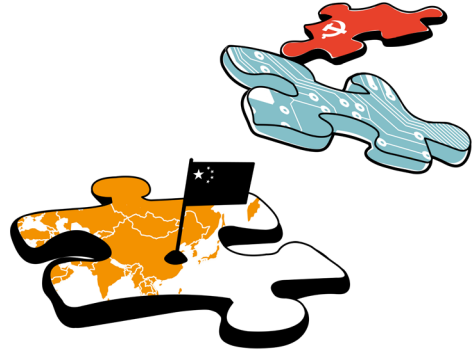


SEPTEMBER 26, 2024

MERICS China Essentials



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TOP STORY

China's central bank unveils wide-ranging stimulus package, but not reversing the path

China's central bank on Tuesday unveiled a wide-ranging stimulus package, with a strong focus on mobilizing capital for the industrial upgrading and expansion touted by Xi Jinping. Apart from cutting key interest rates, the People's Bank of China (PBOC) lowered banks' reserve-requirement ratio by 50 basis points, freeing up around 1 trillion yuan (EUR 130 billion) for lending.

The PBOC also cut the seven-day reverse repurchase rate from 1.7% to 1.5% and reduced mortgage rates and downpayment requirements for new and existing mortgages. This followed the US Federal Reserve's rate cut, which gave China room to ease monetary policy without risking undue downward pressure on the yuan. But the government may yet have to resort to fiscal stimulus to boost domestic consumption and reverse the slowing economic momentum.

The PBOC made clear that its move was designed to boost investment in industry, science and technology, and to cushion the struggling real-estate sector. But without stronger household consumption, its supply-side stimulus will drive industrial expansion and likely lead to higher exports and/or more import substitution – both bad news for China's trading partners. Only the PBOC's mortgage rate cuts are likely to help households by lowering their interest payments – although their impact may be limited. The country's high savings rate suggests that households are more concerned about the poor state of the economy than the burden of making their mortgage interest payments.

MERICS analysis: "The PBOC's latest moves suggest a small correction in pace of the current economic priorities of the leadership – in this case cushioning the steady decline of the real-estate market and directing more resources to industrial upgrading and expansion," explains **Jacob Gunter**, MERICS Lead Analyst. "Far from being a course correction to get China's growth engine back on track, these cuts are too small to have more than a marginal effect on countering the impact of China's considerable economic headwinds."

Media coverage and sources:

- PBOC Press Conference: [The State Council Information Office held a press conference to introduce financial support for high-quality economic development](#)
- Reuters: [China's central bank unveils most aggressive stimulus since pandemic](#)
- Sina: [Full text of Liu Shijin's blockbuster speech: Substantial expansion of domestic demand with a package of stimulus and reform economic revitalization plans](#)

METRIX

44

That is the number of years since China last tested an inter-continental ballistic missile (ICBM) until this week. Despite describing it as "routine," the launch of the missile into the Pacific Ocean on September 25 was the first recorded since 1980. Japan disputed China's assertion that countries had been forewarned, saying it had received "no notice." The test comes amid high tensions on the seas between China, Japan, the Philippines and Taiwan. (Source: [BBC](#))

TOPICS

Trouble for EU battery project shows the plight of de-risking

The facts: The difficulty of Europe's "de-risking" project in an interdependent, global market was on full display last week when Northvolt, a recipient of EU funding and Europe's hope for an indigenous battery scene, fell into crisis. The company said it would cut jobs and take a step back on R&D after it was unable to ramp up production as planned. Separately, US chip supplier Intel postponed construction of its German plant by at least two years. The plant was seen as central to European autonomy in chipmaking – part of the EU's policy to shield its economy from geopolitical risks.

What to watch: De-risking is not cheap. While China and the US seem willing to pay the cost, the EU and member states have been more hesitant. In his recent report to the EU Commission, former ECB President Mario Draghi pointed to expansive industrial policy plans like the US Inflation Reduction Act as a model, but the EU has not pursued such plans beyond chips. With many countries facing increasing fiscal constraints, future state aid like the German subsidies for Northvolt and Intel are up in the air.

The EU has also not been as successful in pulling companies on-board. Even Northvolt was set to use mostly Chinese machines for battery production. China is also trying to throw a wrench into European de-risking by asking its companies with leading technology to export final products like solar panels instead of building plants abroad, and by increasing its oversight and control of minerals exports. It is also engaging with EU countries to convince them that de-risking is futile and offering benefits to those willing to abandon their efforts.

MERICS analysis: "The EU is now experiencing that de-risking does not come easy or cheap, especially as both China and the US are way ahead in their policies," said **Antonia Hmaid**, Senior Analyst at MERICS. "With two flagship projects in trouble – Northvolt and

the Intel fab in Germany – and China trying to derail de-risking, the EU must get member states and companies on board if it wants the policy to work.”

More on the topic:

- MERICS: [Keeping value chains at home](#)
- MERICS: [MEPs' key lessons on EU-China policy during the last mandate](#)

Media coverage and sources:

- Northvolt: [Northvolt outlines revised scope of operations in Sweden](#)
- The Deep Dive: [Did China sabotage Northvolt? Unraveling the crisis behind Sweden's battery giant](#)
- SCMP: [Mario Draghi has a plan for Europe to avoid 'slow agony'. Can it work?](#)

China's list of concerns: youth unemployment, aging population, pension woes

The facts: China's mounting socio-economic problems are forcing Beijing to take decisions long deemed taboo. For the first time in over 70 years, lawmakers raised the country's famously low retirement age in a bid to reduce the country's huge pension deficit. Where previously men had to work until 60 and women until 50 or 55, depending on their occupation, retirement will now start at 63, 55 and 58 respectively. Both will now also have to pay into the system for 20 years, instead of 15, to qualify for a pension. China is rapidly ageing – 20 per cent of the population is over 60 and this share could double by mid-century as economic problems continue to depress birth rate. At the same time, low economic growth has pushed youth unemployment above 18 per cent, creating more uncertainty about pension funding. Without changes, the pension system could run out of money in just over a decade, China's Academy of Social Sciences has warned.

What to watch: The Chinese Communist Party's Central Committee used its Third Plenum in July to flag reforms to the pension system. But criticism of the legal changes – undertaken without public consultation – was swift. Older workers said they feared being pushed out of their jobs by the vast number of unemployed young. Many see the need for reform, but especially blue-collar workers feel cheated. At the same time, younger Chinese noted that raising the retirement age would block their opportunities. Xi Jinping's warnings of tough times ahead already ring true to tens of thousands of young Chinese who struggle to find jobs despite university degrees. As public finances become increasingly strained, more unpopular choices that damage support for the leadership will come. A youth feeling disenfranchised, economic slowdown, and an aging middle-class feeling worse off year by year is a volatile mix the party has avoided and feared for long. Its answer will be more public security and censorship.

MERICS analysis: “During years of strong growth and rising wages, Beijing shied away from unpopular decisions to increase tax and payments into welfare systems in order to preempt the current socio-economic pressures” says MERICS Lead Analyst **Nis Grünberg**. “But Beijing is now facing payback time amid economic slowdown and demographic

decline. Even China's new retirement ages remain comparatively low and is a compromise unlikely to solve the issue of poorly financed pension schemes, especially for workers outside the public sector.”

Sources:

- CNN: [For decades, Chinese workers have retired relatively early. That's about to change](#)
- New York Times: [A Graying China May Have to Put Off Retirement. Workers aren't Happy](#)
- The Economist: [Anger abounds as China raises its strikingly low retirement age](#)

Biden's seals partnership for countering China in Quad summit

The facts: At the recent Quad leaders' summit in Delaware with the US, Australia, India, and Japan, US President Joe Biden tried to cement his foreign policy legacy in countering China's growing geopolitical influence. Biden said China is "continuing to test" the US in the South and East China Seas and the Taiwan Strait. A joint declaration did not name China, but called for a "free, open, inclusive, and resilient Indo-Pacific" and expressed concern over "coercive and intimidating maneuvers" in those waters. A Chinese Ministry of Foreign Affairs spokesperson said the Quad was "creating tensions, stirring up confrontation, and attempting to contain the development of other countries."

What to watch: Biden's hope seems to be that the Quad will provide one foundation for continued US global leadership, as China builds ties for its own competing vision of security and economic alliances. The fate of the Quad initiative under the next US administration will signal whether the US pursues a multilateral strategy with allies or take a more unilateral approach, potentially pushing partners into a new Cold War with China, albeit with less coordination. Looking ahead, the Quad nations said they were planning to enhance maritime security through joint military operation and advance semiconductor cooperation, leveraging each country's strengths. Notably, Indian Prime Minister Narendra Modi has actively supported the Quad, signaling India's growing role in the partnership, despite India's long-standing non-alignment policy.

MERICs analysis: "US-China competition is forcing America's partners to carefully balance their bilateral relationships with China and the US. They are weighing their economic interests in China against their security alliance with the US," says MERICs Analyst **Claus Soong**. "The continuation of the Quad could underpin an American-led multilateral alliance system in countering China, which would suggest more burden sharing among America's allies."

Media coverage and source:

- BBC: [Biden aims to put final stamp on Quad partnership with hometown summit](#)
- The Guardian: [China 'testing us' across the region, Biden tells leaders at Quad summit](#)

- The White House: [The Wilmington Declaration Joint Statement from the Leaders of Australia, India, Japan, and the United States](#)
- Guancha: [拜登、岸田任内“最后的 QUAD 峰会”，“几乎肯定会激怒中国”？](#) (Biden and Kishida's 'last QUAD summit' during their terms is 'almost certain to provoke China'?)

MERICs CHINA DIGEST

[Top Economist in China vanishes after private WeChat comments \(WSJ\)](#)

Zhu Hengpeng of the CASS Institute for Economics was reportedly placed under investigation, removed from his posts and detained after allegedly criticizing Xi Jinping's management of the world's second-largest economy in a private chat group. (24/09/24)

[Hong Kong journalists association highlights harassment of journalists \(HKFP\)](#)

Reporters from at least 13 Hong Kong media outlets have been threatened and intimidated in a “systematic and organised attack,” according to the city's largest journalist group. (24/09/13)

[Russia secretly develops war drones in China, intel sources say \(Reuters\)](#)

Russia has established a weapons programme in China to develop and produce long-range attack drones for use in the war against Ukraine, according to two sources from a European intelligence agency and documents reviewed by Reuters. (24/09/25)

[Germany sails two warships through Taiwan Strait \(AP News\)](#)

It is the first transit of the disputed waters by the German navy in more than two decades. During its last naval deployment to the region in 2021-22, Germany had sought to avoid confrontation with China by ordering its ships to not use the Taiwan Strait. (24/09/13)

[Brazilian airline seeks to buy planes from China's COMAC \(Reuters\)](#)

The Brazilian cargo and charter airline Total Linhas Aereas would be the first company outside Asia to buy aircraft from China's state-owned planemaker, which is trying to break into a global passenger jet market dominated by Western manufacturers. (24/09/26)

[EU challenges China's dairy product probe at WTO \(Reuters\)](#)

The European Commission has launched a challenge at the World Trade Organisation against China's investigation into EU dairy products, which was initiated after the European Union placed import tariffs on Chinese electric vehicles. "The EU's action was prompted by an emerging pattern of China initiating trade defence measures, based on questionable allegations and insufficient evidence, within a short period of time," the Commission said. (24/09/23)

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