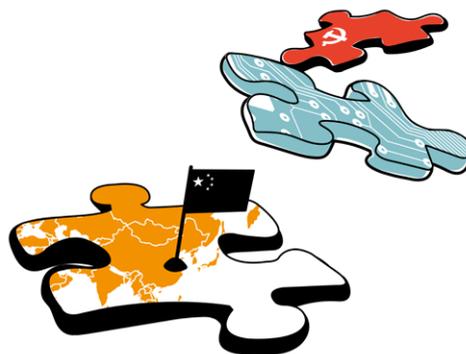


OCTOBER 7, 2021

# MERICS China Essentials



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## TOP STORY

### China ramps-up cross-Strait incursions to deter pro-Taiwan coalition

On the eve of Taiwan's national day – a sensitive event for cross-Strait relations – China sent a record 56 warplanes into Taiwan's air defense identification zone (ADIZ) on Monday alone. This brought the total number of such incursions to nearly 150 in just four days.

Such military posturing follows a series of events which have seen a number of western countries signal their resolve both to protect freedom of navigation in the region and strengthen ties with Taiwan.

Last weekend, an unusually large armada of 17 warships from six different countries (including the US and Japan) was sent to train in the nearby Philippine Sea. On Monday, Britain sent a warship through the Taiwan strait – a first since 2008. Last month, the announcement of a new trilateral security pact composed of Australia, the United Kingdom and the United States (AUKUS) was viewed by Beijing as aimed against it. The three AUKUS members plan to hold joint military drills this week in the South China Sea, which is sure to further anger Beijing.

More is yet to come. Japan, which has now explicitly linked Taiwan's security with its own, will hold its first ruling-party-to-ruling-party security talks with Taipei on Friday. In the meantime, a delegation of French senators is due to visit the island from October 4 to 11. And later this month, Taiwan will send a 65-strong delegation to visit several central and eastern European countries – a move which Beijing is sure to find threatening in the wake of its diplomatic clashes with Lithuania.

**MERICS analysis:** Despite its worrying scale, Beijing's recent cross-Strait posturing should not be viewed as a radical departure from its ongoing policy towards Taiwan and its surrounding areas. For example, none of the warplanes actually entered Taiwan's sovereign airspace. China's ramped-up incursions into Taiwan's ADIZ are a display of its growing military might and are in large part aimed at demonstrating Beijing's resolve—both to international and domestic audiences—to reincorporate the island within China's borders. Beijing evidently feels threatened by the West's increased cooperation and activity in and around Taiwan. As a Taiwanese government official recently stated, "Once Taiwan gets a little support, they [China] have to react."

**More on the topic:** You can read more MERICS analysis about Taiwan, Indo-Pacific and EU China policy [here](#).

#### Media coverage and sources:

- Bloomberg: [Dueling US, China military drills highlight rising Taiwan risk](#)
- FT: [China steps up air incursions into Taiwan buffer zone after US-led drills](#)

## METRIX

# 1.89 billion CNY

This amount marks the 5-day box office record set by the state-commissioned film “The Battle at Lake Changjin” after its release on October 30. Portraying Chinese soldiers fighting Americans during the Korean war, with strongly nationalistic undertones, it easily broke the previous record set in 2019. The film, which stars Wu Jing, best known for his role in the “Wolf Warrior” franchise, looks set to become the biggest hit in China in 2021. (Source: [Maoyan](#))

## TOPICS

### Power shortages lead to rationing, industrial shutdowns

**The facts:** China has in recent weeks experienced electricity shortages across industrial centers throughout the country. Power rationing has led to spontaneous orders by local governments to shut down and restart production in their jurisdiction. Governments at all levels are struggling to prioritize residential, industrial and commercial energy use, and national orders to stockpile coal ahead of winter suggest that this will not be resolved quickly.

**What to watch:** These shortages are the result of intersecting factors: First, energy demand in China is high due to elevated global demand for Chinese products as other markets continue to wrestle with the pandemic. Second, low coal supplies result from limitations on imports from Australia and slow increases in supplies from other markets. Third, Chinese coal prices follow market forces while regulators control electricity prices, meaning generators must buy expensive coal and produce cheap electricity - a loss-making proposition that drives them to limit production. Fourth, decarbonization efforts and growth goals are forcing leaders to walk a difficult tightrope.

**MERICS analysis:** “The factors driving the energy shortages are unlikely to be resolved quickly. European companies in China or with supply chains in that market should expect further disruptions,” says Jacob Gunter, Senior Analyst at MERICS. “Yet, claims that this will result in meaningfully lower FDI, or even divestment, are weak. Foreign companies in China face the same shortages as local competitors, so this won’t put them at a disadvantage. This happened with natural gas shortages in the winter of 2017/2018, but foreign investment remained strong.”

### Media coverage and sources:

- BBC: [China power cuts: What is causing the country's blackouts?](#)
- Fortune: [Supply chain delays are bad—China's rolling power outages will make them worse](#)
- Reuters: [Global energy shortage or a coincidence of regional crises?](#)

## Hostage diplomacy: not a win for Beijing and Huawei, but a warning to the world

**The facts:** China finally released Canadian citizens Michael Kovrig and Michael Spavor after detaining them for more than one thousand days. Their imprisonment in December 2018 on espionage charges was widely seen as political retaliation against Canada's arrest of Huawei's chief financial officer, Meng Wanzhou, for circumventing US sanctions on Iran. Kovrig and Spavor were freed on September 24, mere hours after Meng reached a deferred prosecution agreement with US judicial authorities that got her released from house arrest. The timing of the events seems to confirm allegations that the Chinese government was engaging in hostage diplomacy, although Beijing denies it.

**What to watch:** The case of Kovrig and Spavor showed Beijing's willingness to use foreign nationals as bargaining chips in legal and geopolitical disputes with other countries. This sends a chilling message to foreign businesses and individuals and puts to test the resilience of democracies' judicial systems. The question for countries around the world is how they intend to handle similar cases affecting their citizens in the future.

**MERICS analysis:** While some have described the case as a victory for China, Beijing has also created new problems for itself – and for its national champion Huawei:

1. Meng pleaded not guilty but admitted to concealing the company's dealings with Iran, which was at the core of prosecutors' case against her. This admission and the blatant politicization of Meng's detention prove the depth of Huawei's links with the Chinese Communist Party, and therefore the threat it poses to the national security of countries that rely on its telecommunications gear.
2. Neither Ottawa nor Washington gave in to Beijing's pressure. They upheld due process instead – in fact, there were doubts about the solidity of the grounds for pursuing a criminal case against her.
3. Meng's release may have boosted nationalism at home, but the international attention that the “two Michaels” case received further tarnished China's global reputation. To be sure, the latter does not seem to matter all that much in Beijing's calculus, given how swiftly the two were released. The question remains whether jeopardizing ties with trading partners and scaring away foreigners is a winning strategy for a global power.

### Media coverage and sources:

- CSIS: [Beijing suffers major loss from its hostage diplomacy](#)
- Foreign Policy: [Another win for China's hostage diplomacy](#)
- The Diplomat: [Hostage diplomacy is against China's interests](#)
- Bloomberg: [China says Xi personally gave orders on handling of Huawei case](#)

## “Simple” Winter Olympics ahead as full 2022 reopening remains uncertain

**The facts:** A first set of stringent measures have already been announced for the upcoming Winter Olympics in China. All athletes will be tested daily, those unvaccinated will have to quarantine for three weeks, and only domestic spectators will be allowed. A spokes-

person for the Ministry of Foreign Affairs stated the Olympics would be hosted in a “brilliant”, “safe”, but “simple” fashion. China’s Delta variant outbreak is largely under control as the country celebrates the week-long National Day holiday. Yet China shows no signs of opening up to foreign travel.

**What to watch:** In a recent interview, lead virologist Zhong Nanshan stated that China would need a vaccination rate above 80 to 85 percent before it could open up again. China may reach this by the end of 2021, with 78 percent currently having received their first shot. But he also added that it is necessary that other countries maintain a low rate of infection. Billions of CNY are currently being spent on centralized quarantine facilities, signaling that quarantining will remain the norm for the foreseeable future. For the Olympics, more detailed Covid-19 prevention measures will be announced later this month.

**MERICS analysis:** EU citizens should not hope for a significant reduction in travel restrictions before mid- to late 2022. China’s eventual reopening will be a gradual process and start with countries that share a similar zero-covid philosophy. With the 20<sup>th</sup> National Congress of the Communist Party of China looming over 2022, cases at home under control but uncertainty about the efficacy of Chinese vaccines against the Delta strain, China’s leadership is sure to err on the side of caution.

**Read more:**

- Sina Finance: [Detailed interview with Zhong Nanshan on the Covid-19 pandemic in China \(in Chinese\)](#)
- Reuters: [China’s restrictions on international flights could last to 2022](#)
- SCMP: [Reopen China’s borders when vaccination at home is high and cases overseas are low, says top doctor](#)
- International Olympic Committee: [Olympic and Paralympic Winter Games Beijing 2022 – Updates on Spectators, Vaccination and COVID-19 Countermeasures](#)

## REVIEW

### **Red Roulette: An Insider’s Story of Wealth, Power, Corruption, and Vengeance in Today’s China, by Desmond Shum (Scribner, 2021)**

Touted as “the book China doesn’t want you to read”, Desmond Shum’s personal memoir grants the reader a peak into the “dark underbelly” of China, laying out how money and power formed its age-old alliance during China’s gilded age in the 2000s. It is the dark but fascinating story of how Shum and his ex-wife Whitney Duan, both from modest backgrounds, worked their way into immense wealth by playing the game of peddling political connections and business opportunities - a high-stakes game they lost when Duan was taken away by security forces in 2017, while Shum now lives in exile.

The explosiveness of the book arises not from the depiction of China’s then vast but well-known corruption, but from the intimate details about the people the couple were involved with. Many of these were in high positions, among them Premier Wen Jiabao’s wife. Shum takes the reader through the fast-paced growth period during which bureaucrats and entrepreneurs joined forces and scrambled to make as much money as fast as

possible. Permits and licenses, cheap stock options of state-owned companies handed out to insiders just before their IPOs, and privileged access to new markets reserved to those with connections defined the age, creating today's immensely wealthy elites.

Many of the people exposed by Shum have since been detained or retired, but it is clear that his narrative also protects others. Shum goes to lengths to cast himself in a favorable light, as one simply doing business as everybody did back then. As the title suggests, "revenge" is part of the game. Just as his ex-wife was disappeared to serve as a political hostage, Shum's account feels like his own revenge on China's elite. Still, *Red Roulette* is a gripping personal account and essential reading for those interested in the mechanisms and elites behind China's political wealth machine.

Reviewed by **Nis Grünberg**, Senior Analyst, MERICS

## PROFILE

### **Eric Chu: New chair of Taiwan opposition on a mission to build cross-strait relations**

Almost immediately after Eric Chu won the election to become the chairman of Kuomintang (KMT), Taiwan's biggest opposition party, he promised to resume high-level talks and re-build cross-strait relations with China. The 60-year-old seasoned politician, and KMT's presidential candidate in 2016, takes over the helm as Beijing piles on the pressure. In recent days China has flown a record number of military aircraft into the air defense zone of the island, which it claims as its own territory.

In his second stint as KMT's chairman, the US-educated Chu has his job cut out for him. The former mayor of Taiwan's biggest municipality, New Taipei City, not only has to reunite factions within the party, more critically, Chu needs to find ways to return the KMT to power at the upcoming local and national polls starting next year. The party was crushed in two consecutive electoral defeats, losing both the majority in Taiwan's legislature and the presidency.

Chu, who secured 46 percent of votes from party members, is said to be a popular politician, but approval ratings for the KMT have been on the decline, and trail behind those of the ruling Democratic Progressive Party (DPP) particularly amongst younger Taiwanese who see their identities as exclusively separate from mainland Chinese.

Against the wishes of younger KMT supporters who would like to see Chu depart from the party's old cross-straits approach, the former assistant professor at the City University of New York wrote that he is "anti-Taiwan independence" when responding to a congratulatory note from Xi Jinping. Stressing the current cross-straits ties as "grim", Xi had expressed hope in working with the KMT for national reunification. Chu's adherence to the "1992 Consensus", an outcome underlying diplomatic cross-straits relations, has been received favorably by Beijing.

### Media coverage and sources:

- Reuters: [Taiwan opposition party's new leader pledges renewed talks with China](#)
- Washington Post: [China flies record 56 warplanes toward self-ruled Taiwan](#)
- Taipei Times: [DPP approval falls to five-year low](#)
- Straits Times: [New KMT chairman Eric Chu under fire](#)

## MERICS CHINA DIGEST

### MERICS' Top 3

- NYT: [How China plans to avert an Evergrande financial crisis](#)
- Caixin: [China proposes three-year plan to regulate algorithms](#)
- FAZ: [COSCO takes a stake in Hamburg port](#)

### Politics, society and media:

- SCMP: [New video game approvals dry up in China as internal memo shows that developers now have many red lines to avoid](#)
- Protocol: [Decoding China's latest World Internet Conference](#)
- CNN: ['Some are just psychopaths': Chinese detective in exile reveals extent of torture against Uyghurs](#)
- CDT: [LinkedIn censors more journalist profiles in China, suggests self-censorship as a solution](#)
- The Guardian: [The west sees China as a 'threat', not as a real place, with real people](#)

### Economy, finance and technology:

- POLITICO: [U.S. extends an 'olive branch' to China on trade](#)
- Bloomberg: [China's crypto companies are scrambling](#)

### International relations:

- Reuters: [In climate pledge, Xi says China will not build new coal-fired power projects abroad](#)
- White House: [Joint statement from Quad leaders](#)
- FT: [Japan's new PM creates post to address China threat](#)
- AidData: [AidData's new dataset reveals major increase in 'hidden debt' and BRI implementation problems](#)

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