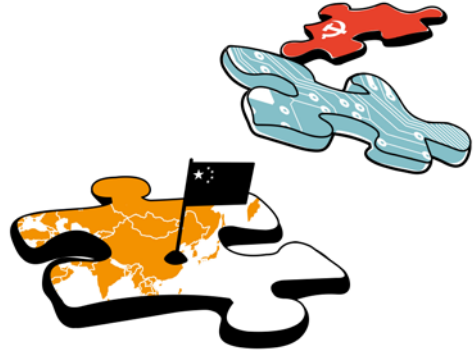


NOVEMBER 14, 2024

# MERICS China Essentials



## CONTENTS

TOP STORY.....	2
Europe should shed its post-election panic and offer a transatlantic deal on China .....	2
TOPICS.....	3
Breach of export controls on advanced AI chips may lead US to tighten rules.....	3
Latest stimulus prioritizes curbing financial risks over boosting growth .....	4
China turns to support policies and pregnancy pep talks to boost birth rate .....	4
METRIX .....	5
MERICS CHINA DIGEST .....	6

## TOP STORY

### Europe should shed its post-election panic and offer a transatlantic deal on China

By Abigaël Vasselier

With the election of Donald Trump to the White House, the economic and strategic confrontation between the US and China is set to escalate, with Europe caught in the middle. Trump's appointment this week of foreign policy hawks Marco Rubio as secretary of state and Mike Waltz as national security adviser means Europe will not be able to have it all: Washington is unlikely to tolerate Europe's expectations of security guarantees through NATO and economic prosperity through continued trade with China.

China will use the situation to further divide the transatlantic partners, arguing that Europeans cannot rely on the US and need to seek strategic autonomy. In the coming months, China is likely to reach out to European leaders visiting the country, ease the business environment for European companies and even consider investing in Europe. Beijing has already signaled its willingness to work with Europe to implement the Paris climate agreement. China's bet on Europe is not new, but it is about to take concrete shape. The tariffs eyed by Trump would decouple US-China trade. Growing friction between China and the US will reduce people-to-people exchanges and lead to the US expanding its military presence in the Indo-Pacific at the expense of US security commitments to Europe.

Beijing is prepared for a second Trump administration. It will blame the US for China's domestic socio-economic challenges and for the regional crises that are rocking the world. The Chinese Communist Party is likely to galvanize society by highlighting these external threats. Beijing will likely enact measures to protect businesses from foreign competition, such as encouraging domestic production, cutting imports and restraining US companies from operating in China. Internationally, Beijing will present itself as a natural alternative to the US, a partner for Europe and a friend of the Global South.

While the possibility of US tariffs aimed at Europe and a dormant NATO will frame the transatlantic discussion on China, Europe should move away from its post-election panic and propose a new transatlantic deal on China. European should offer economic deals to bolster trade in specific sectors such as critical materials, a way forward on technological entanglement with China and more military burden-sharing as the US prioritizes security in the Indo-Pacific. The isolationist tendencies of the Trump administration will not be able to resist the China challenge, and a foreign policy that does respond to the US voters and from the US middle class cannot be done without the European market.

**MERICS ANALYSIS:** “The European Union needs to shift from ‘panic mode’ to developing an offer to the Trump administration, in which China will have a key role,” said **Abigaël Vasselier**, Director Policy & European Affairs at MERICS. “The EU needs to brace for Trump engaging in a very different conversation about China compared to the Biden administration – and for China making overtures to Europe that will test its unity.”

### Media coverage and sources:

- AP News: [Trump's mainstream picks for top foreign policy posts could reassure allies — and worry China](#)
- Brookings: [Is the US-China relationship the most consequential relationship for America in the world?](#)
- WSJ: [Trump is recruiting a team of China hawks so why is Beijing relieved? \(CN\)](#)
- MERICS: [Ahead of the US elections, Chinese scholars highlight prolonged US-China competition](#)

## TOPICS

### Breach of export controls on advanced AI chips may lead US to tighten rules

**The facts:** US efforts to restrict the sale of advanced semiconductors to China suffered a setback last month, when an advanced chip made by Taiwan's TSMC was found in a Huawei AI processor. While the Chinese company is on the US government's "Entity List" of companies subject to export restrictions, Reuters reported that Chinese chip designer Sophgo had placed the order for the chip found in the processor. Although Sophgo denied any business dealings with Huawei, the US government ordered TSMC to suspend shipments of advanced chips to all Chinese customers, not just those on the Entity List.

**What to watch:** US export controls allow sales of advanced chips and chip-making equipment to companies not on the Entity List. This appears to have enabled Huawei to get hold of advanced chips through collaboration with a non-restricted company. US controls rely on manufacturers such as TSMC to conduct due diligence on customers, which seems to have proved insufficient in this case. In the face of evidence that current export control rules are not enough to stop China obtaining advanced chips, the US could well impose tougher measures, especially for the issuing of licenses allowing sales.

**MERICS analysis:** "The difficulty of ascertaining how Huawei was able to bypass US export controls illustrates the shortcomings of current measures," said **Wendy Chang**, MERICS Analyst. "This serious breach of the export controls could be a turning point for the US. Instead of the current targeted approach, we may see efforts expand to ban sale of chips and equipment to all Chinese entities. This would be a major escalation in the US-China tech conflict and significantly impact semiconductor and equipment makers."

### Media coverage and sources:

- Reuters: [Exclusive: US ordered TSMC to halt shipments to China of chips used in AI applications](#)
- The Wire China: [TSMC's Huawei Headache](#)
- [台积电断供的更多细节：部分 Wafer 销毁，未来或需申请许可流片](#) Ijiwei: TSMC to stop supplying Chinese AI/GPU customers starting November 11. All unshipped wafers ordered by alleged suppliers to Huawei have been destroyed.

## Latest stimulus prioritizes curbing financial risks over boosting growth

**The facts:** The National People’s Congress announced a CNY 10 trillion (EUR 1.3 trillion) stimulus package last Friday, focusing on addressing risks in local government finances, rather than providing direct stimulus to households to boost growth. The package is the latest in a series of measures that started in September to help stabilize the economy – including interest rate cuts and support for the slumping real estate market. It is meant to help local governments tackle debt problems over the next five years. Key measures include CNY 6 trillion in higher debt limits for local governments, and an additional CNY 4 trillion in new local government bonds. Their aim is to address severe local budget constraints due to declining tax revenues, particularly from slowing land sales and real estate-related taxes. The Ministry of Finance said further stimulus measures could follow, raising hopes for stimulus measures that put money directly in consumers’ pockets and boost growth.

**What to watch:** It is unclear whether the measures will be effective in addressing economic challenges, in particular the struggling real estate sector and weak consumer demand. While the package focuses on managing hidden debt risks for local governments, the underlying objective is to ease budget constraints and empower local authorities to directly support growth. More substantial direct fiscal stimulus to boost consumption – through tax cuts or direct transfers – are still not forthcoming. As a result, investors appear skeptical, with stock markets in Shanghai and Hong Kong falling after the announcement. The real test will be whether these debt management tools can relieve enough financial pressure to allow more targeted economic support for households. It seems likely that the trickle of support measures will continue as pressure mounts to shore up economic growth in 2025.

**MERICS analysis:** “The leadership’s main objective is to strengthen economic resilience by focusing on structural weak spots, such as risks within local government debt,” says **Max J. Zenglein**, Chief Economist at MERICS. “Hopes that stronger fiscal support might boost consumption continue to be dashed – another sign that China is carefully recalibrating the economy by prioritizing long-term goals to strengthen the industrial base in anticipation of more external friction, starting with the US under Donald Trump.”

### Media coverage and sources:

- FT: [Hong Kong stocks fall as China’s stimulus package disappoints](#)
- SCMP: [China’s stimulus strategy, while not ‘whatever it takes’, is seen as long and intact](#)
- China Daily: [Local governments encouraged to use funds from special-purpose bonds to acquire idle land](#)

## China turns to support policies and pregnancy pep talks to boost birth rate

**The facts:** China’s State Council recently unveiled new birth and family support measures to encourage more babies, as China’s shrinking workforce looks set to affect economic growth and the social security system for decades to come. The comprehensive package

to help parents expands insurance coverage and healthcare, and adds tax incentives and support measures for childcare, education and housing. Improving the work environment through parental and childcare leave was also part of the package. China's gradual lifting of its one-child-policy since 2014 and subsequent pro-baby measures have had limited results. The number of registered marriages – a precondition for access to most benefits and services for children – fell again in 2024. The Chinese Communist Party has launched a number of propaganda campaigns to promote marriage and family values.

**What to watch:** Local governments will play a key role in making China's baby dreams a reality, but their resources are limited. Some have offered cash incentives for childbirth or marriage registrations. It remains to be seen whether the new measures will ease the work and financial pressures on prospective parents amid high unemployment and changing social attitudes, especially among women. There have been reports of local authorities calling women to inquire whether they are pregnant or planning to have children. Lüliang city in Shanxi province announced plans to create a database of unmarried people to provide “personalized marriage services” and “guide young people to develop a positive perspective on marriage, family, and childbirth.”

**MERICS analysis:** “As managing the rapid demographic change becomes ever more important for China's long-term development, the government is scrambling to devise new support measures to stimulating birth rates,” says MERICS Senior Analyst **Christina Sadeler**. “Local cadres may be tempted to use more intrusive approaches to achieve progress – a tactic that will likely backfire.”

**Media coverage and sources:**

- State Council: [https://www.gov.cn/zhengce/content/202410/content\\_6983485.htm](https://www.gov.cn/zhengce/content/202410/content_6983485.htm) (CN)
- Xinhua: [China strives to build birth-friendly society via multipronged approach](#)
- Global Times: [Chinese city to offer cash reward to women who get married before 35](#)
- China Digital Times: [Marriage Registrations Fall and Women Shun Motherhood](#)

## METRIX

# 100,000+

More than 100,000 cyclists rode the 50 km from Zhengzhou to Kaifeng in Henan Province after dark on November 8 in what officials hope was the climax of a trend started by four college students, who had used bike-sharing bicycles to pedal to Kaifeng for soup dumplings one night in June. Having initially encouraged the hype as a lure for visitors, local authorities grew concerned about bicycle jams, littering and abandoned sharing bikes in the course of the mass event – and the potential for unwelcome political pronouncements. As a result, officials blocked bike lanes, geo-blocked sharing bicycles and had students

apply for passes to leave campuses. Some cyclists responded defiantly, vowing to walk to Kaifeng to sample its famed guantangbao soup dumplings.

(Source: [BBC](#), [NYT](#))

## MERICs CHINA DIGEST

### [Man drove car into a sports center in Zhuhai, killing 35 people \(Guardian\)](#)

Immediately after Monday's incident, the deadliest mass killing in a decade, searches about what had happened were heavily censored, videos of the scene posted to social media were deleted, and early state media reports were removed from the internet. It was only after the police released their report on Tuesday evening that news articles appeared in state media, and social media users could discuss the event more freely. (24/11/13)

### [Next EU foreign policy chief: China must face 'higher cost' for backing Russia in Ukraine \(Guardian\)](#)

The incoming EU foreign policy chief and former Estonian prime minister Kaja Kallas said China should face "a higher cost" for supporting Russia in the war against [Ukraine](#). She was speaking to MEPs during a three-hour hearing before she took office, when she listed Ukraine's victory as a priority – stronger words than vaguer formulas of support voiced by some EU politicians. (24/11/12)

### [China-linked hackers stole surveillance data from telecom companies, US says \(Reuters\)](#)

The hackers compromised the networks of "multiple telecommunications companies" and stole U.S. customer call records and communications from "a limited number of individuals who are primarily involved in government or political activity," according to a joint statement released by the FBI and the U.S. cyber watchdog agency CISA. (24/11/13)

### [Hong Kong Watch report exposes transnational repression in Hong Kong's digital space \(HK Watch\)](#)

The report finds that violations of digital rights in Hong Kong have adversely affected other rights and freedoms in the city. As the digital world transcends traditional borders, the violations in Hong Kong are increasingly affecting Hong Kongers in exile and digital tools are playing a growing role in transnational repression. (24/11/5)

## **EDITORIAL TEAM**

### **MANAGING EDITOR**

Claudia Wessling  
Director Communications  
and Publications, MERICS

### **EDITORS**

Ellen Thalman  
Freiberufliche Redakteurin

Gerrit Wiesmann  
Freelance editor

Johannes Heller  
Communications Manager, MERICS

Christine Krüger  
Senior Communications Manager, MERICS

### **GRAPHICS**

Alexandra Hinrichs  
Graphic Designer, MERICS

### **PUBLISHER**

#### **MERICS | Mercator Institute for China Studies**

Alte Jakobstraße 85–86  
10179 Berlin  
Tel.: +49 30 3440 999 0  
Mail: [info@merics.de](mailto:info@merics.de)  
[www.merics.org](http://www.merics.org)