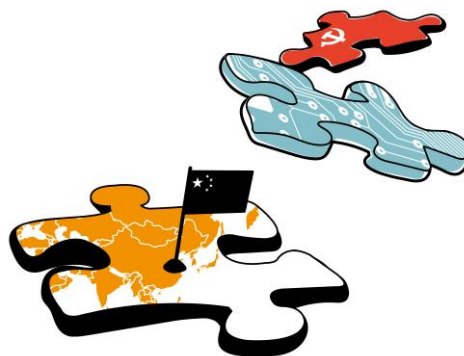


NOVEMBER 25, 2021

MERICS

China Essentials



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TOP STORY

“I’m just resting” - China’s two-track communication on the Peng Shuai case

After two weeks of radio silence, Chinese star athlete Peng Shuai finally reappeared in Chinese media channels – but only in international-facing ones. Within mainland China, by contrast, blanket censorship on the athlete and her accusations of sexual assault against China’s former Vice-Premier Zhang Gaoli are still in place.

State media journalists released emails and videos on Twitter – which is blocked in China – suggesting Peng is “just resting” and leading a normal life. They also hit back against international attention to the case, claiming that the West’s hype of the story is politically motivated.

This has done little to reassure international observers. Politicians, human rights groups, sports organizations and athletes such as Naomi Osaka have been demanding further answers about Peng’s whereabouts and safety. The Women’s Tennis Association (WTA) has even hinted at pulling its business from China.

So far, the international propaganda flurry has failed to convince. As observers noted, an email supposedly sent by Peng seemed to be a screenshot of a word document. Footage and conversations looked scripted and homed in on dates, making them resemble proof-of-life videos, not social media posts. Rights organizations pointed out the similarities to the numerous videos from activists, dissidents and Uyghurs stating they are “fine” that have been released by state media over the years.

The only direct contact Peng has had to international actors was a call with IOC president Thomas Bach. He was promptly criticized by rights organizations for giving credence to Beijing’s story-telling efforts after saying that she seemed “fine”.

MERICS analysis: The case has added further fuel to calls to boycott the Olympics on the grounds of human rights violations in Xinjiang. Although it is unlikely a boycott will materialize, the Chinese government has been hitting back hard. State media, such as the Global Times, have gone on the offensive, calling this “ideological struggle” over the games a “catalyst for China’s growth in mentality as a major power.”

Clearly, it is not just Peng Shuai whose moves will be closely watched by the Chinese authorities. The Olympics may well turn into a loyalty test for sports associations, sponsors and athletes alike. In Beijing, there is little patience left for criticism. Foreign actors should therefore brace themselves for increased scrutiny of their statements and positions in the run-up to the Olympics, as well as a higher likelihood of retaliation to any perceived criticism.

Media coverage and sources:

- China Media Project: [Searching for Peng Shuai](#)
- Human rights watch: [Olympics: Don’t promote Chinese state propaganda](#)
- Global Times: [Beijing winter games to help China’s major power mind-set](#)

METRIX

8.5

The 2020 birth rate in China, calculated as the total number of newborns per 1000 people, according to new figures from the National Bureau of Statistics. That is the lowest birthrate registered since 1978, when China began implementing the one-child policy. The 12 million babies born in 2020 also represent an 18 percent year-on-year decrease compared to 2019. This has largely been attributed to the Covid-19 pandemic, but also reflects long-term changes in individual family planning resulting from the one-child policy which ended only in 2015. (Sources: [Global Times](#), [Bloomberg](#), [SCMP](#))

TOPICS

China repackages its Belt and Road Initiative to compete with the US and Europe

The facts: Amid growing international competition, China has moved to repackage its flagship foreign policy project, the Belt and Road Initiative. In his speech at the third high-level symposium on the Belt and Road (BRI) Forum in Beijing on November 19, party and state leader Xi Jinping said the future of the BRI is green and high-quality. It is no longer exclusively about infrastructure; standards now play a fundamental role. As for goals, gone are the days of grandiose projects, from now on objectives will be achievable, “realistic and modest”, Xi said.

What to watch: Xi’s speech comes amid a proliferation of connectivity projects designed to compete with the BRI. Both the American Build Back a Better World (B3W) and the European Global Gateway have chosen sustainability and high-quality standards to distinguish their initiatives from the BRI. China’s move in the same direction sets the course for fierce competition. But only the realization of projects will show if the words are matched by deeds.

MERICS analysis: Connectivity projects have officially become terrain for geopolitical competition. Even though all three initiatives place sustainability and high-quality standards at the hearts of their agendas, the meaning and application of these concepts will differ greatly. Hence, signing up to one of the available projects will be interpreted as a loaded geopolitical statement in favor of one or the other country or region - more so, even, than in the past.

Media coverage and sources:

- Chinese Government site (CN): [Report of Xi Jinping’s speech at the third BRI forum in Beijing \(习近平出席第三次“一带一路”建设座谈会并发表重要讲话\)](#)
- Xinhua: [Xi urges continuous efforts to promote high-quality BRI development](#)

China strengthens anti-monopoly toolkit, but don't expect trust-busting

The facts: China launched its new Anti-Monopoly Bureau last week. Housed in the same building as the increasingly powerful market regulator, the State Administration for Market Regulation (SAMR), the Bureau will be responsible for overseeing much of the government's anti-monopoly policy making and enforcement. It is likely to be empowered by recently published amendments to the country's Anti-Monopoly Law. These are expected to be approved by the National People's Congress soon.

What to watch: China's anti-monopoly efforts have grown significantly in recent months, as seen most explicitly in the broader crackdown on internet and platform companies like Alibaba, Meituan and Didi. Still, regulatory capacity remains limited, and the new Bureau will be staffed by a mere 18 officials. Yet, combined with similar efforts in SAMR and the Ministry of Commerce, plus the incoming amendments' broader definition of anti-competitive behavior, higher fines, and individual liability for company legal representatives, anti-monopoly efforts in line with the party state's wider economic agenda are expected to increase.

MERICS analysis: "China is serious about reining in the behavior of some of its private tech giants, but it is important to understand that "anti-trust" in China means something different to how we think about it in liberal market economies," says **Jacob Gunter**, MERICS Senior Analyst. "In Europe, anti-trust rules are primarily about limiting or breaking up market share and power by holding back the scale of any given company, while China's approach aims to condition the behavior of super-sized private firms to align with national development goals. It is also important to note that the monopolies of state-owned enterprises are not targeted."

Media coverage and sources:

- Global Times: [China's market regulator adds staff in antitrust bureau as crackdown continues](#)
- SCMP: [China amends Anti-Monopoly Law for the first time amid tech crackdown, increasing penalties and regulatory control](#)
- Lexology: [China's Anti-Monopoly Law 2.0: expect uptick in enforcement and higher fines](#)

China's data protection framework nears implementation with key draft rules

The facts: The Cyberspace Administration of China (CAC) has unveiled key details of how it intends to implement its new data protection laws. These include the Data Security Law (DSL) and the Personal Information Protection Law (PIPL). The draft Administrative Rules on Network Data Security (网络数据安全条例) are open for public comments until December 13.

What to watch: Several of the provisions would have a serious impact if enacted:

- Chinese companies seeking to list in Hong Kong would need to undergo a cybersecurity review if national security could be impacted. The vaguely worded provision confirms suspicions that regulators' concerns around data security risks surrounding overseas IPOs, like Didi's New York listing over the summer, extend to Hong Kong, whose data protection framework is less stringent than the mainland's.
- Openly acknowledging the existence of the Great Firewall – “a cross-border data security gateway” – the rules go one step further from previous attempts to outlaw VPN tools. If enacted and enforced, the prohibition would mean serious trouble for foreign companies in China.
- Internet platform companies would face a range of new obligations regarding user data protection, for example, requiring them to solicit public feedback whenever they formulate or revise a privacy policy, and to obtain users' consent before pushing personalized recommendations to them.

MERICS analysis: The rules are in draft form and a lot can still change. Moreover, provisions like cybersecurity reviews for Hong Kong IPOs or a VPN ban are toothless without enforcement, and the CAC will likely retain considerable leeway. What is clear is that regulators are serious about preventing security risks associated with data transfers in and out of China. To some extent, they are also trying to empower users vis-à-vis internet companies.

Media coverage and sources:

- CAC: [Administrative Rules on Network Data Security \(Draft for Comments\) 网络数据安全条例征求意见稿 \(征求意见稿\)](#)
- Protocol: [VPNs are out, more security reviews are in: What's in China's new cyber rules](#)
- South China Morning Post: [Hong Kong saw itself as Asia's data hub, but Beijing's strict cybersecurity rules threaten that status](#)

REVIEW

China's Civilian Army: The Making of Wolf Warrior Diplomacy, by Peter Martin (Oxford University Press, 2021)

The People's Republic of China (PRC) has just demoted its diplomatic post in Lithuania. The move came after the country allowed the opening of a Taiwan representative office. China sees Taiwan as part of its own country and therefore unable to conduct separate diplomacy. A PRC Ministry of Foreign Affairs spokesperson said: “Lithuania will pay for its own mistakes.” The Global Times, a Chinese Communist Party (CCP) mouthpiece, said China would punish Lithuania like “swatting a fly.”

This aggressive style is part of a surging brand of Chinese foreign policy called “wolf warrior diplomacy.” In *China's Civilian Army*, Peter Martin gives readers a riveting history of China's diplomatic corps. He takes us from the origins of the CCP to today and, in doing

so, provides plenty of material with which to ponder the effectiveness of Chinese “wolf warriors.”

The book opens with three especially illuminating chapters on the painful emergence of the PRC and the enormous impact of the founder of China’s diplomatic service, Zhou Enlai. Zhou had a strong belief in the ability of the CCP to reclaim China’s standing in the world – a standing it had lost after a series of humiliating events that began with the unequal treaties imposed by foreign powers in the mid-19th century.

The early challenges of the CCP in gaining international recognition and the political vulnerabilities that marked the years before and after the 1949 founding of the PRC lead Zhou to demand intense discipline and loyalty from cadres. Such expectations meant that cadres sometimes went to extreme lengths to demonstrate their loyalty, including by taking a combative approach when delivering the party line to foreigners. Zhou often explained his vision for diplomacy in military terms: “Foreign affairs cadres are the People’s Liberation Army in civilian clothing.” An early cohort of Chinese ambassadors were, in fact, People’s Liberation Army generals – battle-worn soldiers who had helped bring the Communists into power and were thought of as particularly trustworthy.

Martin argues that Zhou’s emphasis on discipline and loyalty is programmed into China’s foreign policy DNA. As events in Lithuania show, it remains an important feature of its philosophy today.

*Reviewed by **Michael Laha**, German Chancellor Fellow*

Media coverage and sources:

- Global Times: [Experts warn of possible severing of diplomatic ties with Lithuania](#)
- Global Times: [Punishing Lithuania like swatting a fly](#)

PROFILE

Hui Kayan: The fall from grace of the man behind Evergrande

Hui Kayan, founder of one of the world’s largest real estate developers, started life in a small village in eastern Henan. Born in 1958, he studied at the Wuhan Institute of Iron and Steel (now the Wuhan University of Science and Technology) and started his working life at the Wuyang Iron and Steel Company, where he quickly rose to the level of director.

But he did not stay long in the steel sector. After ten years, he moved to Shenzhen, which had just been established as a Special Economic Zone. It was here that he founded Evergrande, in 1996, and from there made the most of the region’s economic miracle.

As Hui built Evergrande from a small player to a vast conglomerate – including the wildly successful Guangzhou Evergrande football club – he also amassed his own fortune, which peaked at USD 36 billion in 2019.

But with Evergrande now the focal point for fears of a housing and debt crisis in China, Hui has come under intense scrutiny and his personal wealth has faced the same fate as his company. Assets are being leveraged and sold to avoid default with creditors across

China and the globe. Hui has pledged two luxury homes in Hong Kong as collateral for loans, sold two private airplanes, and is attempting to sell a luxury Airbus ACJ330 wide-body jet – an aircraft model commonly used by heads of state for international travel.

As officials attempt to unravel the tangled knot of Evergrande, things are likely to worsen for Hui. Business leaders in China who fall on the wrong side of the law, or party, often face harsh punishment. Add to that Xi Jinping's emphasis on anti-corruption and the new concept of Common Prosperity, and it seems likely that this steel factory manager turned football-club-owning real estate mogul will fall even further from grace.

Media coverage and sources:

- Business Insider: [Meet Hui Ka Yan, the billionaire at the head of Evergrande](#)
- Forbes: [Hui Ka Yan uses USD 1 billion of personal fortune to help embattled Evergrande](#)
- The Independent: [A hot night in the Chinese Super League with Guangzhou Evergrande](#)

MERICS CHINA DIGEST

[Secret Chinese port project in Persian Gulf rattles US relations with U.A.E. \(WSJ\):](#)

China is reportedly building a secret military base at a port in the United Arab Emirates. Washington has warned the U.A.E. government – one of its closest Mideast allies – that this could threaten bilateral ties.

[Huawei, Alibaba sponsorship overshadows European cloud Gaia-X's summit \(Politico\):](#)

Senior members of Europe's Gaia-X cloud computing initiative have voiced concerns about sponsorship of its annual summit by Chinese tech firms Huawei and Alibaba.

[Germany may have been naïve about China first, Merkel says \(Reuters\):](#)

German China policy may at first have been naive in some areas of cooperation, but Berlin should not sever all connections in reaction to growing tensions, Chancellor Angela Merkel has told Reuters in an exclusive interview.

[Hong Kong activist Tony Chung jailed under national security law \(The Guardian\):](#)

20-year-old student activist Tony Chung has become the youngest person sentenced under the city's national security law. Chung was arrested while trying to seek asylum at the US consulate.

[What does China's crypto ban really mean? Insights from the ground \(Forkast\):](#)

China's crackdown on cryptocurrencies has effects beyond its borders. A Chinese industry insider explains what might happen next.

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