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METRIX

24th

place of 32 teams is the **final position of the Chinese team** in the first basketball world cup to be held in China. As the host country many fans hoped for a higher placement or even for winning the title. Unfortunately, the team did not proceed past the group stage. Basketball enjoys very high popularity in China. **The most favorite sports league** in China is the NBA.

Listen to a recording of our event with **former German national team player Henning Harnisch** (German).

TOPIC OF THE WEEK: SINO-GERMAN RELATIONS UNDER STRAIN

Merkel in China: Navigating tricky waters

Continuing protests in Hongkong, the escalating US-China trade dispute, a slowing economy in Germany: Angela Merkel's twelfth official visit to China took place in turbulent times. But among German business there was much praise, afterwards, for her skillful navigation of tricky waters. Merkel's actions in China, on the other hand, are likely to have disappointed Germany's partners in Europe.

While the German Chancellor publicly criticized Hong Kong and called for **openness and reform in China**, at the fringes of the trip eleven lucrative economic deals were made. With the focus being on German trade interests, Merkel was as usual accompanied by a **high-ranking business delegation**. The Allianz Group agreed a strategic cooperation with the Bank of China in the area of finance and insurance, and Siemens signed a letter of intent with the state-owned energy group SPIC. Airbus signed an agreement with the aerospace conglomerate AVIC for the production of the A320 in Tianjin.

In a paper that received wide attention early this year, the Federation of German Industries (BDI) had for the first time expressed an unusual level of criticism, naming China a **"systemic competitor"**. This had raised expectations that German business would, in future, address issues like the lack of market access or the controversial Chinese Cyber Security Act more directly. Although the focus of this trip was on cooperation, criticisms were nevertheless raised, according to informed sources. The existing tensions are still present, including those due to differences in values.

Merkel once again was faced with the difficult job of bridging the gap between economic interests and values. The Chancellor was silent on the situation in Xinjiang, where one million people are being held in labor camps, but both behind closed doors and publicly at a press conference with Prime Minister Li Keqiang she urged that the "rights and freedoms" granted to Hong Kong be respected and that a solution be found through dialogue. Li's reaction in front of journalists was brief and made clear the pressure that Beijing is under due to the ongoing protests: China supported the Hong Kong government's efforts to **"end the violence and chaos in accordance with the law, to return to order"**, he said.

Merkel's strategy met with a positive response from senior business representatives. "If German jobs depend on how we deal with controversial issues, then we should not add to the general outrage, but evaluate the issues from every angle in a considered way," said Siemens CEO Joe Kaeser in **an interview**. "That will enable us to take clear positions in our dealings with each other, while respecting cultural differences."

European interests were evidently not at the forefront of the trip. The Chancellor again urged China and the EU to conclude an investment agreement in the near future but, according to reports, plans to allow French representatives or representatives of other EU states to travel with the German delegation were rejected.

The EU has been trying for some time to reach a common China policy. In March, French President Emmanuel Macron made a significant gesture by inviting the then EU Commission President Jean-

Claude Juncker and Merkel to a meeting with China's President Xi Jinping. Merkel's focus, on the other hand, was clearly on German business interests during her trip, even though Airbus, a Franco-German company, was travelling with her. Berlin's "back to business" attitude was interpreted by its neighbor as a **threat to European cohesion** in dealing with China.

MERICCS analysis:

"It is difficult for Germany to say no to China" - analysis by MERICS fellow Noah Barkin

"A journey in tense times" - podcast in German with MERICS Deputy Director Mikko Huotari

Hong Kong activist Wong's visit to Germany causes trouble with China

Just days after Angela Merkel's return from China, a visit to Germany by Hong Kong student leader Joshua Wong caused diplomatic tensions. On Tuesday, a Chinese Foreign Office spokeswoman commented **in an unusually sharp tone** on a meeting between Foreign Minister Heiko Maas (SPD) and Wong, who was taking part in an event at BILD newspaper in Berlin. Hua Chunying said that certain German media and politicians only wanted to gain attention and fuel controversy by meeting with an "anti-Chinese separatist."

Hua criticized the **"disrespect"** for China's sovereignty and interference in the country's internal affairs. She said Maas should work to benefit the German Chinese friendship rather than destroy it. Maas met Wong on the fringes of an event at the Bundestag where the two were photographed together. **The German Foreign Office rejected the Chinese criticism** and emphasized the informal character of the meeting.

Wong arrived in Germany on Monday after first being **detained by the Hong Kong authorities at the airport**. The 22-year-old is **one of the best-known faces of the Hong Kong democracy movement**, he was one of the spokespeople for the Rainbow Movement in 2014 and is also active in the current protests. Wong is currently on bail. He is accused of encouraging others to attend an illegal meeting he organized on 21 June.

The democracy activist had been campaigning in Berlin for support for the protests in Hong Kong. He said at a press conference in Berlin that he hoped the EU would, in future, bring human rights issues into negotiations during trade talks with China. He asked particularly for help from Germany, drawing a **comparison with Germany's reunification**: "If we are in a new Cold War, Hong Kong is the new Berlin," he said.

China's ambassador to Germany, Wu Ken, **also held a press conference in Berlin**. He criticized the protest actions in Hong Kong as "malicious" and "almost terrorist", calling Wong an "instigator".

Wong announced that the demonstrations in his home country would continue until October 1, the 70th anniversary of the founding of the People's Republic of China. China's President Xi Jinping must learn to "respect the voice of the people", he said. After Germany, Wong is also visiting the USA.

MERICCS analysis:

Kristin Shi-Kupfer, Director of the research area on Public Policy and Society at MERICCS: “Joshua Wong presented himself as a reflective ambassador of the protest movement in Hong Kong. The fact that the German Foreign Minister allowed himself to be photographed with him sends out a signal, but it is also a normal part of the political culture of a democracy. The Chinese government’s sharp reaction reveals the nervousness of the Communist Party leadership and the fact that it considers Hong Kong as a central question of its authority.”

CHINA AND THE WORLD

China backs Islamabad amid rising India-Pakistan tensions

On a visit to Pakistan, Chinese foreign minister, **Wang Yi, re-emphasized** that China and Pakistan are “all-weather strategic partners” and said that China will “firmly support Pakistan in safeguarding its sovereignty, dignity and territorial integrity” hinting at ongoing tensions with India. His visit from September 7 to 8 also included a trilateral dialogue with foreign ministers from Afghanistan and Pakistan.

Relations between India and Pakistan hit a new low when India announced on August 5 that **the autonomous state of Jammu and Kashmir would be broken up** into two federally controlled territories and would lose its special status. It then deployed troops to the region. China called New Delhi’s decision “unacceptable” and “non-binding,” and formally backed Pakistan’s request for the UN Security Council to hold closed consultations on this issue.

China has a strong strategic interest in stability in the region as an important part of China’s Belt and Road Initiative runs through Pakistan. In addition, Pakistan is a strategic ally for China, since it acts as a buffer against India.

Kashmir has been claimed by both India and Pakistan ever since the partition following the end of British rule in 1948. China also has its own territorial dispute with India over the part of Kashmir that it controls, called Aksai Chin. The conflict is complicated by the fact that all three nations have nuclear weapons.

MERICCS analysis: The BRI in Pakistan: China’s most important economic corridor. MERICCS Belt and Road Tracker.

Disciplinary inspection to target foreign affairs institutions

Foreign affairs institutions will come under scrutiny in an **upcoming round of discipline inspections** by the Central Commission for Discipline Inspection (CCDI), the Communist Party (CCP)’s powerful anti-corruption organ. In its fourth round of inspections since the current Central Committee of the CCP took office in 2017 the CCDI will also look at the Ministry of Foreign Affairs, the United Front Work Department and the CCP International Department in addition to 34 other central Party and state institutions.

In addition to curbing corruption, the inspections will focus on cadre selection and promotion. Following **new rules issued in May 2019**, the Party has considerably strengthened its control over promotions, making it harder for senior officials to promote cadres that are loyal to them. Limiting the influence of personal networks within Party and state institutions has been part of president Xi Jinping's anti-corruption campaign, due to concerns that they could lead to instability and undermine the control of the center.

Xi's sweeping campaign to restore the Party's legitimacy while consolidating his own power has led to the investigation of **more than 2.6 million officials** since the end of 2012, with over one and a half million punished. The domestic anti-corruption drive has also expanded its reach overseas, with the CCDI now playing a role in **monitoring BRI projects** to spot potential frauds.

News in brief

- Trade war: **China launches WTO case against Trump's new tariffs**
- Huawei: **Poland and US make joint declaration on tougher scrutiny of 5G equipment providers**
- South China Sea: **France, Germany and the UK concerned over tensions in the region**

POLITICS, SOCIETY AND MEDIA

Face-swap app Zao in trouble shortly after release

Data security is increasingly becoming a hot issue in China. Momo – parent company of the Chinese face-swap app Zao – was ordered to revise its privacy policies and address data security issues by the **Cyberspace Administration of China (CAC) on September 4**, only days after releasing the app on August 30. Zao exchanged the face of an actor in a movie scene with the face of the user, based on one or more uploaded selfies. It went viral inside and outside of China shortly after release.

Backlash against Zao came almost immediately. Users criticized its privacy rules that gave the company full ownership and copyright to content uploaded or created by users. Only two days after release, the company gave in: user-generated content will now only be used by the company to improve the app and all deleted content will be removed from its servers.

The especially strong **concern about the misuse of facial data** stems from the widespread use of facial recognition technology in China ranging from bank transactions, payments and class attendance.

Deep learning technologies are increasingly employed to, for example, create fake-videos or recordings of individuals, so called "deepfakes." Its potential use to endanger personal information security and spread misinformation has raised concerns globally. A commentator in The Beijing News considered Zao even **a potential threat to national security**.

News in brief

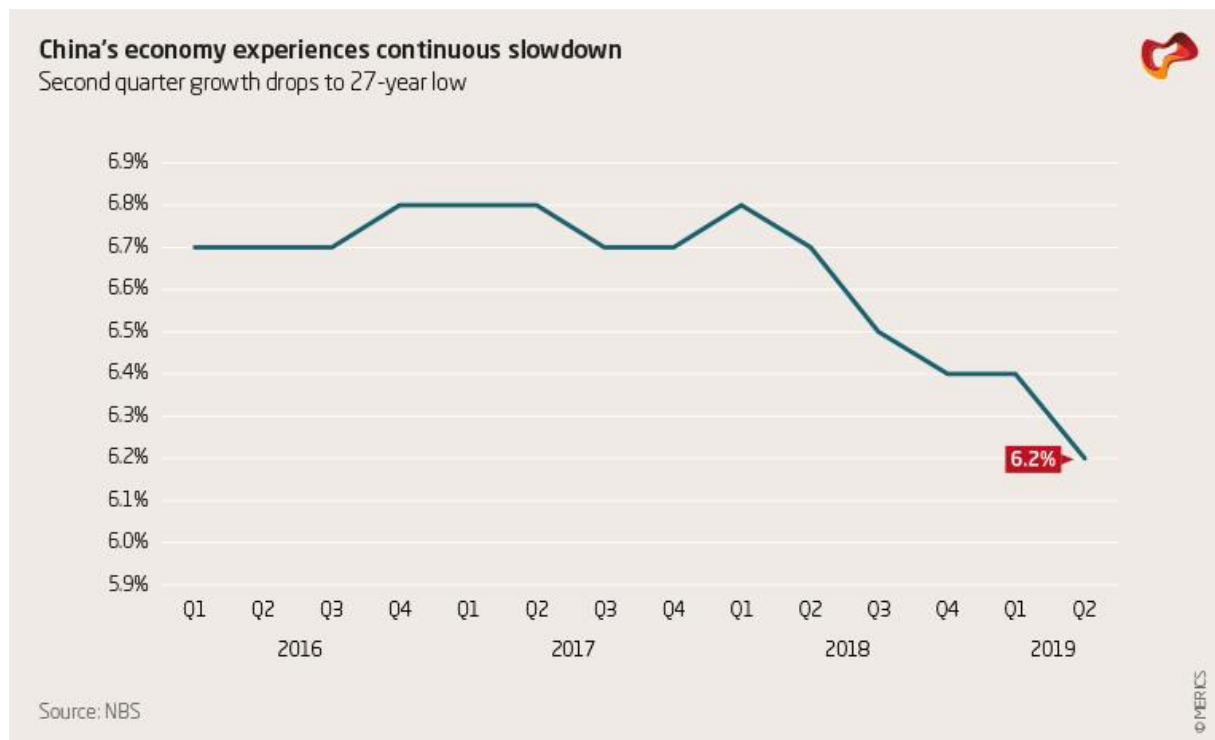
- Support: **PRC netizens show support for Hong Kong woman who lost an eye in the protests**
- Sinicization: **Islamic symbols are removed from mosques in central province of Henan**
- Focus: **Xi speech to young officials stresses need for “struggle” to achieve national rejuvenation**

ECONOMY, FINANCE AND TECHNOLOGY

PBOC cuts banks' reserve requirements as the economy flags

China's central bank has cut the amount banks are required to hold as reserves, releasing liquidity into the system in an attempt to shore up the flagging economy. It is the third time this year that the People's Bank of China (PBOC) has made such a move. While the market reaction was positive, the stimulus is likely to further exasperate debt problems, leaving a question mark over how long this positive effect can last.

China's economy is in the midst of a long-term slowdown. Second quarter growth was just 6.2 percent – **the lowest rate in 27 years**. July figures show that retail sales of consumer goods and fixed asset investment are falling, while figures for August show a drop-in exports and imports. There was a slight pick-up in non-manufacturing PMI in the August figures, but manufacturing PMI was down on the previous month.



While the exchange rate appreciated slightly on the news from 7.12 to 7.10, and the stock market climbed slightly, the overall picture looks negative. In spite of the stimulus, demand does not appear to be holding up. Bank lending growth has fallen for five consecutive months, now growing at 12.6 percent, and producer prices contracted for the second month by 0.8 percent year on year.

The stimulus will most likely be enough to reach the country's growth target this year, but it will push up the ratio of credit to GDP. The ongoing trade war is clearly a major factor. The fall in the exchange rate, breaking the 7 USD line in August, has compensated for the tariffs, but the effect has been to move the cost on to China's external purchasing power.

MERICS analysis: „China's economy in Q2: Controlled shift to lower growth levels”, [MERICS Economic Indicators](#).

Li Keqiang stresses the importance of basic research for national development

Premier Li Keqiang has underlined the importance of basic research for China's tech innovations and industrial development and called for governmental support at all levels to create an environment enabling advances in this field. He was speaking at [a symposium on the National Science Fund for Distinguished Young Scholars](#) (NSFDYS) at the beginning of the month in Beijing.

The Chinese leadership has identified basic research as a critical component for national development. Li Keqiang's statements suggest a doubling-down on efforts to strengthen China's domestic research capabilities. Premier Li also suggested that the NSFDYS should be seen as a “venture capital fund” to encourage young scientists to be more innovative and adventurous.

This year marks the 25th anniversary of the state backed NSFDYS. Its goal is to speed up the creation of a national talent pool of young scholars in the field of basic research. In 2018, China spent about 300 billion USD on research and development (R&D). This accounts for almost 2.2 percent of national GDP. China's R&D spending has thus already surpassed that of the EU. Yet, increasing national independence in the field of basic research remains a top priority for Beijing.

Max J. Zenglein and Anna Holzmann, MERICS experts: “Building the underlying ability in basic research takes time and remains a weak spot despite a steady increase in research and development spending.”

You can read more in the MERICS report [Evolving Made in China 2025](#).

News in brief

- Investments: [China scraps purchasing cap for approved foreign investors](#)
- PBOC: [New digital currency head appointed as race with Facebook's Libra heats up](#)
- 5G: [China Unicom and China Telecom agree to share network construction costs](#)
- Offer: [Hong Kong Exchange aims to buy London Stock Exchange Group](#)
- Trade war: [Trump delays tariffs until October 15 as “gesture of goodwill”](#)

PROFILE: Jack Ma

China's most successful entrepreneur retires to pursue first love

Jack Ma, co-founder and executive chair the Chinese retail and tech giant Alibaba Group, stepped down from his position as company chair on **September 10**, the day he turned 55. Ma founded Alibaba together with 18 co-founders in 1999. Since then it has become the largest e-commerce company in the world by the total of goods sold across all its platforms, with over 66,000 full-time employees, over 750 million monthly active users, and a market value of around 420 billion USD.

Ma is credited with building the **innovative culture** at Alibaba that has helped the company stay ahead of the game. His charismatic leadership and often irreverent humor have been in a sharp contrast to the usual stereotype of a Chinese business executive. He has even starred in his own kung fu short film.

He is also considered to have been skillful in his dealings with China's ruling Communist Party, partnering with the government and meeting President Xi in person. He revealed in 2018 that he is a **member** of the Chinese Communist Party, but summed up his relationship with government in these terms: "**Love them, don't marry them.**"

Last month he shared a platform with US billionaire Elon Musk at the World AI Conference in Shanghai. Ma's **optimistic** view on AI was in stark contrast to Musk's. He said we had nothing to fear about AI and predicted it would help create new kinds of jobs which require less of our time, leaving us to focus on creative tasks. Alibaba is one of the world's biggest investors in AI technology.

Ma has personally amassed a fortune worth over 41 billion USD and become one of the richest men in the world. He now plans to focus his efforts on his first love: education. Following in the footsteps of Microsoft founder Bill Gates, a fellow tech billionaire whom he greatly admires, he will now concentrate on philanthropy. His charitable organization, the Jack Ma Foundation, which he founded in 2014, supports a range of educational projects. He has in the past spoken of the need to keep learning and in **an interview with Bloomberg TV** even said: "I think some day, and soon, I'll go back to teaching. This is something I think I can do much better than being CEO of Alibaba."

Editorial responsibility: Claudia Wessling

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