

Dragoman Digest.

2.07.2021

China approves huge tech merger

State-owned enterprise (SOE) mergers are becoming increasingly common

China's SOE regulator SASAC last week approved the merger of two of the country's largest technology companies - China Electronics Technology Group (CETG) and China Putian Information Industry Group – better known as Putian. The deal will see Putian become a wholly owned subsidiary of CETG, in a move that some in the Chinese media have described as akin to the formation of an "IT aircraft carrier". CETG is ranked 381st on the Fortune 500 list and has an annual turnover of US\$32.9 billion, which is expected to increase to US\$50 billion after the merger.

From Beijing's perspective, the merger fulfills several overriding policy objectives. Under paramount leader **Xi Jinping**, China has pursued a policy of civil-military fusion. Putian has expertise in telecommunications and semiconductors, whilst CETG has particularly close ties with the People's Liberation Army (PLA). Putian is the PLA's main provider of IT services and also works on with the PLA on radar. By combining the two companies, Beijing is seeking to combine more capital for R&D investment as part of an effort to achieve self-sufficiency in key emerging technologies. Xi has gone to lengths to prioritise SOEs, often at the deliberate expense of private industry. Mergers have proved to be one of Beijing's favourite methods of creating "stronger, better and bigger" SOEs. Whether greater efficiencies will actually be achieved remains to be seen.

Shakeup in France's regional elections

The parties of favoured presidential candidates Le Pen and President Macron suffer setbacks

France's established political parties suffered a set back in recent regional elections. Both Marine Le Pen's far-right Rassemblement National (RN) and President **Emmanuel Macron**'s La République en Marche party (en Marche) failed to win control of any of the country's 12 regional councils. However, the centre-right Les Républicains party has built some momentum ahead of a potential presidential bid in 2022.

RN was expected to easily secure the southern region of Provence-Alpes-Côte d'Azur. However, it lost against the centre-right Renaud Muselier who secured 57 percent of the vote – a blow to Le Pen's 2022 presidential campaign. That suggests that Le Pen's "detoxification" policy – crafted to broaden RN's appeal to centrist voters – may be failing to cut through. RN had toned down its anti-immigration rhetoric and ditched its bid for France to leave the European Union. Macron's en Marche suffered a similar setback. The party captured around 9 percent of the vote nationwide across the two rounds of regional elections. The outcome has been attributed to Macron's failure to establish a strong political base after being elected on his slogan "neither right nor left." Whilst the outcome does not bode well for the credibility of the governing party, Macron's personal approval rating still hovers around 50 percent – much higher than his predecessors at the same point.

Most interestingly, the centre-right are back in the picture. Les Républicains (LR) representative and strong presidential candidate Xavier Bertrand was re-elected with 52.8 percent of the vote. The LR retained seven regional councils. Whilst a record-low voter turnout – at around 34 percent – means caution is needed in drawing any firm conclusions about the implications for the presidential elections next year, it may no longer be a two-horse race between Macron and Le Pen.

Emphatic Raisi victory masks deeper ructions

The real prize is who will succeed Supreme Leader Ali Khamenei

As expected, **Ebrahim Raisi** easily beat other contenders to become Iran's next President. Raisi won 72 percent of the vote, far ahead of Mohsen Rezaee in second place. Turnout was the lowest in revolutionary Iran's history at 49 percent, whilst up to 14 percent of ballots were invalid or blank. These figures are clearly worrying in terms of the long-term legitimacy of the current regime. In an unusually public memo released two days after the election, Vahid Haqqanian, Ayatollah **Khamenei**'s right-hand man, explicitly identified election boycotts as a threat to the regime.

Aside from longer-term existential risks, Raisi will have to contend with the spectre of increased elite jostling as the contest to replace the ageing Khamenei heats up. According to regime insiders interviewed by [AI Monitor](#), Raisi is widely perceived by members of Iran's political elite to be a weak politician that can be controlled by other forces. Whilst this makes Raisi attractive to key powerbrokers like the Iranian Revolutionary Guard Corp (IRGC), it makes him threatening to those who are wary of his backers. Given the dire state of its economy, Iran has no shortage of political fissures. There is speculation that Raisi's opponents will use any perceived slip ups to remove him from the list of prospective candidates to replace Khamenei. With Iran's political moderates essentially disenfranchised, the likelihood is that Iran's next Supreme Leader will almost certainly be a conservative or hardliner.

China's cyber capabilities lag 10 years behind the US

However, China is on track to challenge the US' cyber dominance

This week, the [International Institute for Strategic Studies](#)' (IISS) released a report assessing the cyber capabilities of 15 countries. According to IISS, the **US** is the most cyber-capable state, with world-leading strengths in cyber-governance, capabilities and resilience. Robust partnerships between industry, government and universities and international alliances – such as Five Eyes, which includes the **US, Australia, Canada, New Zealand**, and the **UK** – set the US apart. **China** is the only country currently on a trajectory to join the US as a first-rate cyber power, but the US has a 10-year head start. The US' efforts to decouple from China's tech may yet dent Beijing's promising trajectory.

The reports' emphasis on the asymmetric nature of cyber-conflict is significant. Western economies are less likely to have state-sponsored proxies launching attacks. The same is not true for the West's competitors. Patriotic hackers and cyber-criminal groups from **North Korea, China, Iran** and **Russia** have already demonstrated their ability to deploy relatively unsophisticated techniques with great strategic impact on industry and political systems. Highly digitalised economies – like the US – are also more vulnerable to cyber threats due to an inherent interdependence on digital systems. However, conversely, the US benefits from a strong sovereign digital-industrial base.

Xi's vision of “common prosperity”

China's private sector is becoming increasingly nervous

Under paramount leader **Xi Jinping**'s rule, references to “common prosperity” have become increasingly common. The phrase first emerged late last year at the fifth plenary session of the Party's 19th Central Committee. At first glance, “common prosperity” seems to be innocuous, if not glib propaganda. However, in actuality it may be an important part of Xi's attempt to insert himself firmly in the upper echelons of the pantheon of Chinese Communist Party leaders.

In a sign of the sort of commanding status that Xi wants to achieve, the ultimate source of the common prosperity phrase is increasingly being attributed to former leader Chairman Mao. What common prosperity means in practice will become clear over time, though guidelines released by the Central Committee suggest that the realization of common prosperity “relates not only to economic issues but also is a political issue that matters to the foundation of the party's governance”. Xi’s stronghold of Zhejiang – where Alibaba and other private companies have a heavy presence – has been unveiled as a priority model area for common prosperity policies. According to [Nikkei Asia](#), common prosperity is designed to fulfill the political objective of achieving a clear departure from former leader Deng Xiaoping’s “let some people get rich first” maxim. Continuing the crackdown on large private tech companies like Alibaba and other perceivably ostentatious examples of private wealth is one way that this might be done. China’s private sector is increasingly on notice.