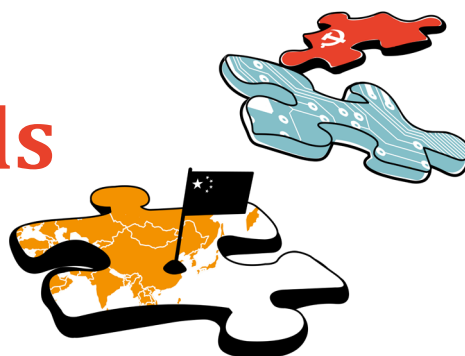


AUGUST 26, 2021

MERICS China Essentials



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TOP STORY

China mocks US exit from Afghanistan and whitewashes the Taliban

The fall of Afghanistan to the Taliban following the retreat of US forces has made headlines all over the world. In China, national propaganda has characterized the messy withdrawal and chaotic evacuation of troops and civilians as an embarrassment and further proof that US global leadership is in decline. Meanwhile, Chinese nationalists raised doubts over the United States' reliability as a security ally and warned that Taiwan could be abandoned by the US just like Afghanistan.

The propaganda belies China's anxiety over the Taliban's rule in Afghanistan. This is exemplified by the tightened control of online discussions. For example, censors deleted a Chinese translation of a letter by Afghan filmmaker Sahraa Karimi pleading to the international community to pay attention to the plight of women and girls in her country, and a Weibo post by People's Daily was hastily removed after it was criticized for whitewashing the terrorist group.

China is keen to promote its foreign policy of non-interference in domestic politics and peaceful co-existence as the model going forward to engage with Afghanistan, while China's state media attempts to rebrand the Taliban in a positive light. CGTN quoted China's Foreign Minister Wang Yi praising the Taliban for sending positive signals to the world and a former Chinese minister called the war-torn country a goldmine for Chinese developers and investors. Stock prices of Chinese construction firms rose on prospects of taking part in rebuilding Afghanistan.

MERICs analysis: With the propaganda blitz, China is priming the ground for closer economic cooperation with the Taliban in resource-rich Afghanistan. Chinese projects in Afghan copper mines and oil fields have stalled under the US-backed Afghan government. With the Taliban in control, China could see an opportunity to expand. For its part, the Taliban has called China a friend and expressed hopes for greater Chinese involvement in Afghanistan's economic development. The show of appetite from both sides to deepen relations points to one likely outcome: as long as the Taliban is able to meet Beijing's conditions, it is only a matter of time before deals are cut and China expands its economic footprint in Afghanistan.

More on the topic:

- [Short analysis by Valarie Tan](#): China and the Taliban – confidence and caution
- [Podcast with Raffaello Pantucci](#): Narratives of China winning in Afghanistan are exaggerated
- [Podcast with Angela Stanzel](#): China's interest in Afghanistan is to protect its border

Media coverage and sources:

- Brookings: [How will China seek to profit from the Taliban's takeover in Afghanistan?](#)
- Reuters: [As Taliban advances, China lays groundwork to accept an awkward reality](#)
- Week in China: [Capitulation in Kabul](#)
- QZ: [China's state TV may be trolling the US over Afghanistan with a movie](#)

METRIX

89,200

Hong Kong's population dropped by 89,200 in the year after the Hong Kong National Security Law (HKNSL) was imposed. It is the strongest decline in the city's history, after a decline of 20,900 in the year before. Local experts labelled the decrease "alarming." The decline reflects citizens' concerns over increasing HKNSL-imposed restrictions on their freedoms, with tens of thousands applying for special UK or Canadian visas. Adding to this, surveys by the US Chamber of Commerce indicated that the city's extraordinarily strict Covid-19 entry-exit regulations made many foreign businesses reconsider staying in the city. (Source: [SCMP](#))

TOPICS

Xi promotes "common prosperity" and the "olive-shaped society"

The facts: At a meeting of the powerful Finance and Economy Commission (FAC), Xi Jinping, its chair, underscored the need to establish a society of "common prosperity." This phrase has become a signal for the plan to battle rising inequality and redistribute wealth from top-earners to lower tiers of the population, to create an "olive-shaped social structure" with a large middle class and few super rich or poor. Coming directly after the annual break of the central leadership, it sent a strong message.

What to watch: "Common prosperity" is the new buzzword in Beijing, and Zhejiang province, one of the richest areas in China, is official pilot province for establishing it. Many of the tech firms currently under regulatory scrutiny are headquartered there, and they are already starting to establish large charities for the purpose. Meanwhile in Zhejiang's capital, Hangzhou, the party secretary is under investigation for suspected "disciplinary violations" - a euphemism for corruption, while thousands of officials have been asked to sever personal or family business ties that might pose a conflict of interest.

MERICS analysis: The "common prosperity" program is meant to address China's inequality problem now that poverty has officially been eradicated. Large private companies therefore face two issues: tougher regulation on data and competition, and a populist, ideologically driven push to cut private "unruly expanded capital" and shift these resources to lower social strata. The charities hastily established by Tencent and Meituan show that companies are aware of this. However, as long as the most powerful mechanisms for redistribution of wealth - income, wealth and property tax to finance better welfare - are left untouched, the olive-shaped society will be hard to achieve.

Media coverage and sources:

- FT: [Xi Jinping takes aim at gross inequalities](#)
- Xinhua: [Xi stresses promoting common prosperity](#)
- Bloomberg: [Chinese academics call for wealth tax](#)
- Washington Post: [In China's business crackdown, corruption probe casts pall over Alibaba's hometown](#)
- Reuters: [China orders Communist Party members to resolve conflicts of interest as top Hangzhou official probed](#)
- SCMP: [Tencent earmarks US\\$7.7 billion for 'common prosperity' to answer Xi Jinping's call for equality](#)

ByteDance and the potential rise of "Golden Shares"

The facts: The Chinese government has reportedly acquired a stake in ByteDance, the holding company above TikTok. According to a recent report in The Information, ByteDance sold a 1% share in the company in April this year to WangTouZhongWen, an entity jointly owned by three state actors. The share includes a position on the board, leading both Chinese and foreign experts to speculate that the state-backed entity has de facto veto power.

What to watch: It looks like "Golden shares" – a minority stake held by the party-state that includes a board position, or even a majority of voting rights – are being piloted in the tech sector. The idea has been proposed throughout 2021 by various thought leaders in China. The Financial Times has also reported talk from industry insiders that a golden share may now exist at Didi, China's top ride-sharing app. More may be on the horizon, and their proliferation could have massive implications for the tech sector and beyond.

MERICs analysis: "The justification for these measures is to install actors in companies that can align data-related issues with national security concerns," says **Jacob Gunter**, Senior Analyst at MERICs. "As more industries are incorporating data-driven solutions into their operations, there is risk that scrutiny will extend beyond the tech sector. European companies should enhance their political risk monitoring in China operations and strengthen their compliance department's capacity in regard to all things data-related before enforcement tightens further."

Media coverage and sources:

- The Information: [Beijing tightens grip on ByteDance by quietly taking stake, China board seat](#)
- FT: [China Inc braces for fallout from Didi data probe](#)

NPC passes data protection law, adding to wave of tech sector regulations

The facts: China's highest state organ, the Standing Committee of the National People's Congress (NPC), has in recent weeks and months passed a series of consequential laws.

Those laws will equip China with new tools to fight foreign sanctions, put officials under stricter supervision and correct China's aging demographics by allowing couples to give birth to three children.

Drawing perhaps most attention were two key pieces of legislation that are poised to expand the Chinese state's control over China-originated data: the Data Security Law (DSL), passed by the NPC on June 10, and the Personal Information Protection Law (PIPL), passed on August 20. Entering into force in September and November, respectively, the two new laws mark a major shift in how data is collected, used, managed and transferred across borders. Chinese regulators aim to ensure that data is treated as a strategic commodity, rather than a ubiquitous and abundant resource. On the one hand, put under increased scrutiny around data security and Chinese users' privacy, Chinese and foreign companies will have a harder time developing data-driven business models and transferring data across borders. On the other hand, the Chinese party-state will consolidate influence and control over its digital economy.

The new data laws add to an unprecedented wave of regulations published by various state organs in recent months that impose new obligations on tech companies in areas ranging from antitrust to cybersecurity. Such a flurry of tech sector regulations not only lays the foundation for what the Chinese Communist Party (CCP) wants to be a new role for China's Internet companies – away from an excessive focus on consumer facing products and services and towards strategic CCP goals; it also signals that China wants to reshape the private sector more broadly.

- **Data Security Law** (中华人民共和国数据安全法): The DSL constitutes China's first comprehensive framework for protecting data security. It will introduce a system for managing different categories of data based on their importance for national security. It also includes new provisions for regulating cross-border data transfers.
- **Personal Information Protection Law** (中华人民共和国个人信息保护法): Broadly modelled on the EU's General Data Protection Regulation (GDPR), the PIPL aims to protect personal data by allowing users to opt in or out of the collection and processing of their data. The final version of the law includes some changes, such as limitations on companies' ability to engage in user profiling and deploying recommendation algorithms. Unlike the GDPR, the PIPL has a strong national security logic; any cross-border transfers of personal information that are seen as harming national security will be heavily restricted or banned.
- **Smart Car Data Guidelines** (加强智能网联汽车生产企业及产品准入管理的意见): The formal guidelines require car makers to set up vehicle data and security management systems. Most notably, vehicle operators will need to store locally generated data within China and ask for users' consent to the collection of their personal information.
- **Critical Information Infrastructure (CII) Security Protection Regulations** (关键信息基础设施安全保护条例): The regulations specify the concept of CII first stipulated in the Cybersecurity Law from 2017 and place certain industrial sectors under special cybersecurity scrutiny. Companies in relevant industries will be required to

set up “operators” to coordinate their cybersecurity responsibilities and obligations with regulators.

- **Rules on Prohibiting Unfair Competition on the Internet** (禁止网络不正当竞争行为规定): The rules, currently open for public comment until September 15, aim to tackle anti-competitive behaviors and restrict the use of user data by internet companies.

Media coverage and sources:

- WSJ: [China passes one of the world’s strictest data-privacy laws](#)
- China Briefing: [A close reading of China’s Data Security Law, in effect Sept. 1, 2021](#)
- DigiChina: [Translation: Personal Information Protection Law of the People’s Republic of China \(Effective Nov. 1, 2021\)](#)
- DigiChina: [After 5 Years, China’s cybersecurity rules for critical infrastructure come into focus](#)
- SCMP: [China doubles down on smart vehicle data regulation after Tesla’s EV recall](#)
- WSJ: [China unveils new rules targeting anticompetitive practices by internet companies](#)

PROFILE

Evergrande - Real estate giant exposes vulnerability of financial system

Evergrande, founded by CEO Xu Jiayin in 1996 and now reported to be the world’s most valuable real estate firm, is under scrutiny. The second largest property developer in terms of sales in China has, over the years, become deeply indebted – it is currently over 100 billion USD in the red. As a result, in August alone, multiple credit rating agencies downgraded it to only a few notches above the default line. Now it is attracting the attention of regulators and the government.

Managing the disastrous state of the company is of critical importance. However, doing so will require walking a fine line. The company is “too big to fail,” but state planners also fear the moral hazard in bailing the firm out. The government has therefore intensified efforts to push Evergrande to sell assets and better manage its debts. In response, the company has offloaded a variety of its non-property holdings and recently began talks to sell off some of its e-vehicle business.

The moves are part of a more general crackdown on the real estate sector, with two primary goals. The first is to mitigate systemic risk arising from an industry that is overly leveraged with an ever-present threat of a property bubble. The second is to suppress real estate speculation, which has driven up property and rental prices leaving many aspiring members of the middle class unable to afford a home.

Media coverage and sources:

- SCMP: [Dealing with debt: a time line of how Hui Ka-yan’s Evergrande landed back in crisis mode with the world’s heaviest debt load](#)
- NYT: [Evergrande went from China’s biggest developer to one of its worst debtors](#)

- CNBC: [Chinese regulators meet with developer Evergrande as scrutiny on real estate grows](#)
- Reuters: [Evergrande in talks with Xiaomi consortium to sell EV unit stake](#)

MERICS CHINA DIGEST

MERICS' Top 3

- BBC: [China NPC: Three-child policy formally passed into law](#)
- The Economist: [China's Delta dilemma](#)
- WSJ: [Chinese factories are having labor pains—'We can hardly find any workers'](#)

Politics, society and media:

- SCMP: [Beijing unexpectedly postpones vote on adding anti-sanctions legislation to Hong Kong's Basic Law](#)
- GlobalVoices: [Space for peaceful protests is vanishing in Hong Kong as pro-democracy coalition is disbanded](#)
- SCMP: [National security law: Hong Kong censorship law changes open door to retroactive banning of previously licensed films](#)

Economy, finance and technology:

- Aljazeera: [China port congestion worsens as ships divert away from Ningbo](#)

International relations:

- The Guardian: [China's trade halt with Lithuania over Taiwan ties sends warning to Europe](#)
- SCMP: [Kamala Harris' Southeast Asia visit draws ire of Chinese netizens](#)
- Space.com: [China launches twin radar satellites for 3D mapping](#)

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