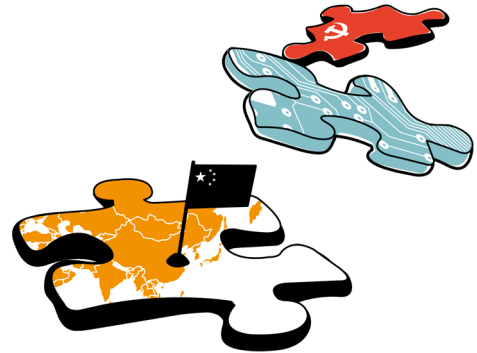


SEPTEMBER 28, 2023

MERICS China Essentials



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TOP STORY

EU Trade Commissioner picks low-hanging fruit and seeks contact beyond Beijing

Against the backdrop of the EU's investigation into Chinese subsidies for electric vehicles and its efforts to de-risk economic relations with China, EU Executive Vice President and Trade Commissioner Valdis Dombrovskis this week visited Beijing and Shanghai. In the Chinese capital, he co-chaired the first in-person EU-China High Level Economic Dialogue since 2018 with his recently appointed Chinese counterpart, Vice Premier and Director of the Finance and Economic Commission He Lifeng.

Dombrovskis conveyed European priorities and raised issues of market access, including European companies' access to China's financial sector, level playing field and other governmental trade irritants. Both sides agreed to set up a mechanism to help EU firms comply with Chinese data laws and to establish a new EU-China working group on financial regulations. China's criticism of the EU's perceived protectionist turn had solidified low expectations – although a pragmatic approach by Dombrovskis allowed agreement on low hanging fruits, while leaving aside EU's top priorities of better market access and lifting trade barriers on pork, beef and poultry through the recognition of EU's regionalization policy.

Europe's top trade official stressed that the EU's wish to “de-risk” economic and political relations with China in no way meant decoupling. However, given the EV subsidies investigation and rumors of others under consideration, EU leaders will need to better explain their de-risking concept to their Chinese counterparts. China remains convinced that the EU is turning protectionist, and “the burden of proof falls squarely on the EU side” as Bai Ming, a research fellow at the Ministry of Commerce's Chinese Academy of International Trade and Economic Cooperation, told the newspaper Global Times.

Dombrovskis took the time to visit Shanghai and Suzhou, demonstrating that trade relations are not just made in Beijing. The EU is intent on reestablishing communication with European and Chinese business communities beyond the capital, not only to better understand the (currently tricky) business environment, but also to leverage its offensive interests with the Chinese leadership. Dombrovskis repeated the EU's priority of getting Russia to end its war on Ukraine and making China a constructive partner, in particular regarding the Black Sea Grain Initiative for food security. But his Chinese counterparts signaled neither issue is seen as pressing by China's leaders.

MERICS analysis: “Dombrovskis' visit was a balancing act between leveraging EU's position against the backdrop of the investigation into Chinese subsidies on electric vehicles and addressing long standing trade and economic issues,” said **Abigaël Vasselier**, Head of MERICS' Foreign Relations team. “Although there were no breakthroughs, it demonstrated the EU is sharpening its strategy towards China at a critical time. Pushing an offensive agenda through more processes is almost like taking the Chinese leadership to its own game.”

Media coverage and sources:

- European Commission: [Press conference after the HLED](#)
- European Commission: [Dombrovskis speech at Bund Summit](#)
- European Commission: [Dombrovskis speech at Tsinghua University](#)
- Global Times: [China, EU hold 'productive' trade dialogue; bloc urged to take concrete steps to stop protectionism](#)

METRIX

2

This is the number of heads of ministry Xi Jinping has lost only half a year into his third term as Chinese head of state. The unexplained removal of Foreign Minister Qin Gang and Minister of Defense Li Shangfu in recent weeks suggests that Xi's stacking of his government with loyalists might yet become a liability. Almost all ministers were hand-picked by China's leader as he consolidated power over the past two years – Qin in December, Li only in March. The duo's swift and silent disappearance demonstrates that being made a minister by Xi is no protection from charges of corruption or other wrongdoing, actual or political. This is not good news for foreign government ministers intent on establishing working relationships with their new Chinese counterparts.

TOPICS

Xi likely to remain unmoved by open criticism of China's economic direction

The facts: A number of prominent Chinese economic experts used Shanghai's annual Bund Summit – a newish forum for discussing economic and financial matters – to openly critique China's economic trajectory and recommended reforms:

- Ning Jizhe (宁吉喆), vice chairman of the China Center for International Economic Exchanges, called for higher household incomes and a better social safety net to boost consumption.
- Yang Weimin (杨伟民), member of the Standing Committee of the 13th Chinese People's Political Consultative Conference, called for market forces to steer corporate behavior and measures undermining consumers decision-making to be removed.
- Bai Chongen (白重恩), dean of the School of Economics and Management of Tsinghua University, advocated for bond-issuance limited to only the local government debt that was driven up by the pandemic, which would give local officials breathing room to make payments and prop-up local growth.

What to watch: Reform-minded comments may be an indication that the political space to air critical views on the economy has increased. However, the Bund Summit is known to be a gathering place for China's pro-market experts and sufficiently international to remove it from China's domestic economic debate. Nevertheless, speakers demonstrated a willingness to propose reforms that run counter to the government's economic direction – Xi Jinping opposes “welfareism”, distrusts market forces and consumer choice, and steadfastly aims to resolve financial risks. The economic downturn seems to be emboldening critics, whether they will impact policymaking remains to be seen.

MERICS analysis: “Public calls for an agenda that runs counter to Xi Jinping's are remarkable in the light of his recent consolidation of power,” said **Jacob Gunter**, Lead Analyst at MERICS. “Perhaps the proponents find it worth the risk in order to influence the agenda leading into the Third Plenum this fall. But it would be quite a break from history for Xi to meaningfully reverse his current course in the new era and engage in the type of reform and opening up that he himself abandoned not so long ago.”

Media coverage and source:

- Caixin: [Yang Weimin made four reform recommendations, called for correction of policies unaligned with market principles](#)
- Caixin: [Bai Chong'en: The pandemic increased local debt by 4 trillion RMB – special issued bonds could help fill that gap](#)
- Caixin: [Ning Jizhe: To unleash consumption potential, the worries of 'not daring to consume' must be eliminated](#)

Signs increase that tech de-risking could turn into global decoupling

The facts: Countries all over the world are moving to secure – or “de-risk” – their own data and IT infrastructure as global tech rivalry increases. The Chinese Ministry of Industry and IT (MIIT) recently issued guidance to state-owned enterprises (SOEs) on the procurement of technical equipment – any data storage must be local and not accessible from outside China. Meanwhile, the German Interior Ministry was reported to be in talks about implementing restrictions on Huawei and ZTE equipment in critical infrastructure from as early as 2026. And in the United States, Apple's stock price suffered heavy losses as investors become concerned about its future in China, following media reports that authorities were extending curbs on the use of iPhones by government officials.

What to watch: Government scrutiny of foreign technology could increasingly see tech companies barred from or choose to avoid certain markets, at which point de-risking would turn into de-facto decoupling. As more phones, cars, even manufacturing equipment connect to the internet, governments are under pressure to properly secure this infrastructure, by working either with trusted providers regardless of origin or exclusively with tightly controlled domestic partners. This could prove especially disruptive for international companies and their presence in overseas markets, like

Huawei's in Germany or Apple's in China. In addition, the possibility for retaliatory measures from governments heightens political and economic stakes on all sides.

MERICS analysis: “De-risking is hard to achieve in the digital sphere,” says MERICS Analyst **Wendy Chang**. “Our hyper-connected world makes even commercial technologies like phones potential security risks. As barriers to entry into foreign markets rise for companies, the global tech ecosystem risks a de facto decoupling into separate markets with separate offerings.”

Media coverage and source:

- Bloomberg: [German Ministry Wants to Ban Key Huawei Parts From Network](#)
- New York Times: [Apple's Market Value Falls By Billions On Worries About China Crackdown](#)
- MIIT (CN): [三部門關於支援首台（套）重大技術裝備平等參與企業招標投標活動的指導意見](#) (Guidance from three ministries on fair bidding procedures of significant technical equipment)

Trial of rights advocates reflect leaderships fear of independent civic action

The facts: Journalist and women's rights campaigner Sophia Huang Xueqin and labor rights campaigner Wang Jianbing have gone on trial in China for allegedly “inciting subversion of state power” by participating in online and offline activities that “slander China's state power” (see full text of indictment). The trial is being held out of public view in a Guangzhou court, with even diplomatic observers being denied access. Both defendants were detained two years ago and have since then been held incommunicado in secret locations. Huang was a key figure in China's MeToo and broader feminist movement after 2018, Wang was a campaigner for better rural education, disability rights and labor conditions.

What to watch: The trial must be seen as part of a long-term campaign to reign in civil society and reduce the space for advocacy and international exchanges on issues deemed off limits by the Chinese Communist Party (CCP). Feminist groups, labor-rights advocates (including Marxist student groups) and queer groups propounding LGBTQI issues have come under increasing pressure in recent years. Nationalist commentators disparage them for promoting purportedly foreign concepts – or even for being foreign agents.

MERICS analysis: “The CCP only welcomes civic action if it functions like a public service provider that supports the Communist Party's agenda,” said **Katja Drinhausen**, Head of MERICS Politics and Society Research Program. “The party remains fearful and deeply suspicious of the development of independent advocacy and action networks. Its sustained clampdown closes avenues which could be used to address social demands in a time of mounting economic pressure and changing social values.”

Media coverage and sources:

- The Guardian: [Trial of Chinese #MeToo journalist and labour rights activist begins in secret](#)
- Network of Chinese human rights defenders: [Wang Jianbing](#)
- Human Rights in China: [Translation of indictment submitted by the prosecutor](#)
- RestofWorld: [Heavily persecuted, highly influential: China's online feminist revolution](#)

MERICs CHINA DIGEST

[Berlin blocks complete takeover of satellite startup by Chinese firm \(Reuters\)](#)

The German government blocked the complete takeover of satellite startup KLEO Connect by Shanghai Spacecom Satellite Technology, which already has a 53 percent stake in the firm. (23/09/13)

[Huawei's new gadgets show how China aims to move forward without foreign tech \(Wall Street Journal\)](#)

China's telecoms giant unveiled its latest tablets, smartwatches and earphones this week, supported by a homegrown challenger to Bluetooth and Wi-Fi – "NearLink." Apple has spent several years trying to make its own wireless chip, so far without success. (23/09/25)

[Commission and China hold second High-level Digital Dialogue \(European Commission\)](#)

The European Commission held its second High-level Digital Dialogue with China in Beijing on September 18. Issues covered included platforms and data regulation, Artificial Intelligence, research and innovation, cross-border flow of industrial data, or the safety of products sold online. (23/09/18)

[China Evergrande founder placed under police control \(Bloomberg\)](#)

Evergrande owner Hui Ka Yan has been placed under police control, according to media reports. The billionaire of China's beleaguered property developer was taken away by police earlier this month.

[Why Xi Jinping doesn't trust his own military \(Foreign Affairs\)](#)

Several senior Chinese generals have disappeared from public view recently, including the defense minister and the leadership of the force responsible for China's intercontinental ballistic missiles. Foreign Affairs explores the reasons behind these disappearances. (23/09/27)

[China sentences Uyghur scholar to life in jail \(BBC News\)](#)

Prominent Uyghur academic Rahile Dawut has been reportedly jailed for life by China for "endangering state security" after losing her appeal this month. (23/09/27)

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