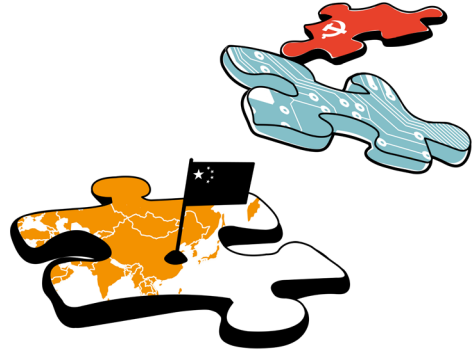


FEBRUARY 15, 2024

MERICS China Essentials



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TOP STORY

A bearish Year of the Dragon looms as economic insecurity grips many

Almost 200 million Chinese citizens last weekend made their way home to spend Lunar New Year with family and friends. After a tough Year of the Rabbit, they had little reason to welcome the Year of the Dragon with optimism. Bearishness about the economy has led to China's stock markets losing seven trillion USD in value since early 2021. Much of the last thousand billion evaporated in the last weeks, amid worries about how Beijing will finally unwind property giant Evergrande after a Hong Kong demanded liquidation.

Among the most acute will be the uncertainty facing two groups that will be seeking jobs as they return to the cities after the holidays – migrant workers looking for new year-long employment contracts or pay deals, and young adults still trying to break into their careers amid chronic youth unemployment. Authorities were happily predicting that 1.4 billion citizens would make a record 9 billion trips over the 40-day holiday period. But the early-year experiences of these two groups could serve as better economic proxies.

Migrant workers will seek to negotiate their wages for the year ahead as they return to their old jobs or find new jobs at other companies in the hope of securing better pay. After exports declined by around 5 percent in 2023 and consumer prices rose only 0.2 percent on the back of weak domestic demand, the question is how many workers companies will be seeking – and what wage rates they will be prepared to pay them. Average salaries at the end of 2023 were already 1.3 percent lower than in the last quarter of the prior year.

Meanwhile, many young people are not happy with their lot ahead of family get-togethers traditionally full of questions about their jobs, dating routines and procreative ambitions. They appear to be dealing with what therapists have dubbed “New Year Anxiety” with spiritual-guidance apps like Tencent’s popular “Cece” which simulates conversations with nagging relatives. Youth unemployment has officially fallen six points to 14.9 percent, but only because authorities have changed the way it is calculated. In reality, another record-sized class of 11.9 million university graduates will enter the job market soon.

MERICS Analysis: “If businesses reduce or shutter production coming out of the New Year holidays, migrant workers and companies relying on them as a suppliers could be hit,” said **Jacob Gunter**, Lead Analyst at MERICS. “Meanwhile, many young adults are relying on family wealth, most likely real estate with weak valuations. That’s bad news for companies looking to sell consumer products to what was a growing middle class.”

More on the topic:

- [MERICS Economic Indicators Q4/2023: China’s economy ends the year on a weak footing](#)

Media coverage and sources:

- Forbes: [China’s USD 7 trillion crash masks the really bad news](#)
- CNBC: [Why the Year of the Dragon doesn’t bode well for China’s declining population](#)

METRIX

184,000

This is the number of comments that have appeared on the Chinese social-media page of the US Embassy in Beijing under a recent post about US-Namibian efforts to save giraffes. Most of the entries passed over the topic of animal conservation to complain about the state of the Chinese economy. But exactly how many netizens helped to appropriate the US mission's Weibo post to complain about circumstances in China is not known, as many comments were removed. Beijing frowns upon public critiques of the economy. (Source: [Weibo](#))

TOPICS

Dutch call out China on hacking while Europe drags its feet on digital threats

The facts: EU governments rarely call out China's state-sponsored hacking, but the Netherlands last week officially blamed China's government for a 2023 cyberattack on its Ministry of Defense. Defense Minister Kajsa Ollongren said publicly exposing China's hacking would "help to increase international resilience" to what Dutch intelligence agencies called a "wider trend of Chinese political espionage against the Netherlands and its allies." US FBI director Christopher Wray in January already warned that China had been breaking into infrastructure to prepare for destructive activities with real-world harm.

What to watch: As Europe weighs how big a role Chinese suppliers should play in its digital infrastructure, the question of attributing hacking attacks to China is a pressing one. The decisive stand by the Netherlands comes after recent incursions by Chinese actors, including a cyber-attack on semiconductor manufacturer NXP. Home to pioneering chip-toolmaker ASML, the country came under pressure from the US in its campaign to restrict tool exports to China. But other European governments have been reticent to call out China's government for fear economic relations could sour without any security benefit. One problem is that there is no internationally agreed standard for attributing cyber-attacks to particular actors, making attributions easy to refute and discredit.

MERICS analysis: "As more and more devices are connected and information digitized, the potential impact of cyber-attacks is growing," says **Antonia Hmaid**, Senior Analyst at MERICS. "EU institutions and some member states see the importance of addressing Chinese threats head-on. But while intelligence agencies across Europe have a shared assessment, the political realm in some countries is reticent. Europe needs to switch focus from the possible short-term impact of challenging Beijing to long-term risks and dependencies."

More on the topic:

- [“Here to stay” – Chinese state-affiliated hacking for strategic goals](#), MERICS report by Antonia Hmaidid
- [Chinese hacking activities](#), Podcast with Antonia Hmaidid

Media coverage and sources:

- New York Times: [F.B.I. Director Warns of China Hacking Threat](#)
- AP News: [US says it disrupted a China cyber threat, but warns hackers could still wreak havoc for Americans](#)
- Nationaal Cyber Security Centrum: [Nieuwe malware benadrukt aanhoudende interesse in edge devices](#)

Human rights issues at BASF JV in Xinjiang a warning for multinationals

The facts: BASF will speed up its divestment from two joint ventures in Xinjiang after German media ZDF and Der Spiegel reported new human rights concerns. Employees of BASF partner Markor participated in the “Becoming Family” campaign, which places ethnic majority Han-Chinese cadres and government-loyal employees in homes of minority Uyghurs and requires them to report on behavior. Citing sustainability concerns as the main reason for its exit, for which BASF will seek approval from Chinese authorities, the company is clearly trying to navigate any potential fallout. China is a key market for the German chemical giant, which committed to a EUR 10 billion investment in 2022. New evidence shared by researcher Adrian Zenz also points to the use of forced labor in the subsidiary of a Joint Venture of Volkswagen and its partner SAIC.

What to watch: Both BASF and Volkswagen have previously insisted that internal and external audits found no human rights violations at its Joint Ventures and that their engagement in the region would not fall afoul of ethical supply chain regulations. The reports are a reminder that human rights risks are not limited to forced labor, but include a range of practices, from transferring workers to other regions to invasive monitoring. Pressure on multinational companies to pull out of Xinjiang is likely to grow.

MERICS analysis: “Repression in Xinjiang is taking on new forms and becoming more integrated into daily lives, sometimes as part of benign-sounding official poverty alleviation or corporate CSR campaigns,” says **Katja Drinhausen**, Head of MERICS’ Politics & Society Program. “This requires a much broader approach to due diligence investigations by companies, including into local partners. A daunting task, considering the barriers Beijing is raising for independent external audits.”

Media coverage and sources:

- Reuters: [Volkswagen talks with JV partner over future business activities in Xinjiang](#)
- Handelsblatt: [VW bereitet möglichen Rückzug aus Xinjiang vor](#)

- Tagesspiegel: [Möglicher Rückzug von Volkswagen aus Uiguren-Provinz: Peking nennt Berichte über Zwangsarbeit in Xinjiang „Lügen“](#)
- ZDF: [BASF-Partner: Dienstreisen für die Überwachung von Uiguren](#)
- BASF: [BASF to divest shares in its two joint ventures in Korla, China](#)
- HRW: [China: Visiting officials occupy homes in Muslim region](#)

Europe's alarm about Trump echoes China's message about US unreliability

The facts: Likely US presidential candidate Donald Trump played into Beijing's hands this week by saying underpaying NATO members might not enjoy the protection of another Trump Administration if attacked by Russia. In a comment, the CCP-controlled tabloid newspaper Global Times questioned the future of NATO, adding a recommendation for Europe to break away from a US-led NATO and "make peace with Russia". Apart from sparking consternation in European capitals, Trump's remark focused attention on the upcoming Munich Security Conference, which Chinese Foreign Minister Wang Yi is expected to attend alongside transatlantic foreign-policy and defense officials.

What to watch: After Munich, Wang is expected to travel to Paris and Madrid to continue reinforcing the message that engaging with China is better for Europe than following the more aggressive stance of the US – not least because Washington is no longer as reliable as it once was. The key question for all these upcoming meetings is not if, but how actively Wang will push Beijing's mantra about US unreliability in response to European alarm about Trump. After all, China has to balance the conflicting strategic aims of mending fences with Europe and standing by Russia – over the Ukraine war, in particular, and in opposition to the Western-dominated international order, more generally. Presidents Xi Jinping and Vladimir Putin spoke by phone only in recent days to reaffirm their growing strategic coordination.

MERICs analysis: "The recent call between Putin and Xi is a reminder that it is with Russia and not Europe that China shares its views of a 'fairer, multipolar world'," said **Abigaël Vasselier**, Director Policy and European Affairs and Head of Program Foreign Relations at MERICs. "The Munich Security Conference is often a space for China to not only have bilateral meetings with European and American leaders but also to provide calibrated messages on its global ambitions. This year's meeting will definitely be the place to watch to learn about China's current views on European security and the future of the transatlantic partnership."

Media coverage and sources:

- Global Times: [Heading into 3rd year of Russia-Ukraine conflict, NATO reveals its true nature as an undertaker](#)
- Global Defence Highlights: [Trump bluntly said to von der Leyen that "NATO is dead"](#)

- Chinese MFA: [Wang Yi at the 2022 Munich Security Conference – “Work together for peace, not create panic or hype up war”](#)
- MSC: [Munich Security Report 2024: Indo-Pacific – Shoring up defenses](#)
- SCMP: [Xi and Putin vow deeper ties in New Year phone call](#)
- SCMP: [Xi and Putin vow deeper ties in New Year phone call](#)

MERICs CHINA DIGEST

[Two Chinese fishermen die after sea chase with Taiwan’s coastguard](#) (BBC)

“We deeply regret that the Chinese crew refused to cooperate with our law enforcement work and this unfortunate incident occurred” said Taiwan's Mainland Affairs Council. Beijing “strongly condemned” the incident, saying it “seriously hurt the feelings of compatriots on both sides of the Taiwan Strait.” (24/02/15)

[Shenzhen eases housing restrictions on migrant workers](#) (YiCai Global)

Migrant workers without household registration (hukou) can purchase houses sooner in a move to meet their needs and release potential purchasing power in the struggling property market. (24/02/08)

[Chinese teachers face uncertain future with falling birth rate set to create 1.9 million surplus by 2035](#) (SCMP)

Births of newborn babies in China have fallen since 2017, leading to an estimated surplus of 1.5 million primary school teachers and 370,000 middle schoolteachers by 2035. In 2021, the number of kindergarten students fell for the first time in nearly two decades. (24/02/13)

[Head of the China’s securities regulator replaced](#) (Economist)

After weeks of stockmarket instability, Yi Huiman, the head of the China Securities Regulatory Commission (CSRC), was suddenly fired and replaced. On February 5th, the Shanghai Composite had plummeted to a five-year low. (24/02/07)

[‘Political motives’ behind Messi’s Hong Kong no-show, claim China state media](#) (Hong Kong Free Press)

A no-show of renowned footballer Messi at a friendly game between his club Inter Miami and Hong Kong XI led to speculation and conspiracy theories. The said he was benched over a hamstring injury, while Chinese state-run Global Times warned of “political motives”.

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