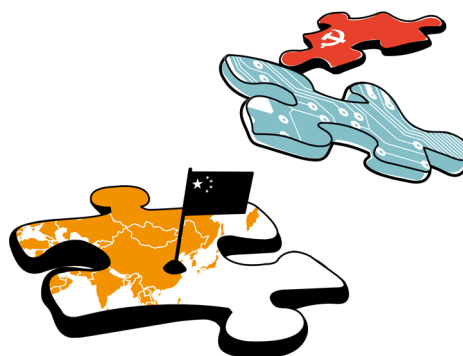


MAY 25, 2023

MERICS China Essentials



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TOP STORY

Competitive coalition-building in full swing at China-Central Asia and G7 summits

Competitive coalition-building was on full display last week when China hosted the China-Central Asia Summit in Xi'an, a meeting that coincided with the Group of Seven leaders' summit in Hiroshima, Japan. The "C+C5" – China plus the presidents of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan – met for the first time in person since the summit began during the Covid-19 pandemic in 2020. Each of the Central Asian states is a key potential ally for Beijing in forums like the United Nations.

The countries are also fertile ground for China-financed infrastructure. With Xi'an the geographic origin of the ancient Silk Road and Kazakhstan the 2013 launch site of the modern Belt and Road Initiative (BRI), the summit focused on building regional and bilateral ties through expanding infrastructure links. It also had a security aspect, aiming to portray China as a guardian of regional stability in a geopolitically significant area and to win approval for China's approach to Russia's war in Ukraine.

While all are connected by diverse and expanding infrastructure linkages, the Central Asian countries cooperate differently with China, as reflected in the summit's outcomes. The agreed activities of bilateral cooperation range from trade and business support to finance, military cooperation, facilitation of tourist travel etc. Both Kyrgyzstan and Uzbekistan set up or expanded on a "New-era Comprehensive Strategic Partnership" with China, which seems to be an expression of even deeper ties, such as "rendering mutual support on issues concerning each other's core interests."

This shows how China is vying to bring such regional allies into its economic fold, while at the G7 Summit, the liberal democracies joined forces on several China-related agenda points. This included the concept of "de-risking," recently promoted in Europe and the US – building supply chain resilience to limit the threat of economic coercion.

The final G7 communique included some strong language on China. For example, the leaders agreed to establish a joint platform to watch, potentially deter and respond to China's economic coercion, such as "malicious practices" of "illegitimate influence" on global supply chains. Just ahead of the G7 meeting, China published a report on a related topic: "US Coercive Diplomacy and its Harms." It claimed that the "US is the actual instigator of coercive diplomacy." The report proves that China not only opposes the G7 but is proactively developing a counter agenda.

In China's usual harsh reaction to the G7, the Foreign Ministry spokesperson said that the group is "hindering international peace, undermining regional stability and curbing other countries' development." Vice Foreign Minister Sun Weidong uttered "strong dissatisfaction and resolute opposition" over several G7 statements, such as those on Taiwan and China's economic coercion.

MERICS analysis: "Results of the G7 Summit and the China-Central Asia Summit show that competitive coalition building is in full swing," says MERICS Analyst **Barbara Pongratz**. "The China-Central Asia summit, which is the first of three meetings of this constellation this year, is a clear signal that China is serious about tying the region even

closer to it. This makes it more likely these countries will join forces with China, for example, on votes on UN resolutions. Outcomes of the G7 meeting show that the bloc is aligning even closer on issues related to China.”

Media coverage and sources:

- Foreign Policy: [Xi Hosts Historic China-Central Asia Summit](#)
- Atlantic Council: [How dependent is too dependent on China? Central Asia may soon find out.](#)
- CGTN: [China-Central Asia Summit issues Xi'an Declaration](#)
- The White House: [G7 Hiroshima Leaders' Communiqué](#)
- Xinhua (CN): [美国的胁迫外交及其危害](#)(US Coercive Diplomacy and its Harms)

METRIX

64

When the Hong Kong newspaper Ming Pao celebrated its anniversary on May 20, adverts congratulated it for “moving towards the 65,” and not, more correctly, for turning 64. Now speculation is rife that the advertisers were studiously avoiding a public display of the numbers 6 and 4, the digits in that order are synonymous in Hong Kong with remembering the violent crackdown on the Tiananmen Square protests of June 4, 1989. The annual 6/4 pro-democracy vigil was banned in 2020 under the Hong Kong National Security Law – and it now appears that even using these digits in a totally different context seems too risky for some. (Source: [Zaobao](#))

TOPICS

The party state wants a unified Chinese market to thwart local protectionism

The facts: Premier Li Qiang on May 19 led a State Council meeting where he emphasized the importance of a “fully unified domestic market.” Li noted the inefficiencies brought on by local protectionism which negatively impacts cooperation among provinces. He called for barriers to cross-regional economic activity, such as property rights protection, market access, and fair competition, to be dismantled. Local protectionism has materialized in diverse ways in China, such as in construction, where new demand is created by local governments commissioning projects and awarding contracts to local construction service providers, local material suppliers, etc. It also appeared prominently in the electric vehicle (EV) race in the 2010s, with local taxi fleets, for example, switching to a local EV brand to drive up demand.

What to watch: Local protectionism has always had a negative impact on the domestic market, resulting in structural barriers to key economic goals like boosting productivity or supporting consumption. It drags down efficiency and also ties down resources that could instead support China's national champions in competing abroad or key strategic goals like Xi Jinping's tech self-reliance campaign. However, it will be difficult to make major progress on unifying the national market, because regional governments compete with each other in reaching their own economic goals set for them by the central government.

MERICS analysis: "Domestic economic integration has been a top priority for the Communist Party for decades, but while Beijing has ensured that the 'hardware' is there in terms of world-class infrastructure, the 'software' has only marginally improved in key sectors thanks to deep-rooted vested interests of officials and local companies," says **Jacob Gunter**, Senior Analyst at MERICS. "But it may be that 'this time is different,' now that Xi has consolidated power in such a way that helps him overcome the barriers that previously held back greater unity in the domestic market."

More on the topic: [Is this time different? The structural economic reform challenges for Xi's 3rd term.](#) MERICS Report by **François Chimits, Gregor Sebastian, Jacob Gunter** and **Max J. Zenglein**.

Media coverage and sources:

- State Council Announcement (CN): [李强主持召开国务院常务会议 研究落实建设全国统一大市场部署总体工作方案和近期举措等](#) (Li Qiang chaired an executive meeting of the State Council to study and implement the overall work plan and recent measures for building a unified national market)

Micron memory chip ban could backfire on China

The facts: China's Cyberspace Watchdog (CAC) has applied a cybersecurity law from 2017 to ban all firms that operate China's Critical Information Infrastructure (CII) from buying Micron memory chips, after launching an investigation into the US chipmaker in April. Micron and China's government have been at odds since at least 2018, when the US Justice Department indicted Fujian Jinhua Integrated Circuits, a Chinese state-owned memory chip company, for stealing Micron IP. Fujian Jinhua and UMC, a Taiwanese company allegedly involved in the theft, have since traded lawsuits with Micron, with China's courts at one point banning the sale of some Micron chips. Chinese commentators also argue that Micron lobbied the US government heavily for the October restrictions on semiconductor sales to China, especially for the inclusion of memory chips.

What to watch: While Micron is far less exposed to the Chinese market than other companies (11-16 percent of revenue, compared to an industry average of 30 percent), even Chinese firms not operating critical information infrastructure will be hesitant to buy Micron chips, especially with Korean and Chinese alternatives and the low cost of switching due to the commodification of memory chips. The Japanese government has announced USD 1.5 billion in subsidies to Micron for building a plant in Japan, which the

US ambassador to Japan has deemed a way forward in “confronting Chinese coercion” – a key tenet of the G7 statement after the summit in Japan last week.

MERICS analysis: “The ban demonstrates that China’s government is willing to use the cybersecurity law arbitrarily against unfavorable companies. Due to US export controls, relying on any US semiconductor company poses a supply chain risk to China. With easy alternatives both from China and South Korea, this ban will not directly affect China’s economic development negatively,” says MERICS Analyst **Antonia Hmaid**. “Still, this decision might backfire for China, as other companies could be increasingly worried about a similar fate, and there are first indications that some G7 members will use the Micron case to expand their toolkit for responding to Chinese coercion.”

Media coverage and sources:

- South China Morning Post: [US envoy says Japan-Micron deal shows way forward on confronting China’s ‘coercion’](#)
- Stanford University: [Targeting U.S. Chip Firm Micron, China’s Cybersecurity Reviews Continue to Evolve](#)
- Chinese Administration for Cyberspace (CN): [美光公司在华销售的产品未通过网络安全审查-中共中央网络安全和信息化委员会办公室](#) (Micron products sold in China fail cybersecurity review)

Hong Kong sees more repression and self-censorship

The facts: Shortly before the anniversary of the violent crackdown of the Tiananmen protests of June 4, 1989, freedom of expression in Hong Kong took two hits as important channels of public information faced new squeezes. The city’s libraries removed from their inventories or restricted access to books related to the historical events of 1989. At the same time, the newspaper Ming Pao suspended cartoonist Wong Kei-kwan, also known as Zunzi, whose political cartoons had appeared in the well-known publication for 40 years.

What to watch: While bookstores can still sell the restricted titles, their removal from libraries illustrates the Hong Kong government’s ambition to further restrict the airing of “sensitive” topics in public. Hundreds of books – including those by political figures – have been “removed for review” from libraries under the National Security Law of 2020. Fearing repression, large numbers of journalists, creatives, teachers and academics have left their positions or even emigrated, adding to a pronounced brain drain from the city.

MERICS analysis: “For locals, expats and many mainland Chinese, Hong Kong used to be the space where one could address topics that were too sensitive on the mainland, but this freedom keeps shrinking,” says MERICS Analyst **Sophie Reiß**. “Controls on information, education and publication are increasingly eroding this space. This not only affects Hong Kong’s identity and civil society, it also impacts research and reporting about China more widely.”

Media coverage and sources:

- New York Times: [Hong Kong's Memory Is Being Erased](#)
- Hong Kong Free Press: [Explainer: Where did Hong Kong's political cartoonists go?](#)

VIS-À-VIS

Mikko Huotari on China's new anti-espionage measures

MERICS China Essentials spoke with the institute's Executive Director Mikko Huotari about China's new anti-espionage law.

Are foreign businesses rightly alarmed about China's crackdown on "spying"?

Unfortunately, yes. Not only have Chinese security authorities visited a number of foreign consultancies recently. As of 1 July, a revision of the Anti-Espionage Law will allow officials to define espionage even more broadly, putting foreigners – and their Chinese contacts – at much greater risk. Whereas the 2014 version of the law specifically targeted the disclosure of state secrets and intelligence, the revision broadly criminalizes possession of "documents, data, materials, and items affecting China's national security and national interests".

Foreigners living and working in China or simply visiting the country will run the risk that anything they take into their possession could be deemed relevant to "national security", bringing them and their contacts into legal jeopardy. The revised law uses vague terms that could justify penalizing even casual exchanges between Chinese citizens and foreigners. For example, it expands the scope of punishable actions by criminalizing association or affiliation with what it calls "espionage organizations". It now also states that "seeking to align" with foreign agents is as much a crime as "participation" with and "accepting tasks" from them. We still need to see how this plays out. But the Chinese government often keep laws vague to allow for flexibility in enforcement.

How does this square with Beijing's wish to secure foreign expertise and capital?

The corporate raids – or visits – and the revised Anti-Espionage Law stand in stark contrast to Beijing's efforts to encourage foreign companies to expand their operations in China. The leadership knows the country still needs to attract foreign expertise and capital. But this confirms again that Xi Jinping's absolute top priority is national security in the face of what Beijing says is a rapidly growing threat from the West.

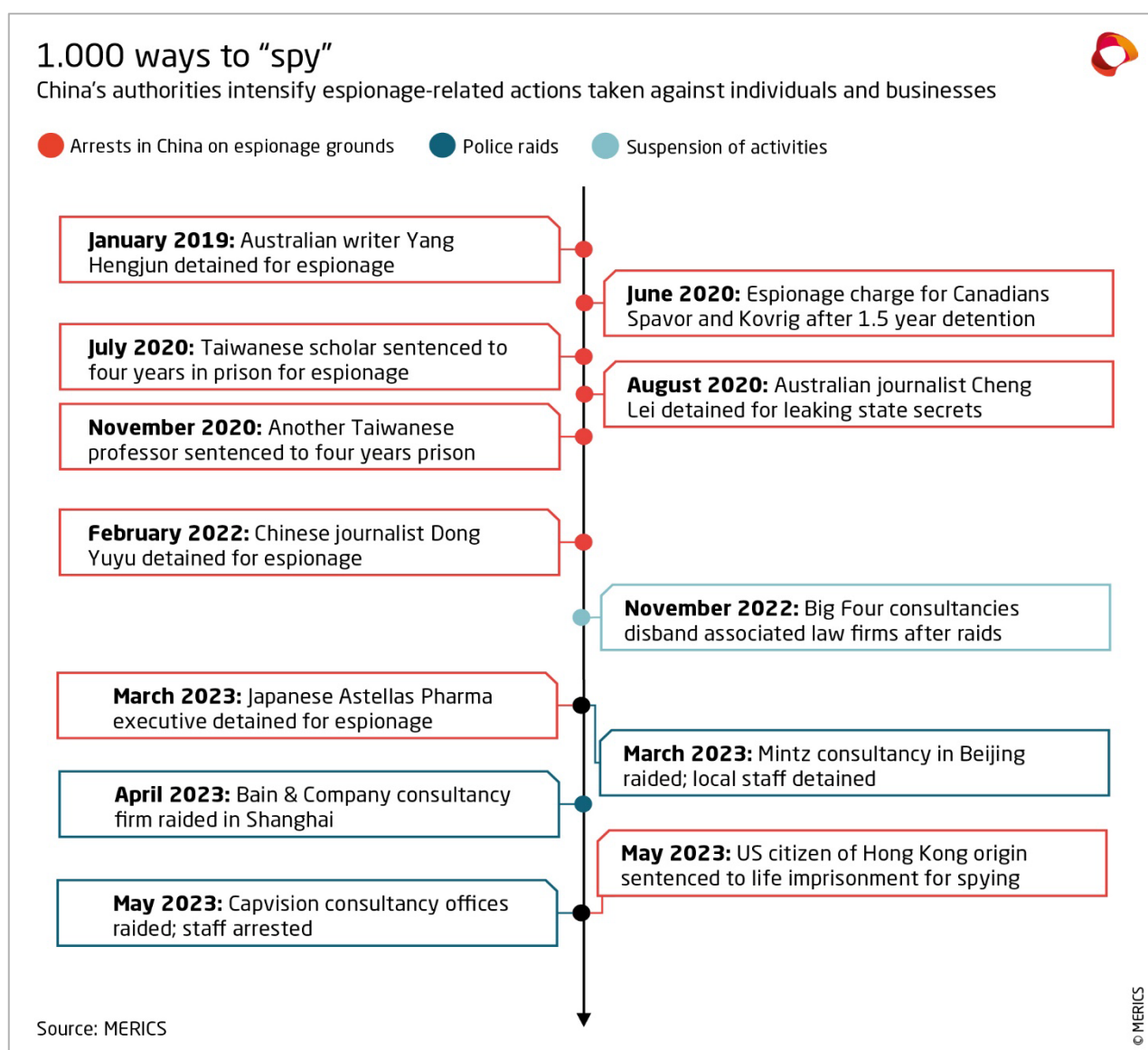
China continues to welcome foreign capital, but the recent policy shifts have created a more hostile environment. This complicates on-the-ground operations and affects auditing and research firms, consultants, and analysts. For these professionals an excessive focus on security concerns regarding the collection and analysis of industrial, economic, and commercial data introduces additional uncertainty in an already challenging environment. Gathering and verifying information from multiple sources is crucial for their work and necessary for accurately assessing risks and opportunities. However, this task will become even more arduous and risky due to the expanding scope of "national security" concerns that it may become intertwined with.

What does this mean for already-strained relations between China and the West?

The law is the latest in a series of legal steps taken by the Chinese government to increase control. The Hong Kong National Security Law and the Anti-foreign Sanctions Law are pieces of the same puzzle. Beijing wants to control the information flow into and out of the country and make sure that only the CCP can define the national narrative. The legal revisions will limit the scope of what is knowable about China – to the detriment of many on both sides.

The revisions create more uncertainty and exacerbate two general trends we’ve seen for a while. Firstly, information asymmetry will rise as foreign actors lose even more access to sources of information about what’s happening in China. Secondly, Chinese citizens will do their utmost to avoid falling foul of the law. They will self-censor themselves even more than they do now, making sure that their publications and social media posts can in no way trigger the ire of the CCP.

GRAPHIC OF THE WEEK



REVIEW

Wave Makers (Netflix, 2023)

Corruption, sexual harassment and adultery feature in this eight-part drama that follows political campaigners in a Taiwanese election race. Rather than making a vibrant democracy look like a sham, Wave Makers has even impressed viewers in China with stark depictions unknown there. One said on Weibo social media the protagonists “speak the same language” as the Chinese, “but it is like a story happening in a different world.”

This is not least because the series emphasizes the courage of the eponymous “wave makers” to speak truth to power and face the difficulties that result. It shows the personal dilemmas of the campaign staff as they regularly find their idealism colliding with the hard reality of election season and the conservatism of the leadership of the party they work for. One gripping storyline has party managers engage in ugly backroom dealmaking to get a woman to drop harassment complaints against a colleague.

The series was inspired by Taiwan’s ruling Democratic Progressive Party – one of the scriptwriters even worked for President Tsai Ing-Wen. Although fictional, the series offers an intriguing glimpse of robust democracy driven by ideals *and* rough-and-tumble. Chinese fans liked the unvarnished portrayal of social issues – and their write-ups were numerous enough to be banned from the popular review website Douban.

Interestingly, the drama makes no mention of the two issues that dominate global awareness of Taiwan – its strained relationship with Beijing and its world-leading semiconductor industry. It instead shows the very different everyday preoccupations of many Taiwanese – something which should be of interest to non-Taiwanese viewers much further afield than China. Wave Makers serves up a timely reminder to the world that Taiwan is a real place with real people, not just a geopolitical bargaining chip.

Reviewed by Vincent Brussee, MERICS Analyst

MERICS CHINA DIGEST

[Xiong’an is Xi Jinping’s pet project \(The Economist\)](#)

China’s party and state leader visited “Xiong’an New Area”, a city still under construction 100 km south of Beijing which, according to the government, will one day ease pressure on the capital and become a high-tech metropolis three times the size of New York City. (23/05/18)

[Microsoft's LinkedIn closes operations in China, citing slower growth \(WSJ\)](#)

The Microsoft-owned career network LinkedIn announced that it will close its China-focused job apps. The company cited slower revenue growth and changing customer behavior as the reasons for its further retreat from the country. (23/05/09)

[Douyin rules for use and labeling of AI-generated content \(chinalawtranslate.com\)](https://chinalawtranslate.com)

TikTok's Chinese sister app Douyin will ask publishers to label AI generated content in the future. The short video platform announced new rules earlier this month. (23/05/11)

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