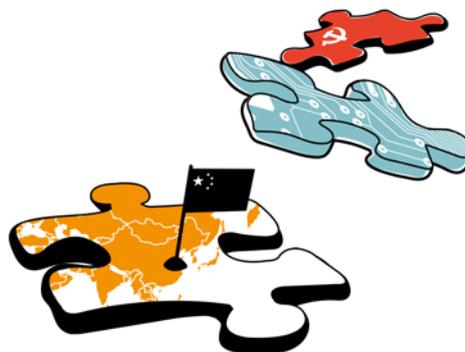


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MERICS China Essentials



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TOP STORY

A rare public opinion poll records popular dissatisfaction ahead of the NPC

As China prepares for the National People's Congress, an independent opinion poll in Southern China's Guangzhou has revealed record levels of dissatisfaction among China's populace, especially about the economy, employment and pay. The annual session of the national legislature starting next week comes as socio-economic challenges are compounded by demographic shifts and policy uncertainties. Censors quickly deleted posts about the poll from social media. It will be interesting to see whether party and state leaders stick to the usual self-congratulatory rhetoric at the NPC or acknowledge the stark reality on the ground.

The poll by the Canton Public Opinion Research Center, a well-established NGO, shows public satisfaction with the economy has hit its lowest point since 2015. Some 20 of 26 regularly compiled indicators fell – a first in the 36 polls conducted since 1990. Moreover, assessments of employment and income have worsened, with only 36 percent of respondents satisfied with job prospects and 31 percent satisfied with income. Frustration is widespread, especially among young people, lower-income individuals and the less-educated.

Demographic challenges are only reinforcing these issues. A recent report by the Beijing-based YuWa Population Research Institute revealed that the average cost of raising a child in China is the second highest in the world, in spite of government efforts. Also, in a rapidly aging society, elderly care is poorly funded and relies in large part on relatives.

Other pressing economic issues also demand attention. Household income growth remains stagnant, while the high cost of welfare and public services, particularly healthcare, are rising. A sluggish job market, especially for entry-level positions, is exacerbating concerns. Social mobility is stagnant and the real-estate crisis is wiping out many household savings, reinforcing the population's pessimistic outlook. Addressing these issues will require comprehensive policy measures aimed at stimulating economic growth, supporting household incomes and enhancing the quality of public services.

MERICS Analysis: “The failure to implement long-overdue structural reforms to bolster welfare and household income is beginning to show its effects,” said MERICS Lead Analyst Nis Grünberg. “The leadership will have to provide more than puffy party rhetoric at the NPC. Xi especially will have to show how China's state-driven economic securitization approach is of benefit to the population by ushering in a more inclusive redistribution of wealth. Failure to do so will risk eroding public sentiment even more.”

Media coverage and sources:

- Archived survey: [【404 文库】何文蔚的笔记仓库 | 广州民调：30 多年来未见的全方位满意度下降 \(chinadigitaltimes.net\)](#)
- Yuwa survey: [Cost of raising children in China second-highest in world, thinktank reveals | China | The Guardian](#)
- Associated Press: [China's former foreign minister steps down as member of the legislature \(state media\)](#)

METRIX

USD 250 million

This is the volume of a bond issued by a state-owned company – in an unusual move – to help the province of Guizhou manage crippling debt from bad loans in the wake of China’s property market collapse and economic downturn. The AAA-rated five-year non-public bond with a coupon of 4.8 percent was issued by the fully state-owned financing company Guizhou Hongyingda Construction Project Management Co. Proceeds will be used to repay debt issued by a local government financing vehicle (LGFV). Local governments across China are facing liquidity problems as developers can no longer repay loans acquired during a 20-year real estate bubble. Guizhou last year publicly appealed to Beijing for a bailout. The question is who is next – and would Beijing step in to help cash-strapped local governments should contagion spread?

TOPICS

US wants to replace Chinese-made port cranes on national security grounds

The facts: Europe’s debate about the safety of its critical infrastructure could widen after US President Joe Biden issued an executive order to boost the cybersecurity of US ports by securing and eventually replacing Chinese-made cranes. Designed to strengthen supply chains and national security, port operators will have to work with the US Coast Guard to identify and lower cybersecurity risks associated with equipment made in China. In a second step, the US government plans to invest over USD 20 billion in the next five years to replace port infrastructure and reestablish domestic crane manufacturing. The executive order aims to end China’s market dominance by targeting over 200 Chinese container cranes that account for 80 percent of ship-to-shore gantry cranes in the US. The Chinese government criticized the move as “absurd” and driven by “paranoia.”

What to watch: Having led the charge to exclude Chinese-made telecoms equipment from Western 5G networks on security grounds, the US government is now warning about the risks of Chinese-made cranes designed to be remotely controlled, serviced and programmed. While declining to detail specific cybersecurity risks, the White House said the move was a precaution against potential threats to US critical infrastructure. The plan joins a growing list of significant economic costs that the US is willing to shoulder in order to address what it sees as national security and dependency risks emanating from China.

MERICS analysis: “Europeans shouldn’t be surprised if this US-China issue spills over to occupy them as well, much like US concerns about Chinese telecoms-equipment maker Huawei did,” said MERICS Lead Analyst **Jacob Gunter**. “US pressure about Chinese-made port equipment concerns Europe, not least because of the presence of NATO and US Navy

vessels in and near commercial ports. European shipping giants, which carry much of the trade between the US and other markets, should also brace for more scrutiny.”

Media coverage and sources:

- The White House: [Biden-Harris Administration Announces Initiative to Bolster Cybersecurity of U.S. Ports](#)
- Wall Street Journal: [U.S. to Invest Billions to Replace China-Made Cranes at Nation's Ports](#)
- Freightwaves: [US targets Chinese-made container cranes in spy crackdown](#)
- Newsweek: [Biden Plans To Spend Billions Replacing China-Made Cranes at US Ports](#)
- Global Times: [US plan to replace China-made cranes over so-called national security concerns 'absurd'](#)

Europe sanctions Chinese companies for indirectly aiding Russian war effort

The facts: On the second anniversary of Russia’s invasion of Ukraine, the European Union imposed sanctions on three companies in mainland China and one in Hong Kong for allegedly indirectly aiding Moscow’s war effort. The quartet joins three Hong Kong-based companies, which the EU last year banned from buying selected high-tech components in Europe. The thirteenth Russia-related sanctions package came as the EU investigates whether Chinese car makers and train maker CRRC receive state subsidies that allow them to sell their products at dumping prices. This could see the EU take restrictive measures against Chinese companies.

What to watch: Providing an economic and political lifeline to what is today Europe’s existential threat is meant to have a cost for China. The EU has consistently said China’s support for Russia would have consequences. But Beijing said the sanctions would worsen relations by violating “the consensus and spirit” of the recent China-EU leaders’ meeting. That begs the question whether the EU is ready for a possible tit-for-tat escalation with China. It has imposed sanctions as it considers taking restrictive measures against Chinese imports. As the Chinese recently announced investigation into French brandy shows, Beijing seems ready to retaliate. European leaders will have to show the resolve to maintain a joint position as they engage with Xi Jinping.

MERICs analysis: “Two years into the war in Ukraine, the price Beijing has to pay to support Russia’s war is increasing,” said **Abigaël Vasselier**, MERICs Director for Policy and European Affairs. “Looking ahead, Europe should be ready to not only to remain firm on the decision to take action. It has also to be prepared to enter a much broader tit-for-tat with Beijing.”

Media coverage and source:

- Council Regulation (EU) 2024/745 of 23 February 2024 (europa.eu): [Chinese firms sanctioned as part of the 11th and 13th sanctions package related to the war in Ukraine](#)
- Chinese MOFCOM statement following EU sanctions: [商务部新闻发言人就欧盟第 13 轮对俄制裁列单中国企业事答记者问](#)

Online data leak exposes China's powerful hacking-for-hire industry

The facts: Online documents leaked from a Chinese cyber-hacking contractor last week show how China's government organizes online spying by getting hacking companies to compete for public contracts. The documents published on the software development platform GitHub included data from I-Soon (安洵信息技术有限公司), a private contractor offering hacking services to the government, particularly the Ministry of Public Security (MPS). I-Soon employees confirmed the leak to the Associated Press. The company had previously been linked to Chengdu 404, a prolific "threat actor" indicted by the US for state-sponsored espionage.

What to watch: The revelations provide valuable insights after intelligence agencies' warnings about Chinese cyber-attacks have picked up. The files include lists of targets, contracts, descriptions and sales pitches about hacking software, and chat messages. They reveal a competitive market for hackers, with numerous companies competing for low-value contracts by pitching to local security bureaus. While the leak shows shared, sophisticated tools, I-Soon is revealed to be operating like a typical startup, with employees complaining of low pay. The leak suggests that the MPS' reach extends beyond domestic hacks and surveillance of minority groups in China to transnational repression and hacking of foreign ministries.

MERICS analysis: "The leak shows a prolific and very competitive hacking-for-hire industry," says MERICS Senior Analyst **Antonia Hmaid**. "Analysts have long suggested such an industry exists, but getting insight into the inner workings of a company within the system reveals the professionalization of hacking-as-a-service in China."

More MERICS analysis on the topic:

- ["Here to stay" – Chinese state-affiliated hacking for strategic goals](#), MERICS Report by Antonia Hmaid
- [Chinese hacking activities](#), podcast with Antonia Hmaid

Media coverage and sources:

- New York Times: <https://www.nytimes.com/2024/02/22/business/china-hack-leak-isoon.html>
- The Guardian: <https://www.theguardian.com/technology/2024/feb/25/china-cyber-leak-hacking-program-security>
- The Associated Press: <https://apnews.com/article/china-cybersecurity-leak-document-dump-spying-aac38c75f268b72910a94881ccbb77cb>
- The leaked documents on Github: <https://github.com/soufianetahiri/Anxun-isoon>
- Link between I-SOON and Chengdu 404: <https://nattothoughts.substack.com/p/i-soon-another-company-in-the-apt41>

VIS-À-VIS

“Xi is not ready to face China’s problems openly”

MERICS China Essentials spoke with Senior Associate Fellow Johnny Erling about China's economy and the possibility of reform under Xi Jinping

China’s economy is in crisis. What is Xi doing about this?

The pressure on Xi Jinping to introduce economic reforms is growing. Whether this will happen is questionable. There are no signs that the Third Plenum of the Central Committee (CC) of the Communist Party of China – which has been responsible for bold reforms in the past – will be held before the start of the National People's Congress (NPC) on March 5.

The Third Plenum could have set the points for the NPC to take programmatic and personnel policy decisions. But instead of convening one, the Politburo recently focused on adopting strict inspection rules that go to great lengths to emphasize the loyalty of party members. In the past, this would have been seen as a sign that there was some kind of inner-party opposition to be overcome. Today, it is more an expression of control and security mania. Xi has never been able to completely change the party statutes to his liking. He now seems to be trying to make up for this with regulations and rules. He seems to be very busy making the party unconditionally loyal to him. But what exactly is happening within the party is a mystery.

Could Xi's inaction on reforms also be a sign of weakness?

Japanese China observers assume that domestic political problems that are preventing Xi from convening the Third Plenum. When it comes to policy and personnel issues, the Central Committee is a force that even the autocrat Xi cannot circumvent. One example: After the dismissal of former Foreign Minister Qin Gang, Wang Yi, the éminence grise of Chinese foreign policy, took over the post on a temporary basis.

A new foreign minister would need to be appointed at the People's Congress, but this can only happen if the party reshuffles the upper echelons of the Party beforehand. This could happen at a Third Plenum, which is unlikely to happen. The succession to 71-year-old Wang as foreign minister is obviously not going to be decided soon.

Personnel issues in the military are also important: in addition to the minister of defense, nine senior military and defense chiefs were dismissed in 2023, presumably due to corruption. Some are CC members, which is why a Third Plenum would be useful to exclude them from the CC and enable replacements to be appointed.

The poor economy is also an issue in China. That doesn't affect Xi?

Even the Chinese business newspaper Caixin recently warned that measures to support the economy are essential. However, party propaganda knows how to undermine such demands by appropriating and hollowing them out. When the party talks about reform, it does not mean what was meant under Deng Xiaoping. When it calls for the “liberation of thinking”, as it is doing at the moment, it implies more commitment to “Xi Jinping Thought”. Xi himself talks about the potential of “new qualitative productive forces” - high-tech and science are supposed to get the economy through this crisis by innovating. Xi is relying on party commissions and ministries for this, not the market.

At the same time, Beijing is currently drafting a law that would guarantee private companies an enforceable legal right to equal treatment with state-owned enterprises (SOE). In recent years, however, there have been repeated proposals for improvements to promote the private sector - 100 measures in 2023 alone - but these have not led to the hoped-for boost. Xi recently used a well-known Mao phrase: “In China, the view is uniquely beautiful.” In his opinion, the country is doing well. This shows that, for whatever reason, he is not prepared to confront China's problems openly.

MERICS CHINA DIGEST

CCP toughens Taiwan rhetoric with call to “fight” independence (Financial Times)

Wang Huning, China's most senior official in charge of Taiwan policy after President Xi Jinping, used markedly sharper language in this year's annual Taiwan work conference, which ended in Beijing last Friday, opting for “fighting Taiwan independence” instead of “opposing” it. China must also “further grasp the strategic initiative to achieve the complete unification of the motherland,” the state news agency Xinhua quoted Wang as saying. (24/02/23)

<https://www.ft.com/content/28172cc1-b3b7-4a72-88b0-5a963d0ce823>

US-China trade tensions linger on sidelines of WTO conference (Sourcing Journal)

Ahead of the four-day conference, the Office of the US Trade Representative (USTR) released its annual report on China's WTO compliance, maintaining that the country “remains the biggest challenge to the international trading system.” China's Ministry of Commerce hit back on Monday, claiming the US had “made groundless and arbitrary accusations on its economic and trade policies.” Nevertheless, in a meeting on the sidelines of the conference both sides “agreed to work on areas of shared cooperation, including their respective commitments to the WTO,” a readout published by the USTR said. (24/02/27)

<https://www.yahoo.com/lifestyle/us-china-trade-tensions-linger-202259999.html>

China broadens law on state security to include "work secrets" (Reuters)

Chinese lawmakers have expanded a state secrets law for the first time since 2010, widening the scope of restricted sensitive information to "work secrets," according to a full text of the law published online. Jens Eskelund, president of the EU Chamber of Commerce in Beijing, described the new provision as "vague" and at odds with the Chinese government's stated aim of prioritizing the stabilization of foreign investment this year. The law will take effect from May 1. (24/02/28)

<https://www.reuters.com/world/china/china-broadens-law-state-secrets-include-work-secrets-2024-02-28/>

Two Chinese bloggers in exile warn that police are interrogating their followers (AP)

Former state broadcaster CCTV journalist Wang Zhi'an and artist-turned-dissident Li Ying, both Chinese citizens known for posting uncensored Chinese news, said in separate posts Sunday that police were interrogating people who followed them on social media, and urged followers to take precautions such as unfollowing their accounts, changing their usernames, avoiding Chinese-made phones and preparing to be questioned. (24/02/27)

<https://apnews.com/article/china-police-interrogate-censorship-twitter-users-f09537e94d7ff4254d57848818e91fef>

US export curbs on China won't extend to legacy chips (Nikkei)

Despite export controls on cutting-edge chips to China, US assistant secretary of commerce for export administration, Thea D. Rozman Kendler, stated that there was no intention to extend them to mature or legacy chips, emphasizing the focus on targeted measures for cutting-edge semiconductor technologies. (23/02/2024)

<https://asia.nikkei.com/Politics/International-relations/US-China-tensions/U.S.-export-curbs-on-China-won-t-extend-to-legacy-chips-official>

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