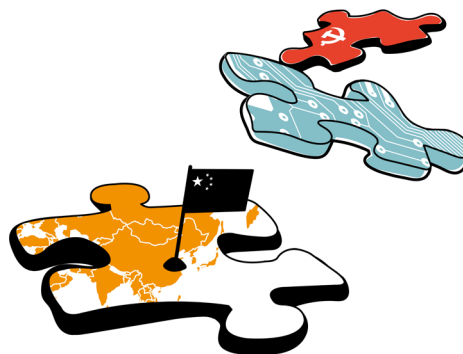


JANUARY 18, 2024

# MERICs China Essentials Special: Outlook on 2024



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## DOMESTIC POLITICS

### Xi's anti-corruption campaign enters its 12<sup>th</sup> year in 2024

"The essence of corruption is the abuse of power," China's President and Chinese Communist Party (CCP) leader Xi Jinping said at a meeting of the Central Committee for Discipline Inspection (CCDI) on January 8. Eleven years after beginning his tenure with an anti-corruption campaign, he declared a victory in fighting corruption – but admitted to ongoing problems within the party, the finance industry, state-owned enterprises, universities, sports, tobacco, medicine, grain purchasing and sales and statistics.

China's corruption busters were busy in 2023 and will likely remain so in 2024. From November 2022 to November 2023, the CCP subjected 161,000 of its members to criticism and education, and 113,000 to disciplinary and administrative measures. Defense Minister Li Shangfu came under investigation late 2023 for alleged procurement corruption, before disappearing from office, and other revelations also rocked the military. Two ex-chairmen of state-owned bank China Everbright were sanctioned for bribery, among other things.

In the run-up to the CCDI meeting, the need to reinvigorate discipline and find new ways to tackle corruption were extensively covered by party-state media. Recent revisions of CCP disciplinary regulations show how much the party distrusts its members. The CCP wants to stamp out departmental or local protectionism, establishing factions or creating patron-client relations, associating with political fraudsters, overstaying abroad without valid cause, and consuming content with "serious political problems."

**MERICS analysis:** "Without some separation of powers to allow checks and balances by independent watchdogs, a one-party state like China essentially supervises itself to prevent systemic corruption," says **Alexander Davey**, MERICS Analyst. "Xi's anti-corruption efforts prioritize 'ensuring that the party never deteriorates' over a fair and transparent society."

#### Media coverage and sources:

- People's Daily (CN): [深入推进党的自我革命坚决打赢反腐败斗争攻坚战持久战](#)  
(Deepen the party's self-revolution and resolutely win the fight against corruption)
- Tracking People's Daily: [Foreign Affairs Work Conference - What's in the Party's New Discipline Regulations?](#)
- Financial Times: [China's Communist party watchdog warns business of graft crackdown](#)

## METRIX

# 2.08 million

China's National Bureau of Statistics said Wednesday said the population had decreased by just over two million in 2023. It shrank for the second year in a row, and the decrease went beyond the Covid death toll or the growth of China's aged population. The death rate increased by 6.6 percent, but the birth rate declined even further by 5.7 percent, putting it only marginally higher than Japan's, a country struggling intensely with an aging population, and which, unlike China, became rich before it became old.

## GEOPOLITICS

### Taiwan will remain in focus after “wrong” party wins election

The victory of Vice-President William Lai in Taiwan's January 13 election gave an unprecedented third term to the independence-leaning Democratic Progressive Party (DPP) – and raised questions about China's reactions and regional stability that look set to feature in geopolitics in 2024. Having warned against the election of “warmonger” Lai, China looks set to continue coercing Taiwan with economic needling and military saber-rattling, while being careful not to trigger a global crisis involving the United States.

Lai's victory gives Taiwan the opportunity to deepen its alignment with the West, further challenging China's expansionist ambitions in the South and East China Seas. Beijing's first response was a – more symbolic than consequential – demonstration of its global sway by poaching the allegiance of Nauru. The Pacific island on January 15 switched its diplomatic recognition to China, leaving Taiwan with formal relations to only 12 nations, from Vatican City to Guatemala in the Americas and Eswatini in southern Africa.

To further test the response of Taipei – and of the United States – Beijing could also again escalate military exercises and unofficial “grey-zone tactics”, as well as explore sanctions and trade barriers for non-essential Taiwanese goods. But Beijing's shift to emphasizing an eventual “peaceful reunification” reflects domestic constraints. Xi Jinping's concern that low economic growth could spark social unrest at home looks set to deter him from seeking a more tangible – and global – confrontation across the Taiwan Strait.

**MERICS analysis:** “China will probably resort to military and economic actions in new attempts to coerce Taiwan, but it will not cross the red line Taipei and Washington also respect– no unilateral changes to the status quo”, says MERICS Analyst **Claus Soong**. “Xi has enough domestic problems to want to keep Taiwan tensions at a manageable level.”

## ECONOMICS

### Difficult times ahead for China's economy under Xi in 2024

Buried in his standard fare comments at the World Economic Forum in Davos on January 16, Chinese Premier Li Qiang succinctly summed up China's economic policymaking in 2023 – portending more of the same in 2024: “In promoting economic development, we did not resort to massive stimulus ... We did not seek short-term growth while accumulating long-term risk.”

Indeed, Beijing did not resort to the massive stimulus of the Global Financial Crisis to remedy its economic woes. This was in part due to newfound discipline in Beijing, but also driven by its heavy debt burden. 2024 will likely be no different. The leadership is not seeking short-term growth, at least not where it conflicts with Beijing's efforts to tame the domestic risks built up in real estate, local government debt, and elsewhere.

Similarly, rather than letting innovative private firms focus on products that consumers want and that would drive higher growth, Xi and friends are conscripting companies into the technology self-reliance campaign.

**MERICS analysis:** “We shouldn't expect much change in economic strategy in 2024 – discipline will likely continue in necessary but painful deleveraging efforts, while market fundamentals in otherwise healthy parts of the economy will be undermined by the geopolitical priorities of the party state,” says **Jacob Gunter**, MERICS Lead Analyst.

#### Media coverage and sources:

- World Economic Forum: [Special Address by Li Qiang, Premier of the People's Republic of China](#)
- More from MERICS on the future of economic policy-making under Xi: [The party knows best: Aligning economic actors with China's strategic goals](#)

## TECHNOLOGY & INNOVATION

### 2024 will be a watershed for Chinese tech - and bad for European rivals

Technology competition between China and the United States is intensifying and the US is unlikely to ease export restrictions in 2024. Despite advances in chip making, China remains reliant on imports. It may continue to circumvent US export controls and invest in semiconductor development, but when will investments pay off? The Communist Party has staked its legitimacy on goals that require further technological advances.

So far, US export controls seem quite porous: Chinese military entities received listed NVIDIA chips late 2023. According to data group CEIC, China's imports of semiconductor manufacturing equipment surged to an unprecedented level. But such circumvention tactics risk even tighter restrictions. And this puts Europe in the difficult position of choosing sides, something many companies and countries would prefer not to do.

In fact, China is unlikely to gain enough chips for its ambitions by importing and circumventing US restrictions. Prioritizing and using chips more efficiently will be key. The successful research and development of advanced silicon is China's preferred way forward. However, this will require the country to innovate across many different product classes at the same time, making this scenario costly and less likely.

China will continue to invest heavily in chips and other tech areas, putting Europe in a difficult position. If China is successful, European products won't be attractive to Chinese companies – and Chinese products will compete with European ones in third markets. If China is less successful, Beijing could reduce foreign access to the domestic market, putting the market share of European companies at risk.

**MERICS analysis:** “With no reversal of US export controls and other restrictions in sight, 2024 looks set to be a decisive year for China's technology pathway,” says MERICS Analyst **Antonia Hmaid**. “The outlook for Europe is less than optimal. More competition from China, curtailed market access, and the inability to balance Europe's relationships with China and the US are likely, regardless of China's actions.”

#### **Media coverage and sources:**

- Reuters: [China's military and government acquire Nvidia chips despite US ban](#)
- Ministry of Commerce in China (CN): [王文涛部长与美国商务部长雷蒙多举行通话](#) (Phone call of Minister Wang Wentao and US Secretary of Commerce Raimondo)
- Reuters: [Exclusive: China to launch \\$40 billion state fund to boost chip industry](#)
- Jamestown Foundation: [Examining China's grand strategy for RISC-V](#)

## **PROFILE**

### **Liu Jianchao - a safe choice for Xi as China's next foreign minister**

Liu Jianchao, head of the Chinese Communist Party's (CCP) International Liaison Department, recently visited Washington to discuss China-US relations with US Secretary of State Antony Blinken. The meeting took place the day before Taiwan's general election but was also noteworthy for another reason: the man who led Beijing's first 2024 high-level meeting with the US had up until then typically dealt “only” with international party-to-party exchanges. This suggests he could become China's next foreign minister, a post held by CCP foreign-policy supremo Wang Yi since the removal of Qin Gang mid-2023.

Liu's ascent could usher in the decline of China's recent “Wolf Warrior” diplomacy, whose proponents were prone to confrontational and combative responses to perceived criticism of Beijing all over the world. With over 30 years of experience in the Chinese diplomatic system, Liu is known for his pragmatism and extremely diplomatic communication style – qualities Beijing might be rediscovering as useful as it tries to re-engage with the West and maintain a manageable level of competition with Washington.

Liu appears to have recommended himself for the job through two instances of crisis management. Amid surging nationalism in China in 2009, he was instrumental in easing

tensions with the Philippines over competing claims in the South China Sea. Six years later, in 2015, he became the CCP's top official in charge of anti-corruption outside China. In the "Fox Hunt" campaign, he targeted corrupt officials attempting to flee the country.

After studying at Beijing Foreign Studies University and a stint at Oxford University, Liu started in the Foreign Ministry in 1987. He was spokesperson and Director-General of the Information Department in the 2000s, then ambassador to the Philippines and Indonesia. After switching into the party system, Liu in 2017 joined the Standing Committee of the party in Zhejiang to focus on party discipline. He returned to foreign policy in 2018 as Deputy Director of the party's Central Foreign Affairs Commission Office.

#### Media coverage and sources:

- Global Times: [Senior CPC official's US trip to push bilateral ties for a stable start in 2024](#)
- SCMP: [Communist Party diplomat Liu Jianchao, on US visit, urges 'correct understanding of China](#)
- Reuters: [Blinken discusses human rights, Taiwan Strait with Chinese official](#)
- Central News Agency: [沒有戰狼味 劉建超可能接任中國外長](#) (Without the Wolf Warrior Vibe, Liu Jianchao is likely to be next Chinese Minister of Foreign Affairs)

## MERICS CHINA DIGEST

### [The strategic implications of China's divine dragon spaceplane \(The Diplomat\)](#)

China is investing significantly in hypersonic engine technologies to support its space objectives. The development of the Shenlong experimental spaceplane is seen as crucial for testing spacecraft components, advancing prototypes, and gaining operational experience. (24/01/12)

### [An influx of Chinese cars is terrifying the west \(The Economist\)](#)

Chinese carmakers, led by BYD, are making significant strides in the global electric vehicle (EV) market, with claims of exporting over five million cars in 2023, surpassing Japan. (24/01/11)

### [Pinduoduo surpasses Alibaba in market cap \(ECDB\)](#)

Pinduoduo recently overtook Alibaba in market capitalization, becoming the world's second largest e-commerce firm. The company's rapid growth was fueled by a strategic focus on discounts, subsidies, and expansion into international markets. (24/01/05)

### [In Egypt, Wang Yi calls for Gaza ceasefire, Palestinian statehood \(SCMP\)](#)

Chinese Foreign Minister Wang Yi is on a tour in African countries, Egypt, Tunisia, Togo, and Ivory Coast, this week. In Cairo, Wang called for cease-fire, two-state solutions, and the possibility that China could rise as peacemaker. (24/01/15)

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