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MERICS China Essentials



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TOP STORY

Beijing preaches economic opening and practices security-focused closing

The Chinese government is once more campaigning to attract foreign investment while remaining committed to its security-centric economic agenda that targets overseas suppliers. Premier Li Qiang this week used the annual China Development Forum to woo global investors by highlighting reforms in economic policy, urban development, industrial development and transitioning business to sustainability. His speech followed hard on the heels of the State Council issuing a 24-point plan – its second in only seven months – to help foreign companies, and the Cybersecurity Administration of China easing rules for cross-border data transfers (see the entry on data exports below).

But these business-friendly measures were marginal and the intended positive message was undercut by a Financial Times report that Beijing is replacing Intel and AMD chips and Microsoft's Windows in government computers. This was a strong reminder of its desire to substitute foreign technology with domestic alternatives as it focuses on national security and economic self-reliance. Even Xi Jinping's meeting on Wednesday with US CEOs, meant to reassure them about China's economic prospects, must have been of limited comfort to investors least of all the attending CEO of Qualcomm, who has to contend with US export controls on chips and now also China's purge of some US chips.

Beijing is sending mixed signals that it is both open to reform to stimulate foreign investment *and* focused on national security over economic liberalization. This is one reason why the government's first 24-point plan of August 2023 did not change the downward trajectory of foreign direct investment flows – and why the new measures (that include oft-promised reforms about fair competition) are unlikely to be any more successful. Foreign investors still need to be convinced that China is worth their longer-term commitment. That will require solving both the challenges identified by European companies in China as well as deep structural reform to the economic model to get more resources to consumers.

MERICS Analysis: “China's red carpet isn't achieving the results it used to, largely because foreign investors can see where it will take them – to an economy in downturn and a political elite unwilling or unable to meaningfully correct the course,” said Jacob Gunter, Lead Analyst at MERICS. “Xi and his colleagues place national security above the major reforms required to revive the struggling economy. Their marginal tweaks will do little to boost the economy or investor confidence.”

Media coverage and sources:

- South China Morning Post: [China ready to remove barriers for foreign companies, Premier Li Qiang tells international forum](#)
- Financial Times: [China blocks use of Intel and AMD chips in government computers](#)
- Nikkei Asia: [China plans to ease visa rules to attract foreign talent and money](#)
- Global Times: [China issues 24-point action plan to attract foreign investment, facilitate data flows and business travel](#)
- Reuters: [China's Xi Jinping to meet with American executives on Wednesday, sources say](#)

METRIX

89:0

This is the number of Hong Kong Legislative Council members that respectively voted for and against the city's new Safeguarding National Security Ordinance on March 19. The unanimity of Hong Kong's lawmakers is noteworthy given that the new legislation is even tougher than China's Hong Kong National Security Law of 2020. It loosely defines infractions from treason and insurrection to "incitement to disaffection," states that these crimes can be committed outside Hong Kong as much as within, places a particular focus on containing "external forces," restricts defendants' procedural rights and more generally aligns Hong Kong with Chinese Communist Party ideology.

(Source: <https://www.legco.gov.hk/yr2024/chinese/counmtg/voting/v20240319.pdf>)

TOPICS

China relaxes data export rules

The facts: Compelled to listen to business concerns amid the lowest foreign investment in decades, China's regulators have significantly relaxed rules on transferring data abroad. The Cyberspace Administration of China (CAC) eased restrictions on exporting both non-sensitive and personal information as of March 22, after lobbying by European industry and EU officials. Companies were frustrated with vague definitions and a very low bar for triggering security reviews, which had put them in compliance limbo and disrupted their business.

What to watch: Companies can now export the personal data of up to 1 million people without a mandatory assessment, while exports necessary for normal business operations (e.g., human resources or e-commerce) are exempt. Moreover, information collected in international trade, transportation, academic cooperation, manufacturing and marketing can leave the country without any prior authorization if it doesn't contain personal or "important" data. And unless regulators have explicitly designated data as "important," firms can export it without applying for a security review. Authorities are working to clarify the scope of "important" and "core" data, a longstanding headache for industry.

While Beijing may claim that the new rules show it is putting economic interests ahead of security, President Xi Jinping's security-first policies could still thwart implementation, which is up to sectoral regulators. European companies may need to keep up the pressure depending on how the new rules play out in practice.

MERICS analysis: “This move is significant and welcome news for the foreign business community,” says **Rebecca Arcesati, Lead Analyst, MERICS**. “As the US government is scrutinizing Chinese firms’ collection of sensitive data, from the personal information of TikTok users to data collected by port cranes and smart cars, Beijing may also use it to argue it is instead putting economic interests ahead of security. But in Xi Jinping’s China, security comes first, so smooth implementation of the new rules is not a given.”

Media coverage and sources:

- Cyberspace Administration of China: [Provisions on Facilitating and Regulating Cross-Border Data Flows](#)
- CNB: [What is the important content of the Provisions on Promoting and Regulating Cross-Border Data Flows?](#)
- 21st Century Business Herald: [The identification of important data got a national standard! Expert: This is of great significance to the security management of cross-border data flows](#)

Read more:

- Hinrich Foundation: [China’s data management: Putting the party state in charge](#)

Thaw with limits: Wang Yi’s reopening with Australia and New Zealand

The facts: Aiming to further mend ties with Australia and New Zealand, Wang Yi, China’s Minister of Foreign Affairs and the Chinese Communist Party’s top diplomat, made the first high-level visit to the countries in 8 years. From March 17-21, he met not only with his counterparts, but also with Prime Ministers Luxon and Albanese. While there appears to be traction in rebuilding economic relations, geopolitical differences and security concerns remain.

What to watch: Wang’s visit is part of a reset that began when Australia’s current government took office in mid-2022. China has removed effective bans on barley and coal introduced after the previous administration’s anti-dumping investigations and more assertive China policy. The shift reestablished Australia as China’s main coal supplier at the end of last year. Discussions laid the groundwork for a visit by Premier Li Qiang later this year and touched on lifting China’s barriers to imports of wine and lobster. Indeed, China said this week it would remove the three-year-old tariffs on wine.

There were no similar signs of progress on security and geopolitical divergences – especially in the South China Sea – beyond “mitigating differences,” as Australian Foreign Minister Penny Wong put it. Wang again called on Australia to pursue an “independent foreign policy” – meaning distancing itself from the US, Australia’s key security partner. Beijing may be hoping that the current diplomatic outreach will help it to capitalize on uncertainties ahead of US elections – and potentially their fallout.

MERICS analysis: “The measure of success in the current phase of engagement with China, also in Europe, is maintaining constructive relations and damage control rather than resolving fundamental differences,” says **Grzegorz Stec, Head of MERICS’ Brussels**

Office. “While efforts to restore economic stability in China or take advantage of uncertainties related to the US election may present an opening for now, there is no fundamental reassessment of the relationships.”

Media coverage and sources:

- AP: [China’s foreign minister meets New Zealand counterpart, beginning trip that also includes Australia](#)
- FT: [China urges Australian caution on ‘third-party’ disruption of relationship](#)
- DW: [Philippines summons Chinese envoy over latest reef clash](#)
- SCMP: [WTO faults Australian inquiry into trade dispute with China](#)

Death of 13-year-old boy sparks debate about China’s rural-urban divide

The facts: The alleged murder of a 13-year-old by three similarly aged boys in rural Hebei has sparked a debate about the plight of millions of children left behind by their parents who work in China’s cities. The intense online exchanges were noteworthy given the tightly controlled media landscape and because they touched on the problems of China’s *hukou* system. It still makes it hard for citizens to access public services anywhere but in the home region where they are registered. The victim and the three suspects were all reported to be under 14 and growing up away from their migrant-worker parents, engendering many online comments about juvenile delinquency and legal questions.

What to watch: “Rural revitalization” and “rural-urban integration” have long been touted by authorities. While the hukou system has seen changes, substantial reform is still lacking. Many cities in principle now allow children of migrant workers to enter schools, but socio-economic and administrative barriers are still high. Xi Jinping used his recent visit to Hunan to call on local officials “to further energize the central region.” But Beijing’s ambitions to provide migrant workers with job opportunities closer to home and children have not been matched by concrete measures. China’s rural-urban divide is yet another problem that demands state resources in a time of a struggling economy.

MERICS Analysis: “The recent online debate about ‘left-behind children’ has provided a rare glimpse of soul-searching by Chinese citizens,” says **Christina Sadeler, Senior Analyst at MERICS**. “But the government’s current policies are not sufficient to tackle rural-urban inequalities and the social problems that come with them.”

Media coverage and sources:

- The Guardian: [Killing of teenager in China sparks debate about ‘left behind’ children](#)
- China Daily: [Killing of Hebei student ruled premeditated murder](#)
- Global Times: [Murder of 13-y-o by teenagers triggers reflection on juvenile crime](#)
- CDT: [“Left-behind Youth” murder spurs reflection on “Teaching Hatred”](#)

MERICS CHINA DIGEST

[In Beijing, Dutch Prime Minister Mark Rutte raises cyberespionage with President Xi Jinping \(Reuters\)](#)

Rutte said that during talks with Xi on March 27, he had discussed a cyberespionage incident that the Netherlands had blamed on the Chinese government. Chinese state-backed cyber spies gained access to a Dutch military network last year, the intelligence agency MIVD said last month, calling it part of a trend of Chinese political espionage against the Netherlands and its allies. (24/03/27)

[US and UK unveil sanctions against Chinese state-backed hackers over alleged 'malicious' attacks \(The Guardian\)](#)

Hackers backed by China's government spy agency have been accused by the US and UK of conducting a yearslong cyber-attack campaign, targeting politicians, journalists and businesses. UK officials said those sanctioned are also responsible for a hack that may have enabled access to information on tens of millions of UK voters held by the Electoral Commission, as well as for cyber-espionage targeting lawmakers who have been outspoken about threats from China. (24/03/27)

[Chinese train maker withdraws from Bulgaria tender after EU probe \(Euractiv\)](#)

Chinese rail giant CRRC has withdrawn from a tendered project in Bulgaria after the EU in February launched a probe into suspected subsidies, the European Commission said on March 26. The tender was for the purchase of 20 electric trains and their maintenance over 15 years, for a total value of around €610 million. (24/03/28)

[China says relations with Philippines at 'crossroads' amid maritime incidents \(Reuters\)](#)

Chinese Vice Foreign Minister Chen Xiaodong warned his Philippine counterpart Theresa Lazaro during a phone call to behave cautiously and seek dialogue, saying their relations were at a "crossroads" as new confrontations between their coastguards over maritime claims deepened tensions. Lazaro relayed Manila's "strongest protest against the aggressive actions" by the China Coast Guard and maritime militia against a Philippines' resupply mission in the South China Sea, her ministry said in a statement. (24/03/23)

[China condemns Pakistan suicide bombing, pledges to continue belt and road projects \(South China Morning Post\)](#)

Five Chinese engineers and their Pakistani driver were killed on their way to a China-funded hydroelectric dam project. It follows two other attacks on Chinese interests in Pakistan in one week, with the others targeting a naval airbase and a strategic port. (24/03/27)

[Chinese and western scientists identify 'red lines' on AI risks \(Financial Times\)](#)

Leading AI scientists from both Western and Chinese backgrounds have issued a warning, urging global cooperation to prevent catastrophic risks associated with AI, including bioweapons development and cyber-attacks, stressing the importance of explicit human control and international regulation to mitigate existential risks. (24/03/18)

[China changes definition of key energy target in a bid to reach 2025 climate targets \(China Dialogue\)](#)

In China's recent release of key economic and social data for 2023, the National Bureau of Statistics changed the meaning of "energy intensity" to include only fossil-fuel consumption, while excluding renewable energy and nuclear power. It did so without adjusting numerical targets, allowing CO2 emissions to increase by up to 2.4% this year if GDP growth is on target. This means China would need to make unprecedented progress in 2025 to meet its climate commitments. (24/03/19)

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