

JANUARY 19, 2023

MERICS China Essentials



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TOP STORY

End of crackdown does not spell end of state oversight for China's big tech

Beijing is wrapping up intense scrutiny of Chinese tech-sector giants like Alibaba and Tencent. But while easing punitive measures after more than a year, it is establishing continuous control over internet companies. The party state seems to have succeeded in taming its digital giants, forcing them into ideological alignment with a new regulatory regime and national goals.

A high-level official from the People's Bank of China on January 9 said publicly that investigations into the financial subsidiaries of 14 internet platforms were coming to an end. Even if the main tech regulator, the Cyberspace Administration of China (CAC), has so far remained quiet, another signal to this effect came on Monday. Didi Global announced that it had been allowed to register new users for its ride-hailing services, a business effectively put on hold for 18 months in the course of an official cybersecurity review.

Internet companies back in business as Beijing looks for high-quality growth

In a move that suggested the Chinese Communist Party (CCP) had won allegiance in return for its blessing to resume operations, Didi stressed making comprehensive rectifications in accordance with the state review and vowed to continue safeguarding national cybersecurity. In another highly visible move, Alibaba's beleaguered founder Jack Ma gave up control of fintech subsidiary Ant Group. With the state also taking a 1% golden-share stake (with a board seat and some content review privileges) in an Alibaba subsidiary, the company Ma founded also seems to have made its peace with Beijing.

China's internet companies have suffered massive damages to their businesses and share prices since the beginning of the regulatory crackdown. The easing of sanctions and fines looks set to encourage them to again seek to grow their businesses – at a time when the Chinese government is re-prioritizing growth through informatization and industrial upgrading. But there will be no going back to the previous “Wild West.” The state has clearly brought the tech companies into line and has in addition been corralling them to contribute to state projects that serve the national interest. Alibaba and Tencent, for example, were enlisted to join a consortium for RISC-V chips, a key technology for the state.

MERICs analysis: “It seems that China's internet companies are allowed to thrive again – albeit under firmer state oversight,” says MERICs Analyst **Antonia Hmaid**. “This is meant to ensure they serve the national interest by generating ‘high-quality’ growth and amplifying state narratives. Western governments face new problems in dealing with Chinese platforms that cannot be assumed to be independent of China's party state.”

Media coverage and sources:

- WSJ: [Beijing Signals Two-Year Internet Crackdown May Be Coming to an End](#)
- Sina Finance (CN): [Didi announces resuming of new user registrations](#)
- Nikkei Asia: [China Tech Billionaire Jack Ma Relinquishes Control of Ant Group](#)

- Financial Times: [China moves to take 'golden shares' in Alibaba and Tencent units](#)
- Financial Times: [China enlists Alibaba and Tencent in fight against US chip sanctions](#)

METRIX

15.2%

This is the average rate at which Chinese hydrogen patents increased in number every year between 2011 and 2020. While the EU held 28% and the USA 20% of all hydrogen patents, the country only accounted for 4% of the total, according to a study by the European Patent Office and the International Energy Agency. But with the number of EU patents, for example, rising by only 6.2% a year, China was the world growth leader. (Source: [IEA](#))

MERICS videos on the topic:

- [Nis Grünberg on China's hydrogen ambitions in the global green technology race](#)
- [Alexander Brown on how industrial policy adds momentum to China's push into hydrogen](#)

TOPICS

Some difficult decisions for Xi after first "normal" Spring Festival since 2019

The facts: China will celebrate the Lunar New Year on January 22, the first Spring Festival without travel restrictions since the outbreak of the Covid-19 pandemic. China's Transport Ministry is expecting over two billion trips as families gather over the public holiday, double last year's number (though still only 70% of pre-Covid levels). Beijing recently reported 60,000 Covid-19 deaths in the last month alone – a likely conservative figure that still shows China is not yet out of the woods. Although the largest cities are now past the peak of the Covid-19 wave, rural areas are still facing enormous levels of hospital admissions as the number of infections continues to rise.

What to watch: Beijing's unprepared shift away from its zero-Covid policy harmed public trust and left the public divided. But Chinese New Year celebrations will likely only offer the shortest of breathers, even if infections don't again soar. Social-policy reforms were sidelined last year while local governments emptied their coffers on Covid-19 prevention, hospital staff have been worked to exhaustion – and a sudden uptick of long Covid cases could continue to affect the labor force for months, possibly years. On top of that, for the

first time in 60 years, China's population was officially declared to have shrunk in 2021, reducing the potential for future economic growth.

MERICS analysis: “After a difficult 2022, any ambitious plans Xi Jinping may have had remain little more than an empty shell,” says MERICS Analyst **Vincent Brussee**. “With resources strained more than ever before, Xi at the start of 2023 faces difficult decisions about increasing the retirement age and redistributing wealth. The National People's Congress in March and the Third Plenum of the Communist Party's Central Committee towards fall will be the key to bringing momentum to tough policies.”

Media coverage and sources:

- Guangming Daily: [“2023 春运高位运行：如何答好新“考卷” \(How to answer the ‘new exam’ of the 2023 Spring Festival travel\)](#)
- The Guardian: [China braces for Covid surge as lunar new year travel rush begins](#)
- CNN: [China records first population decline in 60 years](#)

China's diplomatic repackaging should not be seen as a substantive change

The facts: The last weeks have brought signs China's diplomatic tone may be changing. After Xi Jinping's charm offensive at the G20 and APEC summits in November, a number of personnel decisions in 2023 indicate Beijing wants to soften its more bellicose rhetoric. This could be an attempt to stabilize relations and re-engage with Western countries now that China has reopened after almost three years of Covid-induced isolation.

What to watch: The appointment of Qin Gang as China's foreign minister, the move of Zhao Lijian, the “wolf-warrior” spokesperson of the Ministry of Foreign Affairs, to a less public position, and the naming of Fu Cong as the new ambassador to the EU should not yet be taken as a major shift. Beijing's interests remain unchanged – as do the global ambitions and foreign policy priorities announced at the CCP Congress. Another fact that speaks against any pivot is Wang Yi's promotion from foreign minister to director of the office of the Central Foreign Affairs Commission, the Xi-led party organ that makes foreign policy decisions. It was already in charge in the worst years of China's “wolf-warrior diplomacy” – and major decisions in the field are still not made in the ministry.

MERICS analysis: “A substantial shift in Beijing's foreign policy seems unlikely, although not unthinkable, as demonstrated by its sudden U-turn in its zero-Covid policy,” said **Helena Legarda**, Lead Analyst at MERICS. “But domestic stability takes precedence, so putting aside the more combative language may be seen as the price to pay to encourage foreign countries and businesses to reengage at a time of economic difficulty.”

Media coverage and sources:

- South China Morning Post: [China names ambassador to US Qin Gang as new foreign minister](#)
- Reuters: [China 'wolf warrior' diplomatic spokesperson Zhao moves to new role](#)
- China's Mission to the EU: [Transcript of Ambassador Fu Cong's Interview with the South China Morning Post](#)

China's export growth slumps in late 2022 after a year of strong growth

The facts: China's exports in December 2022 came in 9.9% lower than in December 2021, extending a run of weaker monthly numbers after several years of unprecedented growth. Exports to the EU were down 17.5% and those to the US down 19.5% in annual comparison as demand in those markets constricted amid fears of recession. However, despite the late-year downturn, China still recorded an all-time export record in 2022, with its trade surplus reaching USD 877.6 billion – both thanks to an 8.3% rise of exports to the EU and a 0.9% rise of those to the US.

What to watch: Substantial demand in the US and EU not only drove up inflation in those regions, it was one of the main drivers of China's extraordinary export growth in 2022. Foreign demand was all the easier to meet thanks to extremely weak demand in China, the result of the country's zero-Covid strategy that reigned for most of the year. But exports may from now on no longer prop up China's overall growth of gross domestic product (GDP). The export wave that buoyed China throughout the pandemic may finally decline as demand in the US and EU cools and consumption in China looks set to climb as the country puts zero Covid behind it. But while exports look set to fall, it remains unclear if Chinese domestic demand will rise quickly enough to compensate.

MERICs analysis: "Market dynamics in the pandemic proved to be more powerful than the demands of policymakers – and 2022 was no exception," said MERICs Senior Analyst **Jacob Gunter**. "Beijing wanted more consumption-driven growth, but instead had to rely on strong exports. And Washington and Brussels wanted to become less dependent on Chinese producers, but instead saw their citizens buying ever more from China."

Media coverage and sources:

- Bloomberg: [US-China Trade is Close to a Record, Defying Talk of Decoupling](#)
- Reuters: [China's trade tumbles sharply in Dec, clouds 2023 growth outlook](#)
- SCMP: [China trade: exports to 'contract until middle of the year', but reopening demand set to lift imports](#)

REVIEW

Empires of Ideas: Creating the Modern University from Germany to America to China, by William C. Kirby (Harvard University Press, 2022)

Global university rankings show Chinese universities and colleges moving up. That is especially true in engineering – according to the latest U.S. News and World Report survey, Tsinghua University is the world's best university for that discipline and one of six Chinese institutions in the engineering global top ten. The ascendancy of China's universities is the subject of William Kirby's historical sweep of higher education. He traces the roots of the modern-day research university to Germany, describes how the United States took over as the home of the world's powerhouse research institutions – and then ventures that Chinese universities may be on the way to eclipsing them.

University rankings are a recurring theme in Kirby's book. They help trace China's growing global standing, especially in engineering and the natural sciences, less so in humanities and social sciences. This lopsided rise is no accident. Tsinghua University, for example, has a respected tradition of excellence in both latter fields, but has been nudged away by a variety of political forces from "educating the 'whole person'", as Kirby puts it. Over the past decade, China's government – with the help of its chief corruption-fighting organ, the Central Commission for Discipline Inspection – has markedly tightened political control over the humanities, choking academic freedom.

This inevitably raises questions about the utility of traditional university rankings. The Global Public Policy Institute, a Berlin-based think tank, has developed the [Academic Freedom Index \(AFI\)](#) to factor academic freedom into them. By its measure, Chinese universities would not fare as well as they do elsewhere. Peking University, for instance, had a QS Ranking score of 83.5 in 2021, which the AFI downgrades to 68.2, relegating it from a global ranking of 23 to between 60 and 70. Although Kirby only briefly wrestles with this problem, his book is a tour de force about Chinese higher education that will be of interest to anyone working on or already in partnerships with Chinese universities.

Reviewed by **Michael Laha**

MERICS CHINA DIGEST

[Chinese Foreign Minister Qin Gang's 5-nation African tour a show of solidarity, strategic importance, analysts say \(South China Morning Post\)](#)

China's new Foreign Minister Qin Gang visited Ethiopia, Angola, Gabon, Benin and Egypt in a week-long trip to Africa last week. The region is key to China's diplomatic and strategic ambitions. In talks with the African Union Commission chairman, Qin emphasized that China would encourage more interaction. (23/01/16)

[Davos 2023: China reopens its doors with investment pitch to global elite \(Reuters\)](#)

In his speech at the World Economic Forum in Davos, China's Vice-Premier Liu He welcomed foreign investment and declared his country open to the world after three years of isolation since the beginning of the pandemic. Beijing apparently hopes that international investment will play a key role in reviving China's slowing economy. (23/01/17)

[China's digital yuan is little used - a preliminary analysis \(eastisread.com\)](#)

China is a global forerunner when it comes to experimenting with statutory digital currency. Yet according to a Tsinghua University professor and former central bank official, the digital currency is little used and faces structural obstacles. (23/01/06)

[Whitewashing China's Record on Covid \(China Media Project\)](#)

While Beijing has faced a lot of criticism for its handling of Covid 19 recently, an official commentary published in the party-state newspaper People's Daily on January 8 defended Beijing's Covid policies as evidence of strong global leadership. (23/01/09)

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