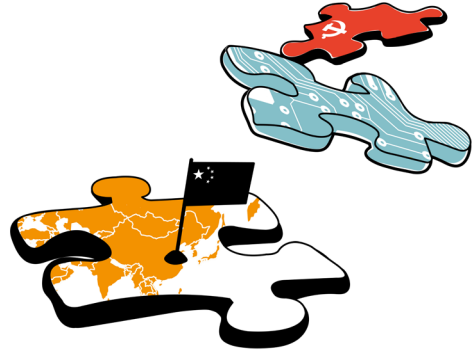


NOVEMBER 9, 2023

# MERICS China Essentials



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## TOP STORY

### Xi signals determination to solve real-estate and local government debt crises

Xi Jinping and other top leaders sent a sign of their determination to mitigate and manage systemic financial risks – like property-sector and local-government debt – and prop up economic growth at the five-yearly Central Financial Work Conference (CFWC). All seven Politburo Standing Committee members attended the meeting on October 30-31 in Beijing, which underlined the central role of the Communist Party in financial management as it set the direction for the country’s financial system until 2028.

China’s deleveraging challenge has only grown since the last CFWC in 2017, which had identified controlling financial risks as a core concern. The balance sheets of local governments have deteriorated further in recent years due to tax-revenue declines, the property-market downturn and costly efforts to contain Covid-19. China’s real estate sector also remains in a quagmire, as property sales, investment and funds raised by property developers have continued to decline this year after some sharp falls in 2022.

This year’s conference showed policymakers are now trying to walk a tightrope between spiraling debt and economically painful defaults. The conference called for a long-term mechanism to better handle local government debt risks and optimize the debt structure at all levels of government. It also sought to strike a balance between providing finance to high-quality real-estate projects and unwinding risks to finally stabilize the sector.

Beyond deleveraging, the CFWC signaled it wants to see the financial system flex its muscles to boost scientific and technological innovation, advanced manufacturing, green development and small-, and medium-sized enterprises. To help companies in these areas secure financing on capital markets, Beijing is looking to advance so-called registration-based initial public offerings, which relax regulatory oversight of listings.

**MERICS analysis:** “The Central Financial Work Conference sent a clear signal that China is sticking to its ‘financial de-risking’ agenda,” said MERICS Analyst **Alexander Brown**. “But Xi and his leadership colleagues have yet to provide concrete solutions. For instance, to shrink local government debt they need to commit to substantial reforms to allow local governments to raise more revenue – and shift more spending to the central government.”

#### Media coverage and sources:

- China Daily: [Central financial work conference is held](#) (official readout EN)
- People’s Daily: [Central Financial Work Conference held in Beijing \(中央金融工作会议在北京举行\)](#) (official readout CN)
- CNBC: [China sets the tone on real estate, local government support at a high-level meeting](#)
- Caixin Global: [Five takeaways from China’s Central Financial Work Conference](#)
- Reuters: [Key China gathering sees bigger role for Communist Party in financial supervision](#)

- Reuters: [Exclusive: China tells banks to roll over local government debts as risks mount - sources](#)
- Reuters: [China risks property debt](#)

## METRIX

# 1,000,000,000,000

This is the volume of new, CNY-denominated treasury bonds China's legislature recently authorized the central government to issue in the last three months of 2023. The 1 trillion CNY, equivalent to 130 billion EUR, will be transferred to local governments for recovery projects after natural catastrophes and disaster prevention. Equivalent to around two percent of total local government revenues, the funds will primarily benefit disaster-prone areas like the Beijing-Tianjin-Hebei region. They should also help the economy in the months to come, without placing any additional debt burden on local governments. (Source: [CNBC](#))

## TOPICS

### Beijing signals openness to restarting military communications with the US

**The facts:** The first in-person meeting of China's flagship security conference since 2019 saw Beijing signal an interest in reopening US-China military communications after suspending them about a year ago. Following the dismissal of Defense Minister Li Shangfu, the Vice-Chairman of the Central Military Commission, Zhang Youxia, gave the keynote speech at the Xiangshan Forum, in which he stressed the need to improve US-China defense ties. But he also emphasized China's partnership with Russia and rebuked the US – in now-familiar bellicose language – for its activities in the South China Sea and with Taiwan. Lieutenant General He Lei of the People's Liberation Army (PLA) made waves by saying that use of force against Taiwan would be “legitimate and just”.

**What to watch:** China suspended communication between the two militaries after the visit of then US House of Representatives Speaker Nancy Pelosi to Taiwan in August 2022. This increased the risk of miscalculation and escalation amid rising tensions in the region, which even Beijing now appears to realize – even if it is trying to deflect responsibility by accusing the US of refusing to communicate with its military. The Xiangshan Forum is a key platform for Chinese military leaders to present Beijing's views on and top priorities in international security – this year, the focus was on Russia and the Global South. Russian Defense Minister Sergei Shoigu was guest of honor, signaling that Beijing's support for Moscow and view of the US as its main rival will not change.

**MERICS analysis:** “Over a year after suspending contacts, it is good news that Beijing is signaling its willingness to resume military-to-military communications,” said **Helena Legarda**, MERICS Lead Analyst. “Any agreement is likely to be left to Chinese President Xi

Jinping and his US counterpart Joe Biden at their expected meeting in San Francisco later this month. But such a deal may yet be contingent on agreement on thornier issues., such as tackling the flow of chemicals from China used to make fentanyl.”

**Media coverage and sources:**

- Global Times: [If the Chinese government is forced to use force to resolve the Taiwan question](#)
- Financial Times: [China pledges to renew military dialogue with US while criticising meddling](#)
- Xiangshan Forum: [Official website](#)

**UK summit plants seeds for China and the US to discuss AI risks**

**The facts:** Last week was a big one for tech diplomacy. Both China and the United States signed the Bletchley Declaration on AI Safety, along with other 27 countries, at a summit organized by the United Kingdom. The Chinese delegation was led by Wu Zhaohui, China’s Vice Minister of Science and Technology. The signatories pledged to work together to study risks and mitigation measures for dealing with the latest, so-called frontier AI models. These large machine-learning models match or exceed the capabilities of today’s most powerful models, like GPT-4, and bear potential dangers for society.

**What to watch:** Weeks before the summit, the Cyberspace Administration of China released the Global AI Governance Initiative, an attempt to present China as a constructive AI actor, just as the US further restricted Chinese firms’ ability to obtain AI-relevant chips. The emerging competition between Chinese government bureaucracies in China’s AI diplomacy is one reason why it is unclear whether concrete cooperation with China will follow the UK summit. Although it represented China at Bletchley, the Ministry of Science and Technology does not deal with algorithmic auditing, model testing or certification.

**MERICs analysis:** “Countries have a shared interest in containing safety risks associated with powerful large language models. The UK government chose the lowest common denominator for the summit to allow countries with very different interests and value systems to come to the table,” says **Rebecca Arcesati**, Lead Analyst at MERICs. “As China implements ambitious AI regulation and its firms race to release large models, other governments have an interest in understanding those efforts. But with China and the US locked in strategic competition about leading technologies, observers should lower their expectations that they will come together on AI safety issues.”

**Media coverage and sources:**

- UK Government: [The Bletchley Declaration by countries attending the AI Safety Summit, 1-2 November 2023](#)
- Reuters: [China willing to enhance communication with all sides on AI regulation - vice minister](#)
- Cyberspace Administration of China (CN): [Global AI Governance Initiative](#)

## Li Keqiang's death provides canvas to express public concerns in China

**The facts:** Following the sudden death of former premier Li Keqiang, authorities swiftly limited public discussion to official statements and ordered censors to watch out for “overly effusive comments.” Although Li never went against the grain and was perhaps the least powerful premier in recent Chinese history, comments on social media have idolized him as an economic liberal and truth-teller marginalized by Xi Jinping. A year after massive protests of China's zero-Covid policy, public and state security are strictly controlling public gatherings to prevent mourning from turning into social unrest.

**What to watch:** For many in China, Li's death symbolizes the end of an era of reform and opening. People flocked to his childhood home and ancestral village in Anhui to publicly commemorate him. Despite the watchful eyes of censors and security personnel, Chinese citizens often use occasions like anniversaries, the death of a political figure or festivals to express their opinions. Shortly after Li's death, young people donned costumes subtly infused with political themes, like Winnie-the-Pooh – who has been likened to President Xi Jinping – and Covid-19 workers at a Halloween Parade in Shanghai. This may be a release valve for growing social dissatisfaction amid economic slowdown, high youth unemployment and experiences of arbitrary state actions in recent years.

**MERICS analysis:** “The mourning of Li Keqiang's death has and will not gather the same momentum as that of Hu Yaobang in 1989, which sparked the Tiananmen protests,” says **Alexander Davey**, Analyst at MERICS. “The party has spent the last three decades building both online and offline control systems to contain any outbursts. Expressing dissatisfaction is becoming increasingly difficult, but recent events show that people are still finding creative ways to challenge the official line and make their concerns heard.”

### Media coverage and sources:

- China Digital Times: ["Translation, on Li Keqiang: We'll toast his memory together"](#)
- The Wall Street Journal: [For China's Halloween of discontent, he went as a surveillance camera](#)
- The New York Times: [How China mourned Li Keqiang online, until the censors stepped in](#)

## MERICS CHINA DIGEST

### [Von der Leyen: EU-China summit to take place next month \(Politico\)](#)

European Commission President Ursula von der Leyen announced in a speech that she and Council President Charles Michel will fly to China in December for the first face-to-face EU-China summit in four years. (23/11/06)

["Worried and fearful": China's move to amend state secrets law fuels concern among businesses \(South China Morning Post\)](#)

Amid rising geopolitical tensions, a draft revision of China's Law on Guarding State Secrets was submitted for deliberation to the Standing Committee of the National People's Congress last week. Details are still lacking, but the revisions are expected to be extensive, heightening concerns about the conditions of doing business in China. (23/10/20)

[Uyghur filmmaker claims he was tortured by authorities in China \(The Guardian\)](#)

The Uyghur director Ikram Nurmehmet has accused Chinese authorities of torture and forcing him to give a false confession during detention in Xinjiang. The 32-year-old faces charges related to "separatism" and "terrorism". (23/11/08)

[Hikvision blames latest ethnic minority evidence on 'employee error' \(IPVM\)](#)

The Chinese video surveillance company is blaming an employee for including analytics on ethnic minority in its newest software. Hikvision claims it canceled ethnic minority recognition technologies several years ago. (23/11/08)

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