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# MERICS China Essentials



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## TOP STORY

### Xi's call for common prosperity signals a new period of populism, state regulation and interventionism

The term “common prosperity” (共同富裕) has long been part of the CCP's ideological language. Under Xi, the term and an accompanying ideological framing of economic policy are making a comeback. The term represents the ideological core of Xi's proclaimed ambition of building a socialist society. The foundation of this shift in policy was laid in recent years as the Party became increasingly wary of unconstrained market mechanisms and speculation. Runaway real-estate prices, rising inequality and surging costs for education threatened to tarnish the CCP's economic achievements.

Despite the Chinese leadership officially asserting to have eradicated extreme poverty in 2021, China's economic development is marked by a widening wealth gap. The latest policy shift is aimed at addressing inequality, especially after it got even more pronounced during the pandemic. The CCP hopes its new line will shore up its ideological power and boost its popular appeal and so secure its legitimacy among the working and middle class.

Xi's call for “common prosperity” also aligns well with the CCP's ambitions to exert more control over the private sector and high-flying entrepreneurs. China's private companies, especially those in the tech sector, controlled by wealthy entrepreneurs, have come under pressure in 2021. Beijing has targeted them for a number of issues, among them alleged infringements related to national security, monopolies and working conditions.

The private sector appears to be under siege as the CCP seeks to add more policy heft to its “Marxist guidance” of the economy. To rectify their alleged failure to contribute to a more equal society as envisaged by the CCP, companies are announcing high-profile corporate donations to charitable causes. Tencent and Alibaba, for example, have each pledged 100 billion CNY. But solving the longstanding problem of inequality requires more than symbolic gestures on one side and revived Party slogans on the other.

**MERICs analysis:** “So far, the campaign-style implementation of ‘common prosperity’ is primarily political signaling,” says **Max J. Zenglein**, Chief Economist at MERICs. “There are no quick fixes for China's income-distribution problem. Addressing it will require institutional changes, including reform of the household-registration system, taxation, and wealth redistribution. The campaign has mainly focused on high-profile targets in the private sector, including flashy billionaire founders. But the CCP will need to strike a careful balance not to spook these companies and entrepreneurs too much. After all, China needs its private companies to foster economic growth and innovation.”

### Media coverage and sources:

- Qiushi (求是) (CN): [共同富裕的政治经济学分析 - 求是网](#)
- China Daily: [CPC sets path to common prosperity](#)
- Bloomberg: [China's 'Mr. Income Distribution' Explains Common Prosperity](#)
- Caixin Global: [How Common Prosperity Will Affect China's Private Sector](#)
- SCMP: [Alibaba earmarks 100 billion yuan towards China's common prosperity goal](#)

## METRIX

# 3

Under-18s in China have been prohibited from playing video games for more than three hours a week. According to the new rules published by the Chinese National Press and Publication Administration (NPPA) minors are now allowed to play for one hour a day from 8 p.m. to 9 p.m. on Fridays, Saturdays and Sundays. Gaming companies will be barred from providing services to under-18s outside these hours and must ensure real-name verification. Previously, minors were allowed to play 1.5 hours on any day. With the new regulations, the government addresses what it perceives as a high risk of growing gaming addiction. The gaming ban will strongly affect the Chinese video games market, companies and overseas shareholders. (Source: [Reuters](#))

## TOPICS

### Beijing tries to link US-China climate cooperation to other political conflicts as Kerry visits

**The facts:** Recent US-China climate talks seem to have confirmed long-standing fears that Beijing may try to extract concessions from Washington on non-climate issues, from human rights to Indo-Pacific security, in exchange for climate cooperation. US special climate envoy John Kerry visited Tianjin last week to meet with top Chinese officials for the second time since US President Joe Biden took office. In a mix of in-person and virtual meetings, Kerry met his counterpart Xie Zhenhua, top diplomat Yang Jiechi, Foreign Minister Wang Yi and Vice Premier Han Zheng to learn that Beijing is unwilling to separate climate cooperation from other tensions in the US-China relationship.

**What to watch:** Beijing's efforts to extend climate discussions with the US to other issues have so far been unsuccessful, and the Biden administration has pledged not to let this happen. But the risk remains that Beijing will try to coerce concessions in other areas from

the US as the price to pay to maintain one of the last areas of cooperation between the two countries. In the run-up to the COP26 Climate Change Conference in Glasgow (November 1-12), it will be critical to watch whether China – the world’s largest carbon emitter – will be willing to put aside its geopolitical competition with the US to make meaningful climate commitments. In the recent discussions, both sides agreed to meet again before COP26.

**MERICs analysis:** The Chinese Communist Party (CCP) shares global concerns over climate change and is generally sincere when talking about the environment. But its political and strategic interests – and the regime’s survival – still take precedence over any potentially painful decisions to deal with the climate crisis.

**Media coverage and sources:**

- Chinese Foreign Ministry: [Official report by on the discussion between foreign minister Wang Yi and John Kerry](#)
- Carbon Brief: [Kerry meeting Xie in Tianjin](#)
- BBC: [Climate-above-all plea by US fails to stir China](#)
- Reuters: [US climate envoy Kerry urges China to keep politics out of global warming](#)

**China announces further opening of capital markets to lure foreign investment**

**The facts:** The China Securities Regulatory Commission said China’s capital markets would be opened further to foreign investors. Among other things, it announced broader channels for investment, closer ties between mainland and Hong Kong markets, and easier means for foreign firms to issue CNY-denominated “Panda Bonds”.

**What to watch:** The moves fit into a broader context: China wants to restrict overseas listings, especially those in the US, while the US is accelerating plans to delist Chinese companies from US markets on the grounds that China will not allow US regulators to monitor mainland firms. Opening capital markets will ensure capital still reaches China’s companies – while also putting these foreign investments under Beijing’s jurisdiction.

**MERICs analysis:** “China is keen on capital inflows to strengthen its companies, while exerting control over what that money can and can’t do,” said **Jacob Gunter**, Senior Analyst at MERICs. “But China’s crackdown on its private-sector champions may see foreign investors shy from using these newly opened doors.”

**Media coverage and sources:**

- Reuters: [China to push on with opening capital markets to foreign investors](#)
- Thompson Reuters Tax and Accounting: [Senate Passes Bill to Accelerate Delisting Deadline for U.S.-Listed Chinese Companies](#)

## Education reforms: less parental burden, more equality - and more party loyalty

**The facts:** The Chinese government recently eliminated exams for first- and second-year elementary school students and essentially banned the creation of special-track classes for high-achieving students in all age groups. The move dealt a blow to China's once lucrative private tutoring sector, on which Chinese parents traditionally spent a lot of money for extra-curricular training to give their children a competitive edge. Other new rules make clear the state's political vision for China's young: stringent rules are meant to limit computer-gaming times, and a crackdown on entertainment and fan culture is meant to combat "misguided values."

**What to watch:** These steps are part of substantive rectification of the education sector. Efforts to integrate "Xi Jinping Thought" into curricula from elementary schools to university are underway. They are based on a national guidance document issued in July. A number of top universities have been inspected and publicly criticized for lack of political and ideological rigor, heralding further regulation.

**MERICs analysis:** This bundle of policies rolled out in recent weeks is meant to kill a number of birds with one stone. The new rules attempt to address structural inequalities in China's education system and improve social mobility, as well as to ease the financial burden on parents and boost the country's birthrate. But they are also aimed at instilling loyalty to the Chinese Communist Party with Xi Jinping as its core leader in the next generation of Chinese citizens.

### Media coverage and sources:

- National Textbook Committee (国家教材委员会) (CN): [国家教材委员会关于印发《习近平新时代中国特色社会主义思想进课程教材指南》的通知](#)
- NIKKEI Asia: [English out, Xi Jinping Thought in at Shanghai schools](#)
- SCMP: [China's top universities told to stop slacking off on Communist Party ideology](#)
- Global Times: [China ups rectification of 'fan circle' culture which distorts minors' values, endangers social governance](#)

## VIS-À-VIS

### Tai Ming Cheung: "China wants to redefine and put in new norms to shape the global security order"

Tai Ming Cheung is a Professor and the Director of the Institute on Global Conflict and Cooperation at the University of California, San Diego. In this interview, he talks about how the CCP's approach to security has changed since Xi Jinping came to power and how this affects China's international behavior. He has a forthcoming book on the rise of the Chinese Techno-Security State that will be published in spring 2022 by Cornell University Press.

*Questions by Helena Legarda, Senior Analyst, MERICs*

**You have argued before that Xi Jinping is turning China into a national security state. What exactly has changed since he came to power in your view?**

Xi has redefined what security means. In the past, security was much narrower and more compartmentalized. Now it has become more holistic, integrating the internal and external. Importantly, it is about political security and not just about military. It is much broader and encompasses many non-traditional areas.

**How does this holistic notion of national security affect Beijing's international behavior?**

It is a much more zero-sum view. There are winners and losers, and China needs to be on the winning side. Also, increasingly, China's security is linked to the international environment. Whether it is economic, in resources, in different domains – territorial, maritime, space or cyberspace – there is a sense that China needs to be leading. It does not want to be a reactive or passive type of power. It wants to redefine and put in new norms to shape the global security order. Xi has said China is taking a gradual, step-by-step approach to leadership and international power. The goal is that, by 2035, China will be a leading nation, and by 2049, the 100th anniversary of the founding of the People's Republic of China, China will compete for global leadership with the United States.

**What is the goal of this emphasis on control over the military and security apparatus?**

Xi very much sees himself at the top of the security apparatus, including the military and various other bodies. There was a major reform at the end of 2015 in which the military apparatus was reorganized. Prior to that, efforts had been made to delegate authority from the party, but under Xi, that was reversed. The reforms re-centralized not just political control of the military, but also professional control. There have been major challenges domestically in terms of political discipline, namely corruption; and externally, with the rise of great power competition with the U.S. Xi believes that a top-down, centralized, disciplined approach is very important.

**Is there any way for foreign businesses and governments to cooperate with Chinese actors in matters of science and technology without unwittingly helping the PLA or China security?**

The civil, military and security sectors are not actually that closely intertwined. Compartmentalization has been a deep-rooted feature of the Chinese system. There has been a lot of talk about military-civil fusion, but it has so far not led to much.

Now Xi has made a major effort to promote military-civil fusion, especially since 2015. China is in the first phase of this initiative laying the frameworks, governance systems and legal issues for reorganizing these structures. Only now, in the 14th Five-Year-Plan, will the military-civil fusion development strategy be implemented.

Time will tell how fused and integrated China will become. For foreign firms, governments or universities, that is the big question: Can we participate with Chinese counterparts without being entangled in this increasingly integrated military-civil system? What are the risks? What are the cost-benefits? Even if the chances of being linked to a non-

transparent military system are relatively low, can firms, researchers or governments afford that risk? That is a political and policy issue that we outside China have to deal with.

## REVIEW

### **Censored: Distraction and Diversion Inside China's Great Firewall, by Margaret E. Roberts (Princeton University Press, 2020)**

Censorship is thought to be as hard as nailing Jell-O to the wall. With a billion "netizens", China, for one, would never be able to censor everything. But in *Censored*, Margaret E. Roberts compellingly argues that such absolute control was never a necessity.

Instead, Roberts shows, the Chinese government adopted a more subtle approach of "friction" and "flooding". Authorities are clearly aware that censoring a billion netizens – even if technically possible – would create a huge backlash. They did not try to make access to information impossible – censorship is porous – but only more difficult.

As a result, authorities now order internet corporations to remove a topic from the front page of their web publications, to hide information a few pages back in search results, or to slow down a website – censorship almost impossible to detect and safe from popular backlash. They then flood the resulting information gap with their own messaging.

One of Roberts' key findings is that even this porous censorship is enough to deter most people from accessing more sensitive information – an insight that should be cause for concern worldwide. Thanks to the way our minds work and a flood of information, small obstacles can undermine entire information ecosystems. This leads to the acute risk that governments or companies – not just in China – will try to hide things in plain sight.

Although this is an academic book, its rich and diverse insights should put it at the top of the book list of any general reader with an interest in censorship, in China and beyond. It is the fruit of a decade of outstanding research by Roberts, an associate professor of political science at the University of California San Diego. It is a thought-provoking read.

*Reviewed by Vincent Brussee, Analyst, MERICS*

## MERICS CHINA DIGEST

### MERICS' Top 3

- CNN Business: [China's 'political pressure' on Australian economy isn't working, treasurer says](#)
- Reuters: [China culture crackdown a sign of 'profound' political change](#)
- FT: [Evergrande's troubles shake China's property bond market](#)

### Politics, society and media:

- Bloomberg: [Xi's common prosperity drive triggers a rare debate in China](#)
- Bloomberg: [China spells out how excessive '996' work culture is illegal](#)
- HKFP: [Four members of Hong Kong group behind Tiananmen vigil arrested, a day after vowing to defy police probe](#)
- Tagesschau (DE): [Uiguren in China: Anzeige gegen Mitarbeiter deutscher Unternehmen](#)

### Economy, finance and technology:

- Reuters: [China's Liu He assures business of support, amid regulatory crackdown](#)
- Bloomberg: [China's M&A kings cash out overseas bets at near-record pace](#)
- CNBC: [The latest target of China's tech regulation blitz: algorithms](#)

### International relations:

- Reuters: [Italy investigating sale of military drones group to Chinese investors - source](#)
- Asia Times: [China flexes sea power with new foreign ship law](#)
- Internationale Politik (DE): [Sollte die Bundesregierung künftig eine härtere Haltung gegenüber China einnehmen?](#)



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