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METRIX

32 %

Weak domestic demand and ongoing trade tensions caused **imports of US goods into China** to slump almost 32 percent in annual comparison to 28.5 billion dollars (EUR 25.4 billion) in the first quarter of the year. As Chinese exports to the US shrank by 8.5 percent to USD 91.1 billion, total trade flows between both countries fell by 15.4 percent to USD 119.6 billion in the first three months of 2019.

TOPIC OF THE WEEK: US-CHINA TENSIONS

USA raises the pressure in trade dispute – but China still sends Vice Premier to Washington

The **trade dispute continues to divide China and the USA** and a solution remains elusive. A few days before the next round of talks in Washington, US President Donald Trump announced via Twitter a drastic increase in customs duties on imports from China. Levies on Chinese goods worth USD 200 billion (EUR 178 billion) look set to rise from ten to 25 percent on Friday. US Trade Representative Robert Lighthizer **accused China of having reneged on promises**. China's Ministry of Commerce said it would take "necessary countermeasures" against US tariffs **in a statement** published on Wednesday. Despite the confrontational tone, the Chinese chief negotiator, Deputy Prime Minister Liu He, was to travel to Washington to continue talks.

The US had originally intended to raise the import tariffs on March 1 but had shelved the move to allow more time for negotiations. China criticized Trump's announcement that the US would now go ahead with the increase. "Adding tariffs can't resolve any problem," **Chinese Foreign Office spokesman Geng Shuang** told journalists on Tuesday. He stressed that China was "sincere" about continuing the search for an agreement. Liu He is scheduled to be in Washington for negotiations on Thursday and Friday.

The government in **Beijing wants to avoid talks failing** as this could deliver another blow to economic growth - 6.4 percent in the first quarter - and the value of the Yuan. **Stock-market turbulence triggered by the trade dispute** is also causing worries in Beijing. Nevertheless, the Chinese government apparently does not want to make any further concessions. According to media reports, President Xi Jinping **rejected speculation that Chinese negotiators would table additional offers** as talks continue.

The trade conflict between the two trading powers started in March 2018. In recent weeks, there were signs that both sides were nearing an agreement. But, according to US officials, **China then withdrew key commitments, like cutting state subsidies for core industries**. According to Reuters news agency, **Chinese officials did this by changing crucial points** in the draft of the 150-page trade agreement.

It remains to be seen how long either side will put up with the vagaries of difficult negotiations. Trump might be interested in prolonging the conflict to provide an emotionally charged topic with which to rouse his base in the run-up to the 2020 presidential election. But the conflict is already hurting US economy. For his part, Xi Jinping should be interested settling the dispute to maintain domestic stability. However, he will be unwilling to risk damaging his authority by making too many concessions to Washington.

MERICS economics expert **Max J. Zenglein**:

"A further escalation in the trade dispute could disrupt global supply chains. In the long run, it would be bad for Europe if the USA and China failed to reach an agreement. At the same time, there is a risk that any agreement between China and the USA will be reached at the expense of European companies. It is increasingly important for Europe that the US and China find a solution that adheres as far as possible to the existing framework of WTO rules."

US-China tensions spread beyond trade

A recent string of exchanges between the US and China has thrown a stark light on growing geopolitical tensions beyond trade policy. In early May, Beijing accused the US of perpetuating a Cold War mentality after the **Department of Defense warned that China was expanding its military power** to contest US superiority in Asia-Pacific. Shortly after that, US President Donald Trump suggested Moscow and Beijing might be interested in a three-way nuclear arms treaty, only to have China reply that the US and Russia as the world's largest nuclear powers would need to reduce their stockpiles first.

The back and forth – which took place as Sino-American trade negotiations appeared to founder - highlighted anew Washington's concerns about China's rise, and Beijing's growing confidence in geopolitics beyond economic policy. Beijing, for example, has begun to forcefully display its claim on Taiwan with frequent manoeuvres near the island by the People's Liberation Army (PLA). And it has remained North Korea's ally, even after Pyongyang's renewed missile test - which shows that Washington's relationship with Beijing will also depend on how the US deals with North Korea.

Washington appears ready to confront China's more assertive posture. The US Navy late April sent **two warships through the Taiwan Strait**, a show of force that led China to publicly caution the Taiwan issue was "the most important and sensitive issue in Sino-US relations". This shows that Sino-American tensions already go beyond trade and they could escalate if trade talks break down. Should the US make good on threats to raise import duties on Chinese goods, Beijing would likely become even more assertive, both to signal its displeasure and to try to force the US back to the negotiating table.

CHINA AND THE WORLD

Belt and Road Forum: China's government woos industrialized countries

China's President Xi Jinping used the second "Belt and Road Forum" in Beijing to counter international criticism of the infrastructure project. The scheme to create a so-called New Silk Road will be **"open, green, and clean,"** Xi told the 5000 participants from 150 countries. Some 37 heads of state attended the meeting, eight more than two years ago. **Austria, Cyprus and Hungary** sent their top representatives for the first time. Germany was represented by Economics Minister Peter Altmaier.

In his **opening speech**, Xi promised more openness to foreign investment, pledged better protection of intellectual property, and declared his support for multilateralism. **Agreements worth USD 64 billion (EUR 57 billion)** were signed at the meeting. According to the People's Bank of China, the central bank, China has so far invested USD 440 billion in infrastructure projects along the new Silk Road.

Xi's conciliatory tone was in part meant to counter criticism - primarily from the USA - of China's hefty lending to poorer countries and their resulting debt dependency. Xi emphasized China's interest in **strengthening multilateral cooperation** in countries along the new Silk Road, especially with a view to encouraging European partners to engage more deeply. The Chinese government has been trying to

persuade European states to officially support the Belt and Road Initiative for a while. MoUs agreed with Switzerland and Italy at the beginning of the year were the first successes for Beijing's ambitions.

But it remains to be seen to what extent the People's Republic can translate words into deeds. China's government is under increasing pressure from the trade war with the US – it needs strong partners and knows what they want to hear. Whether China can deliver on its promises is a different matter.

MERICs analysis: Jacob Mardell is currently travelling along the New Silk Road with the support of MERICS. You can read his current report, first published in Berlin Policy Journal, on our [blog](#).

News in brief

- **Nuclear disarmament:** China will not join trilateral negotiations with Russia and the US
- **Taiwan strait:** French rare military maneuver likely to increase tension with Beijing
- **Cooperation:** China agrees to UN sanctions on Pakistani extremists
- **Investment:** Nine deals strengthen ties between China and Cambodia

POLITICS, SOCIETY AND MEDIA

Academics challenge official narrative on May Fourth centenary

Chinese professors and students used this year's centenary of the May Fourth Movement to challenge the Chinese Communist Party's (CCP) official narrative about the popular protests of 1919: A hundred years ago, students in Beijing protested against the government's weak towards a stipulation of the Treaty of Versailles that granted Japan territory in Shandong province. They advocated for democracy and science – and, according to the official CCP narrative, ushered in the rise of Communism.

While President Xi Jinping used a commemoration at the end of April to [urge China's youth to follow the party, love the nation](#) and commit to rejuvenating the country, some academics used the centenary to point out problems and injustices in various parts of Chinese system - much like intellectuals had protested against what they saw as an increasingly autocratic regime a hundred years ago.

Tsinghua University professor Zhu Bangfen, for example, published an [online article](#) criticizing plagiarism and overstated research results and lamenting the absence of scientific spirit akin the May Fourth Movement. A former student leader of Peking University's Marxist society posted a YouTube video about being interrogated and tortured by the CCP after advocating for labor rights and equality. Shortly before, six students belonging to the Marxist activist group supporting workers' rights at the Peking University [disappeared](#).

People also used the occasion to commemorate Xu Zhangrun, a former professor of constitutional law, who was expelled from Tsinghua University after last year publishing "Imminent Fears, Immediate Hopes." In the article, Xu criticized the government's increasing embracing of authoritarianism.

Police app sheds new light on mass surveillance in Xinjiang

A mass surveillance app used by Chinese authorities to track the Uighur ethnic minority exposes the level of control in China's Xinjiang province, according to Human Rights Watch (HRW). The advocacy group **recently published a detailed report** about the app, which is used by police and other institutions to collect information on individuals, report suspicious activities, and to identify people for further investigation by Chinese authorities.

By reverse-engineering the app – which feeds into a central database known as the Integrated Joint Operations Platform (IJOP, 一体化联合作战平台) – HRW was able to reconstruct what kinds of behavior police and other state agencies consider suspicious. The system flags events like leaving one's place of registration (hukou), travelling abroad, or having certain content or software – for example, WhatsApp or Telegram – on one's phone.

Xinjiang serves as a testing ground for new control methods that could at some point be implemented in other parts of China. In recent months, there were many media reports about internment camps for minority populations in the region. These camps are part of a larger system of control that is increasingly integrating advanced technologies. Cameras used for **facial recognition**, for example, are programmed to flag people that look Uighur.

Mareike Ohlberg, research associate at MERICS:

“The HRW report on the police app shows how digital mass surveillance is being used to extend traditional surveillance methods in Xinjiang. Labor-intensive techniques of control are being combined with new technologies. Surveillance continues to involve a large amount of manual work done by police and other officials and informants. Digital technologies are adding another layer to the existing system rather than replacing it.”

News in brief

- **Umbrella movement**: Activists sentenced to prison in Hong Kong
- **Consumer rights**: Video of desperate car-buyer claiming compensation goes viral

ECONOMY, FINANCE AND TECHNOLOGY

China's central bank moves to stimulate lending by smaller banks

The People's Bank of China (PBOC) announced a cut in the amount of cash some smaller banks have to hold in reserve against deposits in a bid to mobilize up to 280 bn RMB (USD 41 bn) in extra lending. **As renewed trade tensions with the US raised worries about the Chinese economy**, China's central bank said it would cut the required reserve ratio (RRR) for around 1,000 rural commercial banks on 15 May.

The PBOC has been loosening monetary policy through a series of RRR cuts since mid-2018, releasing large amounts of liquidity in the hope of boosting the economy. **The central bank said the RRR for the banks in question would be cut to eight percent**, the same ratio it mandates for small rural credit cooperatives. Small and medium-sized banks currently have RRRs ranging from ten to 11.5 percent.

The latest cut will help **lower funding costs for small and micro firms**, the PBOC said, underlining its stated ambition of giving private sector companies access to more liquidity. Cuts in RRRs helped China's economy grow at a solid pace in the first quarter of the year – even at the risk of higher liquidity undermining government attempts to reduce risk in the financial system. With economic data indicating China's economy is still on weak footing, more cuts in reserve ratios are likely.

MERICS analysis: MERICS Economic Indicators Q1/2019. By Max J. Zenglein and Maximilian Kärnfelt.

News in brief

- **Banking:** PBOC fines businesses for not accepting cash
- **Opening:** Regulators introduce new measures for banking and insurance sectors
- **Telecommunications:** China Unicom forms two new 5G alliances
- **Trade:** Exports unexpectedly fall in April

THE EUROPEAN VIEW

Europe faces difficult balancing act over Huawei

Government officials and cyber-security experts from 32 – predominantly European – countries took a first step to harmonizing the security of 5G mobile telecoms networks, one of whose leading suppliers is China's Huawei. The non-binding proposal agreed at the **Prague meeting at the start of May** warned governments against relying on suppliers that could be susceptible to influence by a third country.

A year and a half after the United States sounded the alarm over the security of mobile-telephone equipment made by Huawei, the conference showed the EU remains the key battleground over the Chinese company's involvement in building next-generation networks. Keen to avoid delays and additional costs of network rollouts, Germany and the UK have led the way in resisting US calls for a Huawei ban. During talks with his British counterpart Jeremy Hunt in London, US Secretary of State Mike Pompeo urged the UK to **prioritize its security interests** and those of its allies when dealing with Huawei.

The UK has allowed Huawei to supply non-core parts of its 5G network – **Defence Secretary Gavin Williamson lost his job over the decision being leaked** - and **Germany has said there are no signs Huawei has breached security criteria**. EU countries are aiming for strict and harmonized standards for all companies, not selective bans. This suggests Huawei could yet get a role in EU network rollouts.

PROFILE: Terry Gou

The role model is Trump: Taiwan's richest man wants to make Taiwan great again

Terry Gou **wants to replace Taiwan's President Tsai Ing-wen** in next year's election, and the country's richest citizen says his ambition was fired by the sea goddess Mazu and US President Donald Trump: Mazu spoke to him in a dream and told him to do something good for the people of Taiwan, the 68-year-old said in April as he announced his intention to run for Taiwan's highest office; and Donald Trump, his "old friend" in the White House, was the first person he turned to for advice - **photos of Gou sporting a pink baseball cap emblazoned with the US and Taiwanese flags** provided excellent publicity.

As the founder and chairman of the electronics giant Foxconn, Gou's personal worth is estimated at around seven billion euros. He no longer has to work for living, but some think his work could serve Taiwan well - should the opposition party Kuomintang officially nominate him as its presidential candidate. Foxconn manufactures chips, mobile phones and other consumer electronics devices for Apple, Huawei, and others. Because many of its factories are located in China, observers hope that a President Gou would be able to improve Taiwan's troubled relationship with its powerful neighbor.

But the busy entrepreneur, who makes no secret of his admiration for Trump's rough-and-ready style of leadership, has dashed such hopes - at least for now. Inspired by Trump's famous ambition to "Make America great again," Gou has said he wants to "make Taiwan great again." On Monday, he sent an even clearer message to the People's Republic: **"China must acknowledge the existence of the Republic of China,"** Gou told journalists. Beijing's enthusiasm for anything related to Taiwanese greatness is likely to be limited - the Chinese government views the island as a renegade province.

Then again, Gou's political rivals do not think he will be able to continue with this tough stance against China in view of his close business ties with the country. "His prosperity is in the hands of Xi Jinping," the Bloomberg news agency quoted a Taiwanese politician from the ruling DPP party as saying.

When he met Gou for 50 minutes in Washington, Trump warned that being president was a "hard job." But this did not appear to scare his visitor - the son of a Kuomintang soldier who fled to Taiwan during the civil war, Gou is renowned for his tenacity and rigor. **He started his company - which today employs more than a million people around the world - in the early 1980s with a small loan,** and built its success with relentless salesmanship in the US. He survived a corporate crisis in 2010, when more than a dozen Foxconn employees took their lives, allegedly because of poor working conditions.

Gou's perseverance in long meetings is the stuff of legend - and he expects colleagues to work with the same fortitude. But he also donates generously to cancer research and finances a cancer clinic in Taipei. His generosity stems from tragedy - both Gous' wife and his brother Tony died of cancer.

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