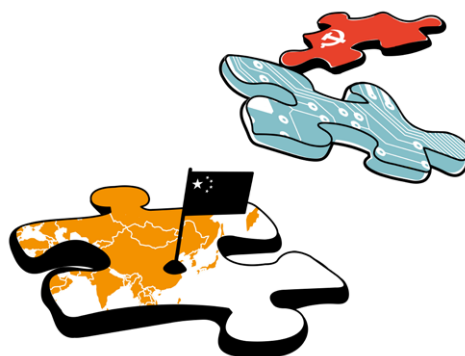


AUGUST 12, 2021

MERICS China Briefing



CONTENTS

TOP STORY: Beijing increasingly tolerant of economic damage for political gain.....	2
METRIX	3
TOPICS.....	4
China reaches out to the Taliban to secure its interests in Afghanistan	4
China's Zero-Covid strategy battles Delta variant	4
Inflation rises amid slowing growth	5
VIS-À-VIS.....	6
Jane Duckett: "The Communist Party has been strengthened by the pandemic"	6
REVIEW	7
"From rebel to ruler: One hundred years of the Chinese Communist Party", by Tony Saich.....	7
PROFILE.....	8
#AlibabaFemale: A brave survivor forcing China to confront an ugly truth.....	8
MERICS CHINA DIGEST	9



MERICS

Mercator Institute for China Studies

TOP STORY

Beijing increasingly tolerant of economic damage for political gain

China's tech, education and real estate sectors all took a beating from regulators in late July and early August. They joined a wide range of companies and sectors that have found themselves on the wrong side of China's regulators in recent months. The result has been over one trillion USD worth of market value eradicated. The takeaway: China's leaders appear increasingly comfortable with accepting considerable economic damage to achieve non-economic goals.

Data governance: With growing consumer concerns about data privacy and private companies gathering more data on citizens than the government, data governance has become a top priority for China's leadership. The current cybersecurity investigation of Didi, the ride hailing giant, sends a message to get in line and boost compliance.

For-profit tutoring: Chinese parents are still reluctant to have more than one child, with many naming the high costs of education as a factor. Xi Jinping spoke in 2018 about the need to rein in private tutoring. At the end of July 2021, that industry was essentially smothered out of existence overnight.

Real estate speculation: Skyrocketing housing and rental costs are weighing on the middle-class, especially younger people. In July 2021, new measures were brought out to raise mortgage interest rates for second homes and crack down on developers.

Delivery services: Delivery services like Meituan and Eleme employ millions of overworked and underpaid drivers. On July 26, regulators imposed new rules to improve their conditions.


Foreign listings: New rules on listing abroad require a national security review for any company that collects data from more than one million users. That effectively amounts to every company that would seek an IPO in the first place.

MERICS analysis: The CCP is clearly trying to shift away from economic growth as the chief source of its legitimacy and instead focus on addressing causes for societal discontent. It also wants to consolidate its control over actors in the private sector, ensuring they serve the party's political agenda rather than their own economic interests. In the run-up to the 2022 Party Congress, it may be seen as politically useful to pursue these popular moves – stockholders and the wealthy be damned – especially if Xi Jinping and his cohort want to keep their positions.

Media coverage and sources:

- CNBC: [China's tech crackdown has a new battleground — data](#)
- Forbes: [China Bans For-Profit Tutoring In Reforms Aimed At Boosting The Birth Rate](#)
- Al Jazeera: [In its latest crackdown, China intensifies focus on real estate](#)
- SCMP: [China moves to protect food delivery drivers from digital exploitation, knocking stocks such as services giant Meituan](#)
- FT: [China to impose security checks on overseas listings](#)

Exhibit 1



Regulatory crackdown: Selected measures and actions

DATE	COMPANY	LISTING	REGULATION AND ACTION TAKEN
2021-07-26	Food delivery apps	N/A	Issued guidelines on protecting rights and interests of delivery workers
2021-07-24	Oriental Education; Gaotu; TAL Ed	HKSE, NYSE	Announced measures including no new licenses for private tutoring centers; existing centers to convert to non-profit; ban tutoring centers from IPO, conducting holiday classes and extra classes for preschoolers; MOE to supervise and regulate prices; mainstream media banned from ads from tutoring centers
2021-07-16	Didi	NYSE	On-site cybersecurity investigation of Didi headquarters in Beijing
2021-07-10	All companies	N/A	Issued draft rule requiring security review for all companies listing overseas and holding personal data of over 1 million individuals
2021-07-09	Didi	NYSE	25 apps operated by Didi removed from app stores for serious violation in the collection and use of personal information
2021-06-13	Private tutoring companies	N/A	New government department formed to regulate private tutoring companies
2021-06-10	All companies	N/A	Data Security Law adopted
2020-12-11	All companies	N/A	Politburo meeting called for strengthening of antitrust regulation and prevent disorderly expansion of capital
2020-11-10	All platform companies	N/A	Published draft antitrust rules aimed at preventing monopolistic behavior by internet platforms
2020-11-03	Ant Group	HKSE, SSE	IPO halted by SSE

HKSE: Hong Kong Stock Exchange
 NYSE: New York Stock Exchange
 SSE: Shanghai Stock Exchange
 Source: MERICS

© MERICS

METRIX

1

In the current Olympic medal count, the USA is just ahead of China by one gold medal. In total, the US athletes brought home 25 more medals than their Chinese counterpart. The sport emotions have been intertwined with geopolitical competition in Chinese media reporting. The last time China won the highest number of golden medals was during the Beijing Olympics in 2008. With the 2022 Winter Olympics set to take place in China's capital once again, the Chinese athletes are likely to face political pressure to outperform their American counterparts. Source: [Financial Times](#)

TOPICS

China reaches out to the Taliban to secure its interests in Afghanistan

The facts: As the situation in Afghanistan continues to deteriorate after the US withdrawal from the country, Beijing has moved to ensure that its interests in the country will be protected. China's Foreign Minister Wang Yi hosted a Taliban delegation led by the group's co-founder Mullah Abdul Ghani Baradar in Tianjin on July 28. Wang pledged support for the Taliban's role in the reconstruction of Afghanistan while demanding that they end their ties with the East Turkestan Islamic Movement – in other words any terrorist group with Uyghur links or sympathies. Previously, Wang has also met with the Afghan Foreign Minister and has pushed for the Shanghai Cooperation Organization (SCO) to take on a more active role in ensuring the stability of the country.

What to watch: Turmoil in Afghanistan continues to increase at a worrying speed. Beijing blames the US for the current situation, and it would ideally like to see a political settlement to the conflict, especially as it has clear concerns over the Taliban's religion and ideology and does not want to see them take full control of the country. Beijing will try to make use of existing relationship and mechanisms, such as the SCO, the Quadrilateral Coordination Group or its close relationship with Islamabad to try to bring about a deal. As it is unwilling to get too involved, this strategy is unlikely to bring about a peace agreement in the short term, if at all. In the meantime, China will leverage its bilateral ties with the Taliban and the Afghan government to make sure that its interests will be protected no matter what.

MERICS analysis: MERICS Senior Analyst **Helena Legarda:** "China's main interest is to maintain stability in Afghanistan, mostly to prevent it from becoming a safe haven for terrorist groups that may target China, but also to protect its investments in the country and elsewhere in the region, especially in Pakistan. However, Beijing is very aware of the pitfalls of becoming too involved in 'the graveyard of empires' and is not ready to step in and replace the US and its allies as a security provider."

Media coverage and sources:

- Chinese MFA: [Wang Yi hosts Taliban delegation](#)
- SCMP: [Wang Yi visits Central Asia to discuss Afghanistan, calls to have healthy Muslim policies](#)
- WSJ: [Afghanistan's Taliban, now on China's border, seeks to reassure Beijing](#)
- Xinhua (CN): [China's special envoy for Afghanistan calls for a political solution to the crisis](#)

China's Zero-Covid strategy battles Delta variant

The facts: China is currently battling a major outbreak of the Delta variant, with state media labelling it the "most serious since Wuhan". After a long period of near zero infections, 776 new symptomatic cases have been detected over the past week representing a growth in the 7-day average of 55%. Over 17 provinces have reported cases, triggering

hard lockdowns in some areas and travel restrictions in many others. Among the most hard-hit cities are Nanjing, Zhangjiajie and the already flood-struck Zhengzhou. Scores of officials in the affected provinces have been suspended or put under disciplinary investigation. On Monday, locally reported cases per day exceeded 100 for the first time in six months.

What to watch: The Delta variant will increase the difficulty and costs of China's Zero-Covid strategy for all actors. Nonetheless, Beijing will likely stick to its strategy of closed borders and tight restrictions to contain any outbreak until vaccination rates are higher. To date around 1.6 billion shots have been administered, enough to fully vaccinate some 55% of the population. Prior to this most recent outbreak, leading Chinese doctor Zhang Wenhong had suggested China would not reach a sufficiently high vaccination rate until the first half of 2022.

With the Winter Olympics in Beijing on the horizon, the fact that there have been over 400 infections at the Summer Olympics in Tokyo presents a nightmare scenario for China's Zero-Covid strategy. We can expect to see China introduce the strictest Covid measures the world has seen to date for all incoming athletes and related staff.

MERICS analysis: The spread of the Delta variant not only poses health risks, but subsequent lockdowns increase supply chain disruption risks at a time when companies are already stretched by shortages of everything from semiconductors to shipping containers. Unlike other supply chain challenges which companies have adapted to, Delta presents an unpredictable risk in China, as even a single case in a new region can result in extensive restrictions on the movement of goods and people.

Media coverage and sources:

- The New York Times: [Tokyo's Olympic bubble? Wait till you see Beijing's.](#)
- The Guardian: [With the Delta variant spreading is China's 'zero tolerance' Covid approach over?](#)
- Bloomberg: [China punishes dozens of officials as Delta outbreaks spread](#)
- QQ News (CN): [Zhang Wenhong: the new coronavirus may exist long-term, we must coexist with the virus](#)

Inflation rises amid slowing growth

The facts: Newly released consumer price index (CPI) and producer price index (PPI) numbers for July indicate a growing inflation risk in China. CPI numbers are up somewhat, but it is the PPI that is the main cause of inflationary concerns, as it has risen to 9%. It is being driven by rising commodities prices that make production more expensive. At the same time, overall economic growth is slowing, Goldman Sachs has revised their 2021 Y-o-Y growth projections from 8.9% to 8.6%, both due to lower demand abroad for China-made goods as well as disruptions caused by the Delta variant outbreak across the country.

What to watch: All eyes are on how the People's Bank of China (PBOC) decides to respond to the quandary. Easing monetary policy would help strengthen growth, while

tightening it would rein in inflation. The mid-July reserve requirement rate cut indicates that central bankers are currently leaning in favor of the former.

MERICS analysis: “Stimulating growth will be a priority over managing inflation this year, especially as the Delta outbreak across China will continue to cause disruption,” said **Jacob Gunter**, Senior Analyst at MERICS. “The chief driver of inflation for now is commodities. Beijing has some flexibility in managing their costs through its control of state-owned producers. This would allow the government to reserve monetary policy for propping up growth rates.”

Media coverage and sources:

- Bloomberg: [China’s economic risks build as Delta spreads, prices gain](#)
- National Bureau of Statistics (CN): [July CPI and PPI data](#)

VIS-À-VIS

Jane Duckett: “The Communist Party has been strengthened by the pandemic”

Jane Duckett is Edward Caird Chair of Politics and Director of the Scottish Centre for China Research at the University of Glasgow. She is an expert on Chinese public policy and health policy. MERICS China Briefing talked to her about the Chinese Communist Party’s (CCP) handling of the Covid-19 pandemic.

Questions by Claudia Wessling, Director Communications and Publications, MERICS

You are looking at Chinese containment measures in the pandemic. What have you discovered?

We looked at the early period of the Covid-19 crisis from January to April 2020. The CCP played a significant role in fighting Covid-19. The authorities soon decided the pandemic was a battle and demanded a battlefield approach. There were two fronts: the hospitals and the need to raise their treatment capacity, and the communities. The party established control at the top and created centralized mechanisms to direct the fight against the pandemic and to control and respond to events right down into the localities. The CCP created a Central Leading Group to devise policy responses at the national level. It met roughly every three days from late January into April at least and that was replicated in different localities. It rolled out a system of widespread testing, stringent door-to-door checks and proactive, centralized isolation in what became a “zero tolerance” approach to Covid-19 aimed at eradicating cases completely. It moved from telling people to just stay at home to isolating them as soon as it was known they had been in contact with Covid cases or had symptoms but had not yet tested positive. Party members played a crucial role in this community-level response.

Was the government’s response discussed on social media? Did its image improve?

It seems to have done so. The low point was when Dr Li Wenliang, a medic in Wuhan who was the early Covid whistleblower on the internet, died from Covid in February. Social media in China was very critical. But the Communist Party’s great advantage is that it can control narratives across the traditional media. It was also able to respond to some of the

population's concerns. For example, the relatives of some vulnerable young people were isolated, and those young people were left without support. So, the government issued orders for better care of people in the community.

The CCP also set about controlling the narrative. Government officials were ordered to emphasize health workers' heroic acts in a collective fight. As cases in China started to fall in February and those in other countries began to rise rapidly, the CCP developed another narrative – that China had done well, and Western countries were handling the pandemic badly. The party used the opportunity to strengthen the message that the Chinese system was better and that saving lives – not freedom – was its priority. It was able to turn the narrative away from the initial widespread criticism and into more positive themes for the regime.

Do these strategies offer any lessons in terms of which system is more resilient in a pandemic?

Most Western governments could have acted much more quickly. The Chinese party-state was criticized for not acting quickly in the early stages of the pandemic, but when it acted, it did so decisively. This demonstrated that some of the traditional tools of the Chinese authoritarian system – the mobilization of people, the ability to enforce measures – can be a real help, though those sorts of tools are probably not going to be tolerated in a democratic society.

But the pandemic is not over. Something that we have not focused on is vaccines. China is behind on this front and that threatens its longer-term recovery. Economies will need good vaccine programs to recover. It will be some time before we can judge which countries have handled the pandemic best. Overall, I think the Communist Party so far has been strengthened by it. It probably will roll out a reasonable vaccine program, but may struggle to re-open the country without relaxing its “zero tolerance” approach to Covid-19.

REVIEW

“From rebel to ruler: One hundred years of the Chinese Communist Party”, by Tony Saich

At 100 years old and with over 95 million members, the CCP is one of the oldest, largest and possibly the most powerful political organization in the world. It rules over the world's second largest economy and has far-reaching control over 1.3 billion people. Though its history is fraught with wars, internal conflict and mistakes, yet it has managed to overcome these and survive to this day. This makes it a “very distinct political organization”, according to Saich.

As the title of the book implies, Saich takes us through the history of the CCP, first illustrating how it came to power and then looking at how it has ruled and governed China up to the present day. Saich uncovers patterns in how the party and its elites have behaved throughout its history and reveals the connection between these and the thinking of General Secretary Xi Jinping today.

One such recurring theme is the CCP's equivocal relationship with private enterprise. After abolishing the private capitalist class, the CCP later looked to entrepreneurs to help meet economic needs. Saich argues that, throughout its history, the CCP has always outsourced to private enterprise in areas where it has no expertise, but once these firms start to overtake the party in capabilities and power, the CCP reigns them in and reclaims control. This is relevant to understanding the current regulatory crackdown on China's tech giants. Firms like Alibaba and Didi helped develop the country's tech industry, but their accumulation of information, data and financial influence was seen as threatening to the party's rule.

By detailing the party's past and relating it to the present, the book attempts to provide an understanding of how the party rules China today and offers some clues to its future.

Reviewed by **Valarie Tan**, MERICS Analyst

PROFILE

#AlibabaFemale: A brave survivor forcing China to confront an ugly truth

Her name has been withheld to protect her privacy but under hashtags such as #AlibabaFemale (#阿里巴巴女员工), a woman who went public about being sexually assaulted by her boss has received overwhelming support, and her bravery in coming forward has forced one of China's most powerful tech giants to publicly address workplace sexual harassment.

The woman, who alleged that she was raped by her boss during a business trip in late July, only decided to go public about her ordeal after the company failed to act on her complaints. Footage from the hotel they were staying in showed that the woman's boss had entered her room four times during the night, after receiving a key from hotel staff. The woman reported the incident to Alibaba's HR department, who promised to take action but apparently did not follow through. Taking matters into her own hands, she handed out leaflets at the company canteen and uploaded an account of the attack to the company intranet, documenting her ordeal and the subsequent inaction by senior management and HR.

The testimony was posted on Weibo on August 7, where it went viral. As a result of the public outcry, Alibaba CEO, Daniel Zhang, has promised that his company would establish an anti-sexual harassment policy that has "zero tolerance for sexual misconduct".

The woman's account of the sexual assault has raised serious and difficult questions about corporate norms and expectations for women in the Chinese tech industry. It has also unleashed an online debate about inappropriate ice-breaker games, the toxic drinking culture in many firms, as well as the perfunctory reaction of HR when such incidents are reported.

This comes on the heels of a series of allegations against pop star Chris Wu. Like their global counterparts, China's #MeToo movement and feminist groups have been fighting to highlight issues of misogyny in Chinese society. Despite government pressure and repeated shutdowns of forums they continue their push for greater gender equality.

Although the Alibaba woman remains unnamed, she symbolizes the changing attitude of Chinese women and their growing refusal to accept injustice in silence.

Media coverage and sources:

- Washington Post: [Rape allegation at Alibaba spurs furor](#)
- Protocol: [Alibaba's rape allegation is a milestone in China's #MeToo movement](#)
- Douban (in Chinese): [Inappropriate nature of Alibaba ice-breaker events](#)
- Original 11-page document (in Chinese): <https://bit.ly/2VBAdFo>

MERICS CHINA DIGEST

MERICS' Top 3

- NIKKEI Asia: [Xi's third-term plans in focus ahead of China's party conclave](#)
- The New York Times: [China sentences Canadian businessman to 11 years in prison](#)
- DW: [Port of Hamburg mulls tie-up with China's state-backed shipping giant Cosco](#)

Politics, society and media:

- South China Morning Post: [Hong Kong legislature should apply anti-sanctions law in city, depriving 'foreign forces' of talking point, Carrie Lam says](#)
- Global Times: [More than 30 officials in 4 provinces punished for slack response, ineffective management in latest Covid-19 outbreaks](#)
- South China Morning Post: [China sticks with zero Covid-19 approach, leaving borders closed for now](#)
- Pandaily: [China's State Council rolls out mass fitness program to promote digital transformation of sports industry](#)
- NIKKEI Asia: [China's cram schools scramble out of tutoring as crackdown looms](#)

Economy, finance and technology:

- The Wall Street Journal: [China wants manufacturing—not the internet—to lead the economy](#)
- Financial Times: [Investors in China should beware Beijing's unpredictability](#)
- CNBC: [China's Covid lockdown could have economic costs to the world, says strategist](#)
- Reuters: [China quietly sets new 'buy Chinese' targets for state companies - U.S. sources](#)
- NIKKEI Asia: [Apple taps more China suppliers for its latest iPhones](#)
- South China Morning Post: [China moves to protect food delivery drivers from digital exploitation, knocking stocks such as services giant Meituan](#)
- South China Morning Post: [Why China cracked down on education and upended a USD 70 billion tutoring industry, with millions of jobs and students affected](#)

International relations:

- Investing.com: [Xiaomi's Portuguese outlet now accepts Bitcoin](#)
- Cointelegraph: [Xiaomi denies involvement in shop accepting Bitcoin in Portugal](#)
- France24 (FR): [Joe Biden accorde un asile temporaire aux résidents hongkongais aux États-Unis](#)
- Saudi Gazette: [China begins construction of its first underground research laboratory for high level waste disposal](#)
- WCCFTECH: [NVIDIA battles delays in EU, UK & China for its planned arm acquisition](#)
- The Information: [China antitrust officials delay review of Nvidia's \\$40 billion arm acquisition](#)

EDITORIAL TEAM

MANAGING EDITOR

Claudia Wessling
Director Communications
and Publications, MERICS

EDITORS

Janet Anderson
Freelance editor

Hannah Seidl
Communications Manager, MERICS

GRAPHICS

Alexandra Hinrichs,
Graphic Designer, MERICS

PUBLISHER

MERICS | Mercator Institute for China Studies

Klosterstraße 64

10179 Berlin

Tel.: +49 30 3440 999 0

Mail: info@merics.de

www.merics.org