Weekly China Insight

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China counters new U.S. semiconductor sanctions with its toughest critical mineral restrictions yet

On 2 December, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) added 140 companies to its Entity List, including 136 Chinese firms, to further restrict China's ability to produce advanced semiconductors. The new measures also impose tighter controls on 24 semiconductor manufacturing tools, three software tools, and high-bandwidth memory (HBM) used in AI chips. However, several publicly listed Chinese semiconductor firms responded that their inclusion on the Entity List would have limited impact on their operations. In a seemingly retaliatory move, on December 3, the Chinese Ministry of Commerce announced a ban on the export of antimony, gallium, germanium, and ultra-hard materials to the U.S, along with stricter reviews for graphite exports.

Beijing's actions mark the first time Chinese export restrictions on critical minerals singled out the U.S. in particular, instead of all countries, signaling an escalation in the tit-for-tat in U.S.-China tech and trade war, little more than six weeks before the start of Trump 2.0.

Beijing signals policy continuity and readiness amid Trump's tariff threats

At a press conference on 22 November, Vice Minister of Commerce Wang Shouwen said China could withstand increased U.S. tariffs and argued that tariffs do not address trade imbalances but instead increase inflation for the importing country. The Chinese central bank said it would keep the exchange rate flexible.

China's response underscores Beijing's confidence in its economic resilience and signals its preparedness for Trump's promised tariffs while avoiding provocative countermeasures. China's wait-and-see approach reflects Beijing's uncertainty about Trump's objectives. Is he simply after more concessions from China -- or willing to pursue a genuine decoupling of the two economies?

South Korean President declares then reverses martial law

On 3 December, South Korean President Yoon Suk Yeol of the People Power Party (PPP) briefly declared martial law before reversing the decision six hours later amid widespread protests. The declaration, framed as a response to alleged North Korea-linked threats, was widely seen as an act of desperation amid corruption scandals and a legislative deadlock for his proposed budget. The National Assembly voted unanimously to nullify Yoon's declaration and initiated impeachment proceedings. If passed, South Korea will hold a new presidential election within two months. Chinese authorities have so far refrained from commenting on the situation, describing it as South Korea's internal affair.

Amid U.S. throttling of China's ability to produce advanced semiconductors, China's four major industry associations jointly issued a statement calling on companies to prudently purchase American chip products. In this context, political volatility in South Korea, an important exporter of semiconductors, would likely affect the Sino-American chip dynamic.

German companies face increasing competition from Chinese innovators

On 4 December, the German Chamber of Commerce in China released its 2024/25 Business Confidence Survey, notable for its pessimistic outlook among German companies. Among those surveyed, 8% believe Chinese firms are already the innovation leaders in their respective industries, up from 5% in 2023 and zero in 2019. This perception is particularly pronounced in the auto industry, where 12% of the respondents consider Chinese competitors to be innovation leaders. Furthermore, an astonishing 55% believe Chinese firms will become industry leaders within five years.

The survey highlights growing concerns among foreign businesses in China, fueled not only by escalating geopolitical tensions and China's economic slowdown but also by intensifying market-based competition from Chinese counterparts.

China's battery industry faces growing overcapacity

According to BloombergNEF, China's domestic battery manufacturing capacity surpassed 2 TWh in 2023, more than twice the global demand of 0.9 TWh, and is projected to reach 8.6 TWh by 2028. Challenges in localizing battery production in Europe and North America, including over 600 GWh of delayed or canceled projects in Europe, highlight the growing overcapacity challenges to Chinese battery manufacturers.

China's battery oversupply will keep driving battery manufacturers to pursue global markets in the U.S. and Europe, despite rising protectionist policies and investment restrictions in these regions, creating heightened geopolitical frictions down the road.

China's continuing manufacturing PMI expansion signals recovery in factory activities

China's official manufacturing PMI reached 50.3 in November, rising from October's 50.1 and marking expansion for the second straight month. The Caixin/S&P Global PMI showed a stronger growth of 51.5, supported by government stimulus measures to revitalize the economy and the property market. Sub-indices for new orders and production both improved, reflecting rising business confidence and economic momentum, though oversupply concerns persist with falling price indices for raw materials and ex-factory goods. Meanwhile, non-manufacturing PMI edged down to 50, reflecting stagnation in construction and a steady performance in services.

The manufacturing sector's gradual rebound highlights the initial success of China's stimulus efforts in recent months, but weak pricing power and non-manufacturing stagnation suggest challenges in sustaining broader economic recovery.