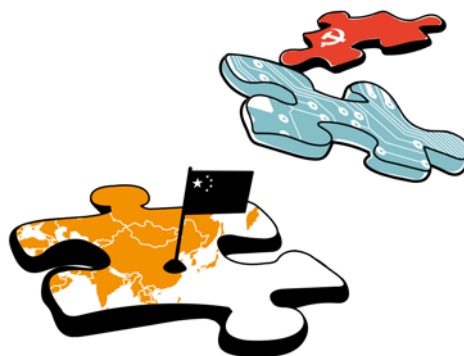


MAY 12, 2022

# MERICS China Essentials



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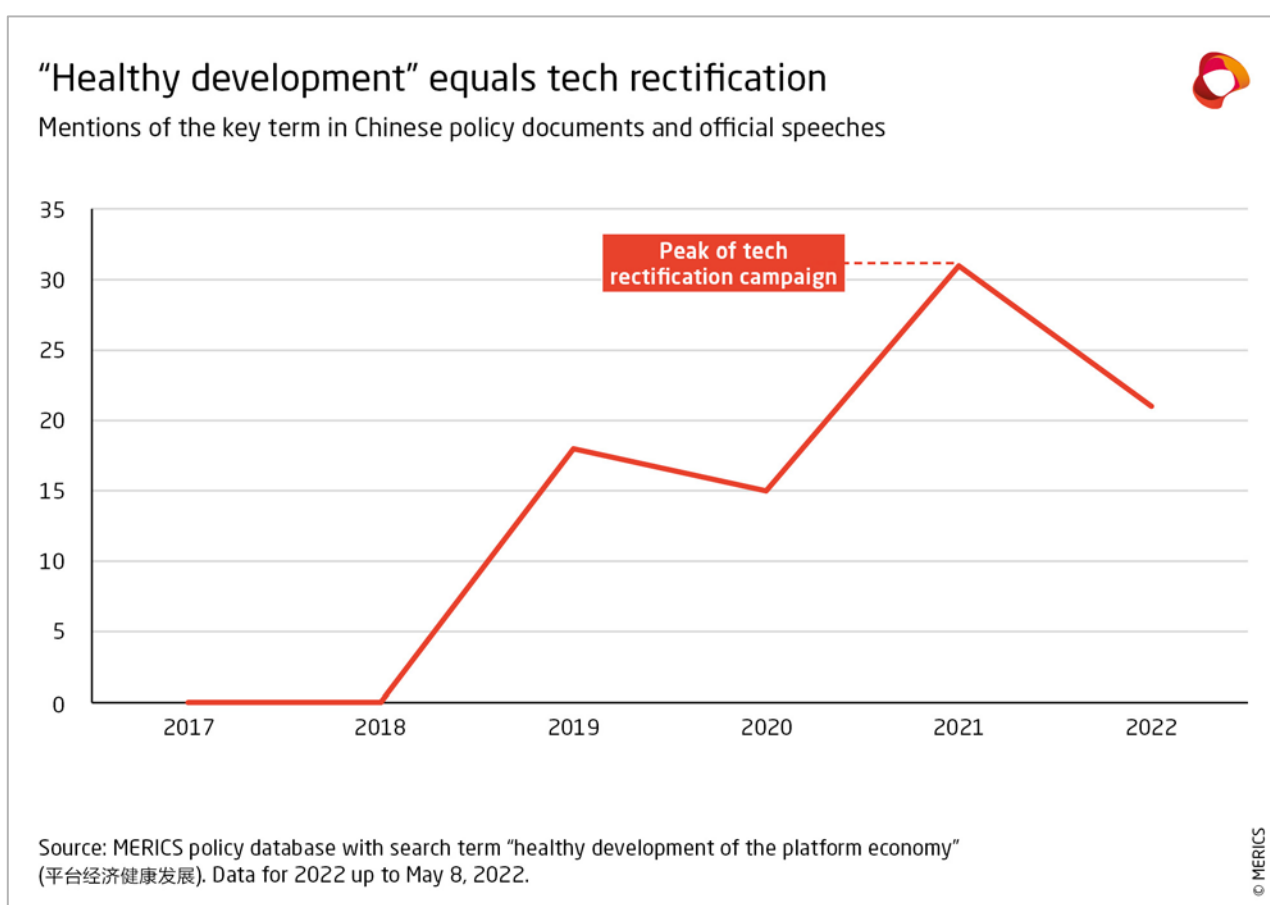
## TOP STORY

### China's tech firms remain under Beijing's close supervision

Beijing's so called "tech crackdown" appeared to come to a close when the Politburo called on April 29 for "finalizing the rectification of the platform economy". However, this was quickly followed on May 7 by new regulations banning minors from sending virtual gifts on livestream platforms, making clear that there will be no return in this new phase to the previous state of laissez-faire.

This is because the issues addressed by the earlier regulatory storm are still dear to Beijing. The collapse of the Ant Financial stock listing in October 2020 over risks to financial stability precipitated the initial crackdown. In 2021, it expanded to include concerns over data collection and privacy, unfair competition, social stability, labor law violations and the impact on minors. In the end, almost all major digital service companies were affected.

The new phase is to "normalize supervision", which will likely come with a slower pace of new regulations and more predictability. A traffic light system, mooted by Vice Premier Liu He in March, will communicate to firms when they need to improve in the eyes of the government, while firms that have received a green light will benefit from support measures. But much remains unclear about the criteria of such a system, beyond a reference that the State Administration of Market Reform made in January in the context of anti-monopoly regulations.



The Politburo has also been calling for the “healthy development of the platform economy”. This policy concept has been a consistent part of Beijing’s position since it first emerged in 2018 and shows no sign of receding. While there is no dramatic change, there is a discernible shift in emphasis from “healthy” to “development”.

Concrete support for the platform economy is forthcoming. Incentives will likely intersect with government efforts to mobilize data for national strategic goals like industrial upgrading. With corona lockdowns posing a major challenge to economic growth, the Politburo has also emphasized job creation. Digital service companies had been shedding workers at a time when a large new batch of graduates is preparing to enter the job market.

**MERICS analysis:** “The so called ‘tech crackdown’ was always a preparation for the digital economy to take on greater importance in national plans,” says **Jeroen Groenewegen-Lau**, Head of Program of “Science, Technology and Innovation” at MERICS. “Tech firms are currently eager to display their loyalty and active support for government priorities, from rural revitalization and common prosperity to semiconductor manufacturing to job creation, and Beijing will seek to prolong that. Although the regulatory storm is calming down, the days of China’s breakneck tech development in regulatory grey areas are over. What this means for China’s innovation ambitions will only become clear once the dust has settled.”

**More on the topic:** Read the short analysis by MERICS Analyst **Kai von Carnap** and **Valarie Tan** [Tech regulation in China brings in sweeping changes](#).

#### Media coverage and sources:

- Chinese State Council (CN): [中共中央政治局召开会议 习近平主持会议](#)
- Xinhua (CN): [常态化监管促进平台经济健康发展](#)
- SCMP: [China to end regulatory storm over Big Tech and give sector bigger role in boosting slowing economy, sources say](#)
- Washington Post: [China’s tech companies get a reprieve, not a pardon](#)
- Reuters: [Alibaba and Tencent readying big job cuts](#)

## METRIX

# 50 million

... is the number of foreign-made computers in government offices and key state-owned enterprises that Beijing [wants to replace](#) with indigenous options. The move, which also applies to foreign software, comes at the last leg of a three-year long campaign to completely replace all foreign computers and operating systems. Under the [“30-50-20” plan](#), 30 percent were replaced in 2020, 50 percent in 2021, and the remaining 20 percent in 2022. On paper this is being done in the name of cybersecurity. However, the plan also

serves as a type of industrial policy aimed at boosting demand for domestic technology providers – all part of Beijing’s march towards technological self-reliance.

## TOPICS

### Former hardline security chief confirmed as Hong Kong’s new chief executive

**The facts:** Hong Kong’s former security chief, John Lee, who was instrumental in the harsh crackdowns on pro-democracy activists and sanctioned by the US government, has been officially confirmed as the city’s new chief executive. Lee secured more than 99 percent of votes cast by the election committee consisting of members vetted by him. It was the first time in twenty years that only one candidate stood for election, reducing the process to a rubberstamp for Beijing. Unlike his predecessors, who had years of experience in business and government, Lee is the first former policeman to lead Hong Kong. On the heels of his rise to top position, 90-year old cardinal Joseph Zen and three other prominent civil rights advocates were arrested for “collusion with foreign forces”.

**What to watch:** Set to be sworn in on July 1, the 25<sup>th</sup> anniversary of Hong Kong’s return to China, Lee has listed security and integration with China as his top priorities. Under his leadership, the government is set to implement Article 23 and enact additional national security legislation. This can be expected to criminalize acts deemed as treason and espionage by foreign entities. Required under Hong Kong’s mini constitution, the Basic Law, the implementation of local security legislation had been repeatedly stalled by public protests over the past decades. Hong Kong’s civil service could see further reforms, as Lee has proposed a “rewards and punishment” system to improve their efficiency. With no business experience, Lee is likely to follow Beijing’s directives when it comes to economic development, putting in doubt the future of Hong Kong’s status and dynamism as a global financial hub.

**MERICS analysis:** “Amidst a shrinking economy struggling to recover from its worst Covid outbreak, rising unemployment, and an exodus of residents, capital and businesses, China’s support of John Lee’s leadership is clear indication to the outside world that security remains top priority in Hong Kong above everything else,” says MERICS Analyst **Valarie Tan** “China has Hong Kong fully in its grip and will continue to tighten control until the city yields completely to its rule.”

#### Media coverage and sources:

- New York Times: [Beijing’s man in Hong Kong inherits a tamed city](#)
- South China Morning Post: [What will a Hong Kong civil service under John Lee look like?](#)
- BBC: [Hong Kong cardinal Joseph Zen arrested under China's security law](#)



### After soaring through much of the pandemic, China enters an economic downward spiral

**The facts:** The Omicron outbreaks sweeping much of China have proven highly debilitating to the economy. Fitch Ratings downgraded GDP projections on May 3 from 4.8 percent down to 4.3 percent. Meanwhile, retail sales shrank 3.5 percent year on year in March for the first time since mid-2020. While weak consumption growth in the last two years has been buoyed by massive export growth to drive overall GDP growth rates, April's export growth rate was a mere 3.9 percent, down from 32.3 percent in April 2021. Looking

forward, the Purchasing Managers' Index (PMI) dropped from 49 in February to 41.6 in April, reflecting negative outlooks in the manufacturing sector.

**What to watch:** The tangible impact on business operations was reflected by both the European Union Chamber of Commerce in China and AmCham China, who released surveys in early May reporting the impact of the Omicron outbreaks on their members. The European Chamber survey found 60 percent of respondents had revised down revenue expectations for 2022, and 92 percent reported negative impacts on logistics and supply chains. Meanwhile, the AmCham survey laid out comparisons between Shanghai-based respondents and those elsewhere, with only small differences reflected in the data. This suggests that supply chains are so disrupted by lockdowns that even companies in regions without Omicron are feeling similar impacts.

**MERICS analysis:** "China's 'dynamic zero-Covid' strategy proved successful against previous strains of Covid-19, paying economic dividends as the whole country locked down and then emerged together, providing for a strong V-shaped recovery," said **Jacob Gunter**, MERICS Senior Analyst. "Omicron is proving an altogether different beast, but China's response has yet to evolve. Rolling lockdowns are leading China into what is possibly a worse economic situation than the one it experienced during the nationwide lockdown of early 2020. As cities emerge from their own restrictions, many of their suppliers and customers are locking down themselves, which will likely yield less of a V-shaped recovery, and more of a sputtering effort to get the World's Factory back up and running."

**Media coverage and sources:**

- Fitch Ratings: [China 2022 growth forecast cut amid Covid-19 outbreaks](#)
- European Chamber Survey: [China's Covid-19 policy and Russia's war in Ukraine cause severe disruptions to European business in China](#)
- AmCham Survey: [US business confidence in China shaken amid growing impact of Covid-19 outbreaks](#)

**New Philippines president Marcos: Good news for China?**

**The facts:** The landslide victory of Ferdinand "Bongbong" Marcos Jr in the Philippines presidential election is seen as good news in China. Zhang Tiegen, a former diplomat and analyst at the China Foundation for International Studies, describes him as "the most China-friendly of the ten presidential candidates". Marcos is expected to encourage relative continuity in the Philippines' recent approach to China, on the one hand preserving his country's security alliance with the US, on the other, seeking stronger economic ties with Beijing. There is also hope in China that Marcos won't "pick a side" in the context of US-China rivalry, and that he might even help shelve an international tribunal ruling from 2016 that effectively rejected Beijing's maritime claims in the South China Sea.

**What to watch:** Such an outcome, however, will depend on several factors. For instance, should Beijing continue to increase its assertiveness in and around maritime features claimed by Manila, its relations with the Philippines are likely to suffer as they did during the second part of Rodrigo Duterte's presidency. Moreover, widespread China-scepticism

among Filipino citizens and officials alike might end up pushing Marcos to adopt a tougher line on China.

**MERICS analysis:** “Much as under Duterte, the future of Sino-Philippines relations will depend to a great extent on what Beijing can offer Manila,” says MERICS Research Fellow **Thomas des Garets Geddes**. “Should China offer generous infrastructure and investment assistance to the Philippines while limiting its aggressive posturing in the South China Sea, a renewed warming of relations would be conceivable. But China has largely failed in both respects in recent years. Marcos was certainly the better candidate for China, but he does not guarantee an increasing rapprochement between both sides.”

#### **Media coverage and sources:**

- Weixin (CN): [张铁根：菲律宾总统选举令人瞩目](#)
- Sohu (CN): [菲律宾大选结果：前任总统之子搭档现任总统之女 专家：恢复国内经济，延续务实外交](#)
- RAND: [China has lost the Philippines despite Duterte's best efforts](#)
- CFR: [Ferdinand Marcos Jr appears to have won convincingly: Here's what that means for the Philippines](#)

## **PROFILE**

### **Shen Yiqin - one of the few women in China's leadership eyes promotion**

In China's heavily male-dominated political elite, Shen Yiqin is one of the very few women who has a chance for elevation into the central leadership at the quinquennial National Congress of the Chinese Communist Party (CCP) later this year. As Party Secretary in Guizhou, the sixty-two-year-old is the only woman with a top job in a province.

If Shen were promoted to head an important province like Chongqing or to a post in the central party apparatus, she could even secure a seat in the 25-strong Politburo. Female representation in China's top elite is uncertain given that the only woman in the Politburo, Vice Premier Sun Chunlan, will retire next year due to age limitations. Another contender is Assistant Minister of Foreign Affairs Hua Chunying, although a jump from her current rank into the core leadership would be surprising.

A Guizhou native and member of the Bai ethnic minority, Shen has spent all her career in the south-western province. Her lack of experience in the central administration weakens her claim to promotion. But her almost entirely party-based career could be a bigger asset. Shen has also held influential posts in the political-legal commission, working directly under Chen Min'er, who is considered to be close to Xi Jinping and a potential successor. For a nation in which “women hold up half the sky,” China's leadership sure has a female representation problem, even if Shen is promoted.

#### **Media coverage and sources:**

- The Diplomat: [Shen Yiqin, party historian, to bring depth to CCP Politburo](#)
- Baike (CN): [谌贻琴](#)



# Shen Yiqin 谌贻琴

(Age: 62)

**BORN: DECEMBER 1959  
ZHIJIN COUNTY, GUIZHOU PROVINCE**

**1978 - 1982**



Studied History at Guizhou University.

**1982 - 1993**

Worked in teaching and research positions on party history at the provincial party school in Guizhou.



**1993 - 1999**



Rose through the ranks of the party school's leadership.

**2001 - 2007**

Appointed as the Deputy Secretary of Qiannan and later Tongren prefecture.



**2007 - 2012**



Became a member of the Guizhou Provincial Standing Committee, Director of the Propaganda Department and Chairperson of the Provincial Federation of Social Sciences.

**2009 -**

Participated in central party school classes for provincial and ministerial cadres.



**2012 -**



Became a member of the Guizhou CCP Standing committee and Vice Governor.

**2015 - 2017**

Served as the Secretary of the Guizhou Political and Legal Commission.



**2018**



Governor of Guizhou Province.

**Since 2020**

CCP Secretary of Guizhou province.



Source: MERICS

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## MERICS CHINA DIGEST

### [EU, US trade, technology body to meet May 15-16 in France \(Reuters\)](#)

The second meeting of the EU-US Trade and Technology Council will take place over the weekend in Paris. The security and resilience of supply chains for critical raw materials and chips, disinformation, export controls, and technology standards will likely be on the agenda. While Russia will be a big focus, the unified allied response to the invasion through sanctions and export controls has raised the prospects of policy coordination on China. Mitigating strategic dependencies from and preventing unwanted tech transfers to authoritarian countries are important shared interests.

### [China blasts WHO chief over criticism of Xi's Covid-zero policy \(Bloomberg\)](#)

China denounced the World Health Organization Director General's criticism of its lockdown-dependent zero-Covid strategy. WHO Chief Tedros had said that the strategy was no longer sustainable and that a "shift would be very important." (22/05/11)

### [Xinjiang officials said to pay Uyghurs to perform dance at Kashgar mosque \(Radio Free Asia\)](#)

Authorities in Xinjiang have allegedly paid Uyghur men to perform a dance celebrating the end of Ramadan at a mosque in the northwestern city of Kashgar, according to reports from Radio Free Asia. A video of the dance was posted on a YouTube account run by party-state media. Later this month, United Nations human rights chief Michelle Bachelet is expected to visit Xinjiang. (22/05/05)

### [Australia aware of China plans for Solomon Islands wharves \(The Diplomat\)](#)

Australia's prime minister said he was aware of Beijing's ambitions in the southwest Pacific, reacting to newspaper reports about Chinese plans to build wharves, shipyards and underwater cables in the Solomon Islands. China and the Solomon Islands recently confirmed that they have signed a security agreement. (22/05/09)

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