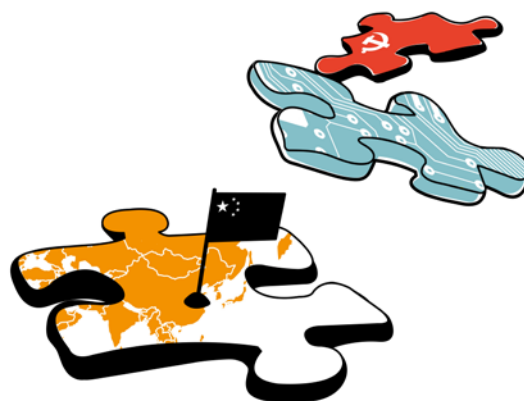


APRIL 15, 2021

MERICs China Briefing



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TOP STORY

Public distrust hampering China's vaccination efforts

Despite being one of the first in the world to start administering Covid-19 vaccines to its citizens, China's inoculation rate is way behind that of the US and the UK. As of the beginning of April, nearly 150 million vaccinations have been administered. But that translates to 12 doses for every 100 residents, compared to 57 per 100 in the US and 60 in the UK.

Public trust in domestic vaccines is low. Safety concerns, fear of side effects, China's history of vaccine scandals, and the low rate of infection have been cited as reasons why Chinese citizens have been unwilling to get inoculated. Another reason is the lack of detailed efficacy data for China's Covid-19 vaccines. The director of China's Center for Disease Control and Prevention was reported recently saying domestic vaccines do not achieve high protection rates. He later claimed he meant only that mixing vaccinations could strengthen efficacy, but this likely did nothing to quell doubts.

With celebrations planned this year to mark the 100th anniversary of the Communist Party of China, officials are keen to reach the target of vaccinating 40 percent of the population by the summer. To do so they are deploying a 'carrot and stick' approach. Resident committees in Beijing have offered free eggs to those vaccinated, while a hospital in Hainan threatened to terminate staff who refuse inoculation without valid reasons. At least one Chinese city has made vaccination mandatory after an outbreak. But there is already pushback. Officials in a Hainan township were reportedly forced to retract a ban on unvaccinated people using hotels and public transportation following public criticism.

MERICS analysis: Vaccinating 1.3 billion people quickly was never going to be easy. The fact that China must resort to incentives and coercion to get its people to trust domestic vaccines reflects the limitations of its vaccine diplomacy both at home and abroad. As other countries move closer to vaccinating their entire populations and discussions get underway for vaccine passports, China could be left behind as it has chosen to engage in its own form of vaccine nationalism by only opening its borders to those inoculated with Chinese vaccines.

Media coverage and sources:

- New York Times: [How will China vaccinate 560 million people?](#)
- Reuters: [China considers mixing Covid vaccines to boost protection rate](#)
- Washington Post: [China's Covid vaccine drive is lagging](#)
- Deutsche Welle: [Why is China's vaccination rate so low?](#)
- Sina.com (in Chinese): [Free eggs, blacklist and termination](#)

TOPICS

Sweeping changes to Hong Kong electoral system take effect

The facts: The Standing Committee of China's National People's Congress has approved sweeping changes to Hong Kong's electorate system. The changes, issued on March 31, alter the election procedures and composition of the Election Committee (EC), which chooses the city's Chief Executive, and Legislative Council (LegCo) in favor of Pro-Beijing constituencies. In addition, a new vetting body will ensure all publicly-elected officials are sufficiently "patriotic".

Hong Kong's Chief Executive, Carrie Lam, hailed the move as a step towards more democracy and eventual implementation of universal suffrage. Hong Kong's authorities will flesh out the details of the changes in the coming months. LegCo elections – originally scheduled for September 6, 2020 – were postponed a second time to December 2021.

What to watch: The new requirements for LegCo and EC nominees practically give mainland bodies a veto power over all candidates and make it next to impossible for anti-establishment voices to get a serious stake in Hong Kong politics. Already, calls for a boycott are discussed in the opposition camp.

The leadership in Beijing and Hong Kong is likely to see such tactics as a challenge of its authority and threat to national security, as broadly defined by the central government. Draft proposals seek to preempt displays of civil disobedience by outlawing any mobilization to cast blank ballots or abstain from voting.

MERICS analysis: Recent coverage has made clear that this will not be the last major reform. In an interview with Xinhua, Lam indicated areas that require improvement, including education, media, and civil servant training. As Beijing is extending its broad vision of national security to the city, its vision of press and academic freedom might soon follow.

Media coverage and sources:


- Xinhua: [Carrie Lam on ensuring "One Country Two Systems" and promoting stability and prosperity \(保 "一国两制" 促安定繁荣——访香港特区行政长官林郑月娥\)](#)
- New York Times: [Hong Kong, its elections upended, reconsiders its dream of democracy](#)
- SCMP: [Many bodies with new-found influence linked to Beijing](#)

Full texts:

- Xinhua: [Annex 1 – Method for the selection of the Chief Executive of HK \(CN\)](#)
- Xinhua: [Annex 1 – Method for the selection of the Chief Executive of HK \(EN, PDF\)](#)
- The Paper: [Annex 2 – Method for formation of the LegCo and its voting procedures \(CN\)](#)
- Xinhua: [Annex 2 – Method for formation of the LegCo and its voting procedures \(EN, PDF\)](#)

Related expert analysis:

- NPC Observer: [Legislation Analysis - NPC Standing Committee Approves Overhaul of Hong Kong’s Electoral System](#)

Changes to Hong Kong electoral system give mainland bodies a “veto” over key positions 

Overview of the key changes announced by the NPC Standing Committee

Change	Description
Election Committee (elects Chief Executive)	<p>A fifth sector* has been added, bringing total members from 1,200 to 1,500. This sector consists of representatives of mainland Chinese political bodies, including the NPC. The district council seats have been wholly scrapped.</p> <p>A variety of members in other sectors will directly be nominated by professional bodies from the mainland (e.g. Ministry of Finance, China Law Society, Chinese Academy of Sciences).</p>
Chief Executive	<p>To be nominated for Chief Executive, a candidate now needs:</p> <ul style="list-style-type: none"> • 188 votes (up from 150) • Not less than 15 votes from each of the five sectors (previously no such requirement)
Legislative Council	<p>Will be composed of 90 members (up from 70):</p> <ul style="list-style-type: none"> • 40 elected by Election Committee • 30 from functional constituencies (used to be 35) • 20 through direct elections in geographical constituencies (used to be 35) <p>All candidates for the LegCo will need to be nominated by at least 2 members from each sector of the Election Committee.</p>
Candidate vetting	<p>A Candidate Eligibility Review Committee has been introduced, meaning no candidate can pass without Beijing’s approval. It will apply to:</p> <ul style="list-style-type: none"> • Election Committee • Chief Executive • Legislative Council <p>The Committee’s decisions can not be appealed. The new body will take advice from the Committee for Safeguarding National Security, which is chaired by Carrie Lam.</p>
Other	<p>HKSAR will take measures against acts of manipulating or undermining elections.</p>

* Prior to the changes, the four sectors represented in Hong Kong’s Election Committee were: enterprises, professions, labor & other grassroots organizations, and political bodies.

Source: Annex I and II of the Hong Kong Basic Law (2016 and 2021 versions).

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Merkel - Xi call: Chinese takes on “strategic autonomy”

The facts: Two weeks after the mutually imposed sanctions between China and the EU, China's President Xi Jinping and German Chancellor Angela Merkel spoke on the phone for the first time. They did not discuss the recent escalation in EU-China relations or whether the sanctions could have an impact on the ratification of the Comprehensive Agreement on Investment (CAI). Both leaders raised the issue of Europe's strategic autonomy. Chinese experts offered assessments of the term that differ from European perspectives: One expert stated that this “means avoiding US interference and properly dealing with internal dissent within the EU over the China policy”. Others stressed that Germany was on the right track in handling relations with China. Merkel's pragmatic approach would “have a positive effect” for France and the rest of Europe.

What to watch: During the call, both Xi and Merkel confirmed the next round of Sino-German government consultations at the end of April. New conflicts could arise from a possible US boycott of the Olympics.

On a separate note: In summer, Jan Hecker will become Germany's new ambassador to China. The ministerial director has been an adviser to Merkel on foreign policy issues for three years. He previously headed the Refugee Policy Coordination Staff at the Chancellor's Office.

MERICS analysis: Xi's call for Germany and Europe to show more "independence" clearly refers to the current tensions between China and the US. The Chinese government does not want the EU to ally with the US on an even broader range of issues, including a possible boycott of the Beijing Winter Olympics by the United States. For Merkel, this poses a dilemma: There is an increasing consensus in German political circles to closely cooperate with the US on issues of common interest, but China is Germany's largest trading partner, so she does not want to disrupt relations on a bilateral level.

Media coverage and sources:

- German Government Website: [Telefonat zwischen Merkel und Xi](#)
- Xinhua: [Merkel receives phone call from Xi](#)
- Global Times: [Xi, Merkel phone call 'timely to stabilize ties'](#)
- Politico: [Newsletter with news on new ambassador](#)

Landmark Alibaba fine signals closer regulatory scrutiny for Chinese Big Tech

The facts: China's market regulator slapped a record CNY 18.2 billion (~EUR 2.3 billion) fine on Alibaba Group for abusing its market dominance, making it the latest victim of a sweeping antitrust campaign. The State Administration of Market Regulation (SAMR) announced the punishment on April 10 following a four-month anti-monopoly investigation which found that the tech giant had forced merchants to choose between its own e-commerce platforms and those of its competitors, while also using data and algorithms to obtain an “improper competitive advantage”.

What to watch: Although SAMR's announcement marks the end of its antitrust probe into Alibaba - and even boosted the company's shares by eight percent - this does not mean that the e-commerce giant is out of the woods. Alibaba must now implement a series of internal rectification measures and submit self-regulation reports to SAMR. Regulators may also scrutinize the group's past acquisitions and demand divestments. Looming large is the central bank's announcement this week that Alibaba's sister company, Ant Group, will effectively be required to restructure.

MERICS analysis: The fine acts as a warning shot for China's Big Tech. Extensive regulatory supervision and penalties are the new normal as the government aims to stem unfair competition and bolster consumer protection. But while it is unprecedented in size, the fine represents just 4 percent of Alibaba Group's domestic revenue - far below the possible 10 percent. Overall, the government remains supportive of the digital platform economy, which it knows is a crucial driver of economic development. But the message is clear: digital platforms can continue to flourish, as long as they play by the rules.

More on the topic: [MERICS China Industries Briefing \(March 2021\)](#)

Media coverage and sources:

- SAMR: [Original Chinese announcement of fine](#)
- Bloomberg: [China Fines Alibaba Record \\$2.8 Billion After Monopoly Probe](#)
- FT: [Alibaba shares jump after record antitrust fines](#)
- People's Daily: [Commentary on the Alibaba fine](#)

Deal with Iran will not upset China's balancing act in the Middle East

The facts: Beijing's footprint in the Middle East has deepened dramatically over the past decade, evolving from an almost exclusive focus on oil supply to wider economic engagement and cautious security cooperation. Chinese Foreign Minister Wang Yi's tour of the region at the end of March served to continue this trend, with stops in Saudi Arabia, Turkey, Iran, the United Arab Emirates, Bahrain and Oman.

During the Iran leg of the tour, Wang signed a 25-year cooperation agreement with Tehran, which Western media claim could be worth USD 400 billion. Meanwhile, discussions with the Saudi Crown Prince appear to have focused on the two countries' shared interest in opposing "interference" in their domestic affairs, with Beijing thanking Riyadh for its support on issues related to Xinjiang.

What to watch: Chinese foreign policy experts strongly warn against entanglement in the Middle East and Beijing publicly derides US interventionism in the region. The Iran agreement does not mark a break with Beijing's Middle East policy, simply a continuation of the trend toward deepening economic engagement and emerging security cooperation.

MERICS analysis: Beijing is keen to balance its partnerships with rivals in the region. While closer ties with China are desperately sought by an internationally isolated Tehran, Beijing maintains a Comprehensive Strategic Partnership with both Iran and its sworn enemy, Saudi Arabia. Though the latest agreement marks a positive response to Tehran's long-standing calls to deepen cooperation, it remains to be seen if it will translate into anything concrete.

Media coverage and sources:

- The Diplomat: [Wang Yi tour of Middle East highlights region's expanding importance for China](#)
- BBC: [China signs cooperation deal with Iran](#)
- Chinese Ministry of Foreign Affairs: [Wang Yi interview with Saudi news station Al Arabiya](#)
- CGTN: [China and Saudi Arabia oppose interference in other countries' internal affairs](#)

REVIEW

This is how they tell me the world ends, the cyber weapons arms race, by Nicole Perlroth

This is a well-informed and rather scary look into an undeclared war that has been raging in cyberspace, resulting in a precarious stand-off between the United States and its allies, and China, Russia, Iran and North Korea. China, in particular, has been very successful in using its destructive cyber capabilities for its own purposes.

As our economies and societies become ever more closely connected through the internet, so our vulnerability to hackers grows. By targeting undiscovered loopholes in software code, hackers can spy and wreak destruction. The holy grail of such loopholes are so-called "zero days". The US government intelligence services assembled a trove of such zero days for their own purposes of espionage and sabotage. Other governments took notice and joined the US government in a shadowy market for zero days supplied by a worldwide army of hackers.

China got into the act in a major way with two principal objectives: first, to siphon off American technologies and collect sensitive data, and second, to control its own people – Uighurs, Tibetans, Falun Gong and political dissidents. As Perlroth reports it, those efforts were spectacularly successful. With the help of information gleaned from America's nuclear weapons establishments, China was able to catch up rapidly with the US nuclear weapons program. In its campaign against Uighur and Tibetan opposition, China had servers that covered this opposition insert spyware on the iPhones of visitors to those websites anywhere in the world.

In 2016, as yet unidentified hackers raided America's trove of zero days - a catastrophic security failure that resulted in the tools of espionage and sabotage becoming available to anyone willing to pay the price. So far, the attackers have exercised restraint, presumably in view of their own cyber vulnerabilities. As during the Cold War, but in different ways, this book shows how we again seem to have entered a dangerous world of mutual assured destruction.

Reviewed by **Hanns W. Maull**, Senior Associate Fellow at MERICS

METRIX

49 %

Chinese exports increased 49 percent year on year in the first quarter of 2021. Rather than indicating a huge expansion in trade this reflects a return to normal. Due to the Coronavirus outbreak, exports were much diminished in the first months of 2020.

(Source: General Administration of Customs)

PROFILE

On the move at home and abroad: WuXi Biologics

WuXi Biologics, supplier of cutting-edge pharmaceutical ingredients, is on the move. In January 2020, the Hong Kong-listed company bought a drug product production plant in Leverkusen, Germany from Bayer. This was followed by a deal with Bayer in December the same year to acquire a site in Wuppertal where, among other things, WuXi says they plan to carry out research on Covid vaccines. Back on home turf, in March this year, WuXi acquired a plant built by Pfizer in Hangzhou, China. The factory is designed to manufacture affordable biologics for the Chinese market.

Demand for these products is growing in China, with the regulation process recently reformed to accelerate the review of product candidates. Biologics are biological products such as vaccines, blood, allergenics and tissues that are isolated from natural sources and manufactured using biotechnology. Biologics hold promise for a number of medical conditions for which no treatment currently exists.

Li Ge, the 54-year-old CEO and founder of WuXi Biologics is a self-made billionaire and a key figure in the US-China biotechnology landscape. He received his PhD from Columbia University and is a US citizen resident in Shanghai.

WuXi Biologics is building capacity not just in China and Germany but also in Ireland, the United States and Singapore. Within the context of the fight against Covid-19, buying up production plants from Bayer and Pfizer might be seen as part of a push to ramp up national vaccination efforts.

Media coverage and sources:

- Bayer: [Bayer and WuXi Biologics enter into agreement on Leverkusen site](#)
- Bayer (in Chinese): [WuXi plans to carry out research on Covid vaccines at Wuppertal site](#)
- Biopharma Reporter: [Pfizer sells biologics plant in China to WuXi](#)
- WuXi Biologics: [Company website](#)

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MERICS' Top 3

- DW: [US climate envoy John Kerry travels to China](#)
- SCMP: [Chinese researchers say they've developed an AI text censor that is 91 per cent accurate](#)
- Politico: [Xi will join Merkel and Macron for a climate change summit](#)

International relations:

- Axios: [Sens. Menendez, Risch unveil bipartisan bill to counter China](#)
- BBC: [US blacklists seven Chinese supercomputer groups](#)
- AP: [China cautions Japan as it speaks up before Biden, Suga meet](#)

Politics, society and media:

- The Paper: [Hotline for historical nihilism re/ party history has been launched by the CAC](#)
- Xinhua: ["Hi, Mom" now world's top-grossing film ever from solo female director](#)
- People's Daily: [Commentary on increasing the retirement age in China](#)

Economy, finance and technology:

- China Banking News: [Chinese CPI Bounces Back into Positive Territory in March](#)
- SCMP: [Yellen plans to spare China from currency manipulator label](#)
- SCMP: [China's rebound continues as imports surge 38.1 per cent in March](#)

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