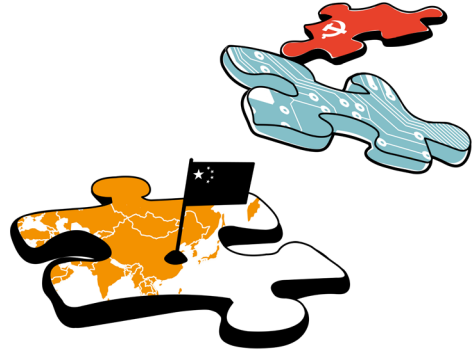


MAY 30, 2024

MERICS China Essentials



CONTENTS

TOP STORY	2
EU member states join forces against Beijing's scientific espionage	2
METRIX.....	3
TOPICS.....	3
Beijing's moves to boost real estate sentiment are no prelude to policy reversal	3
Beijing tries to cast itself as responsible global actor in Xinjiang.....	4
Taiwan's president gets swift reminder of the limits of minority government	5
REVIEW.....	6
The sentinel state: Surveillance and the survival of dictatorship in China, by Minxin Pei (Harvard University Press, 2024)	6
MERICS CHINA DIGEST	7



MERICS

Mercator Institute for China Studies

TOP STORY

EU member states join forces against Beijing's scientific espionage

Amid increased warnings about state-sponsored espionage targeting European universities, the Council of the European Union adopted a non-binding recommendation on May 24 to safeguard research security in the EU. While the document doesn't name any country, China is the elephant in the room. Among other things, member states now want to bolster information exchange between the scientific community and intelligence agencies, a practice that has raised ethical concerns in academia and politics.

The Dutch intelligence service AIVD in 2022 reported that Beijing was using academic cooperation and espionage to target Dutch institutions and scientists on a regular basis. Germany's domestic intelligence agency BfV the same year also concluded that China had been operating a system of technology and know-how transfer for civilian and military development, posing "the greatest threat in terms of economic and scientific espionage."

Information exchange between academia and intelligence services in the EU could take place through classified and non-classified briefings or dedicated liaison officers. The Netherlands and some other countries already have research-security help desks to put the scientific community in touch with security services and other government agencies. But deeper links to the intelligence community may raise concerns. Across the Atlantic, the FBI's "China Initiative", launched by the Trump Administration and discontinued by Joe Biden, was criticized as racially biased, fueling distrust and fear among the scientific community.

The new EU recommendation is one of several measures the Commission tabled in January to underpin the EU Economic Security Strategy. By adopting the non-binding text, member states have acknowledged the need for a unified and risk-based approach to protecting international research cooperation from interference and exploitation. In line with the principle "as open as possible, as closed as necessary", the document encourages national governments, the Commission and research-funding organizations to take measures such as security and resilience assessments – and to create a joint platform at EU level to help tackle foreign interference by states and other actors.

Although Chinese state-sponsored scientific espionage is not a new phenomenon, European governments have recently become more alert to the issue, suspected cases making headlines ever more regularly. In April, German police arrested three alleged spies suspected of using scientific cooperation with universities to pass information about dual-use technologies on to China's powerful Ministry of State Security.

MERICS analysis: "A robust counterintelligence response is good when a foreign government runs a campaign to appropriate technology and knowledge from abroad," says MERICS Lead Analyst **Rebecca Arcesati**. "But structuring collaboration between the scientific and the intelligence communities appropriately won't be trivial—the ethical stakes are high, and care should be taken not to jeopardize beneficial collaborations."

More on the topic:

- MERICS: [AI entanglements: Balancing risks and rewards of European-Chinese AI collaboration](#)

Media coverage and sources:

- Council of the European Union: [Council recommendation on enhancing research security](#)
- European Commission: [Proposal for a Council recommendation on enhancing research security](#)

METRIX

344 billion

This is the amount in CNY that China's National Integrated Circuit Industry Investment Fund collected for its third funding period, more than the 343 billion CNY it amassed in its first and second rounds combined. Economic headwinds meant that pledges for the fund were sluggish until state-owned banks stepped in to top them up to the equivalent of 44 billion EUR. This doubling of the fund's resources will fuel European concerns about Chinese overcapacities in legacy lower-end chip production and downstream products like industrial robots, medical devices, household appliances and cars. (Source: [SCMP](#))

TOPICS

Beijing's moves to boost real estate sentiment are no prelude to policy reversal

The facts: Beijing is adjusting the pace – but not the direction – of its policy of winding down risks in China's increasingly volatile real estate sector. The People's Bank of China on May 17 introduced a 300-billion-CNY (EUR 38 billion) relending program for state-owned enterprises (SOEs) to shore up the property sector after several years of eroding confidence among prospective home buyers. SOEs can use the financing to buy built-but-unsold homes and convert them into affordable housing. Or they can purchase idle land from developers and pay them to complete sold-but-unbuilt housing. Authorities expect this first nationwide government purchase program for the property market since 2021 to unlock up to 500 billion CNY (EUR 62 billion) in commercial bank financing for housing.

What to watch: Beijing throughout May announced sweeping policies aimed at stabilizing the property market, such as reduced mortgage interest rates, down-payment ratios, and interest rates on loans tied to workers' housing provident funds that refund savings when a worker buys a house. The new policies aim to lower the costs and risks of purchases to lure consumers back into the real-estate market. Importantly, their main aim is to support households, not often heavily debt-burdened developers. The program is not a rescue

effort for the sector – if it were, the sum would be inadequate, as the value of unsold or unfinished housing and unused land is estimated at 30 trillion CNY.

MERICS analysis: “Beijing’s move should not be understood as a reversal of the real estate crackdown. It is a pragmatic change in pace of the current policy to maintain at least a baseline of value in real estate, the sole investment for much of China’s middle class,” said MERICS Lead Analyst **Jacob Gunter**. “Xi Jinping has made it clear that he intends to tolerate a lot of economic pain to deflate the housing bubble, and officials have spared no words for the troublesome developers that ‘should go bankrupt or be restructured’.”

Media coverage and sources:

- Reuters: [China's latest property market support package - its contents and what's at stake](#)
- SCMP: [China property: “underwhelming” stimulus to fall short of refloating market amid sunken buyer confidence, analysts say](#)
- CNN: [China is trying to end its “epic” property crisis. The hard work is just beginning](#)
- CNBC: [China pledges billions in measures to support struggling property sector](#)

Beijing tries to cast itself as responsible global actor in Xinjiang

The facts: China's government is showcasing its efforts to “stabilize” and “develop” the region of Xinjiang in an apparent attempt to improve its global image. Premier Li Qiang visited the region that is home to over 11 million of mostly Muslim Uyghurs in early May, with Chen Wenqing, head of the Chinese Communist Party’s powerful Central Political and Legal Affairs Commission, following later in the month. Their trips were meant – in Chen’s words – to “promote stability” and “normalize” counter-terrorism efforts against separatists and other threats in Xinjiang. They coincided with a new law on the acquisition of “unused land” coming into force, ostensibly to make land available for Xinjiang’s economic development.

What to watch: China's strategies for maintaining control and reshaping Xinjiang's socio-economic landscape could yet hamper its attempts to burnish its image as a responsible global power – particularly due to the clear discrepancies between its external support for Palestinian independence and internal suppression of Uyghur and other minority groups. Xinjiang’s unused land law could end up serving as a pretext for authorities to seize land from minority Uyghurs to accommodate development projects managed by Han Chinese migrants, furthering the repression by redistributing land and altering the region’s demographics.

MERICS analysis: “There's no evidence of improvement in the treatment of minorities in Xinjiang, only economic development for the region overseen by Han,” says MERICS Analyst **Alexander Davey**. “Socio-economic development in Xinjiang is key for Beijing to enhance its global image and to portray itself as a stabilizing force to its domestic audience.”

Media coverage and sources:

- RFA: [Uyghur woman who complained about land grab arrested by authorities in Xinjiang](#)
- SCMP: [In Xinjiang, China's security chief calls for 'normalization of counterterrorism'](#)
- Xinhua: [Chinese premier urges Xinjiang to boost people's wellbeing, high-quality development](#)
- Official Chinese government website (CN): [State Council approval of territorial spatial plan of Xinjiang Uyghur Autonomous Region \(XUAR\)](#)
- Official Chinese government website (CN): [Administrative measures for the review of the development of state-owned unused land in XUAR](#)

Taiwan's president gets swift reminder of the limits of minority government

The facts: Taiwan's opposition parties wasted no time in showing new President Lai Ching-te the limitations of his minority rule only days after his inauguration – a sure sign that his independence-leaning Democratic People's Party (DPP) could have a tough time at the island's helm. Legislators from the conservative Kuomintang (KMT) and the center-left Taiwan People's Party (TPP) used their majority to pass a bill granting lawmakers more power to question officials and citizens in cases of alleged wrongdoing, including the new offence of “contempt of congress”. The legislation sparked massive protests outside and fights among legislators within Taiwan's parliament. While the KMT and TPP argue the rules are standard in other democracies, the DPP sees them as a ruse to undermine Lai and increase Beijing's influence through China-friendly opposition legislators.

What to watch: The clash over the reform bill highlights the divisions in Taiwan's society and tough governing environment for Lai. Next to avoiding relations with Beijing spinning out of control and keeping Washington on side, Taiwan's new government will have to deal with powerful political opponents on its home turf. The situation could lead Lai to adopt a more hawkish stance toward China to rally his DPP base and build a strong political foundation for local elections in 2026 and the next national vote in 2028. But it could also see the KMT and TPP attempt to increase exchanges with China from parliament – and block key legislation. Lai has named boosting Taiwan's defense capability – which will soon feature a first Taiwan-made submarine – a priority.

MERICS analysis: “The clash over the reform bill reflects Taiwan's vibrant democracy, but also suggests the country could soon become more erratic on the international stage,” says MERICS Analyst **Claus Soong**. “Beijing's recent military exercises and other tough actions have increased anti-China sentiment in Taiwan and opposition to Beijing's goal of ‘reunification’. Yet Taiwanese political parties remain divided on how best to deal with China. With one in control of the government and two others in control of parliament, there are various possibilities for the trajectory of regional stability.”

Media coverage and sources:

- Nikkei: [Taiwan opposition passes contentious bill to empower legislature](#)
- United Daily: [國會改革法案三讀 聽證會無正當理由缺席 最重罰 10 萬](#)
- CNN: [Taiwan's youth protest plans by lawmakers favoring closer China ties to tighten scrutiny of president](#)

REVIEW

The sentinel state: Surveillance and the survival of dictatorship in China, by Minxin Pei (Harvard University Press, 2024)

As the author of major works on China's transformation, Minxin Pei has explored how China's Communist Party (CCP) has managed to stay in power, but also how the country has reached the limits of development under an autocracy increasingly focused on national security. In this latest book, he describes how China's economic rise has led not to political liberalization, but the rise of a surveillance state – one whose vast bureaucracy to administer, monitor, report and contain needs constant resource-intensive maintenance. “In the Chinese context, it is economic failure, not success, that will more likely be the precursor of a future transition to democracy”, Pei notes.

For the author, the surveillance state is a state within a state: a system of agencies, initiatives, human and technological networks employed to gather intelligence to counter threats and prevent opposition. Where other recent publications have focused on the technology of surveillance, Pei takes his readers on a deep dive of the organizational underpinnings. Concisely and clearly, he outlines the emergence of China's modern surveillance state from the early years of the People's Republic under Mao Zedong.

Pei shines a light on the rapid expansion of the surveillance state for “stability maintenance” after the CCP's “near-death experience” in 1989, the increase of physical and especially digital controls beginning in the mid-2000's and the catalytic effect of Covid-19 lockdowns and other measures. He breaks down the portfolios of party-state agencies and their programs, making the book an interesting read for experts and non-experts alike. Case studies throw into relief the “battlefields” Beijing keeps under constant supervision – the commercial sector, religious institutions, university campuses and the internet, among others, a seen as potential domains of unwanted collective action.

At a time in which China's surveillance state is expanding again, Pei offers a comparative analysis to show what has allowed it to succeed where others have failed. He highlights China's Leninist state organization, which guarantees the CCP's reach into all levels of society thanks to multilayered systems of control and in which power is carefully distributed between ministries and agencies to keep them in check. As China's Ministry of State Security is gaining ever more power and visibility, this is a very timely book.

Reviewed by **Katja Drinhausen**

MERICS CHINA DIGEST

[China announces export controls on certain aviation equipment to “safeguard national security” \(South China Morning Post\)](#)

From July 1 onwards, parts and engines of aerospace equipment and gas turbines will no longer be allowed to be exported without permission. According to official Chinese data, the US, Germany and Saudi Arabia were the top three importers of relevant products in the first four months of the year. (24/05/30)

[US warns Europe to get serious about China’s aid to Russia \(Politico\)](#)

Washington is stepping up diplomatic efforts to convince Europe about the scale of China's support for Russia's war against Ukraine. The second most senior official at the US State Department, Kurt Campell, said that Beijing would back Moscow “to the hilt” in a speech ahead of July’s NATO summit. (24/05/29)

[Xi hosts Arab leaders from Egypt, UAE, Bahrain as China-Middle East ties widen \(Bloomberg\)](#)

Heads of state from Egypt, the United Arab Emirates, Bahrain and Tunisia are among the attendees of the China-Arab States Cooperation Forum in Beijing on May 30. Investment links and the war in Gaza are expected to be the focus of the talks. (24/05/29)

EDITORIAL TEAM

MANAGING EDITOR

Claudia Wessling
Director Communications
and Publications, MERICS

EDITORS

Ellen Thalman
Freelance editor

Gerrit Wiesmann
Freelance editor

Linda Heyer
Project Manager, MERICS

Hannah Seidl
Senior Communications and Publications Manager, MERICS

GRAPHICS

Alexandra Hinrichs
Graphic Designer, MERICS

PUBLISHER

MERICS | Mercator Institute for China Studies

Alte Jakobstraße 85–86

10179 Berlin

Tel.: +49 30 3440 999 0

Mail: info@merics.de

www.merics.org