



Issue 2/2020 (January 17 - 30, 2020)

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METRIX

1,100

1,100 Yuan or around 144 Euros was the price being asked on the Chinese online shopping site Taobao in late January for a box of 20 face masks. In November, vendors had wanted only 178 Yuan (around 23 Euros) for the same product.

TOPIC OF THE WEEK: CORONAVIRUS EPIDEMIC

Coronavirus spurs grass-roots initiative

This week's exponential rise of coronavirus cases in China has led to mounting **criticism of the authoritarian system's handling of the crisis** – but has also shown the potential of the country's civil society to quickly step up and help itself independently of official efforts to deal with the virus.

After Wuhan suspended public transport on 23 January, **thousands of residents spontaneously organized to ferry doctors**, nurses and supplies to the city's hospitals to avoid disruption to medical services. A market in the city, suspected of being the origin of the mysterious new virus, has been closed.

Other examples of grass-roots action included reporting by citizen journalists – often ahead of state media – and hospitals asking companies to donate medical supplies like masks. They all featured a social-media system known abroad more as a tool of official control than for peer-to-peer interaction.

These initiatives show that public reactions go beyond the steady stream of angry comments about all levels of government: popular anger is mixing with constructive self-organization – a self-reliance that observers of the Chinese system, where all forms of self-organization are tolerated less and less and more often suppressed, might find surprising.

But, as Beijing's crisis-fighting has begun to face up to more and more bad news from home – over 7,600 people in China have been infected and 170 have died, according to **Thursday's figures** – and pressure from abroad, so has its policing of social media. **Posts about on-the-ground events have been blocked** or disappeared, and **people have been detained** for posting “false statements”.

This suggests Beijing is working at two levels. Major administrative decisions – locking down 15 cities and up to 60 million people in Hubei Province, Prime Minister **Li Keqiang heading a task force** – are going hand in hand with quieter moves to better control grass-roots information flows.

The popular social media service WeChat announced the opening of a fact-checking platform to stop “rumors” that threaten social stability. The spread of **inaccurate information has been a problem**, but officials might have trouble drawing a line between fighting fake news and a wider clamp-down.

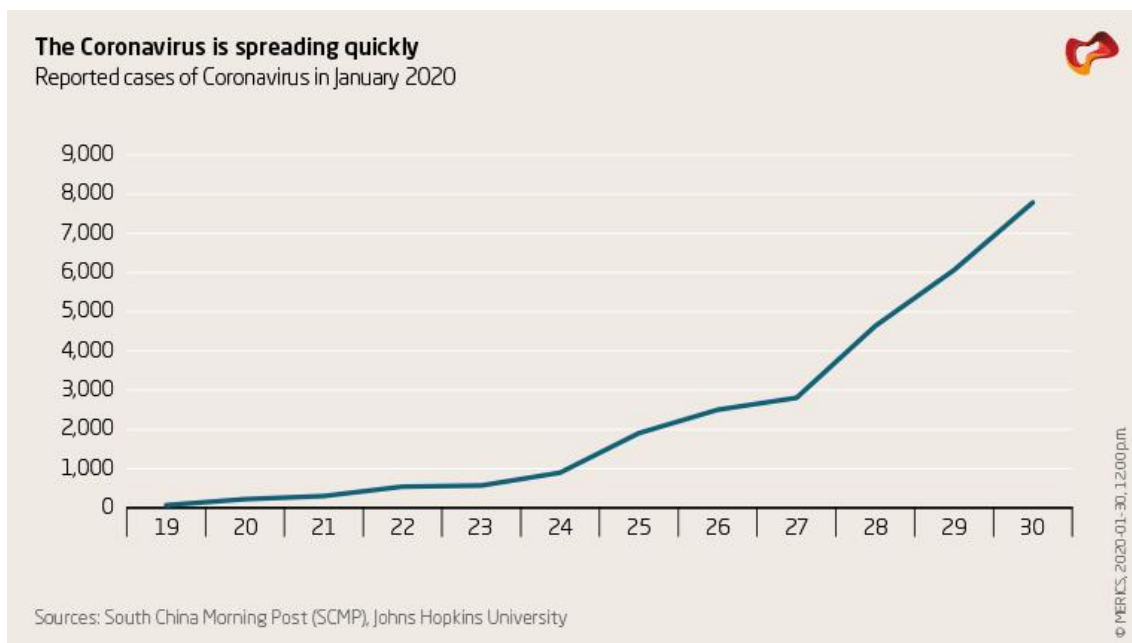
The SARS epidemic that started in China in 2002 or the Sichuan earthquake of 2008 also stirred public criticism of the Chinese administration. These past crises spurred lasting changes in information transparency and disaster relief – but they also led to prominent critics later being punished.

Official information was held back or downplayed in the early days of the corona crisis, a stance that became untenable as deaths mounted in the run up to Chinese New Year. Deficiencies in local government and the **healthcare system** have bred distrust at home and abroad.

Alongside its domestic worries, Beijing has to show that it can contribute effectively to a global response, in particular through the World Health Organization (WHO). Visiting Beijing, WHO chief Tedros Adhanom Ghebreyesus was criticised by world media for **confusion over its risk-assessment**. Several countries have started evacuating their citizens from Wuhan.

MERICS analysis of possible economic effects of the epidemic:

“GDP growth is likely to slow down in the first quarter as travel restrictions, local quarantine measures and insecurity among the population will likely affect retail and travel related sectors. A more exact assessment of the Corona crisis’ economic impact will only be possible in two weeks, when enterprises are expected to resume their activities after the New Year’s holiday.” MERICS expert **Max J. Zenglein**.



CHINA AND THE WORLD

China and Myanmar keen to show off their friendship

A state visit by President Xi Jinping to Myanmar this month has been presented by both sides as a tightening of diplomatic and commercial relations. The occasion, which marked 70 years of Myanmar-PRC diplomatic ties, included the signing of **33 trade and investment agreements**, some tied to China’s Belt and Road Initiative (BRI).

The message for the rest of the world was clear. Myanmar, which has been under pressure from the US and EU for human rights abuses and was charged with genocide last month at the International Court of Justice in the Netherlands, is keen to show that if criticism from the West continues, it has an alternative friend in China.

China, for its part, is taking advantage of Myanmar’s predicament. Friendly relations with Myanmar would allow it to **transport oil and gas imports through the Indian Ocean**, avoiding the Malacca Straits. It also offers China a bridge to South Asia.

Whether this apparent friendship will hold is questionable as deep challenges exist in China-Myanmar relations, including domestic Myanmar sensitivities to overreliance on China and ongoing ethnic conflicts that may impede grand BRI projects. Relations between the countries reached a low point in 2011 when heavy-handed implementation of a Chinese-backed hydroelectric dam **inflamed anti-Chinese sentiment in Myanmar**.

The two governments are presenting the visit as a new high point. But while government to government relations may be close, popular opinion in Myanmar remains deeply critical of Chinese efforts to wield influence in the country.

MERICS analysis:

“I remain sceptical of the ability of China to maintain this momentum and achieve its strategic goals. There are many reasons to believe that efforts at closer practical cooperation on major infrastructure projects will actually elicit major social and political backlash in Myanmar.” MERICS expert **Matt Ferchen**.

Information and graphics on the BRI: **MERICS Belt and Road Tracker**.

News in brief

- New BRI Report from the EU Chamber of Commerce – **EU companies have growing misgivings**
- Meng Hongwei – **Ex-Interpol chief sentenced to 13 years in jail**
- Davos – **Vice Premier Han Zheng’s speech**
- SIPRI Report: **China is the world’s second largest arms producer**

POLITICS, SOCIETY AND MEDIA

Chinese students abroad risk detention back home

Chinese students going abroad for university education run the risk of being sentenced back home for activities that are legal in the countries where they are studying. Two cases that have recently come to light underline the danger and raise the question of whether universities in the West are doing enough to support their Chinese students.

It has recently emerged that a **Chinese student studying at the University of Minnesota** in the United States was detained during a visit home in July 2019. Twenty-year-old Luo Daiqing was sentenced to six months in prison for **tweets he had posted in 2018**, while in the US, satirizing President Xi Jinping. The case raises questions of how far the extraterritorial reach of Chinese law extends.

Earlier this month it emerged that another Chinese student studying in the United States was **arrested on a visit home and detained in a camp in Xinjiang** for using a virtual private network (VPN). Vera Zhou, who has permanent residency in the United States, accessed her Gmail account to file her classwork. While using a private VPN in China is not illegal, her activity was viewed as a sign of religious extremism.

The 24-year-old, who is a member of the Hui, a largely Muslim ethnic group, was detained for five months in a “re-education camp”. During this time, her university in the United States continued to charge her tuition.

MERICS analysis:

“Universities in the West need to be aware of the risks their Chinese students face. They need to provide support for their students if they get caught up in this kind of situation. These two cases have just come to light, but it’s fair to assume they won’t be the last.” MERICS expert **Mareike Ohlberg**.

News in brief

- Hong Kong protests: [Yuen Long mob attack-victims demand compensation](#)

ECONOMY, FINANCE AND TECHNOLOGY

5G expansion in Europe: EU Commission against complete exclusion of Huawei

Huawei, the Chinese technology company, will be allowed to participate in the [expansion of 5G networks in EU countries](#), but will be excluded from “core networks” that are particularly relevant to security. This is the result of an [instrument](#) published by the EU Commission on 29 January which is to serve as a basis for decisions by the soon-to-be 27 member states. Each EU state will develop its own security measures on this basis.

Great Britain, which is leaving the EU on Friday, is also looking to a [compromise solution](#). Providers considered “high-risk” are to be excluded only from core areas of the network, the British government announced after a meeting of its National Security Council on 28 January. Chinese telecommunications companies such as Huawei or ZTE could be classed as high risk because of fears of Chinese state influence.

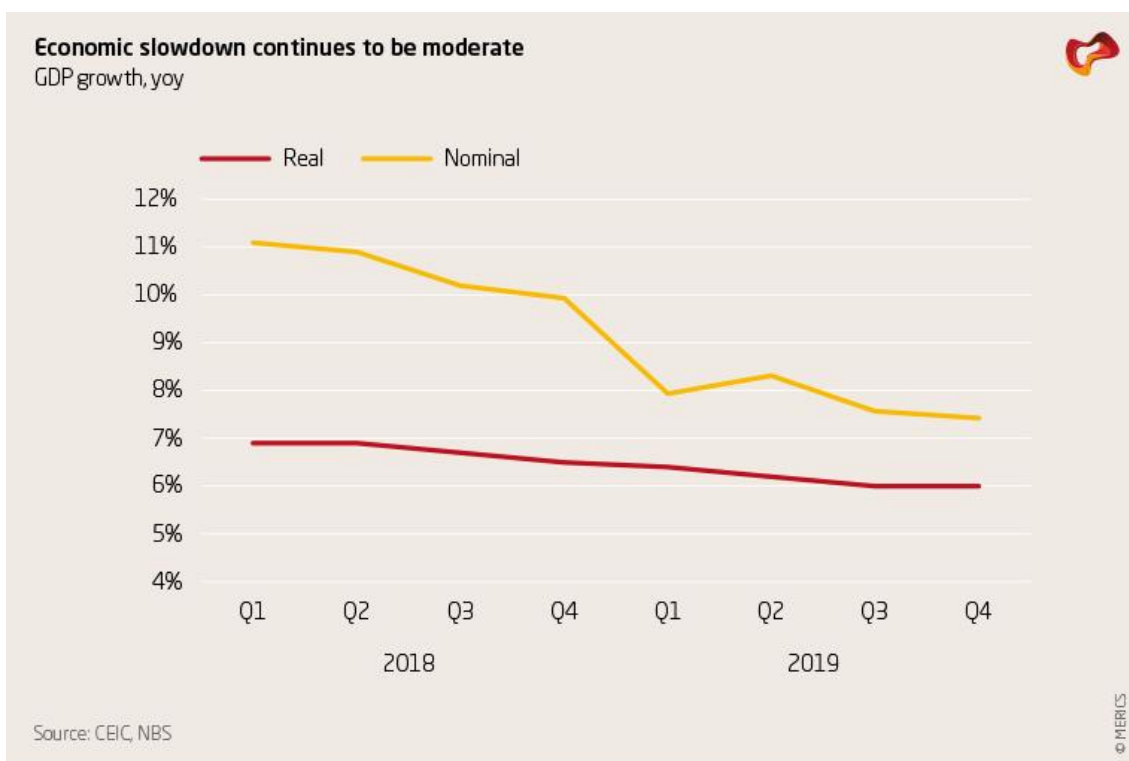
In Germany, the debate on rules for the roll-out of 5G networks is still ongoing. Chancellor Angela Merkel (CDU) supports the path which is now also being taken by the EU Commission, to keep the market as open as possible for all providers. According to reports, the CDU/CSU faction in the Bundestag wants to discuss in two weeks proposals made by a group led by [Norbert Röttgen](#), chairman of the of the Foreign Affairs Committee in the Bundestag, that would go further. He feels that the line currently being taken does not go far enough.

At an event at MERICS on Tuesday, Röttgen underlined the importance of developing 5G in Europe independently. He said it was legitimate for European policy to aim at “maintaining control over our digital nervous system”. To abandon the development of the technology ourselves would “significantly weaken our innovative strength and competitiveness”. In dealing with China, the EU must insist on the principle of equal treatment, “this must also apply to the development of 5G,” he said. European 5G providers such as Nokia or Ericsson currently have only a [very limited presence](#) in the Chinese market.

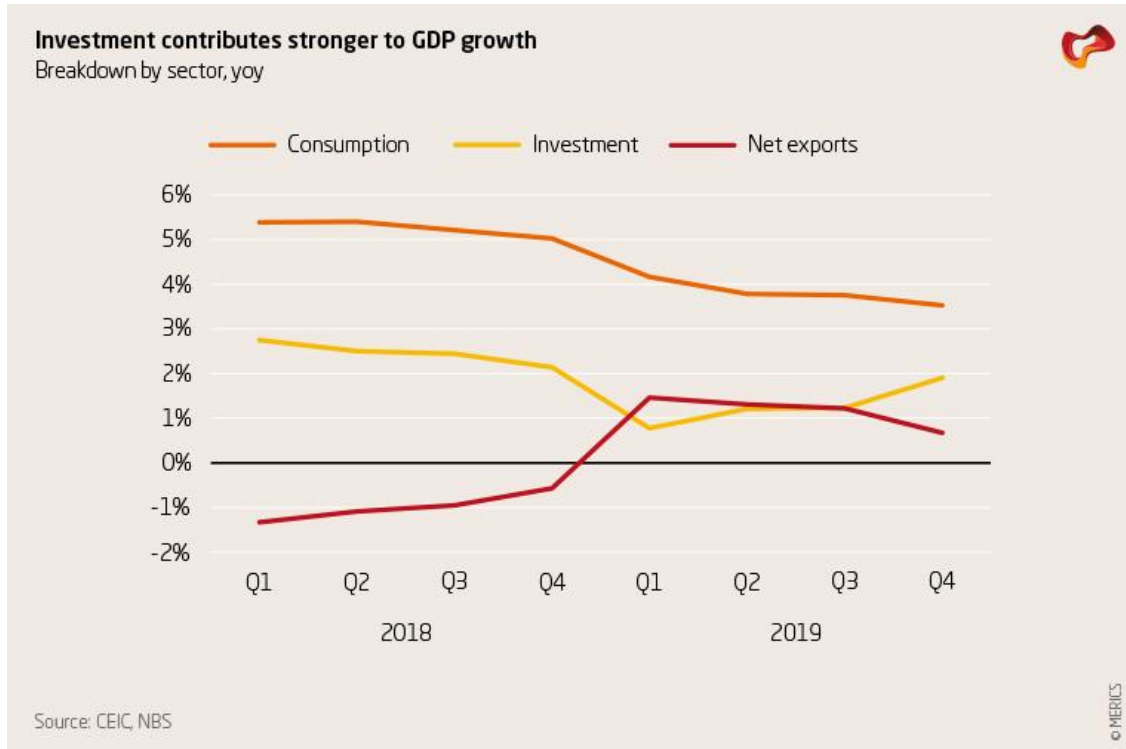
Uptick in investment helps support GDP growth in fourth quarter of 2019

The Chinese economy grew by 6 percent in the last quarter of 2019, according to official figures, meaning overall economic growth in 2019 was on target for the year, although **far slower than in previous years**.

It appears that China is making a smooth transition to lower levels of growth. Digging deeper into the figures, however, reveals a less rosy picture. With consumption and net exports making a lower contribution to GDP, the indication is that the government is filling the shortfall with investment to reach its targets.



Of the three major components of GDP, both consumption and net exports fell slightly, while investment picked up in comparison to the previous quarter. Consumption and net exports growth were mainly hurt by the ongoing trade war with the United States and cooling domestic demand.



Looking at nominal GDP reveals the extent to which China is using credit to fill the gap. While nominal GDP grew by 7.4 percent, aggregate credit expanded by 10.7 percent. With credit growth at higher levels than nominal GDP, China appears to be sacrificing financial stability for growth.

MERICs analysis:

“Investment cannot be used to fill the GDP shortfall indefinitely. The key question is, how long can the current levels of credit growth be tolerated? While the State Council appears willing to support growth at all costs, the People’s Bank of China is apparently reluctant to loosen monetary policy further.” MERICS expert **Maximilian Kärnfelt**.

Serious challenges ahead for China’s economy in 2020: **MERICs Economic Indicators Q4/2019**.

News in brief

- Fear of US tech ban - **Huawei stockpiles foreign supplies**
- Central Bank supports Chinese currency with cash injections: **1.1 trillion CNY in 4 days**
- Modest wealth - **Per capita disposable income breaks the 30,000 CNY level in 10 provinces**
- New GDP-calculation: **A third of China’s provinces lower growth targets**

PROFILE: Zhong Nanshan

83 and full of energy: Beijing's expert for solving the corona crisis

Zhong Nanshan (钟南山) has had the reputation among his fellow countrymen and women as a capable medical doctor ever since he publicly condemned the sluggish response of the authorities to the SARS epidemic 17 years ago. This reputation – and his obvious loyalty to China's leaders – has now brought the 83-year-old to the front line once again, this time in the fight against the spread of the coronavirus. The pulmonologist is leading the **14-member expert group** founded on 24 January to combat the new epidemic.

When the outbreak of the lung disease SARS shook China in 2003, Zhong was one of the few who **did not hold back his views**. He kept the public constantly updated with the latest information and said that doing so without delay was crucial to success in the fight against the epidemic. At the same time, the diplomatic Zhong managed to avoid directly criticizing government offices or even the Communist Party. The latter clearly now hopes that by deploying the famous front-line fighter against the coronavirus it will appease any public anger over their handling of the epidemic.

Zhong is a party member and was previously a member of the Political Consultative Conference and a delegate to the National People's Congress. In addition to being politically reliable, he also has much to show as a medical doctor: in 2003 he discovered the SARS coronavirus and in 2013 he was in charge of developing measures against bird flu. The highly regarded medical doctor, who has received several state commendations, studied in Nanjing and Beijing, and later with well-known pneumologists in England and Scotland.

Zhong is approaching his new job with great energy – as soon as the expert group was established, he travelled with the team to the epicentre of the epidemic in **Wuhan**, where he visited hospitals and spoke to doctors.

As with SARS, Zhong is committed to **transparency**: before even the official party-state mouthpieces, he announced that the disease was **transmissible from person to person** and gave advice on protective measures.

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