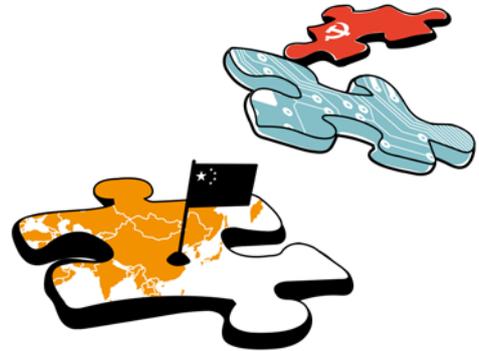


AUGUST 10, 2023

MERICS China Essentials



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TOP STORY

Beijing relies on rhetoric to prop up its sputtering economy

China's post-Covid economic recovery, once expected to be strong as the country emerged from lockdowns in 2022, seems to have foundered. Consumers and business leaders are struggling with mixed signals from policy makers. Trade data this week revealed exports were down 14 percent year-on-year, their largest decline since February 2020, while imports fell 12.4 percent, far more steeply than expected. These developments, the most recent in a series of lackluster economic data, have undermined expectations for a robust recovery and are suppressing confidence among policy makers and investors.

The Chinese government has tried to soothe markets with a haphazard flurry of assurances and policy measures. Last month, the Chinese Communist Party's (CCP's) Central Committee and the State Council issued a 31-point action plan to make the private sector "bigger, better and stronger" – language usually applied to state-owned enterprises under President Xi Jinping's governance. Meanwhile, public consultations with business leaders this month aimed to discover what is impeding the private sector's recovery.

Alongside reassurances, Beijing has launched plans to boost consumption, extended tax breaks and mildly cut interest rates and reserve requirement ratios. But these paltry measures are far from the "big bang" monetary and fiscal packages anticipated in the past. Instead, Beijing seems to be relying on rhetoric and signals. For instance, the National Development and Reform Commission (NDRC), in charge of China's macroeconomic planning, has held an unusually high number of press conferences this quarter, with eight in Q3 so far, compared to nine in Q2 and six in Q1.

The much-anticipated Politburo meeting on July 24 failed to announce any stimulus package. It recognized "tortuous progress" in the post-pandemic recovery but did not go beyond the modest policies and guidelines announced before. Meanwhile, a series of symposia are being held by the Employment Department of the NDRC "to develop ideas on boosting consumption" – a move that suggests they aren't sure what to do in the face of broader constraints on stimulus options like already high debt levels and President Xi's opposition to "welfarism."

Xi and the top leadership have not demonstrated clear priorities in the competing goals laid out for officials. Instead, the bureaucracy must juggle the need for stimulus and deleveraging, for boosting productivity and upgrading production while also maintaining employment stability, and for facilitating private sector investment while also preventing what it deems the "disorderly expansion of capital."

MERICS Analysis: "The sort of policy and messaging caprice we are seeing out of China's economic planners stems from a lack of clarity in priority-setting from the top," says **Senior Analyst Jacob Gunter**. "Until clear indications come from Xi himself, we can expect rhetoric and incrementalism to be the preferred tools of the average official who has few clear orders to implement or space to experiment, and more ideology to interpret."

Media coverage and sources:

- **WirtschaftsWoche:** [What does China's deflation mean?](#)
- **South China Morning Post:** [China's 31-point plan vows private firms, like state brethren, will be 'bigger, better and stronger'](#)
- **Bloomberg:** [China's pro-growth messaging blitz can only buoy markets so long](#)
- **CNN:** [Why China has few good options to boost its faltering economy](#)
- **Caixin:** [Chinese economic officials at pains to tout efficacy of recovery stimulus](#)

METRIX

12

This is the (full) number of China's Socialist Core Values which a Chinese art student in London stenciled onto walls in the city's East End. Despite denying any political and emphasizing "inspirational" motives, the graffiti artist quickly drew polarized reactions online and off. Nationalist Chinese commentators regarded his work as a worthy patriotic export, others deemed it an act of vandalism for smothering other street art. Visitors tagged it with barbs against Xi Jinping and the Chinese Communist Party. After the authorities repainted the wall twice in three days, people overlaid the "canvas" with new comments. Next to prosperity, Core Socialist Values include democracy, the rule of law and harmony. (Source: [China Digital Times](#))



lei_uk@instagram

TOPICS

Floods around Beijing draw public ire, show unreadiness for climate effects

The facts: Some smaller cities around Beijing are battling floods after officials diverted waters from heavy rainfall away from China's capital, drawing the ire of residents. Record rainfall led to floods in Beijing and surrounding areas. According to officials some 59,000 homes in Beijing were severely damaged, especially its mountainous western outskirts. More than 30 people have died, an estimated 1.5 million have been evacuated, and many more had their homes and property damaged. The areas affected by diverting the flooding have functioned as "moats" for Beijing and Xiong'an New Area, a new city built south of Beijing and one of President Xi Jinping's projects.

What to watch: People are angry about the government's decision to redirect the waters, along with poor preparedness and communications. Damage from the floods to cities, businesses, crops and peoples' lives has been significant. A statement by the province of Hebei party secretary Ni Yuefeng, pledging support for the region "in order to ensure the stability of the overall situation of the society," has since been deleted. The decision to divert the floods has led to protests, while online, citizens have criticized the prioritization of Beijing and Xiong'an over other cities. Criticism of government accounts which shared content to "spread positivity" has been widely censored.

MERICS analysis: "The criticism voiced by citizens lays bare the risk of social disruption if the government is not better prepared to handle natural disasters related to climate change," says **MERICS Analyst Sophie Reiß**.

Media coverage and sources:

- Caixin Global: [Editorial: North China's Deluge Calls for a "Disaster Awakening"](#)
- Deutsche Welle: [Beijing floods devastate city, kill dozens](#)
- Reuters: [China floodwater diversions to populated areas unleash wave of online anger](#)

China celebrates opening of Hainan Bielefeld university of applied sciences

The facts: Germany's Hochschule Bielefeld is opening the first wholly foreign-owned university in China, Hainan Bielefeld University of Applied Sciences (BiUH). The opening, which has been in the works for years, was criticized in Germany, despite being funded by a state program on transnational education. In China however, the step was celebrated as a significant win for Sino German science collaboration. The vice-governor of Hainan and high-ranking officials attended the signing ceremony, which the government press release described as a "beacon and demonstration project for deepening cooperation between Chinese and German higher education, and a center for Sino-German cultural exchanges." Traditionally a poor region, Hainan wants to become a talent hub by attracting domestic and international universities. The new university "will not only improve the overall level of higher education in Hainan, but also play a very good role in promoting applied higher education in my country", one Chinese commentator stated.

What to watch: Since the 2020 revision of the negative list for foreign investment, non-Chinese universities are no longer barred from opening fully foreign-owned universities, provided they do not teach humanities and social sciences. And the law on the Hainan Free Trade Port explicitly allows schools specializing in “science, engineering, agriculture and medicine”. The private university on southernmost Hainan Island plans to welcome 140 applicants this fall and grow to accommodate up to 12,000 BA and MA students. The school will offer applied teaching, which means students will spend half their time training on the job at a company. Such dual curricula are a hallmark of the German education system and German companies active in Hainan have signed up to host students. Students at BiUH are meant to be able to opt for a dual degree and spend time in Bielefeld, although the mandatory Chinese degree will be supervised by the Chinese Ministry of Education. Academic freedom is supposed to be upheld through an impartial arbitration committee.

MERICs analysis: “It’s quite a feat for a German university of applied sciences to be the first to set up a wholly foreign-owned university in China – especially given Berlin’s recent commitment to ‘de-risking’ relations with Beijing,” says **MERICs Analyst Antonia Hmaidi**. “As a practical university offering undergraduate degrees, espionage risks are low. However, the benefits to China and China’s leadership are much more apparent than the benefits to Germany. The move supports Chinese self-sufficiency goals by providing Western training without exposing Chinese students to Western free thinking.”

Media coverage and sources:

- Süddeutsche Zeitung: [Hochschulgründung in China in der Kritik](#)
- The People’s Government of Hainan Province: Hainan Bielefeld University of Applied Sciences plans to recruit 126 students nationwide [海南比勒费尔德应用科学大学计划面向全国招生 126 人 今日海南 海南省人民政府网 \(hainan.gov.cn\)](#)
- Sohu.com: New university in Hainan will recruit 140 students for the first time this year, from top application-oriented school in Germany [海南新增一所大学，今年首招 140 人，来自德国的顶尖应用型大学 高校 高教 建设 \(sohu.com\)](#)

Geopolitics thwart Italy’s Belt and Road Initiative pact with China

The facts: Under pressure from Washington, Italy looks set to back out of a 2019 pact to cooperate on China’s Belt and Road Initiative (BRI). Italian government officials have made strong statements indicating Italy will withdraw from the Memorandum of Understanding up for automatic renewal in March 2024. Italy was the first (and only) G7 country to “join” the BRI. In recent months, Beijing has sent several emissaries to persuade officials not to withdraw before a December deadline.

What to watch: The agreement has brought little economic gain for Italy and put it in the midst of a geopolitical rivalry in which any move is interpreted as a win for either Beijing or Washington. Prime Minister Georgia Meloni may be waiting to announce the withdrawal until after a state visit to Beijing. It is unclear whether Beijing will play along, hoping to convince Italy otherwise, or cancel the visit (seen as less likely). One risk could be repercussions for Italian businesses in China, although there have been none for EU

members that left the 16+1 group of Central and Eastern Europe (CEE) countries, which aimed to promote BRI cooperation.

MERICS analysis: Italy's situation is a prime example of how countries must increasingly consider the symbolic value of such moves amid growing rivalry between Washington and Beijing. "Like Italy, other countries may want to try to have it all: maintain strong ties to Washington while avoiding damaging their relations with Beijing. This is not only a difficult game to play, but one that may become increasingly impossible," says **MERICS Analyst Francesca Ghiretti**.

Media coverage and sources:

- Global Times: [Don't let quitting BRI become Italy's regret: Global Times editorial](#)
- Peter Lang: [The Belt and Road initiative in Italy. Five case studies](#)

REVIEW

Americaville by Adam James Smith

Nestled between a craggy mountain range and tranquil lake lies a settlement of US-style log cabins. But this isn't the unbridled American wilderness, it's a development which replicates Wyoming's famous resort-town of Jackson Hole – on the fringes of Beijing. This is the setting for "Americaville," a documentary that follows a well-heeled Beijinger in pursuit of her "American Dream" on weekend visits to the edge of the capital.

Shot in the 2010s, director Adam James Smith follows Annie Liu as she seeks refuge from the bustle and smog of Beijing in the manicured confines of her gated-community oasis. After enduring a demanding workweek with traffic-congested commutes, she each weekend escapes her high-pressure reality to seek peace and simplicity in this idyllic haven – to which her husband, very noticeably, never accompanies her. Living out her "American Dream" in "Jackson Hole," Liu seeks to rid herself of the shackles of society, marriage and religion, all of which in different ways fail to understand her.

Yet the capitalist fulfillment promised by this lifestyle never truly satisfies her, illustrating how this emanation of Xi Jinping's China Dream is a farce. Smith attributes Liu's alienation to an unhappy marriage and over-strict religious adherence. But, in doing so, he sadly misses the chance to focus on the impact of China's economic development and the effects of state capitalism on its citizens. The disconnect of Americaville's residents and staff from this society should have been further explored.

The documentary does look into the issues of Chinese identity and the US-China relationship but skips over how they are complicated by China's growing class divide. There are moments that hint at the gated community's concentration of wealth and power – laborers marching in past mansions and tending gardens. But for Smith the inequality between workers and residents remains a secondary issue. Perhaps for the same reasons it remains secondary in the country home to the original Jackson Hole.

Reviewed by Alexander Davey

MERICS CHINA DIGEST

[Biden signs executive order to restrict tech investments in China \(The Guardian\)](#)

US President Joe Biden has signed an executive order to restrict future US investment in Chinese technology, including in sensitive hi-tech sectors like semiconductors, quantum computing and artificial intelligence. The restrictions are expected to take effect next year. (23/08/10)

[Xi opens Beidaihe with no elders but plenty of challenges \(Nikkei Asia\)](#)

At the seaside resort town of Beidaihe in Hebei province Chinese Communist Party leaders -- retired and incumbent -- have gathered to hold their annual discussions on the state of the nation. The informal and secretive meetings will likely be the first in Xi Jinping's tenure to take place without party elders. (23/08/10)

[Taiwanese chip company TSMC comes to Germany](#)

Together with partners Bosch, Infineon and NXP, TSMC plans to invest in the Dresden-based European Semiconductor Manufacturing Company (ESMC) GmbH to establish advanced semiconductor manufacturing services in Germany. The project is planned under the framework of the European Chips Act. (23/08/08)

[Ukraine conference in Jeddah \(South China Morning Post\)](#)

Saudi Arabia hosted a two-day peace conference on Ukraine. China was among the more than 40 countries that participated, represented by the special envoy for Eurasian affairs Li Hui. The aim was to coordinate the peace plan of Ukrainian President Volodymyr Zelenskyy with the positions of states that have taken a neutral position on the war. The conference ended without a joint final declaration. However, Westerners in attendance gave the meeting a positive assessment. (23/08/07)

[Xi Jinping replaces leaders of the PLA's rocket force \(South China Morning Post\)](#)

Xi Jinping has dismissed two senior generals who led his People's Liberation Army Missile Forces. There have been no public announcements regarding General Li Yuchao, his deputy General Liu Guangbin and his former deputy Zhang Zhenzhong, but there are rumors of an ongoing investigation. Wang Houbin, the navy's former deputy commander, is the new head of the People's Liberation Army Rocket Force, while Xu Xisheng will be appointed as its new political commissar. It is unusual for Xi to replace a fighting force's commander and political chief at the same time. (23/07/31)

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