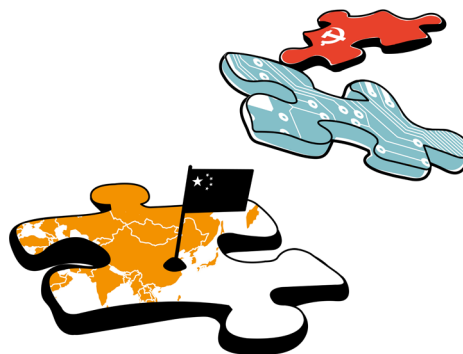


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MERICS

China Essentials



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TOP STORY

Germany treads a fine line on security vs economic interests at Sino-German consultations

Just one week after Germany cited heightened rivalry and competition with China as a factor in its first-ever national security strategy, Chinese Premier Li Qiang was welcomed in Berlin on a visit that culminated in several business deals and the launch of a new “climate and transformation dialogue”. The seventh Sino-German government consultations took place on June 20 as part of Li’s first trip abroad after Covid-19, after which he traveled to Bavaria and then to France.

The consultation agenda included meetings with the highest-ranking German officials, including Chancellor Olaf Scholz, around half the German cabinet and a number of high-level business representatives. Although there was no joint declaration and the atmosphere was more subdued than in the era of Chancellor Angela Merkel, both countries stated their intention to deepen their partnership.

Nevertheless, there was no hint in Germany’s tone and behavior of its highly anticipated new China strategy, which is meant to be embedded in European China policy, and whose release date has been postponed repeatedly – most recently until after the consultations. The EU just published its economic security strategy, proposing that member states assess risks in several areas including economic cooperation. This more cautious approach stands in contrast with the series of MoUs signed by German companies and Chinese ministries during the Li visit.

From China’s point of view, the meetings were a success, with Li noting at the press conference with Scholz that the delegation was “warmly” received. No questions were taken from journalists who attended the press conference. Chinese decision-makers also scored a victory when Chinese shipping giant Cosco finally signed a contentious deal with the Port of Hamburg on Monday. Germany is also one of the few countries in Europe that allows Huawei equipment on its 5G networks.

Germany has the strongest trade and business ties with China in the EU, especially in the industrial south, where Bavaria is located. These latest moves are likely to vex European and US partners, whom Germany recently teamed up with to oppose, among other things, economic coercion by China.

MERICS analysis: “Germany seems to be treading a fine line between protecting its own economic interests and consistently representing a more cautious relationship with a China that is also defined as a competitor and systemic rival,” says MERICS analyst **Barbara Pongratz**. “In G7 and EU circles, Germany seems to be fully on board on the de-risking agenda, but in meetings like the government consultations it still seems to be doing business as usual with little regard for the heightened competition and rivalry it claims is a concern vis-a-vis China. This is likely to raise the discontent of its international partners.”

Media coverage and sources:

- Bundeskanzleramt: [Deutsch-chinesische Regierungskonsultationen - Globalen Herausforderungen gemeinsam begegnen](#)
- Spiegel: [Cosco-Deal im Hamburger Hafen nach zwei Jahren unterzeichnet](#)

- Bundesinnenministerium: [Verfassungsschutzbericht 2022 sieht in China große Bedrohung](#)
- European Commission: [An EU approach to enhance economic security](#)
- Financial Times: [German chancellor presses China to give western companies 'level playing field'](#)

METRIX

820

This is the number of gigawatts China reached in installed wind and solar capacity at the end of April. That means wind and solar now make up 31% of all power generation capacity, according to the state media outlet *China Electric Power News*. China has set itself the goal of achieving a capacity of 1200 GW by 2030. Given that China usually sets its climate targets rather conservatively, the country is well on track to reach this capacity as early as 2026. Nevertheless, the rising share of renewables is being offset by increases in coal generation capacity, Global Energy Monitor (GEM) reported last month. (Source: [Power-technology.com](#), [IEA](#))

TOPICS

Chinese media paint a rosy picture of relations with Germany

The facts: Chinese mainstream and online media published glowing reports of Premier Li Qiang's trip to Germany and the German-Chinese government consultations. While US Secretary of State Antony Blinken's visit to Beijing dominated the front pages, commentators on the inside pages stressed the importance of Li's first official trip since taking office as signaling the importance of relations with Germany. Chinese media outlets avoided mentioning controversial topics or simply said both sides "differed on certain points", while praising the overall partnership as comprehensive, stable and long-term. The positive spin and optimistic outlook echo Chinese coverage of the Beijing visit of German Chancellor Olaf Scholz in late 2022. Chinese media have repeatedly praised his "pragmatic approach" to China and contrasted it to that of his Green Party coalition partner, which was said to be creating friction in bilateral relations on ideological grounds.

What to watch: Besides avoiding difficult issues, Chinese coverage selectively emphasized subjects that support Beijing's aims. Russia's war against Ukraine was mentioned only briefly as a "regional issue of common concern" and overlooked Scholz' urgent appeals for China to use its leverage over Moscow to pave the way towards a just and fair peace. Similarly, the chancellor's point that foreign companies are looking to

decrease dependencies on China was largely ignored, while his statement that de-globalizing was not in Germany's interest received a lot of attention. Most reports oversimplified Scholz's statement as meaning that "derisking" did not automatically mean reducing ties to China. Xu Zhaoying, a researcher at the Chinese Institute of International Studies, even saw his stance as distancing Germany from the "negative basis" of May's G7 communiqué that she said portrayed China as a threat.

MERICS analysis: "Beijing seems to be pinning many hopes on Scholz being able to smooth the waters between China and the West," says **Sophie Reiß**, MERICS Analyst. "The Chinese media's selective and optimistic narrative creates a distorted image of relations. While commentators in China are optimistic about economic cooperation, the latest EU Chamber of Commerce survey gave a bleak view of European companies' confidence in China. Under the surface, a host of issues will continue to test relations."

Media coverage and sources:

- Botschaft der VR China in Deutschland: [Li Qiang: China und Deutschland sollten Beispiel für Stärkung von chinesisch-europäischer Zusammenarbeit geben](#)
- Xinhua: [China, Germany push for cooperation, rejecting decoupling](#)
- European Chamber of Commerce in China: [Business confidence survey 2023](#)

Germany and the EU are as split on 5G security as they are on dealing with China

The facts: The European Commission this week again called on EU member states to implement its 2021 "toolbox for 5G security" after warning that China's Huawei and ZTE pose "materially higher" security risks than other telecoms-equipment makers. The move puts new pressure on Germany, which has dragged its feet on banning the Chinese companies, despite having the legal instruments to veto the use of untrustworthy suppliers. 59 percent of Germany's 5G radio access network – the stage that connects mobile devices to mobile networks – uses Chinese parts. Huawei and ZTE argue their security record is impeccable, but the EU has said it will not use their equipment anymore and that excluding them from 5G networks is justified and compliant with the 5G toolbox.

What to watch: Ten EU countries already ban or restrict the use of Huawei and ZTE equipment in 5G mobile networks, and Germany is reportedly re-assessing its stance. But while many EU members are advocating for minimizing dependencies on China, Germany seems focused on a very narrow "de-risking" in the interests of maintaining economic ties. German telecoms companies, for example, have to exclude untrustworthy vendors only from their core networks, and state-owned railway Deutsche Bahn can source equipment from wherever it likes as its communications network is not considered critical infrastructure. While the Commission appears to be in favor of introducing an EU-wide ban at some point, it is so far only urging member states to "achieve implementation" of its 5G toolbox across the region "without delay".

MERICS analysis: “Germany’s over-reliance on 5G equipment made by Huawei speaks volumes about the increasing split between Berlin and Brussels regarding China,” says MERICS analyst **Antonia Hmaidi**. “As the largest country in the EU, an effective EU-wide China strategy is not possible without Germany – when not united, both the EU and Germany are in weaker positions when dealing with China.”

Media coverage and sources:

- EU Commission: [The EU toolbox for 5G security](#)
- Light reading: [Deutsche Telekom boss prepared to defy EU and stick with Huawei](#)
- Euractiv: [Why Germany keeps dragging its feet on the Huawei ban](#)

Foreign investors spin off China operations to mitigate geopolitical risks

The facts: In an effort to reduce the risk of doing business in China, another company – AstraZeneca – is reportedly considering separating its China division from global operations. The plan is to register it as an independent entity in Hong Kong. Earlier this month, the prominent Silicon Valley venture group Sequoia also turned its Chinese business into an autonomous entity separate from its US operations. The primary motivation behind this emerging trend seems to be the need to get ahead of geopolitical trends and build firewalls between Chinese and global operations. Simultaneously, Beijing’s own localization demands in the data, supply chain, and technology spheres are pulling many foreign investors deeper into the market.

What to watch: The competing pressures – to de-risk geopolitically but also deepen positions and maintain operations in China – are driving novel corporate strategies. AstraZeneca and Sequoia join moves like Volkswagen’s creation of a separate board of directors for its China operations. Chinese companies are also employing similar logic. In March, it was revealed that Alibaba had been divided into six distinct companies, including two separate e-commerce entities catering to the Chinese market and one focused on offshore operations.

MERICS analysis: “The operational details of these spin-offs remain unclear, as does their relationship with their original company, but the fact is that the strategies now under consideration were previously deemed unthinkable,” said **Jacob Gunter**, Senior Analyst at MERICS. “AstraZeneca and Sequoia’s moves represent the more extreme measures companies are taking in response to geopolitical trends, but foreign investors in China are considering a wide spectrum of strategies to navigate these new realities.”

Media coverage and sources:

- FT: [AstraZeneca drafts plan to spin off China business amid tensions](#)
- Nikkei: [Sequoia Capital's split-off of China business spurred by Sino-U.S. rift](#)
- Yicai: [VW Names New China Team to Tackle Falling Sales](#)

VIS-À-VIS

Vincent Brussee: “Myths about social credit spread like wildfire because they confirmed our biases”

MERICS China Essentials spoke with MERICS Analyst Vincent Brussee about his new book “Social Credit - The Warring States of China’s Emerging Data Empire” (Palgrave Macmillan, 2023).

You argue that China’s social credit system is such a ragbag of initiatives that not even Beijing has been able to figure out what it really is and should achieve. Why?

Financial credit systems like Schufa in Germany or FICO in the United States have existed for decades. They assess the likelihood that someone will repay a loan. Experts and officials in China took inspiration from them in the late 1990s to form the “social credit system”. But over time they conflated many unrelated issues – things like tax fraud, food-safety issues, and even garbage separation became associated with their idea of “credit”.

The result was that no one really understood what the term meant any more – especially the Chinese government. There are anecdotes about scholars in China interviewing local government officials and eliciting more questions than answers: “Can you tell us what social credit is? Because we cannot figure it out!” Things have been like this for well over two decades now and a fix seems far away. Just eight months ago, authorities released a draft law for social credit. It had been in the works perhaps a decade, yet was a complete mess, as if they had just asked all ministries what they thought and copy-pasted all replies into one document without further thought. Now complete silence has descended over the bill again, a sign that officials may already be rewriting it.

A German magazine called social credit “a points-system designed to control everyone”. How did the view of so many Western observers become so warped?

There are currently dozens of separate initiatives nominally linked to “social credit” in China, but [none of them involve scoring systems](#) designed to control everyone. A myth like that is formed in the same way as the unrecognizably garbled message at the end of a game of “Chinese Whispers” – both have changed radically as they were relayed from person to person. Under social credit, there is, for example, a blacklist for people who refuse to comply with a court order, say to finally repay a loan. These so-called “judgement defaulters” cannot take high-speed trains, as the court considers these an unnecessary luxury for people refusing to repay debts. But it didn’t take long for some China watchers to say judgement defaulters could not take any trains. Similarly, when a tech-company director suggested that people playing games may be seen as “less trustworthy” in the social credit context, the message after transmission abroad became: the government will ban people for playing too many videogames. A huge difference!

These myths spread like wildfire because they confirmed our biases. Let me make this very clear, surveillance in China is real and scary. But we cannot understand everything in China by looking through the lens of control. Social credit has always been about the economy first, which means we need to look at the system through this lens as well.

If the Chinese system is nowhere near as bad as Western mythmaking has led us to believe, why should we still pay attention to the way social credit operates?

A lot of the mechanisms we talk about in relation to “social credit” – blacklists, credit assessments, for example – are not new and actually originate in the “West”. This raises two important questions. First, even Western countries have discovered that they can exacerbate socio-economic inequality or embed racist biases. So, what happens when they are applied in a much more restrictive political context and the government fails to establish guardrails? You get abuse. Even if it’s nothing like in George Orwell’s “1984”, some local authorities in China have abused social credit, for example by threatening to penalize people who did not take Covid-19 tests. About 10 million people and companies in the country can find themselves on one of many blacklists at any one moment.

Second, by considering social credit something uniquely “Chinese”, are we creating a false sense of security that abuses could never happen elsewhere? In the book, I compare social credit with a scandal in the Netherlands, where tax authorities illegally used risk algorithms and blacklists to investigate potential fraud. In some ways, this was closer to the mythic social credit regime than China’s actual system. That makes social credit a useful mirror: how close are its practices to ours and do we feel comfortable with that?

MERICs CHINA DIGEST

[China's quantum leap – Made in Germany \(Deutsche Welle\)](#)

Heidelberg university hosts many scientists conducting groundbreaking work on quantum technology. A DW investigation with CORRECTIV shows how Germany’s oldest university became entangled in China's quantum military strategy. (23/06/13)

[Microsoft to move some top AI experts from China to Canada \(Financial Times\)](#)

Microsoft is transferring some of its leading AI researchers from China to a new lab in Canada, according to media reports. (23/06/10)

[Dutch Seek to Bar Chinese Students From Tech Courses in Chip War \(Bloomberg\)](#)

The Netherlands are reportedly working on legislation that could be used to bar Chinese students from university programs on sensitive technologies including semiconductors and defense. (23/06/12)

[China hits back after Biden calls Xi a “dictator” \(Reuters\)](#)

China hit back on Wednesday after US President Joe Biden referred to President Xi Jinping as a “dictator”, saying the remarks were absurd and a provocation. Biden made his comments just a day after US Secretary of State Antony Blinken completed a visit to China aimed at stabilizing relations that Beijing says are at their lowest point since formal ties were established in 1979. (23/06/21)

[Chinese graduates go viral by expressing concerns about job prospects \(The Guardian\)](#)

Viral images on social media show students draping themselves over park benches or stairs in poses of dejection. After graduating this month, 11.6 million students are about to enter a difficult jobs market for young people. On Thursday youth unemployment for Chinese people between the age of 16 and 24 hit a record high (of 20.8 percent) for the second consecutive month as the economy’s post-Covid growth spurt faded. (23/06/15)

[Hong Kong pollster to pull questions on sensitive topics from long running survey series \(HK Free Press\)](#)

A Hong Kong pollster has said that it will scrap about a quarter of its usual survey questions and make private the results of some others. The affected questions include those related to the Tiananmen crackdown, cross-strait issues, the Handover, the city's disciplinary forces and ratings of lawmakers and other officials. (23/06/21)

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