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POLITICS



Lu Wei, head of China's powerful cyberspace authority CAC, presented the state's view of its Internet policy at an international conference last December. In past years, Lu has earned the reputation of being a strict censor. A close confidant of President Xi Jinping, he now has been removed from his position at the CAC unexpectedly. Photo: Imagine China

Head of China's powerful cyberspace authority has been removed from his position unexpectedly

The head of the powerful Cyberspace Administration of China (CAC, 网信办), Lu Wei, has been removed from his position unexpectedly after three years in office. In a statement issued on 29 June, the CAC announced that Lu will be replaced by his former deputy, Xu Lin. Lu, a propaganda expert and former deputy director of the state-run news agency Xinhua, energetically pursued the goal of suppressing undesirable information and disseminating the party's views. He became the key protagonist of the Chinese leadership's IT-backed authoritarianism. His motto: without strict control, the virtual world – followed by the real one – would sink into chaos.

Lu Wei's political fate is unclear – observers speculate that the party leadership could promote him to an even more influential position. **In response to an enquiry by the Financial Times, the CAC stated that**

Lu's next task will be announced in the near future. Up to now, he has been considered a close confidant of Xi Jinping, who is the country's president as well as general secretary of the CCP.

Since 2013, the CAC has been the main hub of information control in China. Xi created the institution with the objective of controlling and reshaping the internet in accordance with party concepts. The new head of the authority, Xu Lin, was head of the Propaganda Department of the city of Shanghai until June 2015. The hard line on information control is unlikely to change under his leadership.

CN: <http://yuanchuang.caijing.com.cn/2016/0629/4140425.shtml>

EN: <http://www.scmp.com/news/china/policies-politics/article/1982987/chinas-powerful-internet-tsar-steps-aside-another-xi>

Who wins? CCP uses quiz to spark enthusiasm for Party constitution and regulations

On 20 June, the Work Committee of the Central Government Departments (中共中央国家机关工作委员会) placed a quiz entitled "Constitution Regulations in my Heart" on the internet. Every party member occupying a position at a central government agency is expected to test his or her knowledge of the CCP constitution here. The objective is to answer 20 questions within one hour. The multiple-choice questions are selected randomly from a pool of 300 prepared by the Work Committee and test members' knowledge of the party charter and regulations. To name just two examples, participants have to name five possible procedures in a disciplinary process and say how many chapters there are in the CCP constitution. They are allowed to look up the answers, however. The online test can now be found on Baidu, the most popular Chinese search engine.

Anyone can access the quiz before 10 July. It is only a serious matter for the cadres who take part in it, however, since the results will not only be reported to the department they work for, but will also be made available to the general public. In addition, the participation rate of the individual agencies will be determined in order to create a sense of competition. The quiz is part of a broad initiative launched to increase Party members' awareness of the values of the CCP and strengthen their loyalty to the party. Similar tests on a provincial level took place last year.

EN: <http://www.scmp.com/news/china/policies-politics/article/1978881/cheer-cadres-its-time-party-quiz>

CN: <http://js.zgg.gov.cn/>

Putin visits Beijing: Economics disappoint, strategic relations gain importance

Russian president Vladimir Putin and Chinese president Xi Jinping vowed to deepen their strategic partnership during a meeting in Beijing in late June. It was their 13th bilateral meeting in three years – neither president has met with any other foreign state leader more often since taking office. Putin's visit underscored the growing strategic value of bilateral relations, despite the so far disappointing development of the bilateral economic cooperation.

Thirty business deals were signed during Putin's visit, including a financing agreement for the Moscow-Kazan high-speed railroad project and joint investments in petrochemical projects in Russia. Many of them, however, are legally non-binding declarations of intent. Overall, economic relations have

stagnated since 2015 and growth targets for bilateral trade and investments were not reached despite good personal relations between Putin and Xi.

China and Russia expressed their strong shared concerns about Western actions “weakening global strategic stability” in a joint communiqué. Specifically, Putin and Xi criticized US plans to station anti-missile-systems in their respective neighborhoods. Putin declared his support for the Chinese position in the territorial dispute in the South China Sea, stating that the conflict can only be resolved through bilateral negotiations.

In addition, both sides agreed to enhance bilateral security cooperation, in particular on counter-terrorism. The third large-scale joint bilateral anti-terror exercises started in Moscow a week after the meeting, underlining China’s and Russia’s intention to cooperate on global security challenges.

EN: <http://thebricspost.com/china-russia-begin-joint-anti-terror-exercises/#.V3qKJoS5mt8>

CN: <http://cn.reuters.com/article/cn-rus-idCNKCS0ZD033>

Fourth Sino-German government consultations in Beijing: joint projects and conflicts

The fourth Sino-German government consultations took place in Beijing on 13 June 2016. German Chancellor Angela Merkel arrived beforehand on her ninth visit to China, accompanied by Foreign Minister Walter Steinmeier, Finance Minister Wolfgang Schäuble, four other department heads and five state secretaries. A number of agreements concluded during the government consultations were announced in a [joint statement](#). MERICS will take a look at the most important points below:

Foreign policy

Both sides announced **co-operation in third countries such as** Afghanistan. In addition, German and Chinese businesses want to jointly develop **third-country markets** for products such as high-speed trains. A centre for sustainable development is being established in Beijing with the objective of implementing joint Sino-German developmental projects in Asia and Africa.

Germany and China agreed to combat **cyber-crime**. The establishment of a joint control mechanism could exceed the scope of similar agreements China has with the United States and the UK.

Despite these results, the meeting was overshadowed by tensions over **China’s insistence on receiving market-economy status** and the country’s role in the **international conflict in the South China Sea**.

The economy and technology

The 20-strong economic delegation accompanying Chancellor Merkel included Rüdiger Grube, head of Deutsche Bahn (German Rail), and Siemens’ CEO Joe Kaeser. Chinese and German companies signed **economic agreements with a volume of approximately 2.7 billion EUR**. Among them were a project for assembling Airbus helicopters in China and the acquisition of the German offshore wind farm *Meerwind* by China Three Gorges.

The Chinese side displayed strong interest in Germany's technological expertise and its vision of "**Industrie 4.0**", a fourth industrial revolution driven by digitisation. German businesses on the other hand expressed concern over issues of data security and technology transfer. An agreement to jointly work on **defining international standards in cyberspace** is meant to defuse some of those tensions.

Work by foreign NGOs in China

Reacting to German concerns over China's controversial new law to control the work of foreign NGOs in China, Li Keqiang welcomed the work "performed legally by foreign NGOs in the respective country" and agreed to continue to "back and support" it.

After her talk with Premier Li Keqiang, the German Chancellor also **announced a bilateral agreement** to protect the work of German chambers of commerce and political foundations in China. She did not offer further details on how this would be done.

These expressions of goodwill will not prevent stricter policy surveillance of civic work in China once the NGO act enters into force on 1 January 2017.

THE ECONOMY

Mega-fusion in the steel sector to alleviate problem of excess capacity

China's steel industry is about to embark on one of the largest corporate mergers in its history. The two state-owned companies Baosteel Group (宝钢集团) and Wuhan Iron and Steel (WISCO, 武汉钢铁集团) announced the beginning of negotiations on 26 June. Like many other steel manufacturers, these two companies, the second- and fifth-largest steel producer in China suffer from growing overcapacity and falling profitability. By combining and restructuring the crisis-ridden SOEs, Beijing wants to reduce excess capacity and create national champions that are competitive on the world market.

Xu Shaoshi, chairman of the National Development and Reform Commission (NDRC), announced additional steps in the government's bid to cut overcapacity: the plan is to reduce steel production capacity by 45 million tonnes a year as well as to relocate 180,000 workers in the steel industry. It will probably be difficult to implement this as the unavoidable dismissal of workers harbours great potential for social conflict. Precisely how merging state-owned companies can contribute to reducing excess capacity remains an open question.

CN: <http://news.sina.com.cn/c/nd/2016-06-27/doc-iftmwei9311122.shtml>

EN: <http://www.bloomberg.com/news/articles/2016-06-27/china-eyes-steel-merger-to-create-mill-to-rival-arcelormittal>



Global stock markets reacted with gains to news that China had been denied access to the MSCI stock index. Major Chinese state-operated investors had readied themselves to prevent major losses, and they presumably overshot their target (Photo: ImagineChina).

Setback for China's integration in international financial markets

The US financial services provider MSCI Inc. announced **on 14 June** that it would yet again delay adding China's A-shares to its emerging markets index. The decision was based on concerns over persisting restrictions of capital flows as well as doubts over whether China would implement reforms in the financial sector in a timely and effective way. Among these reforms are rules to curb arbitrary suspensions of stock trading like the ones that shook international financial markets earlier this year.

Shares that are traded in the Chinese currency and listed in Shanghai and Shenzhen are referred to as A-shares. Taken together, they form the second-largest stock market in the world. Acceptance of A-shares into the MSCI Index would have opened this market further internationally. However, due to politically motivated stock market listings and to regular market interventions by the Chinese leadership, acceptance of Chinese A-shares would risk undermining the MSCI's credibility.

MSCI Inc. had already postponed the decision on the acceptance a year ago. Since then, China's stock exchanges have experienced heavy losses and persistent volatility. MSCI is a leading provider of stock indices whose products are used worldwide as benchmarks by many fund managers. Internationally,

assets amounting to **more than 1.5 trillion USD have been coupled to the MSCI Emerging Markets Index through index products**. Major Chinese shares that are traded in New York and Hong Kong are already listed in this index.

CN: <http://finance.caixin.com/2016-06-15/100954673.html>

EN: <http://www.bloomberg.com/news/articles/2016-06-14/china-stocks-denied-msci-entry-in-blow-to-xi-s-global-ambitions>

China's cyber-security rules for the insurance sector face international criticism

A regulatory draft for the insurance sector in China is generating international criticism: the draft, which was published by the China Insurance Regulatory Commission, stipulates that foreign businesses must store their data within China's borders and give preference to Chinese encryption solutions. Foreign industry associations fear this will hamper market access for hardware and software makers from outside China. They also warn of a higher risk of data theft when companies are dependent upon Chinese products with inadequate security standards.

The Chinese government justifies the restrictions for the use of foreign encryption software and justifying the action with the argument that they wish to make it harder for spies to intercept sensitive data from outside the country. Moreover, the state's intercession is in keeping with the interests of industrial policy to protect Chinese businesses from international competitors.

Past experience has shown that it pays to exert pressure on China in matters of cyber security: an earlier draft of the anti-terror act passed in December 2015 included a provision for local data storage. However, China removed this requirement in the final version – presumably as a reaction to a protest by the US government.

CN: <http://www.circ.gov.cn/web/site0/tab5174/info3975814.htm>

EN: <http://www.scmp.com/news/china/economy/article/1963544/european-business-group-protests-against-cybersecurity-rules>

SOCIETY AND THE MEDIA

Death of a former diplomat sparks debate over China's foreign policy

The sudden death of a former diplomat has exposed lines of conflict in the domestic controversy over China's foreign policy. Wu Jianmin, a former ambassador to France and the United Nations, was killed in a car accident on 18 June. His death triggered heated debate between opponents and supporters of the well-known pacifist in Chinese social media.

Wu was a lifelong proponent of a peaceful foreign policy for China and opposed any "misdirected" nationalism. In March this year, he engaged in a verbal exchange with Hu Xijin, the editor-in-chief of the nationalistic *Global Times*, accusing the newspaper of unnecessarily stirring up sentiment with its radical positions and hindering diplomatic work.

Wu Jianmin was a thorn in the side of military-minded people in particular. On Weibo, an online messaging service similar to Twitter, many users cursed him as a "traitor". One commentator on a nationalistic website even compared him to Wang Jingwei, who collaborated with Japan in the Second World War and officially went down in Chinese history as one of the worst "traitors to the people". In contrast, the largest English-language party newspaper in the country, *China Daily*, praised Wu on Weibo, saying he had been a reliable, rational voice in Chinese foreign policy.

EN: http://www.nytimes.com/2016/06/25/world/asia/china-wu-jianmin.html?_r=0

CN: <http://www.jiemian.com/article/703037.html>

Party inspectors call for stricter media controls and better oversight of universities

The Central Commission for Discipline Inspection of the Communist Party of China (CCP) harshly criticised the Party's own Propaganda Department for its "poor ideological control" in a report. According to the Commission, the central ideology department of the CCP lags behind in implementing important directives, does not do sufficient research on contemporary Chinese Marxism. It also accused the department of lacking systematic ideological oversight of universities and of social media channels in the internet.

These damning conclusions are based on a routine inspection conducted in March and April, which the Commission for Discipline Inspection performs for all party and state institutions. The CCP has greatly increased ideological control in China since Xi Jinping took power in 2013.

CN: http://www.ccdi.gov.cn/yw/201606/t20160607_80158.html

EN: <http://www.scmp.com/news/china/policies-politics/article/1970437/chinas-propaganda-chiefs-rapped-government-inspectors>

CONTROVERSIES BEYOND GOVERNMENT

Profit-seeking versus social responsibility: China debates the role of its state enterprises

By Lea Shih

European business leaders in China are of the opinion that the reform of state-owned enterprises announced by Xi Jinping in 2013 (and the related restructuring of the economy) is progressing much more slowly than anticipated. This is the result of a survey published on 7 June 2016 by the European Chamber of Commerce in Beijing. The impression among the European business community mirrors a lively debate among Chinese economists with close ties to the government. Some experts have expressed concern about the slow implementation of the planned reform. Some Western experts argue the main obstacle is seen as stemming from ideological controversies between different political camps among the political and economic elite.

The liberal camp, which is dominated by economists and private entrepreneurs, criticises the current plan as a "pseudo-reform". The liberals say the state should withdraw from the economy completely and

that state-owned enterprises should be privatised. They view this as the only way to save highly indebted SOEs and enhance the efficiency of the entire national economy. On the other hand, China's so-called "conservative left", consisting of retired cadres and former employees of state enterprises, argues in favour of "tightening control by the Party and giving employees a voice" in the reform process. They say this is necessary to prevent potential misconduct by managers, such as selling off state assets below value.

In view of the slackening growth of the economy and increasing income gaps, societal arguments are also gaining ground in the debate. China's "New Left" (social and political scientists) stresses the role of companies in furthering the "common good" (共同富裕) and the necessity of improving their "resistance to crises" (危机抵抗力).

The leftists accuse liberals of focusing too much on efficiency and profitability and neglecting the social role played by state-owned enterprises. For example, they argue that the costs of mass layoffs get passed on to society as a whole: workers don't just lose their jobs, but also their ideological status as the "owners of the means of production". This exacerbates the unequal distribution of assets between managers and workers.

The new leftists argue in favour of expanding social insurance schemes and redistributing income. However, they also insist on fair wages, which can only be guaranteed through joint ownership of the "means of production". Fair distribution of income and assets forms the foundation for the common good, according to the leftists.

An additional argument compares state-owned enterprises to an "army of the national economy" (国家经济部队), and a guarantor for "crisis protection". State enterprises cannot simply drift off when the domestic economy is weak, but have to join in the struggle for more growth. Contrary to this, the profit-orientation of private companies renders them "homeless".

The persisting ideological bias against private business complicates the drive for privatisation and SOE reform. In addition, China's leadership also still views state businesses as a vehicle for achieving various political goals associated with economic growth, combating poverty and gaining access to world markets. Consequently, an expeditious restructuring of state enterprises in favour of private investors is not foreseeable at the moment.

THE EUROPEAN DEBATE ON CHINA

Europe speculates on possible impact of Brexit on relations with China

China has featured rather prominently in European debates on the consequences of the British vote to leave the European Union. In the largest EU member states, those who predict that "Brexit" will have a negative impact on China are balanced against those who consider Beijing to be the actual winner due to the uncertainties in Europe triggered by the UK referendum.

French media depict China as being in a "position of strength vis-à-vis an isolated United Kingdom", emphasising – not without *Schadenfreude* – that unlike what had been promised by the pro-Brexit camp the UK would actually be in a fairly weak position to negotiate a free-trade agreement with China. According to the daily newspaper *Libération* on the day after the referendum, China would have to "rethink its European strategy" and look for alternatives to the UK when it comes to foreign investments.

In contrast, German media was in disagreement over whether Chinese investors will be scared off by an imminent Brexit. On the day of the referendum, the Handelsblatt correspondent Frank Sieren still argued that Brexit would not take away any of the advantages Britain offers to wealthy Chinese. But in the majority of German publications, Beijing's reactions to the referendum were mainly interpreted as a sign of concern among Chinese investors.

The situation is viewed far more dramatically in the United Kingdom. In an article published in *The Guardian*, the entrepreneur and multi-billionaire Richard Branson predicted a large-scale withdrawal of Chinese investors from Britain. The *Financial Times* heralded the end of the UK's "special relationship" with China, the beginning of which Xi Jinping had proclaimed during his October 2015 visit to the UK. The voices of those who previously praised Brexit as an opportunity for undisturbed development of Sino-British economic relations, are no longer heard. Instead, a critical parliamentary report on the human-rights situation in China caused Conservative MPs to distance themselves from the pro-Chinese attitude adopted by the Cameron government.

At any rate, Brexit will probably weaken the European Union's ability to flex its muscles on many pressing issues – from China's quest for market economy status to Beijing's aggressive conduct in the South China Sea. The EU indicated its intention to counter challenges from China more firmly in its new China Strategy, which was published shortly before the referendum. But this may not matter much since European decision-makers will have their hands tied with inner-European matters in the coming months.

THE LATEST FROM MERICS

Latest blog posts

- [Power to the centre: top-down leadership in Xi Jinping's China](#) by Sabine Muscat
- [Gossip, guanxi, and guesswork: time to demystify the Chinese leadership](#) by Jessica Batke
- [Is China a threat to the German economy? Entrepreneurs say don't worry](#) by Claudia Wessling
- [China's high stakes in the British EU referendum](#) by Jan Gaspers
- [Chinese millennials - a generation with great expectations, Interview with Alec Ash](#) by Dev Lewis
- ["Beijing-Berlin connection" revisited](#) by Mikko Huotari
- [Europe needs tougher response to China's state-led investments](#) by Sebastian Heilmann

Latest Podcasts MERICS Experts

- With Roderick MacFarquhar: ["China's strong top man heads a very fragile system"](#)
- With Tony Saich: ["As authoritarian leader I would want to learn from China"](#)

- China Dispute Review: **"The Xi Jinping Challenge: Will Top-Down Leadership Achieve Political Stability"**
- With Arthur Kroeber: **"China's economic policies lack clarity and direction"**
- With Michael Fuchs: **"Unpredictability is not a foreign policy"**

MERICS in the media

- **Europe needs tougher response to China's state-led investments**, Sebastian Heilmann in Financial Times (9 June 2016)
- **Is China's challenge to maritime law facilitated by Western neglect?**, Hanns W. Maull and Thomas S. Eder in Europe's World (20 June 2016)

Forthcoming events

- Tuesday, 12 July 2016: **Presentation of recent MERICS analysis** on: **How China Views Europe's Crises: From Social Media to Official Propaganda (Brussels)**

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