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MERICS
China Essentials

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TOP STORY

Xi Jinping tours Europe and scores "successes" that could raise tensions

Xi Jinping's early-May visit to France, Serbia and Hungary did little to ease tensions with the European Union, despite Beijing's claim that it managed to "maintain friendship, promote solidarity and open up the future". The Chinese president did score some wins on his first trip to Europe for five years, in part a result of choosing destinations likely to welcome him warmly. He was able to play up the stability of Europe-China relations and European divisions about the region's stance towards Beijing – and give no ground on contentious issues. But this intransigence could yet burden the EU-China relations. The fact that Xi met Russia's president Vladimir Putin in Beijing only a few days after his return from Europe shows that tensions will likely remain high in EU-China relations.

French President Emmanuel Macron displayed a more reserved stance than the one he adopted during his visit to China last year, limiting Beijing's opportunity to leverage European strategic autonomy ambitions in an attempt to disrupt transatlantic ties. But in exchanges with Macron and EU Commission President Ursula von der Leyen, Xi stood his ground, flat out denying the existence of overcapacity issues in Chinese manufacturing and offering only a vague, non-public commitment to monitor China's dual-use goods exports to Russia. But 37 signed agreements and a personal retreat with Macron allowed Beijing to claim the relationship with Paris had been "re-consolidated".

Serbia became the first European country to endorse Xi's loose foreign policy concept of "community with a shared future" by naming it a foundation of the bilateral relationship. This and agreements on energy, transport infrastructure and a free-trade deal set to begin in July could further complicate EU enlargement in the Western Balkans. Xi's visit overlapped with the 25th anniversary of NATO's accidental bombing of the Chinese embassy in Belgrade during the Kosovo War. The Chinese president used the opportunity to criticize the Western military alliance which Beijing blames for the war in Ukraine.

China's relationship with Hungary was elevated to an "all-weather comprehensive strategic partnership for the new era", also a first for a European country. Prime Minister Viktor Orbán echoed Beijing's positions on Russia's war against Ukraine and manufacturing overcapacity, feeding Beijing's narrative of division among EU member states. New agreements, notably on nuclear power, were also signed that will deepen China's engagement in critical infrastructure in Hungary, undermining EU's de-risking.

MERICS analysis: "Xi wanted his Europe trip to show that both sides are re-establishing stability and engagement. But the core issues in Europe-China relations – China's support for Russia, its manufacturing overcapacity, unlevel-playing field practices – remain unaddressed. Worryingly, Beijing seems unwilling to meaningfully discuss them." says **Grzegorz Stec**, Head of Brussels Office at MERICS. "This lack of willingness and moves to disrupt EU's de-risking and enlargement efforts look set to make EU-China relations more tense. China's signals of success in re-engaging Europe gloss over this problem."

Media coverage and sources:

- DW: Did China's Xi Jinping expose disunity in Europe?

- CHOICE: Eyes on Xi Jinping's Visit to France with Abigaël Vasselier
- AP: Xi's visit to Hungary and Serbia brings new Chinese investment and deeper ties to Europe's doorstep
- MFA of the PRC (CN): "A Successful Journey to Pass on Friendship, Promote Unity and Open Up the Future"

METRIX

12,500

This is the number of Chinese-made electric vehicles (EV) that were imported into the US in 2023 – about 37 times fewer than the 460,000 EVs shipped to Europe. This stark difference shows that Chinese manufacturers were wary of the US market even before Washington this week raised import tariffs on EVs made in China from 25 to 100 percent. They instead leaned strongly towards the European market – and are now likely to redouble their efforts to sell more EVs in that part of the world. (Source: Trivium China)

TOPICS

US blacklisting of Chinese quantum companies poses questions for Europe

The facts: The EU's export-control regime looks set to be tested after the US government added 22 Chinese players in quantum technologies to its "Entity List" of foreign organizations and individuals restricted from buying US products. Washington's move cuts off the computing company Origin Quantum, the University of Science and Technology of China and almost all other Chinese frontrunners in the field from their US suppliers. Worried about the potential of quantum technologies to undermine cybersecurity and to deliver new military applications, the US had been signaling restrictions on the sector since 2021. But it has had difficulties identifying specific components and pieces of equipment to blacklist, because the quantum industry's demand for inputs is diverse and changing rapidly. Denying end-users is now emerging as Washington's main approach.

What to watch: The US approach puts the EU in a bind. Brussels has been investigating the security risks posed by quantum technology since last year. But even if it were to identify Chinese companies as posing a threat, the EU generally does not blacklist specific entities from buying components in Europe unless they were in clear violation of European regulations. Without such proof, the EU would have to resort to export restrictions on specific components, which will require careful monitoring and frequent updating of Chinese developments in quantum technology. Also, universities, which lead

Europe's quantum research, have proved reluctant to limit or even discuss limits to international collaboration in such areas of basic research.

MERICS analysis: "The US measures should prompt the EU to clarify when and how European organizations can collaborate with China on quantum technology. Otherwise, European research organizations will not be able to resist US pressure to phase out collaborations with Chinese partners that are on the US Entity List," says **Jeroen Groenewegen-Lau**, MERICS Head of Program Science, Technology and Innovation. "The EU should publish a summary of its investigation, set out a pathway to respond and signal that blacklisting a limited number of Chinese entities will be required in this nascent technology domain."

Media coverage and sources:

- SCMP: China's quantum tech 'core strength' targeted by latest US trade blacklist, Chinese physicists warn
- Clingendael: The future of export controls on quantum technologies
- UC IGCC: The quantum race: US-Chinese competition for leadership in quantum technologies

No more "Glory to Hong Kong" – court ruling could see song disappear from internet

The facts: Only weeks after Hong Kong's Safeguarding National Security Ordinance (SNSO) widened the definition of national security offenses, the city's government finally won court backing for its demand to have the popular pro-democracy anthem "Glory to Hong Kong" removed from the internet. Hong Kong's appeals court ruled there was compelling need for an injunction against the song's online distribution "to aid the criminal law for safe-guarding national security" – ten months after the city's high court denied the request given its potential impact on freedom of expression. The SNSO came into force in March in part to fight "soft resistance", a term coined by Beijing to describe attempts to "subvert state power" with music, film and other artistic creations.

What to watch: The ban sparked new concerns about diminishing freedom of expression in Hong Kong and the potential extraterritorial effects of Hong Kong's growing list of security laws – even global tech platforms appear to have at least partly complied with the injunction to take the song offline. This comes as Hong Kong and Beijing officials were eager to portray Hong Kong as business hotspot and ideal travel destination. They are encouraging mainland tourists to make use of solo travel schemes sponsored by Beijing to visit the city on their own, not just in groups. Meanwhile, some foreign governments have warned their citizens about the risk of arbitrary enforcement of local laws when in Hong Kong.

MERICS analysis: "Hong Kong's government is trying hard to maintain its traditionally good image among domestic and international audiences," says **Katja Drinhausen**, Head of MERICS Politics & Society Program. "But all its publicity campaigns cannot hide the city government's fears of any challenge to Beijing's power – even in the form of 'soft resistance' – and how they drive political and increasingly also legal decisions."

Media coverage and source:

- The Guardian: Court bans Glory to Hong Kong protest song prompting further fears for free speech
- MIT Technology Review: Hong Kong is targeting Western Big Tech companies in its new ban of a popular protest song
- Hong Kong Free Press: Hong Kong must remain vigilant against 'soft resistance,' city's no.2 official warns
- Hong Kong Free Press: 8 more mainland Chinese cities to join Hong Kong's solo travel scheme; 'a timely boost,' says hotels rep.

Beijing issues novel long-term bonds to raise funds in support of industrial policy

The facts: Beijing is resorting to a rare method to boost its economy by issuing special ultra-long-term government bonds. They are meant to raise money for infrastructure and other key projects, while managing debt levels and financial risks by pushing debt-repayment far into the future. The first bonds will be issued this Friday and come due in 30 years, while later batches will follow until November and will include 20-year and even some 50-year maturities. The bond sales, announced at the National People's Congress in March, will in total raise one trillion CNY (around 128 billion EURO). They are meant to bolster industrial policy but could also inject much needed liquidity into the bond market, helping investor confidence and lowering borrowing costs.

What to Watch: The move comes amid reports that the Ministry of Finance is in talks with the People's Bank of China about restarting its long-defunct treasury-bond trading. Allowing the central bank to buy government bonds from and sell them to investors would create space for a form of quantitative easing. Monetary authorities in Japan, the US and Europe have used this instrument to pump cash into their economies to provide short-term stimulus. It is only the fourth time that Beijing has issued special treasury bonds. Previous rounds were in 1998 to replenish the capital of key state-run banks to align with Basel Accord, in 2007 to establish the China Investment Corporation, Beijing's sovereign wealth fund, and in 2020 during the early days of the Covid-19 pandemic.

MERICS analysis: "The Chinese government must support growth and industrial policy goals while also managing debt and financial risks. Stuck between a rock and a hard place, Beijing is trying to 'trade time for space', as observers quoted by Chinese media describe the government's move," said **Jacob Gunter**, Lead Analyst MERICS. "By taking on ultra-long-term debt, it is betting that China can get through a turbulent short and medium term with the help of money that it can repay in a more prosperous future."

Media coverage and sources:

- FT: China fires starting gun on $140bn debt sale to boost economy
- Bloomberg: China to start $138 billion bond sale on Friday to boost economy
- SCMP: China's central bank treasury-bond trade restart 'now certain' as discussions deepen between monetary, fiscal agencies

REVIEW

"Made in China - When US-China interests converged to transform global trade," by Elizabeth O'Brien Ingleson (Harvard University Press, 2024)

The 1970s was the decade that launched China on the pathway to becoming a global economic superpower. In her book "Made in China," Elizabeth O'Brien Ingleson shows how the rapprochement between China and the US, together with the gradual opening of trade links, kickstarted China's transformation earlier than many people may think. Most notably, she shines a light on the key role played by US capitalists in turning erstwhile Cold War foes into amicable trading partners. In doing so, she provides an important reminder of the powerful moderating forces unleashed by profit seeking companies.

As political leaders in Beijing and Washington worked toward reestablishing diplomatic ties, the window for trade reopened for the first time in decades. US corporations jumped at the opportunity. The Chinese products they sold in their home market gradually shifted the US public perception of a threatening "Red China" to one of a benign, even exotic, country. And as the tide of imports from China grew, these same companies worked to blunt the pushback from domestic labor unions worried about US jobs.

American capitalists went out of their way to accommodate the quirks of doing business with a country in which all trade was handled by eight state-owned enterprises. Exporters saw orders from China fall dramatically in the mid-1970s, as Beijing sought to address a growing trade deficit. Importers challenges included miscommunication, late shipments, and price changes. One company received a shipment of exclusively left shoes. Despite such hiccups, the overall enthusiasm of big business remained unabated, driven by the twin promises of both China's huge market and pool of cheap labor.

The book contains an unspoken warning for Europe. US-China reengagement was timed perfectly with the shift to outsourcing and international supply chains. At huge cost to US manufacturing, China was able to fully participate in globalization and eventually establish itself as a rival to the US. European companies are today under pressure to invest more in China to secure access to its market, subsidies and innovation networks. European policymakers have to make investing in Europe more attractive and limit economic ties with China where necessary – or risk repeating the USA's mistake.

Reviewed by **Alexander Brown**

MERICS CHINA DIGEST

Russian leader Vladimir Putin in China for talks with Xi Jinping (France24)

China's leader Xi Jinping welcomed Russia's President Vladimir Putin on Thursday as he began a two-day state visit underscoring the close relationship between the two countries. The two leaders signed a joint statement on deepening the comprehensive strategic partnership between their two nations after their initial meeting. Xi said China and Russia will continue to uphold a position of non-alliance and non-confrontation. (24/05/16)

US overtakes China as Germany's top trading partner (Reuters)

This is according to Reuters' calculations based on official data from the German statistics office for the first quarter of 2024. Germany's trade with the United States - exports and imports combined - totaled 63 billion euros ($68 billion) from January to March, while the figure for China was just under 60 billion euros, the data showed. China was Germany's top trading partner for eight years in a row, although the US was often a close second. (24/05/09)

European companies pessimistic about growth in China (EUCCC)

The annual business confidence survey, conducted by the European Union Chamber of Commerce in China, shows that despite the re-opening of China's borders in early 2023, business confidence in the market continued on a downward trend. 44% of respondents felt pessimistic about profitability over the next two years, the highest level on record. (24/05/10)

Chinese scientists find a way to mass-produce optical chips that the US cannot sanction (SCMP)

Researchers developed a technique that uses a low-cost material to mass produce chips that are used in supercomputers and data centers. The new material for the photonic integrated circuits is made of lithium tantalate, which allows for low-cost mass production due to a fabrication process more akin to commercialized silicon methods. The technique could help China to reduce the impact of US sanctions. (24/05/13)

Alibaba leverages cloud business to become a leading AI investor in China (Financial Times)

Alibaba has been leveraging its vast cloud computing infrastructure to become a leading investor in China's generative artificial intelligence start-ups, offering them credits to use the scarce network resources needed to train models rather than conventional cash-for-equity funding. The Chinese ecommerce giant is trying to replicate the success of Microsoft's investment in the US leader, OpenAI, by taking stakes in prominent start-ups Moonshot, Zhipu, MiniMax and 01.ai. (24/05/12)

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