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METRIX

69.3%

Due to the devastating outbreak of swine fever, pork prices in **China** have surged 69.3 percent in September from a year ago. China is the world's top producer and consumer of pork, the meat is a staple in the Chinese diet. The spike largely contributed to the increase of food prices, amounting to 11.2 percent in September.

TOPIC OF THE WEEK:

Merkel's decision on Huawei creates a dilemma for the EU

In a setback to EU unity and technological sovereignty, on October 15 **Berlin published its draft 5G security guidelines**. Prepared by the Federal Office for Information Security (BSI), the document could open the way for Chinese suppliers Huawei and ZTE to build the critical information infrastructure of Europe's largest economy.

The guidelines come just days after the European Commission and the European Agency for Cybersecurity released the long-awaited results of **EU Member States' coordinated risk assessment of 5G networks security**. The report recognizes that the threat landscape of mobile networks is poised to become immensely complex and that the security and resilience of 5G networks will rest on (geo)political as much as technical factors. A non-binding toolbox of mitigating measures to address the risks at national and EU level is expected by year-end.

While not citing China by name, the Commission's report could hardly be more explicit in underlining the vulnerabilities arising from Huawei's and ZTE's involvement in Europe's 5G networks. "The likelihood of the supplier being subject to interference from a non-EU country" affects its risk profile, the report observes. The supplier's state links corporate ownership, and the jurisdiction in which it operates – especially "where there are no legislative or democratic checks and balances in place" – all matter in determining whether interference may occur.

By contrast, the German government has de facto neglected political risks in its assessment of 5G network security, reducing it to a technical matter. The decision to drop a clause that would have prevented Huawei from supplying components for Germany's fifth-generation cellular networks, which **reportedly came from Chancellor Merkel** herself, sends an important signal not only to other Member States but also to the EU's allies. Large German companies heavily depend on the Chinese market and Berlin has once again demonstrated its determination to put its short-term business interests before Europe's security and technological autonomy.

Within Germany, the move has already met with **resistance**. A group of parliamentarians led by Foreign Affairs Committee chairman and CDU member Norbert Röttgen strongly opposed it and called for the Parliament to intervene. The guidelines require firms like Huawei only to sign a self-declaration of trustworthiness with carriers. Critics consider that asking Chinese vendors to provide written assurance of their own reliability, when Chinese law explicitly limits their ability to reject CCP interference, is a rather poor choice.

Quite apart from exposing the country to a heightened risk of hacks and crippling Brussels' efforts to craft a truly European China policy, by allowing subsidized Chinese vendors into its market, Germany is putting European competitors at a disadvantage. This contrasts sharply with the **latest moves by the US** to lobby European countries to ban Huawei – Washington is considering providing European firms Ericsson and Nokia with financial support to help them compete with Huawei.

The lack of EU competence on the issue of 5G cybersecurity means that Member States will have the final say over the technology chosen by their carriers, unless they agree to give more power to the Commission. And EU countries continue to diverge in their positions on China and their appreciation of the geopolitical and security risks associated with it. For instance, while Italy broadened the government's powers to scrutinize 5G supply deals involving non-EU vendors' equipment and Poland signed an agreement with the US in a bid to limit Huawei's influence in the region, others are wary of making decisions that might irritate the Chinese Communist Party.

"The European Commission's coordinated risk assessment report may be non-binding, but those who criticize it for this fail to appreciate the amount of political effort and coordination which went into such document," says Rebecca Arcesati, junior analyst at MERICS. "Its keen awareness of the non-technical, political determinants of 5G cybersecurity could have laid the foundations for an aligned approach across the EU; sadly, Berlin's fear of irritating Beijing has just made that alignment more difficult."

MERICS analysis: [Merkel's China challenge – signaling distance and conditional engagement](#), Blog-post by Mikko Huotari.

CHINA AND THE WORLD

China-India summit takes place amid rising tensions over Kashmir

Recent visits by Chinese President Xi Jinping to India and Pakistan's Prime Minister Imran Khan to Beijing have taken place against rising tensions between India and Pakistan over Kashmir. The situation has left China caught between its all-weather ally and partner Pakistan, and its important neighbor India, with which it would like to improve ties.

[Xi Jinping's visit on October 11 and 12](#) with his Indian counterpart Narendra Modi comes just two months after India moved to strip the Jammu and Kashmir autonomous state of its special status. Delhi announced that the state would be broken up into two federally controlled territories and deployed troops to the region. Kashmir has been claimed by both India and Pakistan ever since the partition following the end of British rule in 1947.

The meeting between Xi and Modi, which appears to have been cordial, concluded with statements from both sides calling for China and India to respect each other's "autonomous foreign policies" and to improve bilateral relations. Though, according to reports, Kashmir itself was not discussed.

Xi and Modi's summit came just three days after a visit, on October 8, by [Pakistan's Prime Minister Imran Khan to Beijing](#). During meetings between the two leaders, Xi Jinping described ties between China and Pakistan as unbreakable and China's Premier Li Keqiang told Khan that China supports Pakistan in safeguarding its independent sovereignty and territorial integrity. However, Kahn was apparently unable to secure China's explicit and public backing for its position on Kashmir.

China, which has its own territorial dispute with India over part of Kashmir, has in the past called India's decision to strip the region of its semi-autonomous status "unacceptable" and "non-binding". Beijing formally backed Pakistan's request for the UN Security Council to hold close consultations on the issue. Against this background, the tone of the recent informal summit between Modi and Xi looks like an attempt to stabilize relations and avoid any escalation between the three nuclear-armed powers.

"China's need to improve ties with India was likely the reason why neither Li Keqiang nor Xi Jinping publicly supported Pakistan's position on Kashmir while Khan was in Beijing," says MERICS analyst Helena Legarda. "China seems to be trying to be on good terms with both Islamabad and New Delhi. However, it's unclear whether India will buy into this. Beijing is still seen very much as Pakistan's staunch ally."

Taiwan high on the agenda at Beijing's Xiangshan Forum

Taiwan ranked high on the agenda of China's high-profile security and defense forum held in Beijing this week. In his opening speech for the Xiangshan Forum, Defense Minister Wei Fenghe said that the "Taiwan question" **was China's greatest national interest** and that no force will be able to prevent China's reunification. Wei also emphasized that the South China Sea and the Diaoyu Islands, known as Senkaku in Japan, are inalienable parts of China's territory.

The forum was established in 2006 and is China's response to the annual Shangri-La Dialogue held in Singapore. It gives Beijing an opportunity to present its own views on defense and security issues at a forum that it controls and organizes. The topics that are put high on the agenda for the forum and that are mentioned in the Defense Minister's speech are likely to be Beijing's current top priorities in the international security arena.

This year's edition of the forum is taking place against the background of the upcoming elections in Taiwan in January 2020, rising tensions with the US, economic difficulties in China and the ongoing protests in Hong Kong.

In his speech, Wei issued a veiled warning against interference in other countries' affairs and against foreign countries' attempts to instigate a color revolution - a clear, if indirect, reference to the US and Hong Kong. His speech **was clearly less fierce** than last year's, when he blamed Washington for damaging the China-US relationship. This indicates that Beijing sees a need to stop the escalation of tensions between China and the US, most likely in the hopes of continuing trade negotiations between the two countries.

According to official figures, over 1,300 people attended the forum, including 23 defense ministers from Cambodia, Mongolia, Singapore, Nepal, South Korea, the UAE and Egypt, among others, and representatives from 76 official delegations and eight international organizations.

News in brief

- Chinese businesses in Europe: **China Chamber of Commerce to the EU launches first flagship report on the development of Chinese enterprises in the EU**

- Film revoked over South China Sea map: Vietnam pulls DreamWorks' "Abominable" film from cinemas due to "nine-dash line", which shows China's claims to large areas of sea that Vietnam considers belong to its continental shelf
- China's state oil firm pulls out of Iran: Iran says Chinese state oil firm has withdrawn from US\$5 billion deal; the move could be related to US pressure

POLITICS, SOCIETY AND MEDIA

The NBA affair: CCP's reach in overseas censorship

When Daryl Morey, general manager of the National Basketball Association's Houston Rockets, tweeted an image on October 4 reading "Fight for freedom, stand with Hong Kong", the Chinese reaction was quick: The Chinese consulate in Houston issued an official statement expressing its "shock" and the Chinese basketball association severed ties with Houston Rockets. CCTV and Tencent stopped streaming its games, sponsorship deals were dropped, and Taobao and JD pulled Houston Rockets merchandise from their online retail platforms.

The Houston Rockets has a long relationship with China, dating back to the arrival of star player Yao Ming in 2002. Until recent events, it was one of the most popular NBA teams in China. Its attempts at conciliation were therefore perhaps understandable. However, a statement issued by the NBA drew heavy criticism when it appeared in two versions. The English version expressed regret that Morey's views had offended many in China, while the Chinese version went further, saying the NBA was "extremely disappointed in Morey's inappropriate statement".

In an attempt to make its position clear, NBA Commissioner Adam Silver issued a less ambiguous statement, underlining the league's commitment to freedom of expression. However, the controversy was far from over. On October 14 the face of the NBA, LeBron James, weighed in criticizing Morey for commenting on matters on which he was "not educated". While this intervention was received well in China, in the US and in Hong Kong LeBron was seen to be kowtowing to Chinese money. Silver even claimed that the Chinese parties dealing with the league had asked for Morey to be sacked over the tweet – a claim denied by the Chinese foreign ministry.

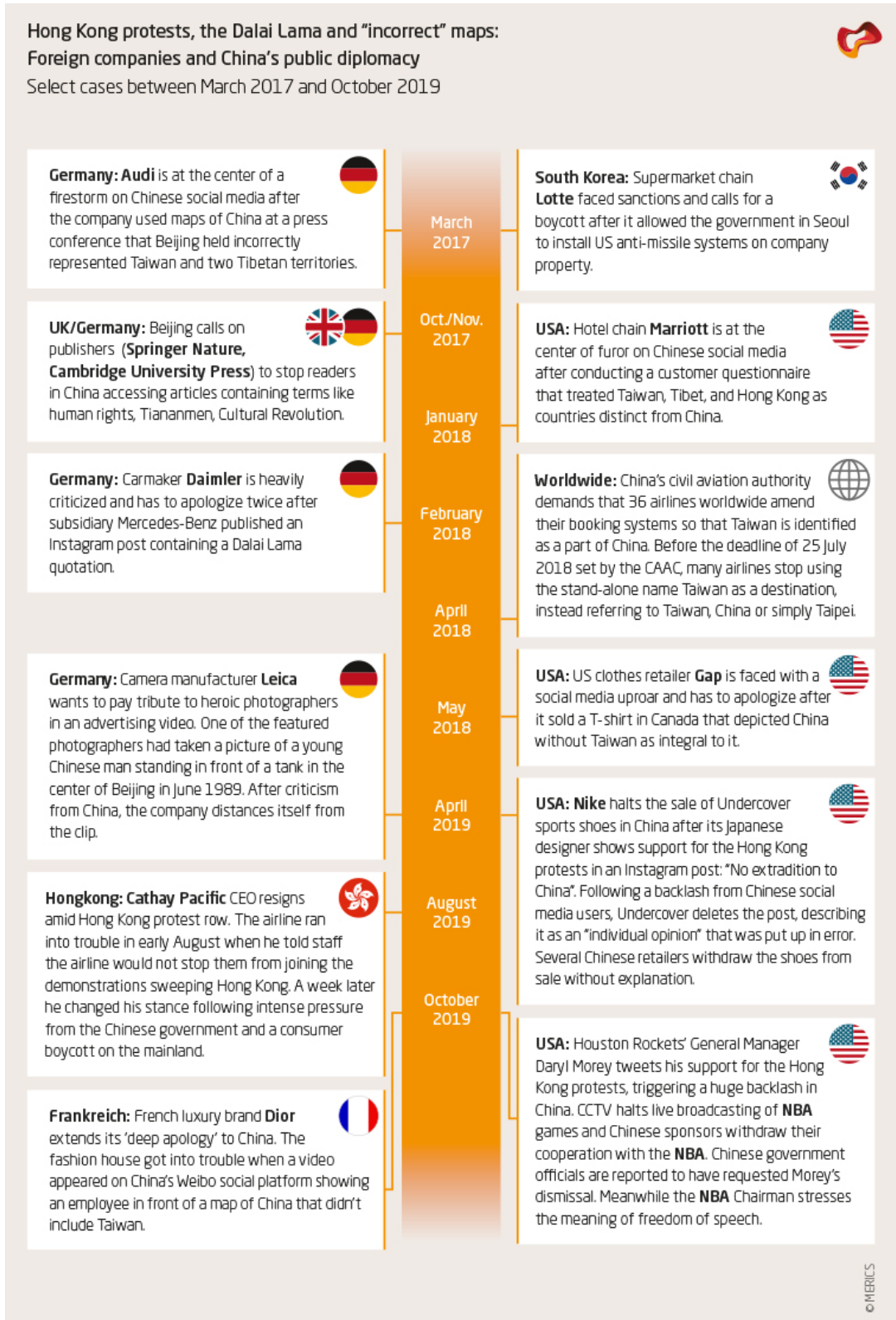
The NBA affair has been seen by many as yet another example of "overseas censorship", with China using its market power as leverage for political gains. It is only one example in a long line of companies apologizing and complying with Chinese demands. But Apple has been heavily criticized for its decision to remove an app that allows Hong Kongers to evade concentrations of police, while game developer Blizzard has faced boycott calls from its Western customers for imposing a 12-month ban on professional gamer Ng Wai Chung for voicing his support for the ongoing protests. A recent South Park episode lampooning the reach of Chinese censorship swiftly got the series banned in China – but its satirical apology also brought the issue to the attention of a widening audience.

Together, these cases may also represent a tipping point, demonstrating that foreign businesses are no longer willing to self-censor in order to comply with Chinese authority. “The current approach of ‘an apology a day keeps the CCP at bay’ might not be sustainable in the long run”, says MERICS analyst, Katja Drinhausen. “Western audiences are becoming more aware of China’s demands and seem willing to push back.”

MERICS analysis: [China’s Public Diplomacy: International companies face increasing reputational risks](#), MERICS China Monitor by Kerstin Lohse-Friedrich.

**Hong Kong protests, the Dalai Lama and "incorrect" maps:
Foreign companies and China's public diplomacy**

Select cases between March 2017 and October 2019



<p>Germany: Audi is at the center of a frestorm on Chinese social media after the company used maps of China at a press conference that Beijing held incorrectly represented Taiwan and two Tibetan territories.</p>	<p>March 2017</p>	<p>South Korea: Supermarket chain Lotte faced sanctions and calls for a boycott after it allowed the government in Seoul to install US anti-missile systems on company property.</p>
<p>UK/Germany: Beijing calls on publishers (Springer Nature, Cambridge University Press) to stop readers in China accessing articles containing terms like human rights, Tiananmen, Cultural Revolution.</p>	<p>Oct./Nov. 2017</p>	<p>USA: Hotel chain Marriott is at the center of furor on Chinese social media after conducting a customer questionnaire that treated Taiwan, Tibet, and Hong Kong as countries distinct from China.</p>
<p>Germany: Carmaker Daimler is heavily criticized and has to apologize twice after subsidiary Mercedes-Benz published an Instagram post containing a Dalai Lama quotation.</p>	<p>January 2018</p>	<p>Worldwide: China's civil aviation authority demands that 36 airlines worldwide amend their booking systems so that Taiwan is identified as a part of China. Before the deadline of 25 July 2018 set by the CAAC, many airlines stop using the stand-alone name Taiwan as a destination, instead referring to Taiwan, China or simply Taipei.</p>
<p>Germany: Camera manufacturer Leica wants to pay tribute to heroic photographers in an advertising video. One of the featured photographers had taken a picture of a young Chinese man standing in front of a tank in the center of Beijing in June 1989. After criticism from China, the company distances itself from the clip.</p>	<p>February 2018</p>	<p>USA: US clothes retailer Gap is faced with a social media uproar and has to apologize after it sold a T-shirt in Canada that depicted China without Taiwan as integral to it.</p>
<p>Hongkong: Cathay Pacific CEO resigns amid Hong Kong protest row. The airline ran into trouble in early August when he told staff the airline would not stop them from joining the demonstrations sweeping Hong Kong. A week later he changed his stance following intense pressure from the Chinese government and a consumer boycott on the mainland.</p>	<p>April 2018</p>	<p>USA: Nike halts the sale of Undercover sports shoes in China after its Japanese designer shows support for the Hong Kong protests in an Instagram post: "No extradition to China". Following a backlash from Chinese social media users, Undercover deletes the post, describing it as an "individual opinion" that was put up in error. Several Chinese retailers withdraw the shoes from sale without explanation.</p>
<p>Frankreich: French luxury brand Dior extends its 'deep apology' to China. The fashion house got into trouble when a video appeared on China's Weibo social platform showing an employee in front of a map of China that didn't include Taiwan.</p>	<p>May 2018</p>	<p>USA: Houston Rockets' General Manager Daryl Morey tweets his support for the Hong Kong protests, triggering a huge backlash in China. CCTV halts live broadcasting of NBA games and Chinese sponsors withdraw their cooperation with the NBA. Chinese government officials are reported to have requested Morey's dismissal. Meanwhile the NBA Chairman stresses the meaning of freedom of speech.</p>
	<p>April 2019</p>	
	<p>August 2019</p>	
	<p>October 2019</p>	

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Internet summit in Wuzhen: Propaganda Minister condemns “Cold War mentality”

Over 1,500 participants from 80 countries took up China’s invitation to the sixth World Internet Conference, held in the city of Wuzhen in eastern China. The Chinese government used the meeting to reinforce its view of nation state control over the World Wide Web. The head of the Propaganda Department of the Chinese Communist Party (CCP), Huang Kunming, used his **opening speech to criticize** the “Cold War mentality” and “bully behaviour”. Both undermined mutual trust in the internet, he claimed. Huang did not name any state explicitly in his criticism.

The conference’s theme was “Intelligent Interconnection for Openness and Cooperation – Building a Community with a Share Future in Cyberspace”. Huang referred in his speech directly to China’s head of state and party leader, Xi Jinping, who defines the internet as a “development, security and interest community”.

Beijing has been trying for some time to take an active role in questions about internet regulation and is pushing its concept of “cyber sovereignty”, according to which states regulate and control their internet infrastructure themselves and can submit content to censorship. According to reports, **China and Russia** wanted to enter into an agreement on “Combating illegal internet content” at the conference.

Foreign internet giants like Google, Twitter and Facebook - whose portals are blocked in China - and Apple stayed away from the meeting in Wuzhen this year. **Other international firms**, on the other hand, were well represented. Chinese businesses such as Alibaba, Tencent, JD and Pinduoduo presented a series of new products. The topics of 5G expansion and **artificial intelligence** were a focus of the conference.

With 850 million Internet users, China has become an innovation driver in the internet and telecommunications sector and is increasingly helping to set international standards.

MERICS Analysis: **China’s Digital Rise: Challenges for Europe**, MERICS Papers on China by Kristin Shi-Kupfer and Mareike Ohlberg.

News in brief

- Hong Kong: **China plans to replace Hong Kong Chief Executive Carrie Lam according to Financial Times**
- Privacy: **heavily promoted official app allows China to spy on more than 100 million citizens**
- Taiwan: **President Tsai Ing-wen rejects China’s proposal of 'one country, two systems' and vows to safeguard Taiwan’s sovereignty**
- Xinjiang: **US bans 28 Chinese organisations for alleged involvement in “Uighur abuse”**

ECONOMY, FINANCE AND TECHNOLOGY

Weaker domestic consumption drags growth to new low in Q3

Chinese real GDP growth fell again in the **third quarter** hitting a new low of 6 percent - the lowest figure in 27 years. As it struggles with the adverse effects caused by a long-run slowdown, weakening demand and the trade war with the US, this is not welcome news. GDP growth is a key economic indicator affecting everything from businesses to how the world views the country.

The fall in growth was mainly driven by falling consumption, which contributed 3.75 percentage points. Weak demand was reflected in many areas including private sector investment, producer prices and imports. Despite efforts by the government to stimulate the economy, investments contributed only 1.2 percentage points to GDP growth. The reason is likely the lack of good projects in the real economy.

Meanwhile the trade war has affected exports, which fell by 3.2 percent in September. However, this had no great effect on GDP growth as imports fell by even more. The contribution of net exports to growth in fact held up quite well at 1.2 percentage points. Where the trade war is hurting Chinese growth is in foreign investments in export industries.

Year-to-date growth held up slightly better at 6.2 percent, meaning China's overall growth target of 6 to 6.5 percent could well be met. But over the last quarter growth in nominal GDP, which reflects changes in prices due to inflation, shrank by 0.7 percentage points to 7.6 percent. This is particularly troublesome as there was no fall in credit growth over the same period – on the contrary, total credit grew by 10.7 percent.

“As GDP growth falls below 6 percent, the government will be increasingly concerned about the speed of the slowdown,” says Max Zenglein, Head of Program Economic Research MERICS. “In the run up to the 100th anniversary of the Chinese Communist Party in 2021 they will want to avoid a sharp downturn in the economy. Balancing the risks in the financial system while keeping GDP growth fairly steady will be a key challenge for the next quarters.”

MERICS analysis: **China's Economy in Q3: Negative effects of trade conflict are increasingly measurable**, MERICS Economic Indicators by Max J. Zenglein and Max Kärfelt.

Could US-China mini truce augur well for trade relations?

The **limited trade deal agreed on October 11** by US and PRC negotiators could be more than just a temporary truce. By preventing further tariff hikes and a further escalation of tensions, it could be a first step towards a trade agreement. However, given the history of previous attempts, the truce may still collapse.

The US for its part has agreed to suspend a tariff increase due on October 15, when tariffs on 250 billion USD of goods would have risen from 25 percent to 30 percent. In exchange, the Chinese government offered to buy 40 billion to 50 billion USD of American agricultural products a year. China also pledged,

once again, to do more to open up its financial services sector, protect intellectual property and increase the transparency of its interventions in currency markets.

Whereas President Trump described it as “the greatest and biggest deal ever made”, Chinese state media remained largely subdued and refrained from using the term “deal”. There was no joint statement or formal document, but both sides now hope to sign a deal at a summit of global leaders in Chile in mid-November.

One reason for the truce is the impact of the trade war on the economies of the two countries, with China’s economy hit hardest. The IMF has predicted that a further escalation would cut two percent off its real GDP in 2020, in contrast to a cut of just 0.6 percent for the US. Nevertheless, the US Federal Reserve has begun cutting interest rates to try and insulate the American economy from further effects of the trade war.

Trade truces have been reached before only to see them collapse a few weeks later, and a verbal understanding is precarious at best.

News in brief

- New German rules leave 5G telecoms door open to Huawei
- China court approves personal bankruptcy ruling that could pave the way for further debt cases
- Office vacancy rate in China highest in a decade
- New energy vehicle sales fall by 34 percent

PROFILE: Fan Bingbing

From hero to zero

Her flawless features and dramatic acting have made her famous even among western audiences, but a tax scandal now threatens to bring an end to the career of Chinese film star Fan Bingbing. The production studio “Talent Television and Film” is having the 38-year-old erased using digital technology from the recently shot TV series “The legend of Ba Qing”. Scenes featuring her and the actor Gao Yunxiang, who has been accused in Australia of sexual harassment, are to be shot again and replaced with as yet unnamed “top actors”.

The studio is willing to pay a heavy price for the write-off – according to information, the reshoot and digital processing are costing them over ten million euro. With this Fan’s hope is destroyed that she could put the tax scandal behind her and at least return to the TV screen. But not only that – her career as a fashion icon now also lies in tatters. Photos that the luxury fashion house Louis Vuitton had posted on the messaging app Weibo of their former brand ambassador have now been removed, according to media reports. No reasons have been given to date.

Fan, who comes from an acting family with connections to the Communist Party, caused a furor in 2014 in China with the TV series “The Empress of China”; in the same year, in Hollywood, she also acted in a sequel to the X-Men film series. Last year she was **charged with tax evasion** and given a fine of 880 million CNZ (about 110 million euro). She disappeared entirely from the scene for four months, to the horror of fans and colleagues – during the investigation she was under house arrest.

Following her conviction, the actor, who was born in 1981 in Yantai, appeared contrite: she claimed she would be nothing without “the Party and the good policies of the state”. She said she had been through a trough, “but that is actually a good thing. It has made me calm down and think seriously about what I want to do in my future life”, according to **a newspaper report**. For now, the future does not look rosy: In Hollywood, Fan has apparently been struck from the cast of a film, and has been separated since the beginning of the year from her fiancé, actor and director Li Chen.

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