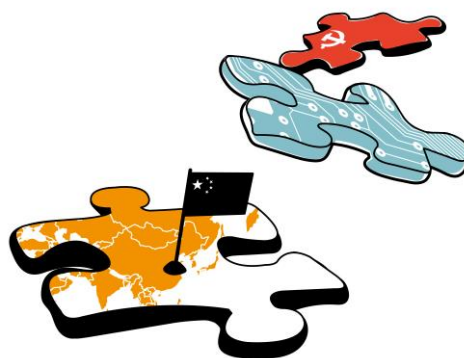


JULY 14, 2022

# MERICS China Essentials



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## TOP STORY

### Global companies need to look out for China's new data transfer rules

The Cyberspace Administration of China (CAC) on 7 July published the final version of its Outbound Data Transfer Security Assessment Measures (据出境安全评估办法), at last detailing the security review process companies must undergo before transferring certain data types abroad. Companies from September will have to evaluate their own security and apply for an assessment by the CAC if they are, among other things:

- data handlers making important data available abroad
- operators of “critical information infrastructure” (CII) exporting personal information or
- data handlers managing the personal information of more than a million people and also making this available abroad.

The CAC can also mandate any company to undergo data export security assessment should it deem one necessary.

Foreign companies have been waiting six years for clarification from Chinese authorities about the data security review process. The 2016 Cybersecurity Law (CSL) already mandated security assessments from June 2017 for CII operators seeking to export “personal information” or “important data” gathered in China. But it failed to offer more detail and subsequent draft measures generated more confusion than clarity. The new measures fill important gaps in China's data regulation and governance puzzle, which includes the CSL, but also the Data Security Law and Personal Information Protection Law of 2021, and the more recent Cybersecurity Review Measures of 2022.

European firms in China so far have taken a conservative approach to compliance, localizing data where possible and relying on local authorities to obtain soft approval for certain kinds of data exports. They should in theory welcome the new regulatory definitions, which include a clear timeframe for decisions by the CAC and the right to appeal against them. But companies in practice will continue to struggle with unspecific terms like “important data” and “providing [data] abroad”. Despite recent attempts at better defining important data categories, China's emerging data classification is still messy and regulatory outcomes will likely be industry- and even company-specific.

**MERICS analysis:** “Although clarity regarding China's cross-border data transfer rules is positive, multinationals must brace for tighter enforcement and stricter compliance and more could feel pressured to store data in the country,” says MERICS Analyst **Rebecca Arcesati**. “The CAC and industry regulators are likely to retain much discretion regarding data categories that trigger localization requirements. Politics will continue to shape the degree of interoperability between China's digital economy and the rest of the world.”

**More on the topic:** [Beijing's watchful eye on all data flowing in and out of China](#) – short analysis by **Kai von Carnap**.

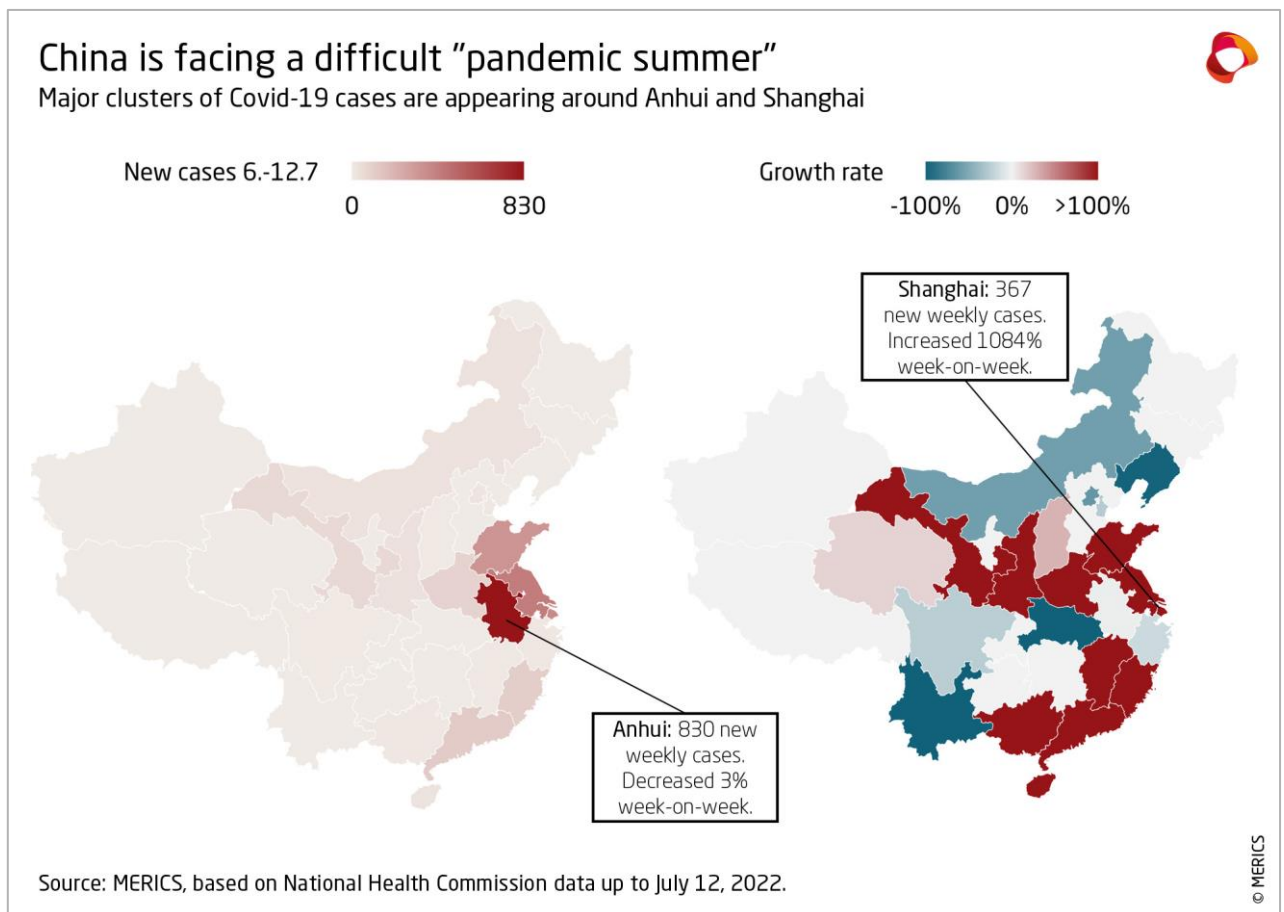
#### Media coverage and sources:

- CAC [CN]: [数据出境安全评估办法](#)
- DigiChina: [Outbound Data Transfer Security Assessment Measures \(translated\)](#)

METRIX

# 7 days

In an attempt to contain a Covid-19 surge in Macau, all casinos in the gambling mecca will be shut completely for a week – a drastic move last seen more than two years ago in the pandemic’s first months. Macau, Hong Kong and China are facing a difficult summer as Covid-cases rise and citizens’ patience wanes. But with a fast-rising 2,300 locally transmitted cases reported in mainland China last week, Beijing’s pandemic response is changing. As new variants become ever more infectious and harder to contain, the Chinese government is loosening quarantine rules while intensifying regular testing. (Sources: [Reuters](#), [WSJ](#), [Sixthtone](#))



## TOPICS

### China tries to disentangle its foreign relations from Russia at G20 meeting

**The facts:** The G20 Foreign Ministers' meeting, held in Bali from July 7 - 8, marked the first time since Russia's invasion of Ukraine that Russian Foreign Minister Lavrov and Chinese Foreign Minister Wang Yi were in the same room as their European and American counterparts. The dynamics were – as expected – tense, but the two ministers experienced two distinctly different meetings. Lavrov, who was shunned by western representatives throughout the meeting, walked out on the last day, complaining of the West's "frenzied" criticism of Russia. Wang Yi, on the other hand, made the rounds, holding bilateral meetings with at least 12 of his counterparts.

**What to watch:** While Wang Yi did meet with Lavrov, his focus seemed to be on trying to stabilize China's ties with Western countries, which have deteriorated rapidly over the last few months. Wang met with US Secretary of State Antony Blinken, new Australian foreign minister Penny Wong (the first such meeting since 2019) and EU foreign affairs chief Josep Borrell, among many others. Wang's delivery of various lists of wrongdoings and demands to his US and Australian counterparts shows that contentious points remain. Still, China went to great lengths to portray them as substantive and constructive.

**MERICS analysis:** "China does not want to be seen as being squarely in Russia's camp," says MERICS Lead Analyst **Helena Legarda**. "It is trying to demonstrate that it is not isolated and that it remains willing to engage with Western countries – although only as long as they abide by China's red lines and demands."

#### Media coverage and sources:

- Reuters (EN): [Russia's Lavrov dismisses West's 'frenzied' criticism at G20](#)
- MFA (CN): [Wang's meeting with Borrell](#)
- MFA (CN): [Wang's meeting with Lavrov](#)
- MFA (CN): [Wang's meeting with Blinken](#)
- MFA (CN): [Wang's meeting with Penny Wong](#)

### Exports, inflation and consumption striking at the core of China's growth engine

**The facts:** China's export growth beat expectations in June, rising by 17.9 percent year-over-year in spite of predictions of 12 percent. While Beijing certainly appreciates this respite, exports are projected to run into significant headwinds due to steadily weakening global demand, the result of high inflation rates in developed markets and broader concerns about an economic slowdown or even recession there. China relied heavily on export growth throughout the pandemic to sustain overall growth rates in the face of weak domestic consumption growth.

**What to watch:** Xi Jinping's stated goal is to shift towards a "Dual Circulation Strategy" that aims for stronger domestic consumption to become the central driver of growth, displacing China's historical reliance on export-driven development. However, the

opposite has happened in the years since the strategy was announced. China isn't experiencing high inflation like other major economies. While prices are rising quickly in the US and Europe because of excessive demand and insufficient supply, Chinese consumers are more worried about saving for unpredictable lockdowns than they are about getting their hands on the latest cars and smartphones or about trying out new restaurants or travel destinations.

**MERICS analysis:** "High inflation in key global markets is bad news for Xi, as it will make a dent in demand for China's exports at the very time that Beijing is struggling to hold up the economic baseline," said **Jacob Gunter**, MERICS Senior Analyst. "Just as it will take difficult and painful decisions that risk economic instability in Europe and North America to tame high inflation, so too will Beijing have to risk major changes to its economic model to get domestic consumption rates to where it wants them to be. The imminent Q2 economic data release will shed light on just how deep of a pit the Chinese Communist Party will need to climb out of to meet its 2022 growth goals."

**Media coverage and sources:**

- Reuters: [China's exports bounce back, but global risks darken trade outlook](#)
- SCMP: [China trade, spending rebound dulled by zero-Covid uncertainty](#)
- National Bureau of Statistics: [Consumer Prices for May 2022](#); [Total Retail Sales of Consumer Goods in the First Five Months of 2022](#)

**Crackdown in Zhengzhou after citizens vent anger about no access to deposits**

**The facts:** A long-running bank scandal in Henan province sparked protests after citizens were unable to retrieve deposits worth up to 40 billion CNY. Local authorities had attempted to stop protests in May by restricting public movement by switching citizens' health codes to red. This apparent abuse of administrative powers made headlines in China but did not lead to a resolution. Quite the opposite: Last Sunday, a peaceful protest at a Zhengzhou branch of China's central bank was quashed by a group of unidentified men in white shirts, either plainclothes police or hired mobsters.

**What to watch:** The police blames fraud, illegal fundraising and gang activity for citizens' banking troubles. But protesters made it clear they think Henan's authorities have a big role in the drama. On Monday, state broadcaster CCTV said a solution would be presented soon, and some local authorities said they would start paying out small amounts to depositors. Despite that, distrust in Henan's government remains high.

**MERICS analysis:** "The protesters knew how to bargain with authorities," writes MERICS Analyst **Vincent Brussee**. "They embedded their critique of local government in official jargon – one slogan read 'The China Dream evaporated for 400,000 depositors.' They wanted to signal they were not a threat to the system. But this did not stop a violent crackdown."

**Media coverage and sources:**

- SCMP (EN): [China's banking-crisis victims promised money, but outcry as 'it doesn't solve underlying problem'](#)
- Baidu (CN): [河南银行处置方案将至！吕奕更多内幕被曝光：私人山庄奢华似故宫](#)
- VOA (EN): [Chinese Protesters Demanding Bank Deposits Tussle with Security Men](#)

## MERICs CHINA DIGEST

[Sri Lanka crisis: political turmoil may have 'big impact' on China ties, observers say \(South China Morning Post\)](#)

The economic and political turmoil in Sri Lanka will have a “big impact” on the country’s relations with Beijing, writes the South China Morning Post. It is also a wake-up call for Chinese investors. (22/07/12)

[Shinzo Abe's assassination sparks shock, glee, and reflection on Chinese social media \(China Digital Times\)](#)

The China Digital Times looks at Chinese reactions to the assassination of former Japanese Prime Minister Shinzo Abe – they reach from shock to glee. (22/07/08)

[China: MI5 and FBI heads warn of 'immense' threat \(BBC\)](#)

The directors of the UK and US intelligence used a first-ever joint public appearance to warn of the threat China poses. Among other issues, they flagged interference in politics and recent elections. (22/07/08)

## **EDITORIAL TEAM**

Claudia Wessling  
Director Communications  
and Publications, MERICS

Gerrit Wiesmann  
Freelance editor

Hannah Seidl  
Communications Manager, MERICS

## **GRAPHICS**

Alexandra Hinrichs,  
Graphic Designer, MERICS

## **PUBLISHER**

**MERICS | Mercator Institute for China Studies**

Klosterstraße 64

10179 Berlin

Tel.: +49 30 3440 999 0

Mail: [info@merics.de](mailto:info@merics.de)

[www.merics.org](http://www.merics.org)