



Issue 9/2019 (May 10-23, 2019)

<b>Contents:</b>	<b>Page</b>
<b>TOPIC OF THE WEEK:</b>	<b>2</b>
Huawei finds itself entangled ever deeper in trade dispute	2
<b>CHINA AND THE WORLD</b>	<b>3</b>
Celebration of Asian cultures includes message to the US	3
<b>POLITICS, SOCIETY AND MEDIA</b>	<b>4</b>
Same sex marriage in Taiwan and a challenge for the media	4
<b>ECONOMY, FINANCE AND TECHNOLOGY</b>	<b>5</b>
China acts to support yuan as markets react to trade war	5
Beijing seeks to limit effects of the trade dispute on firms and the labor market	6
<b>THE EUROPEAN VIEW</b>	<b>7</b>
Dutch China strategy is a careful balancing act	7
<b>PROFILE: HU XIJING</b>	<b>7</b>
“Frisbee Hu” – Global Times editor Hu Xijing	7

## METRIX

200  
million

African swine fever is predicted to kill as many as 200 million pigs in China this year, according to estimates by Dutch analysts, [Rabobank](#). The disease is highly contagious and nearly 100% fatal for the animals. China normally raises around 700 million pigs a year. Deaths due to infection or culling could shrink its pig population by nearly a third by the end of the year.

## TOPIC OF THE WEEK:

### **Huawei finds itself entangled ever deeper in trade dispute**

It was a move that reflected a new quality in the trade dispute between China and the US: Straight after US President Donald Trump had issued his decree forbidding US firms from using telecommunication technology that is classified as a risk to national security, **Google reacted on Monday by withdrawing its Android licence from Huawei with immediate effect.** Other US technology firms on the US trade ministry's list also sought to limit their cooperation with Huawei.

The move caused uncertainty for Huawei customers worldwide, but also caused the share prices of companies that work with Huawei to fall, among them the German chip manufacturer Infineon. A day later, the US government granted a **temporary reprieve of three months** for technology exports to Huawei. Up to the middle of August it will still be possible for Huawei to use US technology, although the fundamental decree remains in place.

China has yet to react officially to Trump's declaration and the measures taken by American technology firms. However, party and state leader Xi Jinping pledged during a visit to Jiangxi Province that the country now faced a **"new long march"**, and hinted that hard times lay ahead. He also uses his three-day trip to Jiangxi to call for self-reliance and to drive home **importance of indigenous technology and resources.**

Huawei boss Ren Zhengfei, whose company is getting ever further entangled in the trade dispute, has reacted in combative style. The US should not "underestimate" the strength of Huawei, **Ren told the state TV broadcaster CCTV.** The company has since announced that it will introduce its **own operating system by next spring** at the latest. On 1 December 2018 his daughter Meng Wanzhou, who is also Huawei's head of finance, was arrested at the request of the US in Canada and, at the end of January, **accused in the US of fraud, money laundering and obstruction of justice,** among other things.

The US government suspects Huawei of using its commercial activities to spy for China. No proof of this has so far been made public. However, the US has been pressuring other countries such as Germany to cut Huawei out of 5G mobile standard networks.

Last year the Chinese telecommunication firm ZTE was affected so heavily by similar US measures that it had to shut down production temporarily. The US government had imposed penalties on the company for allegedly doing illegal business with Iran and North Korea and refused it access to US technologies such as chips for seven years. After several weeks, ZTE paid the US around 1.4 billion USD, resulting in the lifting of the sanctions.

Users took to social media to make the comparison with ZTE and expressed their concern about Huawei's future. **Technological independence and its own operating system would be the only solution.** There was also talk of a **boycott of Huawei's competitor Apple,** as well as applying **leverage with rare earths,** which China could do with more force.

The current discussion in the official state media, on the other hand, reflected the efforts of the Chinese leadership to demonstrate in the face of growing concern about the consequences of the trade conflict that Beijing has everything under control and will **continue to act rationally**. The **official news agency Xinhua** fought back against the apparent suggestion from the US that through the trade conflict it intended to bring about a change in China's political system.

**MERICS Analysis:** **"Huawei's 90-day reprieve won't impress China's hardliners."** Blogpost by Nis Grünberg.

## CHINA AND THE WORLD

### Celebration of Asian cultures includes message to the US

Leaders from across Asia gathered in Beijing in May to celebrate the first Conference on Dialogue of Asian Civilizations (亚洲文明对话大会) – an event described by China's State Council Information Office as a **"carnival to celebrate the diversity of Asian civilizations."** Leaders and officials from 47 Asian countries attended the event, as well as the Greek president, Prokopis Pavlopoulos, who was in China on a state visit.

The conference is the brainchild of President Xi Jinping, who put forward the idea at the Conference on Interaction and Confidence-Building Measures in Asia in 2014. The Chinese government's ambition to establish itself as the leading power in the Asia-Pacific has been clear since 2013, when Xi proclaimed "Asia for Asians".

Although addressed to the pan-Asian audience, President Xi Jinping's opening speech included messages that were likely also intended for the US administration, as he underlined the need for "openness" between countries and cultures. But Xi's statement **that it is "stupid" to believe one's race and civilization is "superior,"** was the most pointed. Two weeks earlier, US State Department director of policy planning Kiron Skinner described strategic competition with China as **"a fight with a really different civilization and a different ideology,"** saying it was the first time the US had faced a "great power competitor that is not Caucasian."

Aside from this challenge to the US, the conference made clear Xi's desire for Asia to take on a more pronounced role in world politics.

### News in brief

- **State secrets:** Canadians to remain in prison after being formally arrested
- **Cooperation:** Amidst tensions, Ottawa sides with Beijing over the Arctic
- **Ex-Interpol chief:** Wife and sons of Meng Hongwei are granted asylum in France
- **Terrorism:** Third attack on Chinese infrastructure hubs in Pakistan

## POLITICS, SOCIETY AND MEDIA

### Same sex marriage in Taiwan and a challenge for the media

It was a historic day for Asia: On May 17 the Taiwanese parliament passed the draft bill to legalize same sex marriage. With President Tsai Ing-wen's signature this Friday, the law will officially come into force. While the LGBT community in Taiwan celebrates on the streets and the **first joint weddings took place for gay, lesbian and heterosexual couples**, the media were finding it difficult to report on the development – not least because of Taiwan's controversial status. Although Taiwan has, de facto, its own government, its own legislative and its own judicial system, it is only recognized by 17 countries worldwide as a sovereign state. The People's Republic of China considers the island a part of its territory. Several international media therefore avoid taking a clear position on this issue. The reports referred to the **"first place"** in Asia that has allowed same sex marriage.

Even the Chinese state media were faced with a challenge. The People's Daily presented itself as progressive for the international public **on Twitter**, writing: "Local lawmakers in Taiwan, China, have legalized same-sex marriage in a first for Asia, according to local media reports," thereby claiming the step for the People's Republic. The Global Times accused Taiwan's ruling DPP of using the law to push for independence. The Chinese news agency Xinhua, on the other hand, has not so far reported on the new law.

On the mainland, homosexual relationships have not been a criminal offence since 1997 and homosexuality was removed from the list of psychological illnesses in 2001. Nevertheless, **discrimination against same sex partnerships** has been growing again in recent years.

### China's pork industry under threat as African swine fever spreads to all provinces

The recent outbreak of African swine fever (ASF) is already having an impact on China's domestic pork industry and could soon be felt in meat and feedstuff prices around the world. **The highly contagious virus**, which is harmless in humans but 100% fatal for pigs, has been spreading through China since the first reported case in August last year. While the Chinese authorities have taken appropriate steps to contain ASF, **news reports from around China suggest the number of cases has been substantially underreported**.

Officially, 131 outbreaks of ASF have been reported and over 1 million pigs culled in order to contain the virus. But interviews with farmers suggest a much more dramatic picture, **with many more outbreaks than have been officially reported**. Some farmers have said they were told not to report swine flu cases to the authorities, **fearing a backlash from their superiors**.

China raises 700 million pigs a year and is the world's largest consumer of pork. To counter the losses caused by ASF, China has already begun importing more pork from abroad, including from the US, in spite of increased tariffs. The Chinese authorities need to contain ASF to prevent further price pressure

for pork and related products **both domestically and abroad**. But if the anecdotal evidence of underreporting is true, it suggests that local governments will struggle to take responsibility and effectively deal with the crisis.



**News in brief**

- **Artificial Intelligence:** China co-organizes UNESCO conference on AI in education
- **Anti-corruption:** Beijing’s former top securities regulator turns himself in
- **PRC anniversary:** Government to launch mass education campaign

**ECONOMY, FINANCE AND TECHNOLOGY**

**China acts to support yuan as markets react to trade war**

With the trade war between the US and China intensifying, one immediate impact has been on the Chinese currency. Since the beginning of April, the CNY has fallen more than 2% against the US dollar, now standing at 6.9. This is perilously close to 7, a line seen as psychologically important by many analysts.

The Vice-chair of the People's Bank of China (PBOC) and head of the State Administration of Foreign Exchange (SAFE), Pan Gongsheng, announced on May 19 that he will use the tools at his disposal to keep the exchange rate "fundamentally stable." In a move likely connected with these efforts, **China has been selling US treasuries at the fastest pace in over two years.**

But the exchange rate is sensitive to the trade war. Whenever a resolution looks further off, the market tends to favor USD over CNY. China will do everything it can to keep the exchange rate below 7, as breaching that line would be interpreted as a failure of the PBOC to defend the currency, potentially causing capital flight. To avoid such a damaging outcome, further capital controls and sale of reserves by China can be expected.

### **Beijing seeks to limit effects of the trade dispute on firms and the labor market**

For the first time since the beginning of the trade dispute with the US, Beijing is to introduce exemptions intended to protect key industries. The Chinese Ministry of Finance announced **on May 13** that it would test such measures.

Chinese companies producing, importing or using goods subject to US duties will be exempted from further duty increases. They must however prove, among other things, that their economic viability is seriously endangered by customs duties. If this is the case, companies are exempted from tariff increases for a period of up to one year. Companies will also be granted retroactive tax relief for duties already paid. **The complex system has been developed over the past six months** as a kind of safety mechanism in trade disputes.

The Chinese leadership has also showed that it is worried the trade dispute could lead to mass layoffs, migration and, ultimately, social unrest. Last week **Prime Minister Li Keqiang** and two deputy prime ministers commented on the tense situation in the Chinese labour market. Li stressed that China must implement an "employment first" policy (就业优先政策). At the same time, for example, job placement should be improved, and new jobs created for certain groups, in particular university graduates.

### **News in brief**

- **Pension:** New policy reduces burden of social payments on companies
- **Investment:** FDI into China rose 6.4% in year on year comparison
- **Anti-monopoly:** Beijing to maintain tough stance in sectors like power, railway and water supply
- **Real Estate:** Investments rise in the first four months of 2019
- **Aviation:** China and European Union sign landmark deals

## THE EUROPEAN VIEW

### Dutch China strategy is a careful balancing act

The Netherlands is the first EU member state to formalize its China strategy in a single, comprehensive document setting out its interests and policy priorities. Published on May 15 in response to demands by members of the Dutch parliament for a clear and future-proof strategy on China, it is the result of a year-long consultation process and heated debate among different ministries and within cabinet.

In an echo of French president Macron's call for an end of European "naivety" on China, the strategy takes a line that is both "constructive" and "critical". While acknowledging that China is not a market economy, nor a democracy based on the rule of law, the document aims to strike a balance between grasping opportunities and safeguarding Dutch interests and values. "It makes sense that China is claiming its place in the world, but the government believes that it should do so fairly, on a level playing field and in accordance with internationally agreed rules," [the English-language summary reads](#).

The risk of technological dependency on China as well as Beijing's unfair trading practices, coerced tech transfers, cyber espionage and military buildup emerge among the key concerns for the Netherlands as an innovative economy, EU country and NATO member. The Dutch are also under no illusion about the influence they can wield alone on China. Their strategy emphasizes the need for coordination with the EU and like-minded partners.

One topic has been left out entirely - the thorny issue of 5G security is being dealt with by a separate task force. Shortly after the strategy was announced, the Dutch intelligence agency was reported to be investigating [an alleged Huawei backdoor](#) in the country's network.

## Profile: Hu Xijing

### "Frisbee Hu" – Global Times editor Hu Xijing

His nickname is "[Frisbee Hu](#)". Whatever the government throws at the hawkish hardliner – he will catch it. Since 2005 Hu has been editor at the Global Times. The newspaper is produced under the auspices of the People's Daily, one of the country's most influential party state media outlets and mouthpiece of the Communist Party of China. In 2009 Hu switched to the newly founded English language edition of the Global Times.

Although the Global Times pursues political goals, it still has to pay its way – which apparently it does. Hu once claimed that his two gods are the readers and the party. Unlike other Chinese media outlets and even the Chinese Ministry of Foreign Affairs, the Global Times did not deny the existence of so-called "counter terrorism education camps" in Xinjiang. Instead the newspaper went on the offensive with its reporting: Whether the way Xinjiang is run violates human rights must be judged by whether its results safeguard the interests of the majority in the region. Hu also makes direct attacks on foreign

journalists, criticizing their coverage of Xinjiang for being “one-sided”. [In a tweet](#) he claimed that Xinjiang has been saved from becoming another Chechnya, Syria or Libya. A similar line has been taken in another [Global Times article](#).

According to an interview in [The Economist](#), Hu says he wants to push the party to be more transparent. And as it happens, the speaker of the Chinese Information Office mentioned the education camps just a few weeks after the Global Times did.

Hu is a prolific [tweeter](#). - even though Twitter is officially blocked in China. His target audience is foreign users. About 41,000 people follow the 59-year-old on his account. Currently he is covering in depth the trade war between China and the US, and its consequences for Huawei. Let’s see what he tweets on the 30<sup>th</sup> anniversary of the Tiananmen square protest crackdown. Back then he was part of the movement. In retrospect, he has described the military actions in the night from 3<sup>rd</sup> to 4<sup>th</sup> June 1989 [as tragic](#), caused by the students’ naivety and the Chinese government’s lack of experience in dealing with such a situation.

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