



Issue 10/2019 (May 24 – June 6, 2019)

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METRIX

80%

China currently supplies 80 percent of worldwide used noble earths. The percentage of treated forms of the raw material is even higher. China could use this monopoly as a bargaining chip in the ongoing trade dispute with the US.

TOPIC OF THE WEEK: TIANANMEN ANNIVERSARY

China's leadership only speaks abroad about the suppression of the protest movement 30 years ago

Around the world this week, people commemorated the Tiananmen Square protest movement. In Hong Kong, in particular, tens of thousands of people did their part to ensure it would not be forgotten. With a **candlelight vigil** they kept the memory alive, as they have every year since 1990, of the victims killed in the suppression of the protest movement thirty years ago.

Meanwhile in China, as expected, any gesture of remembrance was prohibited. In Beijing, police ensured that there were no demonstrations or even smaller gatherings in the vicinity Tiananmen Square. The civil rights activist Hu Jia had to leave the city. Representatives of the Tiananmen mothers, a loose network of relatives of the victims, reported that they had been under house arrest for days.

Chinese-language party media was once again silent on the anniversary and instead dedicated the front pages on June 4 to Xi Jinping's call for waste separation. **Social media** were also strictly controlled: The chat platform Bilibili switched off its real-time comment function, and WeChat users were not able to change their profiles. **Other chat platforms such as YY or Douyu zhibo** stopped their service altogether for "system maintenance" from the beginning of June through to June 6. There were only a few clues in the social media that could be understood as signs of remembrance: Photos of the American Statue of Liberty, links to sad songs ("Tears in Heaven") or to songs by the rock singer Cui Jian, who was well-known in 1989. A few netizens wrote sentences like: "I remember clearly, I will never forget it." Interestingly, a search for the term "Tiananmen" in the Chinese Internet led **exclusively to party-state media websites**, most of which were reporting on the 70th anniversary in October of the founding of the People's Republic of China.

At the same time, it became clear that even outside China statements were being censored. For example, **Twitter took down or temporarily suspended the accounts of Chinese dissidents**, including many voices critical of the government. **Twitter has since described this as an error.**

Beijing, however, cannot stay entirely silent toward the outside world about the events of 30 years ago. The English-language party newspaper Global Times, which is aimed at foreign readers, described the suppression of the protest movement on Monday **as a "vaccination" of Chinese society "against any major political turmoil in the future."**

Chinese Defense Minister, Wei Fenghe expressed himself in a similar vein at the Shangri-La Forum in Singapore. Instead of dodging a question put to him by a journalist, as in the past, **he repeated the official party line** that the "incident" was a case of "political unrest" that the central government had brought to an end with appropriate means.

In the meantime, the Chinese government has been defending itself with strong words against the current criticism from the USA. US Secretary of State Mike Pompeo's call to finally announce how many

people died during the military operation in Beijing in 1989 was described by the Chinese embassy in Washington as an “affront to the Chinese people.”

Quote from **Frank Pieke**, Director and CEO of MERICS:

“The Chinese leadership considers the silencing of the 1989 legacy a success, and an example of how political problems go away simply by not allowing them any expression. A 1989-style movement simply can no longer take place – on the one hand, given the much greater stake many more people have in the affluence and stability that the CCP has brought in the past thirty years. And on the other hand, even without the ongoing development of the social credit system, the regime has become immeasurably smarter and better equipped to deal with any form of protest compared to the past. This doesn’t mean they can avoid protests from breaking out, but it does allow them to contain and prevent them from spreading.”

CHINA AND THE WORLD

USA and China battle for supremacy in Indo-Pacific region

In the midst of the trade dispute with the USA, China sent the **highest-ranking representative** for eight years to the Shangri-La Dialogue in Singapore. Defense Minister Wei Fenghe attended the most important security conference in the Asia-Pacific region – a signal clearly intended for the US. In his speech on Sunday, Wei said that the trade war would be fought **“to the end”**, if necessary. At the same time, he criticized the so-called US-Taiwan Relations Act, which allows certain visits of US officials to Taiwan as well as the sale of weapons to Taiwan. The Chinese government sees this Act as an interference in its internal affairs.

While Beijing defended its **actions in the South China Sea** at the conference, the US claimed in a **recently published report** that the People’s Republic was striving for supremacy in the region by its island-building and increased militarization. The US Government accused China of undermining the international system and pursuing a revisionist policy. US Deputy Secretary of Defense, Patrick M. Shanahan said that Washington will respond with **new networks and Asian partners**.

“Don’t say I didn’t warn you”: Mounting US-China tensions

It was another week that saw escalating rhetoric and growing suspicion between China and the US. Following closely on President Trump’s decision to impose higher tariffs on \$200 billion of China’s exports and blacklist national technology champion Huawei Technologies Co., the People’s Daily responded on May 29 with an **editorial** that included the Chinese phrase 勿谓言之不预也 “don’t say I didn’t warn you.” The wording has historical significance in China; it was used in the paper in 1962 on the eve of China’s war with India, in 1979 before the war with Vietnam, and on other occasions always in the context of mounting tensions.

On the same day, Chinese media threatened that Beijing could cut its exports of rare earths, turning US dependence on Chinese rare earth exports into leverage in the trade dispute. Four days later, the Chinese government released a **white paper** on the US-China trade conflict portraying China as the innocent victim of US bullying and hegemony, blaming the US for the failure of the talks, and taking pains to emphasize China's openness. It also made clear that China has no intention of giving in to US demands to change its economic system.

Around the same time, apparently in response to the US adding Huawei to the Department of Commerce Entity list, China's Ministry of Commerce announced its own "**unreliable entity list**", which will effectively blacklist foreign companies that it deems to be breaking market rules, damaging the interest of Chinese firms, or threatening China's national security.

The tensions are already spilling over into other areas, too. The US government is reported to be restricting visas for Chinese academics and students in the US. In reaction, the Chinese Ministry of Education **issued a warning to prospective students** to expect visa restrictions, prolonged review times, shortened validity time, and an increase in visa rejections. On June 3, it went a step further and **issued a travel alert** to all Chinese tourists to the US advising travelers to "step up precautions to stay safe" in view of frequent shootings, robberies and thefts in America. A separate alert also warned of US law enforcement agencies using immigration checks to "harass" Chinese travelers.

With the relationship deteriorating further, it is unclear whether the planned meeting between Trump and Xi on the sidelines of the G20 in Japan this month will go ahead. Even if it does, it's hard to see what it can achieve in the current atmosphere.

News in Brief

- **Report:** European Chamber of Commerce in China demands for urgent market reforms
- **Yellow Sea:** Chinese Navy tests missile with range of 9,000 km
- **After the Doklam crisis:** Former Chinese ambassador to India to become vice minister of foreign affairs
- **Debt sale:** Portugal becomes first Eurozone country to issue Panda bonds

POLITICS, SOCIETY AND MEDIA

Keeping the Party on mission - CCP rolls out new ideological mobilization campaign

The Chinese Communist Party (CCP) has launched a **new campaign** to strengthen discipline and streamline thinking among its members. The campaign's implementation will be overseen by a Leading Small Group headed by Wang Huning, member of Politburo Standing Committee and key party theorist.

The campaign themed "Remaining true to the CCP's original aspiration and keeping its mission firmly in mind" was officially rolled out at a meeting in Beijing on May 31, which opened with a **speech by party and state leader Xi Jinping**. The event was attended by the entire Politburo as well as leading cadres

from CCP and state organs at the national and provincial levels, the military as well as from mass organizations and key state-owned enterprises and universities. Livestreams were set up at venues at the provincial and municipal level. Party, state and state affiliated institutions and organizations have already heeded the call and have begun organizing meetings in the past few days.

The campaign is a wide-ranging, nationwide effort to strengthen ideological control and bring all cadres up to speed on “Xi Jinping Thought” and will significantly shape political discourse in the months ahead. In light of the upcoming 70th anniversary of both the PRC and CCP rule in October, the aim is to resolve problems within the CCP and strengthen its legitimacy so that the party is in good shape to continue its rule. It comes on the heels of a series of regulations addressing party discipline and ideological training since late 2018. At the end of May, new **“Regulations on Managing Education of CCP Party Members”** were adopted. The new rules set out the duty of all party members to submit to ideological education and internalize Xi Jinping thought.

China moves to curb online privacy breaches

China’s Cyberspace Administration is soliciting public opinion on **draft data security guidelines** that will prevent network operators from forcing or misleading users into giving away personal information. The **proposed guidelines** are designed to bring accountability and transparency to the way apps and websites collect data from users.

As China’s digital economy has continued to grow rapidly, so too have breaches in personal data. It’s not just the booming business in **selling consumers’ contacts**; highly sensitive personal information such as bank account details and social security numbers have also been offered on the market.

The issue is a growing concern among the Chinese public. The theft of some 5 billion pieces of users’ personal information in 2017 from **Chinese e-commerce giant JD.com** made headlines at home and abroad. China rolled out its Cybersecurity Law in June of that year, with the Personal Information Security Specification added in 2018. At the National People’s Congress in March this year, lawmakers and political advisers **pushed for even stronger legislation**.

With China seeking leadership in emerging technologies such as AI and IoT in order to stimulate further economic growth, the government has had to focus on the issue of data protection and address its citizens’ concerns.

Under the proposed new guidelines, apps and websites will not be able to justify the collection of personal data merely with the defense that they need it to support more targeted advertising or improve user experience. Details of the punishment for transgressing the proposed guidelines have yet to be made clear.

News in Brief

- **Video:** Missing student accuses police of abuse
- **Asylum for Hong Kong activists:** German consulate in Hong Kong distances itself from Berlin's decision
- **Taiwan:** Tens of thousands support Han Kuo-yu to run for presidential election

ECONOMY, FINANCE AND TECHNOLOGY

Chinese government takes over Baoshang Bank

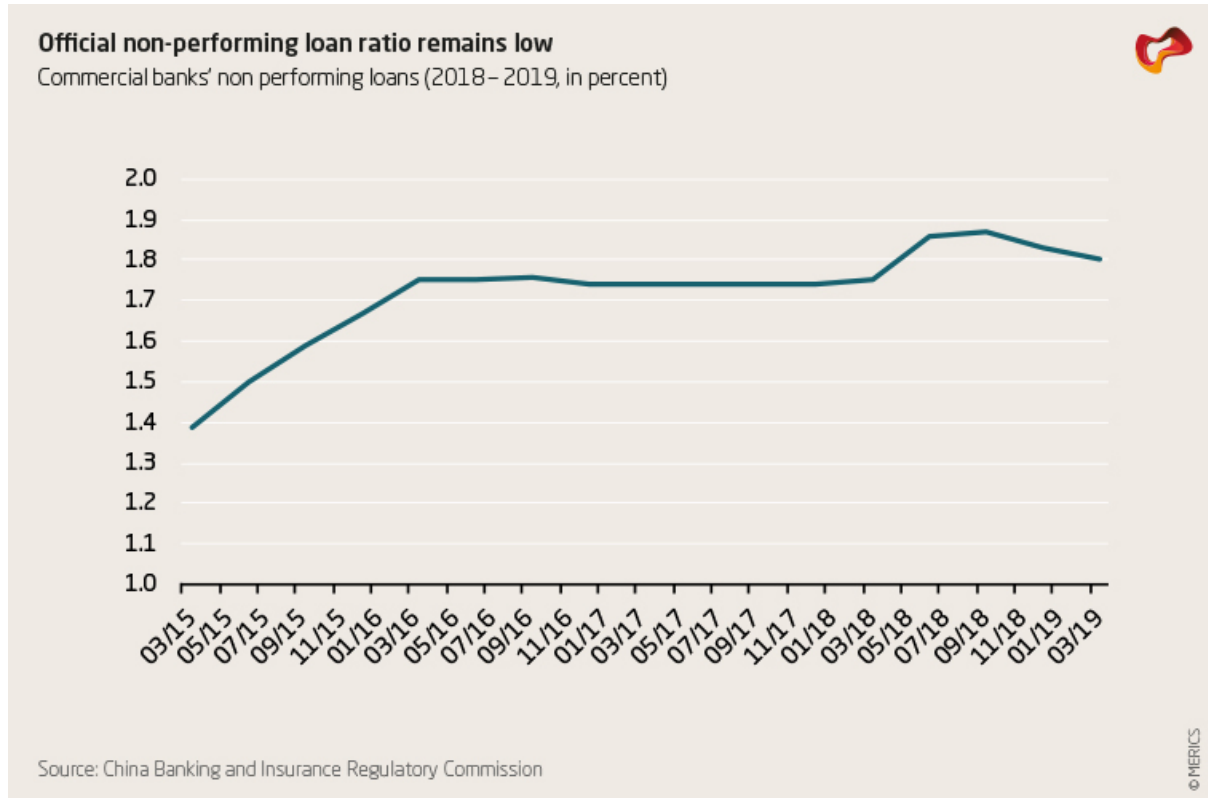
The Chinese government has taken over of a private bank for the first time in 20 years. On May 24, the People's Bank of China (PBOC) and the China Banking and Insurance Regulatory Commission **assumed control of Baoshang Bank Co.**, a private bank based in Inner Mongolia.

The central bank was quick to **issue reassurances** to the market, saying that the takeover was due to misappropriation of funds and was an isolated case. Creditors with more than 50 million yuan will be reimbursed by up to 90 percent. Tomorrow Group, which owns 89% of the bank, is now under investigation.

Contrary to the government's claim, however, it is likely that this case is part of a much wider problem. Doubts have been raised by outside observers about the health of the Chinese banking system, with a great deal of scepticism expressed regarding the official NPL ration - the ratio of non-performing, or unpaid loans, to total outstanding loans.

Baoshang Bank's NPL ratio was claimed to be 1.68% in 2016. That is very low by EU standards, where the average NPL ratio is 3.8%. The concern is that the overall official NPL ratio, which at the end of March stood at 1.8% (see graph below), does not accurately reflect the amount of bad loans within the economy.

The Baoshang Bank case appears to be part of the government's wider crackdown on bank lending practices. In a separate case, Bank of Jinzhou's auditors **recently resigned** citing inconsistencies in documents. The government is likely trying to send markets two signals. First, that bad practices will no longer be tolerated, and second, that contrary to the widely held belief, losses will not be fully covered by the government.



News in Brief

- **Huawei:** Science publisher IEEE revokes ban on phone maker
- **ALDI:** German supermarket to open first branch in China
- **Contraction:** Manufacturing PMI below 50%

THE EUROPEAN VIEW

Germany's relationship to China is changing

A number of recent events signal a gradual change in Germany's attitude to China. At the opening of the "D-10 Strategy Forum" – a discussion forum for senior officials and experts from leading democracies such as the UK, US, Japan, South Korea, France, Germany and Italy – Secretary of State for the Federal Foreign Office, Andreas Michaelis **warned of China's domineering foreign policy** and its military and geo-economic expansion. At the same time, Michaelis confirmed Germany's intention to invite representatives of all EU member states to an EU-China summit, to take place in 2020 during Germany's presidency of the EU. In addition, further work should be carried out on a European industrial strategy

and on a revision of competition law. The German federal government has repeatedly argued that EU states should coordinate more closely in their dealings with China.

The fact that the Federal Office for Migration and Refugees (BAMF) **promised two Hong Kong activists refugee status** last year, which the federal government only recently announced, is also a new development. This is the first documented case in which a foreign government has offered asylum to a territory ruled by China, and as such has attracted much international attention. The behavior of three apparent reporters from the Chinese state news agency Xinhua on the fringes of Chancellor Merkel's visit to the NATO site in Münster may have caused irritation on the German side. The Bundeswehr is currently investigating information that the supposed **reporters were in fact agents** who, in the course of filming and interviewing soldiers, were collecting confidential information for the Chinese government.

It is not known whether this was the subject of talks during the **visit to Berlin last Friday by China's Vice President Wang Qishan**, who met not only Chancellor Merkel but also Federal President Steinmeier and Foreign Minister Maas. Officially, according to the agenda, the talks were about the joint commitment to multilateralism. China has appealed for Germany's support in maintaining a multilateral world order. The growing rivalry between the major powers and the ongoing trade war between China and the USA may have fueled the need for this exchange. Ironically, as Merkel was speaking to Wang, on the very same day US Secretary of State Pompeo arrived for his postponed first visit to Berlin.

PROFILE:

Liu Xin – The TV face of the trade war

The 43-year-old television presenter has become the face of the opinion war between China and the USA. In her TV show "The Point", **Liu Xin** criticized FOX News presenter Trish Regan for her "emotional" and "insubstantial" coverage of the trade war between the two countries, after which Regan invited Liu **to appear on her own show**. Liu took up the challenge last week, **using the opportunity** to repeat China's position to a wide American television audience.

The 17-minute debate could not be broadcast in China for legal reasons, but CCTV's live coverage was nevertheless followed by around a quarter of a million people, despite being broadcast at an unusual time on Thursday morning. After the two women spent the days running up to the broadcast fighting it out on Twitter, many observers found the television debate itself rather disappointing. The media described the discussion on trade and technology issues as "**polite, boring and condescending.**" CGTN, on the other hand, published numerous comments on its website congratulating Liu Xin as the winner. CCTV even saw the debate as a model for trade talks between China and the US.

The tension began to rise when Regan asked how Liu Xin would describe the Chinese economic system, having herself previously referring to "state-controlled capitalism". The Chinese moderator clearly gathered herself for a moment before coming out with well-worn phrases like "socialism with Chinese characteristics." She reacted much more decisively when she was introduced by her challenger as a member

of the Chinese Communist Party. She immediately denied this, which came as a surprise for many observers given that she had worked in prominent positions for the Chinese state television broadcaster, CCTV, for eight years. When the state-owned foreign broadcaster CGTN was founded almost three years ago, she returned from her correspondent post in Geneva to take over her own show. Perhaps FOX News presenter Regan will be invited to appear as a guest on that show. Liu Xin extended an invitation to her and promised to show her around her home country.

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