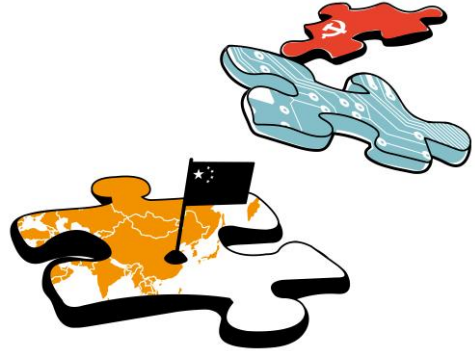


OCTOBER 10, 2024

# MERICS China Essentials



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## TOP STORY

### EU-China EV row enters new phase as EU pushes ahead with tariffs

The European Commission's aim to "de-risk" economic relations with China scored a goal last week when Brussels' proposal to impose additional tariffs on electric vehicles (EVs) made in China won the support of ten EU member states and twelve abstentions, with five states voting against. While three of the EU's big five members, France and Italy, as well as Poland, supported the Commission's proposal, Spain and Sweden led the abstentions, and Germany opposed the measure outright.

This means that Ursula von der Leyen's outgoing Commission will be able to add tariffs of between 7.8 and 35.3 per cent to an existing 10 per cent levy on EVs from China - although the split vote also highlights the major internal challenges von der Leyen faces in keeping the de-risking process on track over the next five years. Despite its attempts to pressure and charm member states into opposing the measure, Beijing was unable to undermine the vote, but did manage to make the support somewhat muted.

Following the vote, Beijing responded by imposing temporary anti-dumping measures on European brandy, mainly targeting France. It is also considering increasing tariffs on imported "large fuel vehicles", which would target Germany in particular, and may yet extend its retaliation to other exports such as pork and dairy products. The latter remain under anti-dumping investigation by Chinese authorities, despite a challenge by the EU at the World Trade Organization (WTO). The Commission has announced that the cognac measures will also be challenged at the WTO, with "appropriate support" offered to EU producers affected by China's move.

The 4 October decision strengthens Brussels' hand in talks with Beijing since June on alternatives to additional tariffs. The Commission has so far rejected China's proposal for voluntary EV price adjustments and export caps as insufficient and difficult to verify, so any progress depends on China's willingness to propose more robust and concrete measures – and the severity of its response to the tariffs. Talks could also be hampered by the EU's tougher enforcement of digital markets, competition and sustainability rules, as well as upcoming EU measures on safety certification of digital devices (including connected electric vehicles).

But as the vote on tariffs shows, the EU has yet to reach a clear consensus on its position on Chinese-made electric vehicles. The next round of this debate will have to land somewhere on a broad spectrum with positions of member states ranging from opposing any measures, through supporting the tariffs in hope to incentivize China-based manufacturers to move production to Europe, to seeing China-made vehicles as a source of cybersecurity risks and pushing for security certification of ICT components in Chinese EVs.

**MERICS analysis:** "The EV import dispute has now entered a new phase and whether China commits to finding a mutually satisfactory solution will set the tone for rollout of the upcoming de-risking measures. Beijing's response to the tariff vote so far has arguably been on the low side, with some measures even described as temporary, suggesting that

China still has an interest in negotiating an alternative solution with the EU. Brussels needs to make use of its strengthened negotiating position, as the EU remains the last large open market accessible to China," says **Grzegorz Stec**, Head of the Brussels office of MERICS.

**Media coverage and sources:**

- Euractiv: [EU-China negotiations to continue after 4 October electric vehicle vote](#)
- Politico: [After US, Europe probes Chinese car software](#)
- Reuters: [China hits out at EU brandy in tit-for-tat after EV tariff vote](#)

## METRIX

# 765 million

This is the number of domestic trips made by Chinese citizens during the Golden Week national holiday, which commemorates the founding of the People's Republic of China (PRC) on October 1. According to the Chinese Ministry of Culture and Tourism, this year's 75th anniversary of the PRC saw 5.9 percent more domestic trips than in 2023 – and 10.2 per cent more than in 2019, the year before the Covid-19 pandemic. Whether this increased interest in travel will translate into more much-needed consumer spending remains to be seen. (Source: [Chinese Ministry of Culture and Tourism](#))

## TOPICS

### China's stock market rally wilts as hopes for more fiscal support fade

**The facts:** China's stock market eased its recent gains Tuesday after the economic planning agency NDRC signaled vague and limited prospects for more stimulus to bolster the struggling economy – a move in keeping with Beijing's long-term vision that the economy needs a painful correction, albeit with some buttressing. Two weeks ago, the central bank (PBOC) had rallied hopes – and stock prices – when it cut rates. Shortly after, the Politburo called for immediate action to support the economy, sparking further expectations of a policy reversal. Anticipating even more good news ahead of the NDRC press conference, investors on Tuesday pushed the CSI 300 index as high as 4,450 points from around 3,400 on September 26. But the index fell to around 4,260 by day's end.

**What to watch:** The NDRC expressed confidence that China would hit its annual growth goal and explained how related policy supports this. It offered only limited details on support for consumption, mainly upgrading household appliances and EVs, which was not new. Support mainly focused on investment in the real economy, stabilizing real estate

markets, and supporting financial markets. There may be room for further measures from other institutions – perhaps more from the PBOC or the Ministry of Finance – in the coming weeks, but Beijing has been quite disciplined in providing stabilization when necessary without returning to the growth-driving stimulus of the past.

**MERICS analysis:** “The political economy choices in Beijing have been clear for years now – the government will do enough to stabilize the economy and prevent a total rout, but it’s willing to suffer the pain of a necessary correction,” said **Jacob Gunter**, Lead Analyst at MERICS. “Support must be reserved for making China into the industrial and tech superpower that the leadership aspires to. The NDRC press conference transcript reflects this longstanding goal and demonstrates that the poor market fundamentals have not changed, despite investors’ hopes for China’s stock markets.”

**Media coverage and sources:**

- NYT: [China’s policy reversal sparks “mind boggling” stock rally](#)
- Nikkei: [China stocks extend stimulus-fueled surge heading into holiday](#)
- State Council Information Office: [NDRC press conference transcript](#)

**A policy model for the West? China mandates clear labeling of AI-generated content**

**The facts:** The Cyberspace Administration of China (CAC) has proposed new measures for regulating content generated by artificial intelligence – another move in its nimble stepwise regulation of AI that could even be a blueprint for Europe and the US, which have until now sought broad, overarching rules. All countries are motivated by concerns over harmful content like fraud and misinformation, although China and the West are divided in their respective desire to tightly control speech on the internet or to allow as much free speech as possible without supporting harmful content. The new rules specify that labels are required to mark AI generated content as such and to associate it with the identity of the creator, and that this is required for all forms of generated content – text, image, audio, and video data.

**What to watch:** Beijing started regulating AI early and often, releasing rules in a piecemeal approach that targets individual technology areas. This has allowed it to move faster than the US or Europe, whose regulatory regimes have had trouble keeping pace with technological developments because they seek to involve a wider range of public and private interests in the process. The proposed regulation follows existing rules that require clear labeling of generated content. The latest measures provide more concrete details on labeling and stipulate that service providers (video hosting sites, for example) are responsible for ensuring that user-uploaded content meets those requirements.

**MERICS analysis:** “China’s quick pace in regulating AI reflects its ongoing tight grip on the internet and information control,” says **Wendy Chang**, Analyst at MERICS. “On the other hand, its nimble approach in creating small pieces of regulation instead of overarching ones has allowed it to move fast and better keep up with rapid developments

in the AI space. The latest rules on labeling generated content may prove a useful experiment for other countries to observe and learn from.”

**Media coverage and sources:**

- Cyberspace Administration of China (CN): [Measures for labeling AI-generated content \(draft soliciting comment\)](#) (国家互联网信息办公室关于《人工智能生成合成内容标识办法（征求意见稿）》公开征求意见的通知)
- South China Morning Post: [China to require labels for AI-generated content as tech brings fresh challenges](#)

## China’s steady increase in travel curbs turns the clock back towards the 1990s

**The facts:** Stricter implementation and enforcement of rules restricting overseas travel appears to be affecting an increasing number of lower-level public sector employees, such as teachers and even retirees. For example, local governments in Chongqing and Quanzhou, Fujian province, have recently standardized the implementation of regulations issued in 2016 to manage personnel travelling abroad. Increasing restrictions on overseas travel – highlighted by the Financial Times earlier this month – suggest that China’s internal security apparatus is concerned about the ideological threat of foreign influence and the potential for officials to turn their backs on China.

**What to watch:** Restricting international travel for a growing number of citizens is consistent with Xi Jinping’s authoritarian emphasis on safeguarding national security and the grip on power of the Chinese Communist Party (CCP). A steady increase in the implementation of travel restrictions at the local level in recent years contrasts with the easing of international travel restrictions in the 1990s, when rules regarding outbound tourism were relaxed. Citizens were granted passports more freely, and international travel for education, work and tourism grew rapidly. However, China drastically reduced the issuance of new passports to ordinary citizens as the Covid-19 pandemic took hold in 2020, with reports indicating that restrictions have continued. While “personal overseas travel management” is not new, it appears that the Covid-era restrictions have helped Chinese authorities to use the tools at their disposal with increasing zeal.

**MERICS analysis:** “The strict travel management long familiar to CCP cadres and senior management is spreading to other public sector employees, including elementary school teachers and retirees,” says MERICS Analyst **Alexander Davey**. “Xi places great emphasis on maintaining order by monitoring and indoctrinating his citizens – so controlling where they can go seems to be a logical next step. Freedom to travel looks set to become another area in which China adopts a fundamentally different approach to the West.”

**Media coverage and sources:**

- FT: [China tells schoolteachers to hand in their passports](#)
- National Public Complaints and Proposals Administration (CN): [Management measures for cadres and employees traveling abroad for personal reasons](#)

- Quanzhou Municipal Education Bureau (CN): [Notice on further standardizing the registration and filing of state employees and the management regulations for private overseas \(exit/entry\) travel](#)
- Chongqing Foreign Affairs Office (CN): [Implementation details on strengthening and improving the management of temporary overseas travel for teaching and research personnel on official business](#)

## MERICS CHINA DIGEST

### [Xi Jinping forecasts “rough seas” on 75th anniversary of PRC \(The Guardian\)](#)

Speaking to some 3,000 Chinese Communist Party (CCP) members and foreign dignitaries on the eve of China's National Day, Xi Jinping praised China's progress since Communist forces overthrew the Nationalist government and established the People's Republic of China. Xi's speech marked the 75th anniversary of the founding of the PRC on 1 October 1949, which has not been marked by major official celebrations. (24/10/01)

### [Pakistan to curb Chinese movements during SCO summit, sources say \(Reuters\)](#)

Pakistani authorities are seeking to restrict the movement of Chinese citizens during the October 15-16 Shanghai Cooperation Organization meeting in Islamabad, according to three security officials and an internal security memorandum. This follows the killing of two Chinese engineers in a bomb attack near Karachi airport in Pakistan on October 6. (24/10/09)

### [China is oversupplying lithium to eliminate rivals, US official says \(Reuters\)](#)

Chinese lithium producers are flooding the global market and causing a "predatory" price drop as they seek to eliminate competing projects, said Jose Fernandez, Under Secretary of State for Economic Growth, Energy and the Environment, during a visit to Portugal, which has abundant lithium reserves. (24/10/08)

### [Chinese woman held in Germany for spying on arms firm \(BBC\)](#)

Prosecutors said the woman had repeatedly sent details about flights, passengers and military cargo transport using Leipzig/Halle airport to a person who was working for China's intelligence service. The airport is considered a major center for weapons exports, particularly to Ukraine. (24/10/01)

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