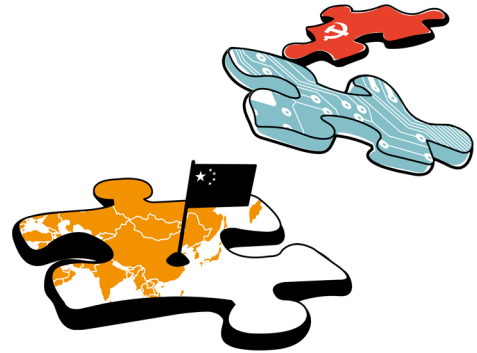


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MERICS China Essentials



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TOP STORY

Xi and Biden's APEC meet-up: Domestic win-win, geopolitical stalemate

All eyes were on last week's APEC Summit in San Francisco for the meeting of US President Joe Biden and his Chinese counterpart Xi Jinping to see if the US and China can better manage geopolitical and technological competition, create predictability and avoid a conflict or destructive downward spiral in relations. US-China relations have been marked over the years by phases of tension followed by periods of rapprochement. Détente or rapprochement are clearly not in sight but the crisis over a Chinese "spy balloon" in US airspace last February showed the importance of open channels for discussion at the highest level. As tensions are high from the Indo-Pacific to the Middle East and Ukraine, both the US and China have a shared interest in setting up guardrails.

Xi Jinping needed this meeting for domestic reasons, mostly to convince foreign investors to stay in China and to show those at home and abroad that he can manage tensions with the US. Beyond that, the Taiwan issue, as Cui Tiankai, former Chinese Ambassador to the US, explained, is "a life-or-death question" for China, and Xi wants to ensure that the US does not "fuel tensions in the Straits" prior to Taiwan's presidential elections on January 13.

On the other hand, this was the last chance for the US President to meet Xi before the start of the US presidential election season, in which China will likely be a divisive issue, despite a strong bipartisan consensus on policy toward China in Congress. If Biden could also tackle the issue of law enforcement cooperation on the illegal export of materials for producing the deadly street drug fentanyl, it would be a domestic win for him. But Biden undermined any chance to show that this meeting was an attempt to build trust. Calling Xi "a dictator" at a press conference ensured China will continue to see itself in a "protracted war" against the US and the West more generally.

MERICs Analysis: "The San Francisco Summit was an opportunity for the US and China to reopen channels of communication with an eye to better managing their relationship – one that could become destructive at any time. While it produced a domestic win-win for Biden and Xi, this summit certainly did not tackle the structural bilateral issues fueling geopolitical and technological competition," says **Abigaël Vasselier**, Director Policy and European Affairs and Head of Program Foreign Relations at MERICs.

Media coverage and sources:

- SCMP: [Exclusive: 'Life-or-death question': US must grasp Taiwan's importance to China, former envoy Cui Tiankai says](#)
- The Diplomat: [China-US relations after the Biden-Xi summit: beyond stabilization](#)
- BJNews (CN): [外交部：中美元首会晤达成 20 多项共识 \(Ministry of Foreign Affairs: More than 20 consensuses were reached at the China-US summit\)](#)

METRIX

1.2 trillion

This is the number of bits a newly completed ultra-high-speed internet line can reportedly carry every second between Beijing, Wuhan and Guangzhou. If the specification proves accurate, the 1.2 terabit – or 1.2 million megabit – connection would be the world’s fastest at that length. Twelve thousand times faster than a top-rate home internet connection and able to carry the equivalent of 150 HD movies per second, the line will allow China to better link and optimize [nationwide computing power](#) as it pursues artificial intelligence and other digital breakthroughs. (Source: [Bloomberg](#))

TOPICS

Xi’s messaging in San Francisco signals urgent need for FDI

The facts: Facing a sluggish economy back home, President Xi Jinping pushed a welcoming tone in his engagement with public and private partners at the APEC summit in San Francisco. Despite the lackluster economic situation in China, Xi’s speeches projected confidence and assured partners that China was performing strongly and opening up even further. This message comes amid a worsening outlook for foreign direct investment (FDI) in China, with official data recently for the first time indicating a deficit of FDI flows, with net USD 11.8 billion in foreign capital leaving the market.

What to watch: The FDI deficit comes at a particularly poor time. China’s consumer confidence and business sentiment are in the dumps, and markets are sensitive to negative news. Xi’s efforts to reverse that trend are clearly a priority, and his upbeat comments at APEC align with those aimed at foreign investors on occasions like the Belt and Road Forum and the China International Import Exposition. Such outreach also aims to counters statements like those of US Commerce Secretary Gina Raimondo, who has said more and more American companies tell her that China has become “uninvestable.”

MERICS analysis: “Xi Jinping’s positive message is unlikely to meaningfully move the needle for foreign companies. It isn’t Beijing’s tone that is determining FDI flows, but rather geopolitical uncertainties and most importantly China’s domestic policy agenda and macro trends,” said **Jacob Gunter**, Lead Analyst MERICS. “Even Xi’s promise to fully open up the entire manufacturing sector to FDI, which would have been viewed as a miracle just five years ago, will do little to persuade foreign investors who also have to contend with a toxically politicized and securitized operating environment.”

Media coverage and sources:

- Xinhua: [Full text of Xi’s written speech at Asia-Pacific Economic Cooperation CEO Summit](#)

- Bloomberg: [Apple's Cook, BlackRock's Fink Among CEO Guests at Xi Dinner](#)
- CNBC: [Commerce secretary says US firms complain China is 'uninvestable'](#)

China and the US seek research agreement despite ongoing technology rivalry

The facts: An understanding between presidents Xi Jinping and Joe Biden in San Francisco to start talks over the China-US Science and Technology Cooperation Agreement (STA) signaled a willingness to put a floor under deteriorating relations. The STA was signed in 1979 when relations between the two countries were normalized. It was renewed every five years until this summer, when it was extended for just six months. US advocates for renewing the STA point out that China has become a major science power and the US' largest partner for joint scientific publications.

What to watch: The STA will have to identify low-risk areas for collaboration, which will be difficult. This is exactly the sticking point in discussions between China and Europe over a similar agreement: in 2021 “food, agriculture and biotechnology” and “climate change and biodiversity” were identified, but even they have become controversial. China may be willing to make concessions to the US because a positive story would help it attract foreign investors and political support. But areas of US and EU concern include Chinese requirements to submit scientific data to the state, restrictions on exporting any invention out of the country, and China's military-civil fusion technology program.

MERICS analysis: “A return to the science diplomacy of the 1970s is the most likely outcome,” says **Jeroen Groenewegen-Lau**, Head of the Science, Technology and Innovation Policy Team at MERICS. “Any major step would run counter to China's pursuit of technological self-reliance. Joint research will be limited to fundamental science and platforms to discuss joint responses to pandemics, AI and other global challenges.”

Media coverage and sources:

- SCMP: [Xi-Biden summit: leaders agree to revisit historic science and technology pact](#)
- The Wire China: [The Science Split?](#)
- University World News: [EU sets conditions for joint high-end research with China](#)

Beijing eyes support for housing construction to ease effects of real-estate crisis

The facts: The Chinese government said it is planning “a new model for the property sector,” to ease growing discontent among homebuyers and construction workers, who have been left out of pocket by the debt-crisis in the real-estate sector. China's [Central Financial Work Conference](#) and domestic media reports signaled that Beijing was planning to invest heavily in building new public housing and renovating often squalid and overcrowded so-called urban villages in big cities. This could help some of those

affected by the property crisis – low-income wage earners such as rural-to-urban migrants and young people, as well as scientists, teachers, medical staff and other professionals needed by cities – by making home ownership affordable for them.

What to watch: The two housing policies fit into Xi Jinping’s vision of “common prosperity.” An increase of supply and availability of affordable housing would help meet the needs of citizens trapped in the middle – those neither poor enough to meet requirements for current affordable housing, nor wealthy enough to afford commercial housing. The move comes amid a steep rise in property-related protests among homebuyers, homeowners and construction workers. For several months, payments to suppliers, contractors, and construction laborers have been delayed. Many individuals who have committed their financial savings to unfinished housing projects, find themselves unsupported and in a state of uncertainty.

MERICS analysis: “Following a many-year building boom and then bust, the government has eased restrictions on home purchases and offered greater access to credit for real-estate developers to deal with their debt burdens – but has so far failed to curb homeowner and laborer discontent,” says MERICS Analyst, **Alexander Davey**. “A government-funded home-building spree could indeed ‘[improve people’s livelihoods](#)’, as the government says. But it may take several years for the policy to move from proposal to implementation. In the meantime, people hit by the real-estate crisis are unlikely to stop their demonstrations.”

Media coverage and sources:

- State Council (CN): [国发\[2023\]14号 国务院关于规划建设保障性住房的指导意见 \(State Council’s Guiding Opinion on the Planning and Construction of Affordable Housing\)](#)
- Freedom House: [China Dissent Monitor](#)
- Bloomberg: [China Puts Money Behind Singapore Model in Major Housing Shift](#)

MERICS CHINA DIGEST

[Philippines, US resume joint patrols amid China tensions \(Bloomberg\)](#)

The two countries resumed joint patrols in the South China Sea this week, years after shelving them. (23/11/21)

[The era of total US submarine dominance over China is ending \(Wall Street Journal\)](#)

China is narrowing one of the biggest gaps separating its military from that of the US. Beijing’s submarine-technology gains have major implications for Taiwan. (23/11/20)

[China takes on Elon Musk’s Starlink with hundreds of low-orbit satellites \(Business Insider\)](#)

The Chinese alternative will have 300 communications and remote-sensing satellites and will orbit at 300 to 450 kilometers. The first batch will reportedly launch next month. (23/11/22)

[Failure to list: It's getting tougher for Chinese companies to enter the country's stock market \(The Wire China\)](#)

Chinese companies have canceled initial public offerings in China amid more state scrutiny. Syngenta Group stopped what was to be the year's biggest IPO. (23/11/19)

[Alibaba cancels cloud unit spin-off over US AI chip curbs, posts 9% revenue growth amid \(South China Morning Post\)](#)

The Chinese e-commerce giant also put on hold its listing plan for the supermarket chain Freshippo. Alibaba is restructuring into six major and several smaller units. (23/11/16)

[China: mosques shuttered, razed, altered in Muslim areas \(Human Rights Watch\)](#)

Human Rights Watch reported that Chinese authorities have been closing mosques and removing Islamic architectural features in Ningxia and Gansu provinces. (23/11/22)

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