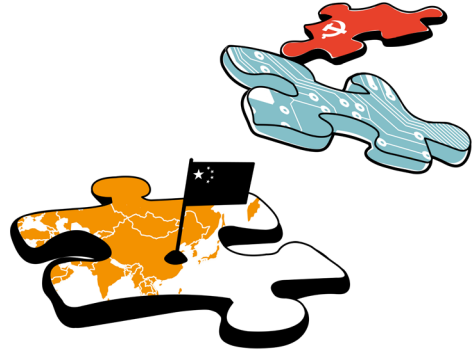


OCTOBER 12, 2023

# MERICS China Essentials



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## TOP STORY

### China looks set to relax strict data export restrictions for companies

In a seeming setback for the hardliners in China's economic policymaking, the powerful Cyberspace Administration of China (CAC) released draft regulations which, if implemented, would significantly relax existing restrictions on companies' ability to export data. The rules, published on September 28, would walk back key aspects of the current approach to managing cross-border data flows, after the business community complained that regulators have prioritized national security and party-state control to the detriment of innovation and economic efficiency.

The proposed rules would lift the requirement for regulatory pre-approval under several data-export scenarios, including international trade, academic cooperation, transnational manufacturing, and marketing. Another major change would relieve exports of so-called "important data." Companies would now need to go through the much-dreaded CAC security review only if industry regulators explicitly deem the data to be "important."

Finally, firms would have an easier time transferring some personal data, for example information regarding human resources. The free flow of HR data is key for multinationals, many of which have had to decouple their HR operations in China from their global ones to comply with China's data localization rules for personal information.

The move comes amid growing concerns within China's leadership about the country's economic downturn and is said to be supported by premier Li Qiang. In August, the State Council released guidelines to restore confidence among foreign investors, which signaled some sort of green list for free flows of non-sensitive data.

Both foreign and Chinese firms have complained that current regulation was unworkable – with a vague definition of "important data" and a one-size-fits-all approach that makes localization the norm. The CAC finalized its review mechanism for data exports last year, but publicly available information suggests hardly any applications have been approved.

China's policymakers consider data an economic factor of production and a strategic national resource, and they are highly focused on creating a more efficient data market. But Xi Jinping's bid to turbocharge the "real economy" through digital technologies clashes with his obsession for security. Indeed, the draft rules could also be part of a carefully orchestrated truce with private-sector companies while regulators figure out how to effectively operationalize party-state control in the digital economy.

**MERICS analysis:** "We have this year seen the creation of a new government bureaucracy to promote data circulation and innovation, the CAC easing pressure on generative AI developers over the summer – and now this," says **Rebecca Arcesati**, Lead Analyst at MERICS. "Even with these concessions, the tension between security and openness in China's digital policymaking is far from resolved. There is a fault line between economic growth and national security in China's economic policy. China's government is no monolith – and often it has to contend with competing objectives."

#### Media coverage and sources:

- CAC (CN): [国家互联网信息办公室关于《规范和促进数据跨境流动规定（征求意见稿）》公开征求意见的通知. Notice of the State Internet Information Office Regarding Soliciting Comments on the Rules on Regulating and Promoting Cross-Border Data Flows \(Draft for Comments\)](#)
- 21st Century Business Herald: [Commentary by various Chinese experts](#)
- MERICS: [Beijing seeks to mend fences with foreign businesses](#)
- Trivium: [Prying Open the Data Door](#)
- Peterson Institute for International Economics: [China's new rules on data flows could signal a shift away from security toward growth](#)

## METRIX

# 1.5%

This is the percentage by which China's tourism spending during "Golden Week" 2023 outdid expenditure in the same period in pre-Pandemic 2019 – [growth from 2018 to 2019 had hit 8.5 percent](#). The first week of October is a national holiday period and an important benchmark for overall consumer spending. Low growth in tourism spending from one "normal" year to the next shows that consumers remain cautious as economic growth lags, real-estate prices stagnate, and youth unemployment remains high.

## TOPICS

### **By not condemning Hamas, Beijing hopes to keep itself in play as a broker**

**The facts:** China has refrained from condemning Hamas since the Islamist militant group launched a surprise attack on Israel on Saturday, which has left hundreds of civilians dead after the initial strikes and Israeli counterstrikes. While governments across Asia, Europe and the Americas condemned Hamas' actions, Beijing conspicuously did not, instead calling for "immediate cease-fire" between Hamas and Israel and reiterating that a two-state solution was the only "sustainable path for peace." Both Israel and the USA urged China to issue a "stronger condemnation" of Hamas.

**What to watch:** Not condemning Hamas maintains Beijing's ability to engage with the group and potentially play a broker-role with other players in a region that has become a new arena for US-China competition. Beijing's stance is consistent with an anti-imperialist

tradition that has led to a long-standing connection to the Palestinians and staunch support for a Palestinian state alongside Israel. But it is also driven by a desire to keep its options open. China's mediation of a rapprochement between Iran and Saudi Arabia this spring increased Beijing's influence in a region long a key focus of US foreign policy. But its goal of being regarded as a key player able to broker peace could yet be impeded by the US-led effort to normalize relations between Israel and Saudi Arabia.

**MERICs analysis:** "Despite the growing interest in the region, Beijing's silence on the Hamas attack could yet limit its ability to broker peace there," said MERICs Analyst **Claus Soong**. "As China competes with the US to exert more influence in the region, its ambiguous position could lead to growing pressure from other countries and a questioning of its credibility as a peacebroker. Josep Borrel, the EU High Representative for Foreign Affairs, is due to visit Beijing shortly – it will be interesting to see whether his trip will prompt China to finally adopt a clear stance.

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

- Nikkei Asia: [China hedges on Israel-Hamas as U.S. urges stronger stance](#)
- Al Jazeera: [US's Schumer expresses 'disappointment' at Beijing's Israel-Gaza response](#)
- Bloomberg: [Xi's Reply to Hamas Attack Shows China's Limit as Peacemaker](#)
- HK01 (香港 01): [中國外交部：高度關注以巴局勢 強調落實兩國方案是唯一出路 \(Chinese MFA: Highly concerned about the Israel-Palestine situation, emphasizing that the implementation of the two-state solution is the only way out\)](#)
- SCMP: [Exclusive: It is time China started taking Europe more seriously, says EU foreign policy chief Josep Borrell](#)

#### **EU risk assessment could lead to new restrictions for critical technology sectors**

**The facts:** The European Commission announced at the start of October that it would begin technology risk-assessments with member states to boost economic security. The evaluation of four "critical fields" – advanced semiconductors, artificial intelligence, quantum technologies and biotechnology -- fall under the European Economic Security Strategy. Announced in June, it also includes plans for assessments covering supply chains, the physical and cybersecurity of critical infrastructure, technology security and leakage, and the potential weaponization of economic dependencies. As the risk assessments will be carried out with all 27 member states, it is unclear what form recommendations for dealing with any risks identified could take.

**What to watch:** The Commission, having pledged to look into two traditional areas of concern, technologies with the potential for civil-military fusion and for human rights violations, added a third to that list: the "enabling and transformative nature of the technology". This could allow it to significantly widen restrictions, something which should unsettle European and Chinese companies alike. Possible outcomes from the risk assessments range from supply-chain resilience building to outbound investment

screening and export controls to joint technology efforts with like-minded partners. China is likely to respond with fierce rhetoric to any steps in this direction – and retaliate in kind if specific measures limit China’s access to European markets. After the Netherlands imposed export controls on semiconductor lithography machines earlier this year, China retaliated by limiting exports of the raw materials gallium and germanium, essential for some chip making.

**MERICS analysis:** “Multinational companies are already struggling to navigate the emerging patchwork globalization as Beijing encourages extensive localization and self-reliance, and the US pushes to limit China’s technological progress,” said **Jacob Gunter**, MERICS Lead Analyst. “It is in Europe’s best interests to take a more proactive stance. But as the EU assembles its own strategy and corresponding toolkit, it is likely to further complicate matters for companies with a global footprint.”

**Media coverage and sources:**

- European Commission: [Commission recommends carrying out risk assessments on four critical technology areas: advanced semiconductors, artificial intelligence, quantum, biotechnologies](#)
- Euractiv: [Stricter EU controls on critical technologies possible from spring 2024](#)
- Euronews: [These are the four technologies the EU wants to protect, especially from China](#)

**Xi thought on culture causes unease about top-down control**

**The facts:** At a recent conference on propaganda, Xi Jinping has expanded his political doctrine by presenting his “Thought on Culture.” His tenets – which a senior official referred to as a “powerful ideological weapon” – can be seen as an attempt to define the parameters of culture in China. The conference readout called the dissemination of propaganda, upholding particular ideological beliefs and fostering a mainstream culture guided by the party critically important to ensure the future of the Chinese Communist Party (CCP).

**What to watch:** Xi’s attempt to expand the reach of his political doctrine comes at a time of popular dissatisfaction with proposed legal changes that are seen as an attempt to standardize Chinese culture. The government wants to allow public security authorities to punish any speech, clothing or other items that “hurt the feelings of the Chinese people” – though the current public outcry could yet see the government reconsider. China’s legislature, the National People’s Congress (NPC), had asked for public comment on the draft law until the end of September. It will be interesting to see whether the NPC will now press on or if the contested article will be quietly shelved during its next regular session in late October.

**MERICS analysis:** “The CCP strives to impose ideological unity to build social cohesion,” says **Alexander Davey**, Analyst at MERICS. “But such overt efforts to tighten its control over individual citizens risk hampering its public support at a time where material

benefits brought by the party are slowing. After all, adapting in the face of public discontent has long been one of its strengths.”

**Media coverage and sources:**

- SCMP: [Will culture be China’s most important addition to Xi Jinping Thought? | South China Morning Post](#)
- NYT: [China May Ban Clothes That Hurt People’s Feelings. People Are Outraged.](#)
- Chinese government website (CN): [习近平对宣传思想文化工作作出重要指示](#)

## MERICCS CHINA DIGEST

### [South Korean firms get indefinite waiver on US chip gear supplies to China \(Reuters\)](#)

South Korean firms Samsung Electronics and SK Hynix will be allowed to supply certain US chip tools to their factories in China without separate approvals by Washington according to the companies. (23/10/09)

### [Huawei challenges Spain’s rule that could exclude it from receiving state aid to build 5G networks \(SCMP\)](#)

China’s telecom firm Huawei filed an appeal in Spain claiming that the Spanish government’s plan to exclude “high-risk” 5G suppliers from state aid goes against the law. (23/10/10)

### [Taiwan unveils first domestically built submarine as China threat grows \(CNN\)](#)

Taiwan’s President Tsai Ing-wen hailed the first domestically built submarine a significant milestone as Taipei works to boost its military deterrence vis-à-vis Beijing. (23/09/28)

### [China names new science ministry chief to help lead hi-tech self-reliance drive \(SCMP\)](#)

Yin Hejun takes over as Communist Party chief of the Ministry of Science and Technology from Wang Zhigang. While Wang remains the minister of the government arm overseeing basic research and applied science, the party secretary has greater authority. (23/10/09)

### [China to hold nationwide survey on population changes as birthrate plummets \(Guardian\)](#)

China’s National Bureau of Statistics will conduct a nationwide sample survey in November to help better plan population policies. Concerned about China’s first population drop in six decades and its rapid ageing, Beijing is urgently trying an array of measures to lift the country’s birthrate. (23/10/10)

[China elected to UN Human Rights Council as Russia's bid is rejected \(SCMP\)](#)

The United Nations General Assembly elected China to the Human Rights Council in an uncontested vote on Tuesday and denied Russia a seat in the wake of its 2022 invasion of Ukraine. Previously, China came in last place in the Asia group. Had there been competition in the Asian slate, China would likely have lost the vote. (23/10/11)

[Australian journalist Cheng Lei freed from China detention \(BBC\)](#)

Cheng Lei, 48, was working as a business reporter for China's state-run English language TV station CGTN when she was arrested on 13 August 2020. She was later accused of "illegally supplying state secrets overseas", but her charges were never made public. (23/10/11)

## **EDITORIAL TEAM**

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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)