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METRIX

83

83 of the Fortune 500 companies of 2017 do not display Taiwan, Hong Kong and Macao as part of China on their websites. The Chinese Academy of Social Sciences (CASS) and the Internet Development Research Institution at Peking University published these numbers **in a study last week**. 2018 saw the Chinese leadership actively pushing foreign companies to adopt their view that Hong Kong, Macao and Taiwan are integral parts of China. International airlines flying to China were required to list Taiwan as “Taiwan/China” in their booking systems. In one case, the hotel chain Marriott was attacked on social media for listing the three locations as separate entities from China. Following these incidents, various companies preemptively followed Beijing’s position and changed their websites. Companies that have not adopted this line include Apple, Amazon and Siemens.

TOPIC OF THE WEEK:

Germany calls for coordinated response to competition from China

The German government and leading representatives of the German business community have called on the EU to strengthen its unity and act more assertively to counter growing competition from China.

In a policy paper **published** on January 10, the Federation of German Industries BDI described growing challenges posed by the state-dominated Chinese economy. China had entered into “systemic competition” with liberal market economies such as Germany, the BDI said in a clear departure from previous more China-friendly positions. The group also warned German companies against relying too heavily on the Chinese market. As Germany’s main business lobby group, the BDI’s views carry weight and feed into government policy decisions.

Meanwhile the German government attempts to strengthen European unity vis-à-vis China. **Media reports** say Chancellor Merkel plans an EU-China summit with leaders from all EU member states in the second half of 2020, when Germany is due to hold the rotating six-months EU presidency. Previous EU-China summits have tended to involve only the EU’s own leaders, i.e. EU Commission president and EU Council president, and Chinese representatives.

China was the EU’s largest trading partner after the United States according to 2017 figures. By holding the summit, Berlin aims to counter what it sees as Beijing’s divide-and-rule approach to dealing with the bloc, especially through the 16+1 format.

Additionally, individual members of Merkel’s cabinet have openly voiced criticism of China in recent months. Development minister Gerd Müller, traveling in Zambia **last week**, warned emerging economies against becoming too dependent on loans from China. Foreign minister Heiko Maas had expressed concerns over the situation in Xinjiang **late last year**.

However, the various public expressions of misgivings about China do not amount to a new China policy yet. The BDI policy paper was **heavily criticized** by some within the business community. The Association of German Chambers of Industry and Commerce (DIHK) emphasized the positive sides of trade with China. About 900,000 jobs in Germany depend on exports to China, said DIHK economist Volker Treier. The BDI paper “**brings another tone**” into the debate, he added. “But we always have to keep in mind that China is our most important trading partner. So, every word should be weighed carefully.”

Germany’s economic relations with China will also partly depend on how the Asia-Pacific Committee of German Business (APA) is going to position itself. Its new leader, Siemens CEO Joe Kaeser, is due to take over at APA at the end of February. Kaeser is known for his China-friendly stance, however, he recently **strongly criticized** the takeover of robotics-manufacturer Kuka by Chinese investor Midea.

Finally, there is the question of Huawei, the controversial Chinese telecoms company, which faces allegations of spying. The United States and New Zealand have banned Huawei from building new 5G networks in their respective countries. In Germany, the discussion about Huawei is ongoing. Telecoms

companies have until Friday (January 25) to file applications to participate in a 5G-frequency auction due to take place in spring.

CHINA AND THE WORLD

Former China envoys call on Xi Jinping to release two detained Canadians

More than 140 former diplomats and leading China experts from 19 different countries **have signed** an open letter to Chinese president and party leader Xi Jinping to release two detained Canadians. Michael Kovrig, a Canadian diplomat on leave to work for the International Crisis Group in Hong Kong, and businessman Michael Spavor were detained in China on December 10 last year in a move widely seen as retaliation following the arrest by Canadian authorities of a senior Huawei executive, Meng Wanzhou, for extradition to the US.

In their open letter the former diplomats and academics said they are “deeply concerned” by the detention of Kovrig and Spavor, who in their respective roles frequently met with Chinese officials, researchers and scholars. The “detentions send a message that this kind of constructive work is unwelcome and even risky in China,” **the letter** said. “That will lead to less dialogue and greater distrust, and undermine efforts to manage disagreements and identify common ground. Both China and the rest of the world will be worse off as a result.”

Among the signatories are former ambassadors to China from Canada, the United States, Great Britain, Australia, Germany and Sweden. Among the academics are leading China experts such as Jerome Cohen, Orville Shell, Susan Shirk, Francois Godement and several researchers from MERICS. A spokeswoman for the Chinese foreign ministry called the letter “a mistake”. She said the signatories “equate involvement in activities endangering China’s national security to the engagement in policy study and diplomatic work.” Such an approach showed “disrespect to those people dedicated to promoting friendly exchanges and other countries,” she added.

Anti-Chinese rally in Kyrgyzstan draws hundreds of protesters

Hundreds of protesters took to the streets of the Kyrgyz capital Bishkek to rally against China’s growing influence in the region. The protesters, who gathered in the center of the city **last week**, demanded curbs on the number of work permits for Chinese citizens, a reduction of Kyrgyz debt to China and other measures to reduce the Chinese presence in the country. It was the biggest anti-China protest in Central Asia to date. The protesters also demanded the release of Muslim minorities, among them ethnic Kyrgyz, **interned in camps** in China’s Xinjiang Autonomous Region.

China has invested heavily in Central Asia, a region crucial to Beijing’s Belt and Road Initiative (BRI). In Kyrgyzstan, China is the main trading partner, investor and creditor, with two Chinese policy banks holding about one third of the country’s external debt. Among many Kyrgyz concern over dependency

on China turned into anger last year when an upgrade of Bishkek's main power plant by a Chinese firm led to a five-day blackout in the city.

The latest protests in Bishkek are unlikely to derail relations with Beijing. However, anti-Chinese sentiment is not limited to Kyrgyzstan and has the potential to delay or even halt BRI projects in the region.

Kenya: Leaked details of Chinese loans trigger debate

Details of Chinese agreements to finance infrastructure investments abroad are hard to come by. In Kenya, however, leaked details of such an agreement have triggered a debate and raised concerns over what critics call Chinese „debt-trap diplomacy.“ Kenya's main newspaper, „The Daily Nation“, last week **published details** of a 2014 major railway contract between the Kenyan government and China Exim Bank, revealing unfavorable conditions and hidden traps to the Kenyan state.

According to the newspaper, the contract for the Standard Gauge Railway (SGR) line, including a USD 1.6 billion loan, stipulates that the Chinese government can seize strategic assets if Kenya defaults on repayments. The Nation says the contract also makes it mandatory for Kenya to use Chinese “goods, technology and services” in the railway's construction and operation. A confidentiality clause prohibits the Kenyan government from disclosing the terms of the contract without Beijing's written consent. Any disputes over the contract are to be arbitrated in Beijing. The newspaper did not reveal how it acquired the contract, nor how it determined its authenticity.

The SGR is Kenya's **largest infrastructure project** since independence. It connects the country's two largest cities Nairobi and Mombasa and was inaugurated in 2017.

Last month, Kenya's president Uhuru Kenyatta rejected claims that Chinese lending has hurt the country. But critics say the contract between China Exim Bank and Kenya **could be evidence** of debt-trap diplomacy – burdening countries with unsustainable loans. China has repeatedly rejected such accusations.

News in brief

- Davos: **World Economic Forum started under specter of US-China trade war**
- 5G network: **Chinese ambassador threatens repercussions if Canada bans Huawei**
- Defense treaty: **Philippines want Washington's help in case of South China Sea clashes**
- Washington: **DIA report warns of Chinese military's confidence in its capabilities**

POLITICS, SOCIETY AND MEDIA

Hong Kong moves to criminalize insults to Chinese national anthem

Booing off the national anthem at large football matches in Hong Kong will probably soon be illegal: The Hong Kong government **this week** introduced a controversial new bill that would criminalize insults to the Chinese national anthem. If passed by the Legislative Council, Hong Kong's parliament, the "National Anthem Law" penalizes those who "publicly and intentionally insult" the anthem, "The March of the Volunteers", with a maximum fine of 50,000 Hong Kong Dollars (5600 Euros) and three years in jail.

The bill is expected to pass later this year. It will also make it mandatory for all school children to learn the anthem, including those who attend international schools.

For critics of the Hong Kong and Chinese government, the national anthem law is the latest blow to the freedoms which set the city apart from mainland China. They also point out that it is difficult to define **what exactly** constitutes "an insult" to the national anthem. When the new law was introduced on Wednesday, pro-democracy activists staged **a brief protest** in front of the parliament, tying a pro-democracy banner to flagpoles outside the legislature. Pro-China demonstrators were also in attendance, calling for the law to be implemented.

In mainland China a similar "national anthem law" came into effect in 2017. In both Hong Kong and the mainland insulting the Chinese national flag is already a criminal offense and can lead to similar fines and jail sentences as stipulated in the national anthem law.

Since the 2014 umbrella protests in Hongkong, tensions between the Chinese government in Beijing and people in Hong Kong have run high. Football fans repeatedly expressed their opposition to Beijing by booing off the Chinese national anthem and turning their backs to the stadium when "The March of the Volunteers" was played.

Mareike Ohlberg, research associate at MERICS: "This is a further erosion of the „one country, two systems" principle that defines the status of Hong Kong. The new national anthem law violates Hong Kong's own Basic Law which guarantees freedom of speech.

Canadian faces death sentence in Chinese drug trafficking retrial

While no formal procedure laws were violated, the unusual speed and publicity of the retrial suggests that political motives have been at the forefront of the death sentence for Canadian Robert Lloyd Schellenberg in a Chinese court. Dalian Intermediate People's Court sentenced the Canadian to death for drug trafficking in a one-day retrial on January 14, 2019.

Schellenberg's case had previously **proceeded very slowly**. After being arrested in December 2014, his case wasn't heard until March 2016. It took another two years until he was sentenced to 15 years in prison on November 20, 2018 – a verdict he appealed. Normally, sentences are supposed to be handed down within two months following the hearing.

Since December 2018, the case has moved with unusual expediency. In reviewing Schellenberg's appeal, the Liaoning High People's Court decided on December 29, 2018 - after only 20 minutes of deliberations – to send his case back to the lower court for retrial as the previous decision was deemed “overly lenient”. Only 16 days later, his case was heard again on January 14, 2019. Several international journalists were invited to attend the hearing and witness the court sentencing Schellenberg to death right after the trial, a move **one Chinese defense lawyer** called unprecedented. Schellenberg's defense appealed the verdict arguing that no substantial new evidence was provided to justify the retrial and the harsher sentence.

The latest developments coincide with the diplomatic row between China and Canada over the detention of Huawei CFO Meng Wanzhou and the subsequent arrest of two Canadian nationals in China (see news story above).

News in brief

- Macau: **former leader of Hong Kong umbrella movement denied entry**
- Shenzhen: **He Jiankui fired by university - accused of using gene-editing for “personal fame and fortune”**
- Taiwan: President **Tsai Ing-wen's approval rate rises after Xi's tough speech on Taiwan**
- Online censorship: **New content control regulations for popular short film platforms released**

ECONOMY, FINANCE AND TECHNOLOGY

Chinese economy slows to lowest growth in almost 30 years

China's economy cooled in the fourth quarter 2018 and slowed overall growth last year to its lowest pace since 1990. **Figures released on Monday** show that real GDP grew at 6.6 percent in 2018 and 6.4 percent in the last quarter of 2018. Slower growth in domestic consumption and exports were the main drivers for these developments. The trade dispute between China and the United States is not yet reflected in these figures. However, should the trade war escalate, exports could slow further.

Over the past few months, the Chinese government has used various stimulus measures, such as tax cuts, infrastructure investment and extra lending to small and medium-size enterprises, to prop up the economy. However, a further slowing of growth is expected this year. While the government might try to offset fallings exports in the short run with extra stimulus measures, longer term risks to the Chinese economy remain high.

MERICs analysis: **Growth comes under pressure even before trade war strikes.** Economic Indicators Q4/2018 by **Max J. Zenglein** and **Maximilian Kärnfelt**.

China's birth rate drops to record low

Looser population controls in China have failed to generate a baby boom. According to official figures released on Monday, the number of new births fell to 15,23 million in 2018, the lowest level since family planning policies were relaxed in 2014. This was equivalent to a drop in the birth rate in 2018 to 10.94 per thousand, down from 12.43 the previous year. The last time China's birth rate was so low was in 1961, the last year of China's great famine during which millions of people starved to death and the birth rate plummeted.

The low birth rate also has an impact on China's overall age structure: the share of people aged 65 and over is now at 10.6 percent. In 1961, in contrast, that share was just 3.7 percent.

In 2014, China's leadership announced a relaxation of family planning policies that since 1980 had limited most Chinese families to one child. Since 2016, all urban couples are allowed to have two children. Many couples, however, are reluctant to have children because they cannot afford to pay for health care and education amid surging property prices. There are also complaints that educated urban women prefer careers to motherhood.

The dwindling birth rate **is casting a shadow** over China's future economic outlook by adding pressure to an already shrinking labor pool and growing concerns over a rapidly ageing population. But it also brings China into line with regional economies such as Hong Kong, Taiwan, Singapore, South Korea and Japan where birth rates are also very low.

News in brief

- Finance Dialogue: **Germany and China sign agreements to extend financial cooperation**
- Blockchain: **New Chinese regulations require registration of real names and identification**
- 5G research: **technology park covered by 5G opens in Hangzhou, East China**
- Silk Road: **first train departs Ningbo for Duisburg via Chongqing**
- Medicine: **China aims to cut drug prices through pilot "group-buying" plan**

THE EUROPEAN VIEW

Swedish defense agency raises concerns over Chinese satellite station in polar region

Scientists at the Swedish defense ministry have warned that a Chinese satellite station located in Karuna in northern Sweden could potentially be used by the Chinese military for spying and surveillance purposes. **The accusations** triggered an angry response from the Chinese embassy in Stockholm, calling the remarks "irresponsible" and "**hyped up fabrications**".

The station, officially known as the China Remote Sensing Satellite North Polar Ground Station, was built by China in 2016 and is run by the Institute of Remote Sensing and Digital Earth (RADI), which is

part of the Chinese Academy of Sciences. According to the scientists from the Swedish Defense Research Agency, under the Ministry of Defense, “China could be using the station – which relays images of the arctic regions – to complement military intelligence or provide additional military satellite surveillance should Chinese military satellites be disabled in a time of war.”

While the Karuna station was built for civilian use, the boundaries between the Chinese military and the civilian sector are not clearly defined. Furthermore, Chinese plans for military-civilian integration do raise questions whether satellite stations like the one in Sweden could indeed be used for surveillance purposes. But the warnings by the Swedish scientists are also part of a wider debate in Sweden on China’s growing influence and come amid a diplomatic row that has marred bilateral relations. The Swedish government has repeatedly voiced concerns regarding China’s human rights situation after the arrest of Chinese-born Swedish bookseller **Gui Minhai** in China about a year ago. Beijing, for its part, complained about the treatment of some **Chinese tourists** in Sweden and even issued a travel warning, which the authorities renewed last December.

PROFILE

Huawei CEO Ren Zhengfei: „Huawei never passed on user data”

74-year-old Ren Zhengfei is living through turbulent times. Not only was his daughter and CFO of his company, Meng Wanzhou, arrested in Canada and faces extradition to the United States. An increasing number of Western security agencies also accuse the world’s biggest network provider and third biggest smartphone manufacturer of spying on foreign companies. The allegations come at a crucial time for Huawei as many countries are about to auction off licenses for the development of 5G networks, the latest generation of mobile phone and internet communications. Under these circumstances, it comes as little surprise that **Ren**, a former soldier and engineer of the People’s Liberation Army, has broken his silence, gone on a charm offensive and has given his first media interviews in four years. In the course of a few days, he met with dozens of Chinese and international journalists.

Talking to the latter, the longstanding Communist Party member who founded Huawei three decades ago emphasized that despite his connection to the CCP **his company would decline any requests** for customer data from the Chinese authorities. He also insisted that Huawei had never passed on user data to Beijing. Speaking about his daughter, he said he missed her very much but had confidence in the Canadian and US legal systems.

Speaking to Chinese journalists two days later, Ren stressed that Huawei’s 5G solutions could help solve problems in various Western nations, especially in less densely populated areas. Speaking on Chinese state broadcaster CCTV in his **first ever television interview**, he said the West would be “**foolish and will lose money**” if it decided against Huawei products.

Yet in the end it could be Ren and his company who lose out. Just a few days prior to his interview bonanza, Ren had warned his employees **in an internal message** that difficult times might lie ahead due to the headwinds facing the company in overseas 5G markets. He also announced job cuts.

Australia and New Zealand have already excluded the Chinese company from participating in the development of 5G networks in their countries. The German government is currently discussing how to proceed.

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