MERICS CHINA UPDATE

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TOPIC OF THE WEEK: HONG KONG

No end in sight to escalating violence in Hong Kong

Anti-government protests in Hong Kong have escalated further. The former British Crown Colony on Monday saw some of the most violent days since demonstrators took to the streets five months ago. A policeman shot a demonstrator in the stomach and about a hundred other people were injured in separate incidents. A day later, the protests spread to universities for the first time - the Chinese University in Hong Kong and three other institutions were affected. Police used tear gas and fired rubber bullets after activists threw stones and erected barricades, according to eyewitness reports.

In other parts of Hong Kong, protesters again managed to disrupt public transport by placing objects on railway tracks. In Central, the city's main business and shopping district, thousands of people again took part in the rallies and occupied a number of streets. Senior police superintendent Kong Wing-cheung was quoted as saying that Hong Kong was on "the brink of total collapse".

The protests were in part fueled by the death of a demonstrator at the end of last week. The 22-year-old student fell from the deck of a car park during a police deployment and later died in hospital. In the last few days, protestors attacked numerous shops and offices of institutions they deemed to be close to Beijing - including the Hong Kong office of China's official Xinhua news agency. One Chinese mainlander was set on fire and is still in critical condition. Given a rising number of verbal attacks and violent assaults, a steady stream of students and workers from mainland China is returning home.

The Chinese Foreign Ministry spokesman Geng Shuang accused the demonstrators of "large-scale violent offenses" that had "pushed Hong Kong to a precarious position" and terrified its populace. There was also international criticism of the mounting violence in the city. The US government expressed "grave concern" about the situation and called on "Hong Kong police and civilians alike" to de-escalate. The British government described the escalation in Hong Kong as "deeply disturbing".

After verbal backing from China's state and party leader Xi Jinping and meeting with Vice-Premier Han Zheng, Hong Kong Chief Executive Carrie Lam seems to have regained her authority. It was wishful thinking to believe violence would lead her government to give in to protestors, she said. The 4th Plenum of top CCP officials in Beijing stressed the need to maintain national security and announced renewed attempts to introduce national security legislation and patriotic education, which has sparked previous protests.

MERICS expert **Katja Drinhausen**: "With its current mode of communication and announced measures, the central government in Beijing makes a peaceful resolution more and more difficult."

CHINA AND THE WORLD

EU signs deal to protect food products on Macron's China trip

French president Emmanuel Macron visited China early November to meet Chinese counterpart Xi Jinping. Paris and Beijing signed commercial contracts worth USD 15 billion in the fields of energy, aeronautics, agriculture and environmental protection. Although the visit produced no visible movement on contested issues like Beijing subsidizing state-owned enterprises, the European Union scored a victory: A long-awaited agreement to protect 100 European Geographical Indications (GIs) like Feta and Champagne in China and 100 Chinese GIs including Anji White Tea in the EU. The document was signed by Chinese officials and the EU's Agriculture and Rural Development Commissioner Phil Hogan, who had travelled with Macron. The absence of Italian Foreign Minister Luigi di Maio – in China for a trade fair – was remarkable.

The French President has been eager to present himself as the leader of Europe's China policy. During Xi Jinping's European visit in March, he invited German Chancellor Merkel and European Commission President Juncker to Paris to show Xi a European united front. The French president is known for speaking critically of China's policies, from state aid and market access restrictions to the "one-way" nature of the Belt and Road initiative.

European universities contend with Chinese meddling

European universities have been rattled by revelations about pro-China advocates attempting to influence three academic institutions - evidence of the Chinese party-state's eagerness to shape opinion in liberal democracies. The Chinese Embassy in Prague financed an academic course and conferences that promoted Beijing's propaganda on the Belt and Road Initiative (BRI) at Prague's Charles University, according to Czech investigative reports.

Around the same time, Belgium's Vrije Universiteit Brussel (VUB) learned that the former head of the Confucius Institute, Renmin University professor Song Xinning, had been barred from entering the Schengen Area for eight years after being accused of espionage. And just before that, the Financial Times revealed that the London School of Economics had shelved plans for a China programme funded by Eric Li, a pro-China venture capitalist. The incidents illuminate some of the ways in which Beijing is trying to influence narratives about China. Similar cases have been reported in Australia, New Zealand and North America.

MERICS analysis: Authoritarian advance: Responding to China's growing political influence in Europe. A Report by MERICS and GPPi.

News in brief

- Blue Dot Network: US certification to set standards for infrastructure projects in Asia
- Xi in Greece: President opens Piraeus port expansion and first Bank of China branch
- US, China, Russia, Pakistan meet in Moscow to discuss Afghanistan (joint statement here)
- RCEP: Major regional trade deal to be signed in late 2020 without Indian participation
- US-China trade: Washington and Beijing trade barbs at ASEAN Summit
- Indo-Pacific Business Forum: US pitches commercial alternative to China in Bangkok

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POLITICS, SOCIETY AND MEDIA

Xi lines out framework for governance in the new era

The 4th Plenum of the 19th Central Committee of the Communist Party of China (CCP) at the end of October vowed that one country two systems, environmental protection, supervising party and government, and ten other governance areas would be "improved" over the coming years. After cementing his power and launching structural reforms, President Xi Jinping used the meeting in Beijing to launch the next phase of his rule by presenting a framework for governance in his "new era". After the previous Plenum agreed structural changes, the 2019 Plenum concentrated on ensuring policy implementation and adherence to Beijing's official line.

The plenum issued its bulky "Decisions on Some Major Issues Concerning How to Uphold and Improve the System of Socialism with Chinese Characteristics and Advance the Modernization of China's System and Capacity for Governance." With its reference to building "capacity for governance", the Plenum declared its intent to improve the CCP's ability to steer politics, supervise officials, and implement policies. It went to great lengths to confirm Xi's efforts so far - Xi as core leader, party leadership over everything, state-owned enterprises as the economy's mainstay. The Plenum also made clear many existing initiatives – socialist values, environmental policy - are to be viewed as part of a wider systemic overhaul.

Xi Jinping embraces blockchain as help to CCP ruling China

China's President Xi Jinping used a late-October politburo study session to hail blockchain a breakthrough technology and to call for its faster and broader development. He acknowledged that blockchain technology had already reached fields such as finance and manufacturing. But he said it should now be used to help China solve economic problems – like financing SMEs or managing risk in banking – and improve social issues like education, employment or food safety. Xi's remarks are noteworthy because China and blockchain technology have a long and volatile relationship. After Bitcoin brought the first functioning blockchain technology to the world, China quickly began to dominate the decentralized global cryptocurrency - so much so that Beijing in 2017 had to restrict cryptocurrencies dramatically for fear of financial instability. At the same time, government interest in adopting the underlying technology for use in other fields continued to grow, and Xi's recent statement seems to have given blockchain new momentum in China: a cryptography law was passed that guarantees government agencies transparent access to encryption techniques, and "mining", the process of maintaining the data management of blockchains, was taken off the list of undesired industries. Disruptive innovations and shortening product life cycles, have made control over data a key concern. Xi's embrace of blockchain is a notable step for China in grappling with the issue.

MERICS analysis: China's blockchain conundrum. Blogpost by Kai von Carnap.

Worried about Huawei? Then worry about Chinese blockchains, too. Blogpost by Kai von Carnap.

News in brief

- Promoting patriotism: China's new morality guidelines for citizens
- China-Vatican: First Chinese priests for 70 years publicly ordained, but diocese split
- China's facial recognition: University professor sues wildlife park for violating data privacy

ECONOMY, FINANCE AND TECHNOLOGY

Alibaba to list shares in Hong Kong

Shares in Alibaba could start trading on the Hong Kong Stock Exchange in late November after the Chinese e-commerce giant won the approval of authorities in Hong Kong. The company's second listing after New York was delayed in August given political and financial instability in Hong Kong. But Alibaba's strong recent performance seems to have emboldened it to forge ahead with the project – sales on its 11 November "Singles' Day" were 26 percent higher than the year before, and year-on-year quarterly net profit tripled to 10.4 billion USD. The company reportedly aims to raise 10-15bn USD as early as 25 November, making it the largest share sale in Hong Kong – and potentially the second largest globally after Saudi oil company Saudi Aramco – this year. Alibaba decided to list on the New York Stock Exchange in 2014 after the Hong Kong Stock Exchange refused to lift a ban on companies with dual-class shares. Hong Kong finally relaxed the rule last year, opening the way for Alibaba. Its listing in Hong Kong is a boon for the city amidst violent anti-government protests. It could help restore investor confidence, lure other US-listed Chinese companies such as Baidu and JD.com to Hong Kong and shore up the city's stock exchange as a top IPO market. Beijing is said to be keen for Alibaba to make its shares more freely available to Chinese investors. A Hong Kong listing would allow mainland investors to buy shares via the Shanghai-Hong Kong "Stock Connect" channel.

International share index raises weight of Chinese A-shares

Global share-index provider MSCI said it will raise the importance of mainland Chinese stocks in its influential Emerging Market Index to 4.1 percent from 2.55. The move adds the so-called A-shares of 204 Chinese companies to MSCI's global stock-market benchmark – some 20 percent of A-share companies will now be represented, up from 15 percent. After the introduction of the Stock Connect mechanism which allows share-trading between Shanghai and Hong Kong, MSCI agreed to increase the A-shares weighting in its indices – A-shares will have a weighting of 12.1 percent in the company's China Index. Stock Connect made possible the flows that the weighting will now mirror. China has made efforts to attract more foreign capital, and MSCI's moves will automatically raise capital flows into China as pension funds and other financial institutions invest in stocks according to their index weighting. The move could help China balance capital flows at a time when there is considerable pressure from investors keen to take their capital out of China.

News in brief

- US-China trade conflict: Agreement in principle, but no sign of a signing anytime soon
- New cars in China: Sales fell by 4 percent in October
- Shenzhen Stock Exchange: Profitability rules for ChiNext board scrapped
- Trade data: Year-to-date exports in October down 0.2 percent
- Loans: New lending by Chinese banks lowest in two years

THE EUROPEAN VIEW

The political backlash against Huawei is building in Germany

by Noah Barkin, Visiting Academic Fellow at MERICS

The German debate over 5G has long been shrouded by opaque technical discussions conducted by obscure government agencies, largely behind closed doors. But in recent weeks long-simmering tensions within Chancellor Angela Merkel's coalition have boiled over into public view: To allow or not to allow the participation of Chinese suppliers Huawei and ZTE in the country's next-generation mobile network? It is too early to predict the answer. But the open debate is healthy and overdue.

The trigger was a softening of the security criteria for selecting 5G suppliers by Germany's Economy Ministry, with the apparent blessing of the Chancellery. Their argument – as outlined by Economy Minister Peter Altmaier at a meeting of conservative lawmakers in the days after the so-called *Sicherheitskatalog* was unveiled – was that tougher rules would amount to a de facto exclusion of Huawei and ZTE and spark a damaging economic backlash from China. German officials confirm that this message was communicated to Merkel during her visit to Beijing in early September.

The first to push back was Norbert Röttgen, the head of the foreign affairs committee in the Bundestag. He quickly assembled a group of conservative lawmakers who publicly opposed a Chinese role in German 5G. Then the floodgates opened and, in swift succession, the head of the BND foreign intelligence agency Bruno Kahl, Foreign Minister Heiko Maas, and Defense Minister Annegret Kramp-Karrenbauer all voiced their skepticism about Chinese involvement. Crucially, AKK, as she is known, is leader of Merkel's Christian Democratic Union and the Chancellor's favored successor.

At a special Bundestag hearing on 5G organized by Röttgen this past week, it was clear that lawmakers in other parties, including Social Democrats, Greens and Free Democrats, are also skeptical. The timetable for feedback on the new security criteria has now been extended and the process could easily drag on into the second quarter of next year. Merkel and incoming European Commission President Ursula von der Leyen have said they would like to see a common EU position on 5G. But to achieve even a semblance of EU consensus, Germany will need to sort itself out first.

PROFILE: Han Zheng

Han Zheng favors more aggressive measures against Hong Kong protestors

Hong Kong is part of the Chinese Vice Premier's portfolio, so it's good to know Han Zheng has more than a passing familiarity with international port cities. Sixteen years ago, Han, then 48, became mayor of Shanghai and, nine years, later he rose to become the east coast city's Communist Party Secretary. But since anti-government protests flared up in Hong Kong this summer, it should have become clear to him that the former British Crown Colony is easily as big a test as was Shanghai.

Han and other members of Beijing's leadership for months observed a disciplined silence about developments in Hong Kong. But after Party and State Leader Xi Jinping briefly met Hong Kong Chief Executive Carrie Lam at a trade fair in Shanghai, it was Vice Premier Han who became the first central government representative to speak at length about Hong Kong. He used an official meeting with Lam - whose days at Hong Kong's helm many had until then seen numbered - to break the silence.

China's Vice Premier signaled his support for the more aggressive measures being taken by Lam's administration to get to grips with the increasingly violent protests. They were necessary, Han said, because the protestors were damaging China's principle of "one country, two systems". He stressed the protests had gone much further than many other countries would have tolerated and warned they could have grave consequences. At the same time, however, he publicly urged Carrie Lam to pursue a more proactive policy and to do more to improve the quality of life of the average Hong Kong resident.

65-year-old Han is one of the seven most powerful men in China's party-political hierarchy. Han Zheng has been a member of the Standing Committee of the Politburo for two years and is responsible for Hong Kong, Macao, the Greater Bay Area in southern China and regional integration projects. So, in parallel to crisis management in Hong Kong, Han is working on the city's integration into the Greater Bay Area. In a sense, he is already working on a regional structure that will compete with Hong Kong.

Editorial responsibility: Kerstin Lohse-Friedrich
