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# MERICS China Essentials



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## TOP STORY

### Xi faces challenges as Chinese population keeps aging

At the onset of the new year, China's government announced measures to, among other things, loosen China's household registration system. The measures are urgently needed in view of the announcement that China's population had started to decline less than two weeks ago. They are meant to improve the integration of rural citizens and laborers into urban China and could contribute to more flexibility on the labor market, supporting Beijing's goal of shifting the economy to what it calls "high-quality growth". The strict so-called *hukou* rules have long prevented rural citizens from permanently relocating to cities to live and work. Simultaneously, authorities in Sichuan announced that children born out of wedlock will for the first time enjoy the same legal rights as others.

The (now abandoned) one-child policy, changing attitudes to family and the high cost of living in cities have made China's population one of the fastest aging in the world. Economists estimate that a shrinking labor force could slow growth of China's gross domestic product (GDP) by one percentage point a year – a "demographic tax" of something like 180 billion US dollars from 2022 into 2023 alone. Such scenarios have spurred some Western commentators to talk of the country's inevitable decline. But labor-market reforms and raising the retirement age could still do much to avert it.

Beijing's challenge will be to successfully implement measures that will alter the entire fabric of society. Apart from the *hukou* system, China's generously low retirement age (50 or 55 years for women, 60 for men) will need to rise by up to ten years and the pension systems overhauled. Improvements to women's rights are long overdue, elderly care has to end its reliance on informal care. Many reforms have been talked about for over a decade, but tangible progress has been modest to date.

While China's economy was growing at a double-digit rate, such social and fiscal policy impositions could be avoided. Beijing could allocate consistently increasing government revenues to ensure people live better and become wealthier. With today's lower growth economy, the country needs reform to control the cost of public expenditure. This could see Beijing calling into question structures citizens and officials nationwide take for granted. Aside from the retirement age, this could target local and provincial governments' taste for risky real estate and infrastructure deals to raise money (by Beijing's count, real estate accounts for 50 percent of local government resources).

To guide China's transition from the world's most populous country to the nation with the largest over-65s population, Xi Jinping will have to overcome immense vested interests and deal with adverse public opinion. China's most powerful leader in decades will not find the task any easier given local public coffers have been depleted by three years of zero-Covid measures. Plans to raise the retirement age have existed at least since Xi's accession in 2013, and the time in which to trigger them is getting shorter.

**MERICS analysis:** "Reforms to manage an 'aging China' are Xi's litmus test," says MERICS Analyst **Vincent Brussee**. "Xi appears to hold all the power he needs to force through these difficult decisions. But the longer he waits, the more painful these reforms will

become. A botched policy response will risk the central government’s legitimacy, not just in the eyes of the people but also in the view of the party cadres it relies on.”

**More on the topic:**

- [China’s demography is not destiny](#), by MERICS Senior Associate Fellow Bert Hofman

**Media coverage and sources:**

- **SCMP:** [China to expand rural access to urban welfare benefits in push for economic growth](#)
- **CNN:** [China’s population is shrinking. The impact will be felt around the world](#)



## METRIX

# -46.9%

Only half as many people traveled during the *Chunyun* (春运) Spring Festival travel rush as they did during the last “normal” one in 2019. Authorities said traveler numbers were 56 percent higher than in 2022, but 46.9 percent lower than in the year before Covid-19 struck. The [figures](#) show China is not back to business as usual as people avoided taking the train for fear of getting the virus and infecting relatives. The number of trips by private car was 14.6 percent higher than in 2019.

## TOPICS

### Japan-Netherlands-US plan to align China export controls may become a blueprint

**The facts:** Three months after the Biden Administration imposed export controls on key US semiconductor technology exports to China, two of Washington’s top allies have agreed to a plan to align their own rulesets. On January 27, Japan and the Netherlands, home to essential semiconductor manufacturing equipment suppliers like lithography machinery from Dutch ASML and Japanese Tokyo Electron and Nikon, agreed to begin legislative processes to craft new export controls. While the details have yet to emerge, the deal is a milestone in the technology war, as the US has chiefly relied on its own unilateral measures and long-arm jurisdiction to limit technology flows to China.

**What to watch:** The details, which should emerge throughout the year, will determine just how closely the Dutch and Japanese restrictions will resemble those of the US. This may take some time. ASML already indicated it anticipates a lengthy legislative process, stating it doesn’t expect 2023 revenues to be affected. Rather than traditional policy alignment through multilateral platforms like the Wassenaar Arrangement, this coordination only involves the three markets with the most cutting-edge machinery in this specific technology. Even if the countries do not fully align their policies, the agreement will likely become a blueprint for further restrictions moving forward.

**MERICS analysis:** “In a market with multiple suppliers of a given technology, nobody wants to restrict their own companies from selling to China if other countries continue to supply the tech to Beijing. Alignment like this is key to preventing a ‘race-to-the-bottom’ dynamic that emerges when unilateral measures are taken,” said **Jacob Gunter**, Senior Analyst. “This sort of coordination is in many ways the nightmare scenario for Beijing, which will view this as an effort for joint containment.”

### Media coverage and sources:

- Financial Times: [Netherlands and Japan join US in restricting chip exports to China](#)
- Nikkei: [U.S. secures deal with Netherlands, Japan on China chip export limit](#)
- SCMP: [Tech war: US-Japan-Netherlands alliance triggers debate over scale of its possible impact on China's semiconductor industry](#)

### China edges one step closer to weaponizing tech supply chains it controls

**The facts:** Bloomberg reported that Beijing is mulling an export ban of technologies used to manufacture advanced solar wafers, part of the solar PV supply chain China dominates. China's share in all manufacturing stages of solar PV exceeds 80%, with a striking 97% for wafers. In a new report, the European Commission's Joint Research Center issued a stark reminder that the EU is too reliant on China for strategic materials and products critical for the digital and green transitions.

**What to watch:** The technologies are marked as "restricted" in a catalog circulated for comment by China's ministries of commerce and science and technology between December 30 and January 28. The proposed restrictions would imply a new export licensing requirement, not a ban as some media has suggested. Other additions are in the areas of automotive LiDAR, synthetic biology, crop heterosis utilization, and bulk loading and transportation. Authorities are also considering an export ban of certain cell cloning and gene editing technologies, such as CRISPR. Adding items to its controls list allows China to protect – and, if push comes to shove, weaponize – its technological advantages by disrupting supply chains important to Europe and the US. The catalog has only been updated twice – in 2008 and 2020.

**MERICs analysis:** "As the US, the EU, and India are making efforts to diversify solar tech supply chains away from China, Beijing is looking to defend the country's dominance. China has developed its export controls regime considerably over the past few years to be able to protect its security, economic and industrial interests, at a time when the US is flexing its muscles in global tech trade. And Beijing does not want other countries to use its tech to strengthen their own industries," says MERICs Analyst **Rebecca Arcesati**.

### More on the topic:

- MERICs: [Diversification isn't enough to cure Europe's economic dependence on China](#)

### Media coverage and sources:

- MOFCOM [CN]: [Notice on Publicly Soliciting Comments on China's Catalogue of Technologies Prohibited or Restricted from Export](#)
- Bloomberg: [China Mulls Protecting Solar Tech Dominance with Export Ban](#)
- Joint Research Center: [China 2.0 - Status and Foresight of EU-China Trade, Investment and Technological Race](#)
- IEA: [Solar PV Global Supply Chains](#)

## EU's Global Gateway connectivity initiative takes shape as BRI turns ten

**The facts:** The European Commission appears to have selected 70 projects to flesh out the EU's Global Gateway (GG) connectivity initiative. Like China's Belt and Road Initiative (BRI), its older rival, GG's initial focus is mostly on the Global South, with Politico Europe reporting 36 projects earmarked for sub-Saharan Africa, 14 for Latin America and the Caribbean, 13 for Asia-Pacific and seven closer to home. They range from traditional infrastructure projects of different sizes to fostering digital capabilities and green transitions in receiving countries and the EU. While the BRI will celebrate its tenth anniversary in 2023, questions still surround the initiative – including whether Beijing will mark its first decade in existence, possibly as part of a third BRI Summit.

**What to watch:** The EU's projects strike a balance between ambition and feasibility – but only concerted step-by-step implementation and a good deal of public diplomacy will make Global Gateway a success. Xi Jinping in 2021 signaled a change of emphasis for BRI from large investments in big infrastructure projects to “small and beautiful” projects, something the EU also appears to find sensible. Given the difficulties GG and BRI face, it will be interesting to see whether 2023 brings any project collaboration between the EU and China into view. But competition will remain the baseline, a situation that could once again push China and the EU to promise too much to potential partner countries.

**MERICs analysis:** “Europe would do well to see the BRI's first decade as a cautionary tale about the risks of overpromising,” says **Francesca Ghiretti**, Analyst at MERICs. “The EU has been criticized for a lack of ambition and relabeling existing schemes, but Global Gateway's initial projects are a good foundation – even if putting it in place took a while. Ranging from easily achievable to ambitious goals, they should allow for a solid start.”

### Media coverage and sources:

- Politico: [EU lines up 70 projects to rival China's Belt and Road infrastructure spending](#) and China Direct 26/01/2023
- East Asia Forum: [Making the Belt and Road Initiative 'small and beautiful'](#)
- Reuters: [Xi says China to consider holding Belt & Road Forum in 2023](#)

## REVIEW

### Chip War: The Fight for the World's Most Critical Technology by Chris Miller (Simon & Schuster 2022)

Chris Miller's “Chip War” is essential reading for anyone wondering why semiconductors have become a huge issue in geopolitics. The author explains the importance of chips beyond everyday life – that is, their importance for the military and the industrial power base of any nation that can make or use them. He initially focuses on the US and Soviet Russia and then brings Asia into view, reflecting the development of the industry over the decades. Sadly, he neglects Europe's integral place in this decades-long story.

This omission aside, Miller's historical overview of the development of microchips is the strongest part of the book. Invented as a replacement for vacuum tubes in weapons,

semiconductors were ideal for all sorts of other things. Today only a small part of US manufacturers' revenues comes from government contracts, but in the early days they relied on demand from the US government, usually in the form of NASA or the Pentagon.

Describing the different industrial policies pursued by the US, Japan, Taiwan and China, Miller shows how hard it is to make chip making commercially viable. All leading chip-making countries relied on government support, directly through subsidies and market controls or indirectly through public procurement. Although armed forces generally don't use top-of-the line chips, the author explains why innovation still remains a military priority.

Miller's description of the current conflict between China and the US is less developed. The author sees a second Cold War emerging, but does not do enough to justify why the first one between Soviet Russia and the US is a useful comparison. This part of the book is full of interesting examples, but they lack a red thread. But in highlighting the geopolitics behind successive chip wars, he counters the idea that the division of work in modern chip-making was shaped purely by market forces.

Reviewed by **Antonia Hmaid**

## MERICs CHINA DIGEST

[Pfizer's Covid-19 pill vies to be part of China's medical bulk-buy scheme \(Yicai Global\)](#)

US pharma company Pfizer's antiviral drug Paxlovid will be part of China's Covid bulk-buy scheme according to Yicai Global reports. (23/01/06)

[Project Texas: The details of TikTok's plan to remain operational in the United States \(lawfareblog.com\)](#)

For several years now, TikTok has been negotiating with the US government to address potential national security risks posed by the platform. Lawfare blog reports from a recent briefing by TikTok officials on the topic.

[China's Baidu to launch ChatGPT-style bot in March - source \(Reuters\)](#)

The technology firm plans to launch the service as a standalone application and gradually merge it into its search engine, according to the source. (23/01/31)



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