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Contents	Page
POLITICS	2
Warnings and diplomacy – Chinese reactions to Trump’s election in the US	2
Youngspiration politicians lose their seats in Hong Kong’s Legislative Council	3
Europe scrambles to lure back Chinese tourists amid dramatic drop in visitors	3
ECONOMY	4
US gets final say in Sino-German takeover deal	4
More state-run support for weak regions in China’s North East	5
Business outlook for China’s manufacturing sector improving, but not stable	5
Boeing collaborates with Chinese competitor in bid to secure world’s fastest-growing aviation market	6
SOCIETY AND MEDIA	7
No transition period for foreign NGOs: new law will enter into force as scheduled	7
Shanghai moves to curb foreign influence on education system	7
THE EUROPEAN DEBATE ON CHINA	8
Sino-European economic relations need to be adjusted after the US election	8
THE LATEST FROM MERICs	9

POLITICS

Warnings and diplomacy – Chinese reactions to Trump's election in the US



Two Chinese employees holding pro-Trump banners at a shop in Yiwu International Trade City. Source: ImagineChina

Official Chinese media have reacted with a mix of alarm and gloating to the election of Donald Trump as the next US President. The nationalistic [Global Times](#), an English-language newspaper published in China, drew up threatening scenarios describing ways China could hurt the American economy in case of a trade war. Adopting a more moderate tone, the state-run Xinhua News Agency warned the US against embarking on a course of international isolation or intervention in Chinese affairs.

During his election campaign, Trump had vowed to take steps against China's alleged unfair trade practices and currency manipulation. A [leading Xinhua commentator](#) wrote that a fresh start with China was possible, but only if Trump were prepared to break some of his campaign promises.

In parts of China's [social media](#), the election of an outsider without political experience was interpreted as a sign of weakness of America's democratic system. Others saw it as a majority vote on a political elite that had lost touch with reality. Anxiety about geopolitical rivalry between the US and China, but

also about a possible American isolation from world affairs dominated the speculation about the effects of a Trump presidency on China.

Chinese President Xi Jinping spoke to Trump **on the phone** for the first time on 14 November and stressed the importance of China and the United States working together in the future.

CN: http://news.xinhuanet.com/world/2016-11/09/c_129356078.htm

EN: <http://www.reuters.com/article/us-usa-election-china-media-idUSKBN1350P6>

Youngspiration politicians lose their seats in Hong Kong's Legislative Council

Two representatives of the Youngspiration party, which advocates Hong Kong's independence from mainland China, are not allowed to take up their seats in parliament after the recent elections. The High Court of the Special Administrative Region announced its decision on 15 November to stop Yau Wai-ching and her party colleague Baggio Leung from taking office. The Hong Kong government has announced a new round of elections to fill the vacant seats.

The two politicians were ousted after declaring their **loyalty to the "nation of Hong Kong" rather than China**. during their swearing-in ceremony on 12 October,.. The oaths were declared invalid, and the city government brought charges against the politicians. Just a few days earlier, on 7 November, the National People's Congress of the People's Republic of China had **interpreted Hong Kong's Basic Law** in such a way that advocates of Hong Kong's independence from China were not permitted to take up public office and could even be prosecuted.

The incident surrounding the two politicians has deepened the trench between advocates of more independence for Hong Kong and groups sympathetic to Beijing. Over the past few weeks, both sides have rallied more than **ten thousand supporters** in street protests.

EN: <http://www.telegraph.co.uk/news/2016/11/15/hong-kong-court-disqualifies-two-pro-independence-lawmakers-from/>

CN: http://news.ifeng.com/a/20161115/50259997_0.shtml

Europe scrambles to lure back Chinese tourists amid dramatic drop in visitors

The number of Chinese tourists visiting Western Europe has dropped even more sharply than predicted in the wake of the terror attacks in Paris, Nice and Brussels. According to a new **study by travel industry analyst ForwardKeys**, the decline is more dramatic than initially suggested by **the figures for the first half of 2016**.

France is hit hardest, followed by Italy, Germany and Switzerland. Since Chinese tour itineraries in Europe usually include several Schengen states, the decline in bookings to France has had a knock-on effect on neighboring countries as well. Avoiding Western Europe, Chinese tourists are currently seeking out ostensibly safer destinations such as Spain, Britain and Ireland, and also travel to Russia and Eastern Europe.

This development has a serious impact on the main European destinations, which have reaped substantial **economic benefits from tourism from China**. Many major **European luxury brands rely on Chinese tourists for over a third of their sales**. And they were betting on a growing market as China's middle class increasingly travels to remote destinations.

The substantial fall in visitor numbers over the past 12 months in cities like Paris (-23.5 per cent) and Istanbul (-46.1 per cent) shows that Chinese tourists are extremely sensitive to reports of terror attacks and other **security risks**. In light of the attacks in Paris and Nice and repeated reports of thieves targeting Asian travel groups, the romance of Paris – particularly on China's social media sites – has been overshadowed by negative news stories.

The only exception from this trend is the United Kingdom. The sharp drop in the value of the pound after the Brexit vote triggered a **tourism boom** during the third quarter of 2016, propelled particularly by price-conscious Chinese visitors.

In their quest to lure Chinese tourists back, European governments are increasing their marketing efforts. The French government launched a large-scale **advertising campaign** this October in an attempt to restore France's image in China. Italy, which is equally reliant on business from China, took unusual measures back in May when Chinese police joined Italian officers **to patrol the streets of Rome** to help Chinese tourists feel safer. In the light of the tourism statistics for 2016, other EU member states may be tempted to follow their lead.

EN: <http://www.tornosnews.gr/en/tourism-businesses/markets/19718-chinese-tourism-europe-bookings-drop-as-much-as-27-in-last-12-months.html>

EN: http://www.chinadaily.com.cn/world/2016-10/24/content_27159240.htm

ECONOMY

US gets final say in Sino-German takeover deal

Referring to national security concerns, the Committee on Foreign Investment in the United States (CFIUS) has advised against German semiconductor firm **Aixtron's takeover** by the Chinese Grand Chip Investment company (GCI). After Aixtron and GCI refused to abandon the deal, the decision now rests with President Barack Obama, who has 15 calendar days to decide. The US President will likely block the deal given the potential implications for national security and the importance of the semiconductor industry for the United States. A substantial part of Aixtron's business is based in the US.

In May this year, the German subsidiary of the Chinese GCI company made a **€670 million takeover bid** for the German chip equipment maker Aixtron. Following a series of controversial Chinese acquisitions in Germany, such as the hotly debated Kuka-Midea deal, Aixtron's case came under close scrutiny. After it was revealed that the Chinese government is heavily involved in the bid, and spurred on by

American security concerns, the German economic ministry **withdrew its previous approval** and reopened the review.

Neither the US nor Germany have specified their concerns, but American intelligence officials reportedly approached the German side about potential implications for national security. Aixtron's chips are relevant for military applications and the space industry – fields in which Chinese companies try to catch up via acquiring leading western companies with cutting-edge technology.

EN: <http://www.nytimes.com/2016/11/20/business/dealbook/china-germany-aixtron-cfius.html>

CN: <http://money.163.com/16/1121/19/C6E0CREF002580S6.html>

More state-run support for weak regions in China's North East

China wants to trigger structural change in its three northeastern provinces with an ambitious plan to promote innovation, high-tech industries and modern services. The State Council recently approved a five-year plan to develop business in the region between 2016 and 2020.

Heilongjiang, Jilin and Liaoning regularly record the lowest growth rates of all Chinese provinces. In the first six months of this year, their combined growth rate was only 2.2 per cent over the same period in the previous year. The **situation is most difficult in Liaoning**, where the economy shrank recently. State-run industries such as mining, shipbuilding and steelmaking play a major role in this region.

The Chinese government has tried to modernise the economy of these provinces bordering on Russia and North Korea **ever since 2003**. But series of special programmes so far have not succeeded in establishing new drivers for growth.

The region's economy has been further harmed by recent efforts to reduce surplus capacity in the coal and steel industries. Private investment has also plummeted, dampening expectations that a new round of government support programmes will show better results.

EN: http://www.chinadaily.com.cn/business/2016-11/08/content_27310183.htm

CN: <http://finance.sina.com.cn/stock/t/2016-11-08/doc-ifxnfrr7056051.shtml>

Business outlook for China's manufacturing sector improving, but not stable

The official business climate index for China's manufacturing industry was surprisingly strong in October despite its previous rocky record. At 51.2, the index reached its highest value in more than two years. A figure over 50 indicates a growth in business activity, while a value below 50 suggests a contraction. Compared to September, the index readings showed an encouraging rebound of new orders. The better mood within the industry has boosted hopes that the Chinese economy may be stabilising.

The rising price of commodities such as steel and coal have led to an increase in productivity. Concerned over run-away prices, the government seeks to **cap the increase**.

In a parallel development, the property bubble has spurred demand for everything from cement and glass to furniture. Cooling measures introduced in recent months are **beginning to take effect** and are likely to impact both upstream and downstream industries.

Despite the upward trend, caution is still advisable. In view of the current speculative bubbles and the ongoing slack of demand for exports, the Chinese manufacturing sector still faces a host of challenges. **Slowing growth of industrial profits** betray the shaky state of some key manufacturing sectors.

EN: <http://www.cnbc.com/2016/10/31/china-official-manufacturing-pmi-at-512-in-october-beating-forecasts.html>

CN: <http://finance.sina.com.cn/china/gncj/2016-11-01/doc-ifxxfuff7455515.shtml>

Boeing collaborates with Chinese competitor in bid to secure world's fastest-growing aviation market

US aircraft manufacturer Boeing and the Commercial Aircraft Corporation of China, Ltd (Comac) signed an agreement at the end of October to open a completion facility in the coastal city of Zhoushan, 154 kilometres south of Shanghai. The centre will operate as a joint venture between the two companies and will be responsible for installing interiors and painting liveries for the Boeing 737 mid-range model. A separate delivery section exclusively owned by Boeing will deliver the completed aircraft to Chinese customers. The first plane is scheduled for delivery by the end of 2018.

Airbus starting positioning itself a couple of years ahead of its rival Boeing in the battle for what is believed will be the fastest-growing aviation market of the future.

Since its A320 completion facility was opened in China eight years ago, Airbus has expanded its share of the medium-range market to **almost 50 per cent**. With construction of a further A330 completion and delivery facility underway in Tianjin, which is due to be completed in 2017, the company is positioning itself to compete with Boeing for the long-range passenger jet market.

Boeing thus finds itself forced to collaborate with its potentially biggest competitor Comac. Comac, a state-owned business, plays a key role in the Chinese government's aspirations to break into the international aviation market. The company plans to introduce its own regional jet, the C919, **by 2018**.

EN: <http://www.reuters.com/article/us-boeing-china-plant-idUSKCN12S1FM>

CN: <http://finance.sina.com.cn/roll/2016-10-31/doc-ifxxfysn8154215.shtml>

SOCIETY AND MEDIA

No transition period for foreign NGOs: new law will enter into force as scheduled

The **controversial new law** limiting activities of foreign NGOs in China (the Overseas NGO Act / 境外非政府组织境内活动管理法) is going to take effect as planned on 1 January 2017. Despite pleas by Western organisations and diplomats, there will be no transition period for foreign NGOs that have not been registered yet. The Ministry of Public Security (MPS) announced this decision at a **briefing with representatives of eleven consulates in Shanghai on 8 November**.

Officially, the briefing was supposed to help **answer questions about how overseas NGOs will be able to operate in China**. But the Q & A session could not alleviate concerns of political foundations and NGOs from Germany and the US. What is clear is that China will step up its monitoring of foreign NGOs considerably starting from 1 January. The new law imposes strict registration and disclosure requirements on these organisations.

The Ministry has not set an explicit date for the publication of implementation rules or lists of possible **Chinese supervising units** for the NGOs (主管单位). The exact legal status of many Western organisations and their staff as of January is therefore still unclear.

EN: <http://uk.reuters.com/article/uk-china-ngos-idUKKBN134009?il=0>
CN: http://news.xinhuanet.com/2016-11/09/c_1119877963.htm

Shanghai moves to curb foreign influence on education system

Education authorities in Shanghai are moving to implement central plans to purge foreign influence from the Chinese education system. In a blow to many private schools, the city's Municipal Education Commission announced on 24 October that international schools attended by Chinese students will no longer be allowed to use foreign curricula. Only schools exclusively attended by children of foreign nationals will be exempt from this regulation.

Foreign education providers will still be allowed to supply materials to pre-schools and senior middle schools, but no longer to state-run primary and junior middle schools. All state-run schools will have to submit their curricula and textbooks for approval by the Ministry of Education. The stricter regulations are part of a **nationwide effort to reinforce political ideology** at schools and universities since 2014.

The decision sparked heated debate on social media, with parents expressing their concerns about the quality of their children's education. Many in the Chinese middle class send their children to international schools hoping that this enables them to continue their studies overseas.

EN: <http://english.caixin.com/2016-10-26/101000886.html>
CN: http://news.xinhuanet.com/world/2016-10/26/c_129337558.htm

THE EUROPEAN DEBATE ON CHINA

Sino-European economic relations need to be adjusted after the US election

In light of heightened uncertainty in Sino-US relations and threats of increasing **American protectionism**, a clear and uniform European China strategy is more needed than ever. Yet European governments are struggling to reconcile their differing priorities in their economic and trade relations with China - making it hard to reach common positions.

While Central and Eastern European countries rely on growing Chinese investment in the region to boost their growth, the debate in many Western European countries revolves around protecting domestic economies from Chinese competition and from a sell out of sensitive technologies.

China's premier Li Keqiang met with various heads of government in Riga, Latvia on 5 November at the 5th Summit of China and Central and Eastern European Countries (CCEEC). This part of Europe has suffered from falling **investment** and **economic growth rates** after the last financial crisis, which explains the region's heightened interest in **Chinese investment**. The Chinese government promised to set up a ten-billion-euro **regional investment fund**, to abolish **Chinese restrictions on Polish agricultural exports**, to establish an additional **direct link for rail freight** (between Yiwu and Riga) and to set up a joint **technology transfer centre**.

Berlin and Brussels on the other side are concerned about a range of areas in which they see economic frictions with China. Recent **takeovers of large German engineering firms** have raised fears of a sell-out of key technologies. At the same time, German and other European businesses complain about a **lack of free access to the Chinese market** and about unfair competition due to **cheap exports from the PRC**. Public debates on international trade have taken on a highly protectionist character in the course of the controversial negotiations over free-trade agreements like CETA and TTIP.

The United Kingdom's position has been shifting. Theresa May's government risked a diplomatic confrontation with Beijing when it announced to review the Hinckley Point C nuclear reactor construction project, which is partially financed by China. The British parliament also passed new **legislation to gain more control over foreign investment in critical infrastructure projects**. Yet during Chinese vice-premier Ma Kai's visit this month, May tried to persuade China to **invest six billion euros in infrastructure, residential real estate and mining in the north of England** – in an apparent attempt to continue the 'golden era' of British-Chinese relations announced by her predecessor David Cameron.

But overall in the EU, the balance is currently shifting towards greater protectionism, mainly due to the UK's declining importance and a **change of thinking in the Netherlands**. The European Commission recently imposed new anti-dumping duties on China to stem the inflow of cheap iron and steel products. It also made suggestions to sharpen existing trade defence instruments.

But Europe is under increasing pressure to formulate a constructive policy for trade and investment relations with China – especially in light of the current developments in the US. The transatlantic trade agreement TTIP is unlikely to be concluded after Donald Trump won the US presidential election (See

the [report on China's reaction to Trump's election in this issue of China Update.](#)), raising China's importance as Europe's trading partner. European governments will have to find smart ways to rebalance trade and economic relations with Beijing if they want to stabilise their own ailing economies.

EN: http://www.mfa.gov.lv/en/news/latest-news/55299-the-riga-guidelines-for-cooperation-between-china-and-central-and-eastern-european-countries?utm_source=Silk+Road+headlines&utm_campaign=e09ec0e64e-EMAIL_CAMPAIGN_2016_11_11&utm_medium=email&utm_term=0_70119be3b7-e09ec0e64e-79803497

THE LATEST FROM MERICS

Latest publications

- MERICS China Monitor No. 35: [China's overrated service sector: Missing dynamics threaten growth target](#), by Max J. Zenglein

Latest blog posts

- [China's social security system: increasing equality, looming risks](#), by Matthias Stepan
- [How China's rise contributes to polarization in the West](#), by Mikko Huotari and Sebastian Heilmann
- [China's service sector frailties may thwart key reforms](#), by Max J. Zenglein

Latest podcasts

- Episode 27: [Kevin Rudd on China's nascent strategy for a new global order](#)
- Episode 26 with Zhang Jieping: [There's a huge appetite for independent journalism](#)

MERICS in the media

- [Is the Belt and Road Initiative Globalizing China's National Security Policy?](#), Sabine Mokry, "The Diplomat", 17 October 2016
- [Beijing's Brittle Strength: Under Xi Jinping, China is becoming too rigid to address its economic and political problems](#), Sebastian Heilmann, The Wall Street Journal, 10 October 2016

Job vacancies

- MERICS is looking for two full-time [interns](#) contributing to MERICS research programs starting in January 2016.

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