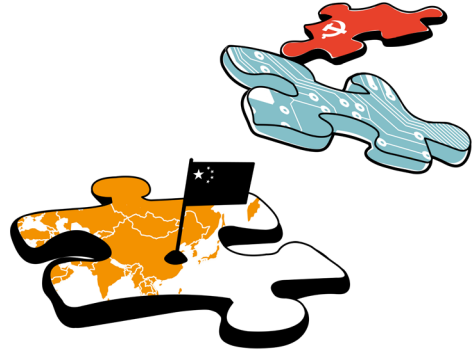


SEPTEMBER 14, 2023

MERICS China Essentials



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TOP STORY

Beijing increasingly comfortable with slowdown as it prioritizes securitization

Nine months after the end of China's zero-Covid policy, its economy is still sluggish and showing signs of distress. A host of data and developments are raising concerns, while President Xi Jinping remains rigidly against large-scale stimulus and/or deep monetary policy loosening to boost growth, while tightly focused on securitization efforts against domestic and foreign threats.

August marked the fourth consecutive month of declining exports, with a sharp 8.8 percent monthly drop. Imports, too, registered a 7.3 percent decline. This contraction in trade not only reflects global economic challenges, it also indicates fragile domestic demand. Inflation data, while above expectations, further points in this direction. August saw a 0.1 percent rise in consumer prices, following a 0.3 percent decline in July that had placed the country in deflationary territory. This very modest uptick reveals persistently weak demand and subdued consumer sentiment. Moreover, the manufacturing sector, as measured by the purchasing managers' index (PMI), contracted for the fifth consecutive month in August.

The real estate sector, which accounts for roughly a quarter of the Chinese economy, continues to struggle. Country Garden, formerly the nation's largest developer, missed coupon payments in August and has announced USD 7 billion in losses for the first half of the year. The company now finds itself in a desperate bid to restructure its debt as it hopes to avoid the fate of the failed real estate giant Evergrande, which filed for bankruptcy in New York last month. Country Garden symbolizes broader problems in the real estate sector that are dragging down overall growth and sentiment.

The response from Beijing has been disciplined. Xi has signaled that he wants to hold the line and avoid the kind of mass stimulus employed in response to the global financial crisis, nor is he willing to distribute additional resources to households. As firms like Country Garden buckle under their debt, state-owned enterprises and banks can step in to acquire assets, providing liquidity and spreading out what would otherwise be concentrated contagion risk. Similarly, Xi is likely to continue to take his available resources and, rather than allocating them towards growth, use them to mitigate the technology risks from its escalating rivalry with the US.

New measures and statements have sought to prop up business and consumer confidence. But due to their often-marginal scale, these have yielded limited results. For example, mortgage downpayments were recently lowered, and cities like Shenzhen and Guangzhou have widened incentives for first-time homebuyers. Those steps generated a surge in purchases, but only two weeks later, it fizzled out.

MERICS analysis: "While previous leaders answered economic headwinds with reform and opening up, or with intensive stimulus, Xi is operating under a different playbook and with very different priorities," said **Jacob Gunter**, Senior Analyst at MERICS. "With limited resources at hand, Xi faces a tradeoff of trying to juice growth the old-fashioned way or to

maintain his campaign to unravel domestic risks like those in the real estate market and foreign ones like closing the tech gap with the US, and he is clearly prioritizing the latter.”

Media coverage and sources:

- SCMP: [China inflation: August consumer prices rise 0.1%, pointing to weak demand but easing deflation fears](#)
- FT: [China's renminbi hits 16-year low after exports tumble in August](#)
- FT: [China's manufacturing activity shrinks in August](#)
- Bloomberg: [Country Garden Rallies on Report It Has Creditor Approval to Extend Six Bonds](#)

METRIX

11/21

This is the proportion of nearby governments which China may well have offended in publishing its new “standard national map” on August 28. The Philippines and four other maritime states openly or quietly disagree with the map’s claim to Chinese sovereignty over most of the South China Sea (in form of the “nine-dash line,” now extended by a tenth dash to include Taiwan), while India and five other contiguous states have different takes on land borders. In a novel take on their “no-limits friendship”, the new map even assigns to Beijing Russia’s half of Bolshoi Ussuriysky Island on China’s northeastern border. (Source: [AP News](#))

TOPICS

G20 minus Xi - China’s leader seems to prefer more friendly international fora

The facts: Xi Jinping skipped last weekend’s G20 summit in India. While other global leaders were discussing the economy, climate change and Russia’s war on Ukraine, Xi visited China’s flood-hit northern province of Heilongjiang to emphasize the importance of national food, energy and technological security.

Subbing for his boss in New Delhi, Premier Li Qiang pushed Xi’s new global initiatives, suggesting in a speech that the G20 should stay away from geopolitical issues and focused on economic coordination. But other member countries signaled they see things differently: One of the key outcomes of the meeting was the announcement of a new India-Middle East-Europe Economic Corridor that seems designed to compete with China’s Belt and Road Initiative.

What to watch: Xi may have decided to skip the summit for a number of reasons – aside from domestic issues, the summit could have put him on the defensive in a room full of

nations China currently has tense relations with. His absence does, however, signal one thing about Beijing's current foreign policy priorities: Xi seems to be prioritizing multilateral fora in which China has more weight and ability to promote its own projects and initiatives – like BRICS and the Shanghai Cooperation Organization (SCO) – over those in which Western nations and other players can act as counterweights. Xi, after all, attended the BRICS summit in South Africa in late August, when floods and a slowing economy were already big domestic issues. The announcement that only Vice President Han Zheng will attend the upcoming UN General Assembly seems to point in the same direction – and may be a bad sign for Washington's attempts to bring Xi to San Francisco for the Asia-Pacific Economic Cooperation (APEC) leaders' summit in November.

MERICS analysis: “Xi's decision to skip the G20 summit in New Delhi and prioritize other formats in which China is the dominant player could prove counterproductive,” says **Helena Legarda**, MERICS Lead Analyst. “Beijing risks being sidelined from some high-level political discussions on global issues and narrowing opportunities for face-to-face dialogue with other key actors. Xi's presence at or absence from in the APEC summit will give a strong indication of whether this selectivity looks set to become a pattern in China's foreign policy.”

Media coverage and sources:

- European Council: [G20 New Delhi Leaders' Declaration](#)
- Chinese embassy in Berlin (CN): [李强在二十国集团领导人第十八次峰会第一阶段会议上的讲话（全文）](#) (Li Qiang's speech at the first session of the 18th G20 leaders' summit)
- Lowy Institute: [India pushes China to the margins of the G20](#)

Huawei's new phone: chip advancements but geopolitical hurdles

The facts: Huawei quietly released the Mate 60 Pro, its first 5G smartphone made with mostly domestically produced chips. The move signals China may be further along in capabilities than expected and raises the possibility of more US export controls. Huawei designed the Kirin 9000s chip, produced on Chinese semiconductor maker SMIC's 7nm process. The new phone is roughly on par with Apple's 2017 iPhone X and is likely to be good enough for most applications, but costs are higher and yields likely lower than industry standards. Huawei was on a meteoric rise before 2019, when the US placed it on its Entity List of trade-restricted companies, blocking access to the 5G chips it relied on.

What to watch: The new smartphone is very dependent on Western technology, as SMIC still mainly uses Western equipment. In addition, memory chips are reportedly coming from South Korea's SK Hynix. Huawei and SMIC are both on the Entity List, and politicians have already suggested more restrictions, which would make the phone much harder to produce. SMIC also lacks access to Extreme Ultraviolet (EUV) lithography, a machine for producing sub-7nm chips like Apple's M2, which will hamper further progress.

Without Android and Google services, Huawei's phone will not have global reach. But China's large market and the narrative of a big Chinese win could lead to large domestic pick-up. Both US controls and a reported ban on Chinese government employees taking foreign-made phones to work show the perceived importance of phones for national security.

MERICS analysis: "The new phone is a significant step forward for China's chip-making, but it is still a couple of years behind and highly dependent on US and other Western technology," says **Antonia Hmaid**, Analyst at MERICS. "But so far, US export controls have not been effective in stopping China's progress in chipmaking. The fact that a phone elicits such a strong reaction, both in China and the US, shows how important technology has become in the great power rivalry."

Media coverage and sources:

- Tech Wire Asia: [Does the Huawei Mate 60 Pro have 5G capabilities?](#)
- Global Times: [How should Raimondo accurately understand Huawei's new presales?](#)

Xi reaffirms path of "Chinese-style modernization" for Xinjiang

The facts: Xi Jinping made a surprise visit to Urumqi in Xinjiang province in late August, just shy of the one-year anniversary of a UN report assessing evidence of human-rights violations against Uyghur and other Muslim minorities on the region. In his second visit since launching the extreme crackdown eight years ago, Xi told Communist Party and government officials that China had been successful in safeguarding stability in the region and setting it on the path to "Chinese style-modernization" – but urged them to "more deeply promote the Sinicization of Islam and effectively control illegal religious activities." Last year's report by the UN's Office of the High Commissioner of Human Rights criticized that Beijing's wide-ranging campaign against purported extremism criminalized benign acts – such as those of religious expression – and may have led to crimes against humanity.

What to watch: One year after the release of the UN report, international human-rights organizations have criticized the lack of action of national governments and the United Nations in addressing violations in Xinjiang. Xi's visit to Urumqi shows that the Chinese government is keen to steer the international discussion about Xinjiang in a different direction. While rights organizations, researchers and UN representatives have continued to highlight shifting and new forms of repression at home and abroad, China has started welcoming tourists and friendly foreign delegations to showcase what it sees to be a successful new normal in the region. Xinjiang Communist Party Secretary Ma Xingrui used an under-the-radar visit by the UN's International Labor Organization to lambast recent "reckless accusations" of rights abuses by Chinese authorities.

MERICS analysis: "With the visit, Xi has left no doubt that he stands behind the measures taken to ensure what he called 'hard-won stability' in the region," says **Katja Drinhausen**, MERICS Head of Program Politics and Society. "His words were another commitment to a security-first approach to development, a model which China is increasingly promoting

abroad. It also serves to legitimize the erosion of individual rights for the sake of the collective.”

Media coverage and sources:

- Al Jazeera: [Xi Jinping calls for protection of ‘hard-won stability’ in Xinjiang visit](#)
- France 24: [China's Uyghur villages hide their secrets after Xinjiang crackdown](#)
- RFI: [Blocked roads, crumbling camps as China moves Xinjiang detentions out of sight](#)

PROFILE

Chen Wenqing - one of Xi’s key political-security enforcers is a busy man

Official pictures of Xi Jinping’s late-August visit to Xinjiang show China’s leader flanked by one of the most central figures in China’s security apparatus, Chen Wenqing. The secretary of the Chinese Communist Party’s powerful Central Political and Legal Affairs Commission (CPLC) had just visited the Gannan Tibetan Autonomous Prefecture in Gansu Province, where he praised Xinjiang authorities for their fight against the “separatism” and religious “superstitions” of the province’s Uyghur locals. The appearances were meant to show one of Xi Jinping’s key political-security enforcers hard at work, focused on his goals much like the “political commissars” under Mao Zedong.

Chen is a security insider, with experience from nearly all civilian agencies. After a law degree in Sichuan, he began in the public security system in 1984, soon heading the Leshan city branch of the Ministry of Public Security, before in 1994 rising through the ranks of the Ministry of State Security’s (MSS) provincial office in Sichuan. From 2006, he was a member of the Fujian provincial leadership, as well as its anti-corruption lead as party secretary of the provincial Discipline Inspection Commission (DIC). With Xi’s rise to power in 2012, Chen became a central figure in Xi’s anti-corruption effort by serving in the leadership of the national DIC. He became head of the MSS in 2015 and took his current job at the CLPC (along with a seat in the 24-member Politburo) in 2022.

As MSS head, Chen oversaw China’s civilian spy operations, counterespionage, and recruitment of spies overseas. His tenure included high-profile cases of espionage in the US Army Reserve and the attempted theft of aviation technology from US and French companies. As head of the CLPC, he keeps tabs on all cadres in domestic security agencies and is point man for dialogue with foreign counterparts – he met with Russian officials in May as part of the Sino-Russian Law Enforcement and Security Cooperation Mechanism. The CLPC keeps tabs on all security agencies except the People Liberation Army, including China’s powerful Ministries of Public Security, State Security and Justice do, as well as the People’s Procuratorate, and the Supreme Court. Also the Communist Party’s Discipline Inspection Commission and the People’s Armed Police are members.

Media coverage and sources:

- SCMP: [Use the law to tackle terrorism in Xinjiang, China’s security chief says](#)

- Baidu Baike: [CV of Chen Wenqing](#)
- National Interest: [Chen Wenqing: China's new man for national security](#)

MERICS CHINA DIGEST

[EU to investigate “flood” of Chinese electric cars, weighing tariffs \(Reuters\)](#)

EU Commission President Ursula von der Leyen announced that the EU will launch an anti-subsidy investigation into Chinese practices in the electric vehicle (EV) sector, accusing Beijing of distorting free and fair competition in global car markets by channeling “huge subsidies” into Chinese manufacturers. (23/09/13)

[Why China is changing its laws to allow court action against foreign states \(South China Morning Post\)](#)

A new law will allow Chinese citizens to take legal action against foreign states starting from January 1, 2024. Sovereign states and their property will no longer be fully immune from prosecution in China. (23/09/11)

[Chinese law to ban comments that harm China's ‘feelings’ prompts concern \(The Guardian\)](#)

Proposed amendments to China's public security law would criminalize comments, clothing or symbols that “undermine the spirit” or “harm the feelings” of China. Legal experts are concerned the amendments could be used arbitrarily. (23/09/08)

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