development of non-fossil energy, renewable-energy substitution, and peaks in coal and oil consumption, and requires new coal-consuming projects in selective regions to offset their demand through reduced coal use elsewhere.

The plan also calls for stronger controls on methane, nitrous oxide, and fluorinated gases, with a target of creating 30 million tons of carbon dioxide-equivalent emissions-reduction capacity by 2030. Under the plan, carbon pricing and product-level emissions management will become more prominent policy tools. According to the plan, regulators plan to expand the national emissions trading system beyond power, steel, cement, and aluminum into sectors including petrochemicals and chemicals. Regulators also aim to establish a basic national product carbon-footprint management system by 2030, including certification, labelling, and international alignment of accounting rules, as exporters face growing pressure to disclose emissions data in overseas markets.

The plan comes in the backdrop of a significant milestone in China's electricity transition. In the first half of 2026, coal-fired power generation reached 2.5 trillion kilowatt-hours but accounted for only 49.7% of total power generation, falling below half for the first time in a six-month period. Renewable-energy generation reached 2 trillion kilowatt-hours and represented 41.2% of the national total, enough to cover close to 40% of China's electricity demand.

*The fall in coal power's generation share shows that China's energy transition is beginning to produce structural changes in the power mix. The new climate plan seeks to institutionalize this shift through tighter emissions controls, broader carbon market adoption, and product-level carbon accounting. However, the transition will increasingly depend on whether renewable capacity, grids capacity, and energy storage capacity can keep pace with the rapidly growing electricity demand, while allowing Beijing to reduce coal reliance without compromising energy security.*

**July Politburo meeting signals targeted economic support without large scale stimulus**

On 30 July, the CCP Politburo convened its monthly meeting to review the economic performance of the first half the year. The Politburo meeting followed a slowdown in GDP growth from 5% y/y in the first quarter to 4.3% y/y in the second quarter, leaving H1 growth at 4.7% y/y, within the official annual target range of 4.5% to 5%. The official meeting readout suggested that while technological upgrading and export performance remain strong, domestic demand, investment, property, and market confidence require additional support.

The Politburo pledged a more proactive fiscal policy and moderately accommodative monetary policy, including accelerating fiscal spending and bond issuance, making better use of existing policies, strengthening countercyclical adjustment, expanding domestic demand and service consumption, supporting basic research and AI+ initiatives, fostering emerging industries, tackling "involution-style" competition, stabilizing the property market, enhancing capital market resilience, improving employment and social welfare, and guarding against financial, natural disaster, and public safety risks.

Significant policy resources remain available for the second half of the year, including RMB 750 billion in unused ultra-long special treasury bond funding, RMB 2.33 trillion in remaining new special local-government bond quotas, and an RMB 800 billion policy-based financing tool targeting areas such as urban renewal, AI development, logistics, and the low-altitude economy. The meeting also instructed policymakers to use and adjust monetary tools, and improve coordination between fiscal and financial policy to support domestic demand.

Expanding domestic demand is once again identified as a top policy priority, but the proposed approach remained on creating more attractive consumption opportunities and supporting service providers rather than directly addressing weak household purchasing power. The meeting also called for faster development of water systems, modern power grids, computing infrastructure, next-generation communications, urban underground pipelines, and logistics networks. These projects are intended both to support near-term investment and to provide the physical and digital foundations for industrial upgrading. The Politburo also reaffirmed the need to stabilize the property market, implement the debt-restructuring package, and advance the reform and risk reduction of smaller local financial institutions.

*The July Politburo meeting marks a calibrated shift toward stronger economic support for the second half of the year, but without a return to broad fiscal stimulus. The meeting also reaffirmed that technological upgrading, domestic demand, and risk management remain the core economic policy priorities for Beijing. Beijing will prioritize faster deployment of existing fiscal resources, keeping additional measures in reserve, and using infrastructure, services consumption, industrial upgrading, and financial coordination to stabilize H2 growth. This approach continues to favor supply-side investment and technology-led development over direct household wealth redistribution.*

**China rejects the overcapacity narrative as trade tensions intensify**

On 28 July, the Chinese commerce ministry (MofCom) published a position paper outlining Beijing's stance on the issue of industrial overcapacity, arguing that the concept should be viewed objectively and that protectionism from western capitals threatens global industrial and supply chain stability. The position paper rejects claims that China's industrial competitiveness is the result of government subsidies or weak domestic demand, instead attributing export strength to innovation, economies of scale, and industrial upgrading.

The position paper argues that industrial subsidies are widely used by major economies, citing the US Inflation Reduction Act and the EU's large-scale industrial support programs, while maintaining that China's subsidy policies comply with WTO rules and that authorities have rectified non-compliant local practices. The paper also states that China has "never deliberately pursued a trade surplus", describing subdued consumption as a temporary feature of the country's economic transition and arguing that a growing middle-income population of more than 800 million people over the next decade will strengthen domestic demand.

The position paper criticized recent European trade actions and the US Section 301 investigation into alleged Chinese overcapacity as "unfounded accusations" and unilateral measures, insisting that China is "not the root cause" of western countries' trade challenges.

*The position paper marks Beijing's most comprehensive defense of its industrial policy as trade disputes increase with western capitals. Rather than signaling an upcoming change in China's industrial policy, the position paper seeks to reframe the international debate by portraying China's export competitiveness as the product of innovation and market development, while positioning trade imbalances as an issue to be addressed through greater openness and cooperation rather than protectionist trade measures.*