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## **TOPIC OF THE WEEK: CHINA IN DAVOS**

### **Xi Jinping makes case for China's global economic leadership**

In the first-ever speech by a Chinese president in Davos, Xi Jinping offered a strong defense of globalization and China's help in securing growth and protecting the global economic order. "We must remain committed to developing global free trade and investment, (...) and say no to protectionism," Xi said.

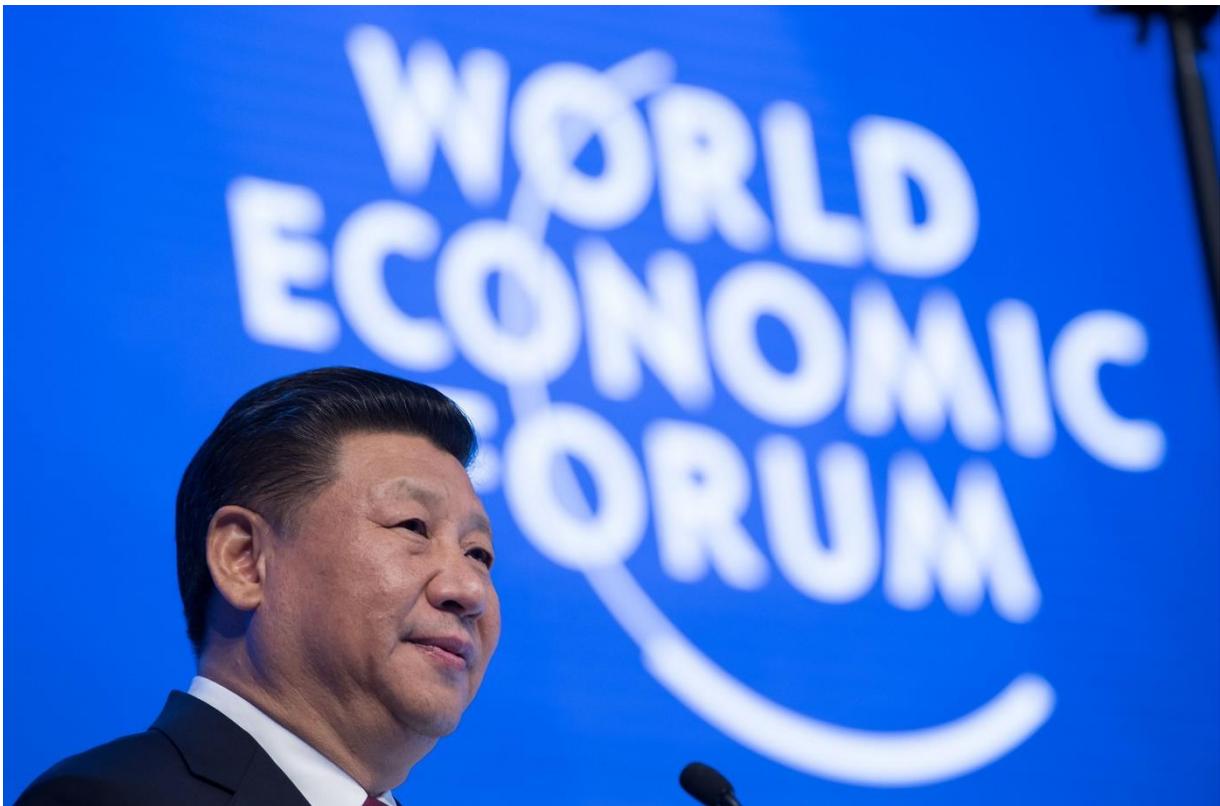
His keynote address at this year's World Economic Forum (WEF) also contained a warning to the incoming U.S. president Donald Trump: "No one will emerge as a winner in a trade war," said Xi. He also warned the U.S. from pulling out of the Paris Agreement on climate change, reminding all signatories of their "responsibility for future generations."

Xi's message was widely received as a welcome break from a rising trend towards protectionism and isolationism. "In the present global situation, where we face the danger of de-globalization and disintegration of global cooperation, I think his (Xi's) voice is particularly important," **WEF chief executive Klaus Schwab told Xinhua News.**

Beyond the rhetoric it should be clear that China's president promotes a limited vision of globalization. China's vision is focused on open markets for Chinese exports and investments. But it does not include the free movement of capital, and certainly not the free exchange of people, ideas and information. Xi's plea for globalization deserves praise if it leads to credible commitments to further opening and domestic reforms by China.

**Expert insight:** In an **interview with Süddeutsche Zeitung**, MERICS President **Sebastian Heilmann** commented on China's new global role in light of the unclear future of U.S. global engagement under the Trump administration: "The U.S. creates room for China, and it does so earlier than expected. For China, this is a great opportunity to shape globalization."

EN: <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>  
CN: <http://www.chinanews.com/gn/2017/01-18/8127445.shtml>



Source: World Economic Forum / Valeriano Di Domenico

## **China promises better market access for foreign companies**

Just hours before Xi's speech, China's State Council released a list of guidelines to increase market access for foreign investors in China's manufacturing and energy sectors. It also urged local authorities not to discriminate against foreign companies.

The move is a reaction to complaints in the international business community about a lack of reciprocity as China exports products and invests abroad, while limiting foreign access to its own markets and distorts competition by state intervention. While the list sends an important signal to the foreign business community, real progress will depend on its implementation.

In a [message before the Davos summit](#), the German embassy in Beijing had expressed its hopes that China would be a partner in fighting for open markets. "Germany is willing to closely cooperate with China to work against protectionist and populist trends," according to the statement on the embassy's website. At the same time, the German statement urged China to ensure a level-playing field for German companies on its own market.

EN: <http://www.scmp.com/news/china/economy/article/2062920/china-promises-more-market-access-foreign-players>

CN: [http://news.xinhuanet.com/politics/2017-01/17/c\\_1120330110.htm](http://news.xinhuanet.com/politics/2017-01/17/c_1120330110.htm)

CN: [http://www.gov.cn/zhengce/content/2017-01/17/content\\_5160624.htm](http://www.gov.cn/zhengce/content/2017-01/17/content_5160624.htm)

## **CHINA AND THE WORLD**

### **Chinese FDI flows into Europe reach new record in 2016**

China's global outbound foreign direct investment soared to record levels in 2016, jumping to almost USD 200 billion. The European Union continues to be a favorite destination for Chinese investors, according to a [new report by MERICS and Rhodium Group](#). Chinese FDI in the EU added up to more than EUR 35 billion in 2016, an increase of 77 per cent over 2015. With EUR 11 billion of completed deals, Germany was the largest recipient, accounting for 31 per cent of total Chinese investment in Europe.

According to the report, the pace of expansion could be slowed down by Chinese efforts to stem the outflow of capital as well as by growing European attempts to prevent a sell-out of core technologies to China. A [new study by the Chinese Academy of Social Sciences](#) shares the view that Chinese outbound foreign investment growth may slow down in 2017.

**Expert insight:** Even as China's overall M&A activities may slow down, German companies are likely to remain attractive acquisition targets, as [MERICS senior fellow Marc Szepan argues in a new blogpost](#). The knowledge-intensive German manufacturing sector continues to offer many important assets for China's quest to become a high-tech nation.

## China releases vision for Asia-Pacific security cooperation

China's first-ever **White Paper on "Asia-Pacific Security Cooperation"** outlines a new regional security architecture with a leading role for China. The document, which was published by the Ministry of Foreign Affairs on January 11, postulates the phasing out of traditional allegiances to one major power in exchange for a "multi-layered, comprehensive and diversified" regional order – which would be centered around China.

**Expert insight:** "The publication and timing of this strategic document underline Beijing's claim to leadership and rule-making in Asia at a time of great uncertainty about the future U.S. role in the region under the incoming president Donald Trump," according to **Mikko Huotari**, MERICS Head of Program for Foreign Relations.

EN: <http://thediplomat.com/2017/01/the-future-of-the-asia-pacific-security-architecture-as-seen-by-china/>  
CN: <http://www.fmprc.gov.cn/web/zyxw/t1429766.shtml>

## POLICY AND LEADERSHIP

### China creates national agency to fight corruption

In an attempt to institutionalize its anti-corruption fight, the Communist Party's Central Commission for Discipline Inspection (CCDI) announced the establishment of a "National Supervision Commission" (国家监察委员会) on January 9. Its members and tasks will be identical with those of the CCDI, resulting in "**one organization with two nameplates**" (一个机构，两块牌子).

**Expert insight:** In a new blogpost, MERICS research associates **George G. Chen and Mareike Ohlberg** interpret the creation of the new state organ as an attempt to add legitimacy to the anti-corruption fight, strengthening rather than weakening the Party's control.

EN: [http://www.china.org.cn/china/Off\\_the\\_Wire/2017-01/08/content\\_40061428.htm](http://www.china.org.cn/china/Off_the_Wire/2017-01/08/content_40061428.htm)  
CN: <http://news.sina.com.cn/o/2017-01-09/doc-ifxzkfuk2920322.shtml>

### Chief Justice sparks protests with rejection of judicial independence

The Chief Justice of China's Supreme People's Court generated a heated controversy with a speech warning of "erroneous" ideas such as "constitutionalism," "democracy," "separation of powers," and "judicial independence. These "Western ideologies" were aimed at subverting the leading role of China's Communist Party, said Zhou Qiang in a speech before top provincial-level judges on January 14.

The speech sparked strong reactions from within China's legal community. A number of former and practicing Chinese lawyers signed a petition calling for Zhou Qiang to resign. **He Weifang, a law professor at Beijing University**, argued that justice would always be obstructed by external factors in the absence of an independent judiciary. His colleague **Zhang Qianfan** pointed to the fact that the principles

of constitutionalism and democracy are enshrined in China's constitution. The famous human rights lawyer [Liu Xiaoyuan](#) used Twitter to call on China to respect the UN standards of judicial independence, while another dissident lawyer, [Liang Xiaojun](#), stated that China's legal system only served the party.

EN: <http://www.scmp.com/news/china/policies-politics/article/2062829/lawyers-urge-chinas-top-judge-quit-over-controversial>

CN: <http://www.rfa.org/mandarin/yataibaodao/renquanfazhi/yf2-01152017103002.html>

## ECONOMY, FINANCE AND TECHNOLOGY

### 2016 was troubling year for China's exports, 2017 unlikely to get better

In a sign of China's continuing economic slowdown, the country's foreign trade took another significant hit in 2016. On a USD basis, China's exports contracted by 7.7 percent over 2015, imports fell by 5.5 percent. Lower global demand led to a drop in exports to all of China's major trading partners, the EU, the U.S. and ASEAN.

The contraction weighs down on China's manufacturing sector and is pulling down overall GDP growth. The situation is unlikely to improve in 2017 in light of a global trend towards protectionism and the threat of a trade war with the incoming U.S. administration.

EN: <http://www.reuters.com/article/us-china-economy-trade-idUSKBN14X0FD>

CN: [http://finance.ifeng.com/a/20170113/15142568\\_0.shtml](http://finance.ifeng.com/a/20170113/15142568_0.shtml)

### GDP growth meets government target in 2016

China's National Statistics Bureau will release official GDP growth figures this Friday (January 20). In line with 6.7 percent in the past three quarters, growth for the year is expected to be 6.7 percent as well. This is within the government's target range of 6.5 to 7 percent. In light of continued downward pressure on its economy and increasing uncertainties in global markets, China has to expect lower levels of growth in 2017.

**Expert insight:** "Chinese growth targets remain too high, requiring massive stimulus measures and credit fueled growth. Amid a challenging economic environment and continuous downward pressure on growth, maintaining stability will become more difficult for the Chinese government," says MERICS research associate **Max Zenglein**.



### Rapid loan expansion fuels worries about China's rising debt

China's banks extended a record amount of loans in 2016, deepening concerns over unsustainable debt levels in the Chinese economy. For the year, the total new loans stood at CNY 12.56 trillion (USD 1.8 trillion). In December alone, bank loans rose to CNY 1.04 trillion (USD 150.78 billion) compared to the previous month's CNY 794.6 billion. This surge exceeded the forecasts of many economists who had expected that lending would slow down.

In order to achieve its growth target of 6.7 percent for 2016, the government is relying on a credit fueled investment stimulus. This has contributed to asset bubbles in certain sectors, as skyrocketing housing prices in key cities and accelerating mortgage growth have shown.

EN: <http://finance.yahoo.com/news/china-banks-extend-record-12-095718425.html>  
CN: [http://news.xinhuanet.com/fortune/2017-01/12/c\\_1120300094.htm](http://news.xinhuanet.com/fortune/2017-01/12/c_1120300094.htm)



### **Chinese companies may soon issue shares in Germany**

Chinese companies may be able to sell their shares in Germany as early as this year. The Shanghai Stock Exchange (SSE) announced the plan to issue the so-called "D shares" on January 8. They would be listed and traded at the Frankfurt-based China Europe International Exchange AG (CEINEX), which was set up jointly by the SSE, Deutsche Börse AG and China Financial Futures Exchange in 2015. The plan still needs to be approved by German and Chinese regulators.

It remains to be seen how German investors react to shares of companies registered in China. Investors may view Chinese shares as a riskier investment, especially after the Chinese stock market crash in 2015. On the other hand, a number of leading Chinese companies had successful IPOs in the U.S., showing that the acquisition of shares of Chinese "blue chip" companies can be seen as an opportunity for private investors to benefit from China's economic growth.

EN: <http://www.reuters.com/article/china-germany-share-idUSL4N1EZ18O>  
DE: <http://www.faz.net/aktuell/finanzen/chinesische-unternehmen-wollen-in-frankfurt-aktien-ausgeben-14610888.html>

## SOCIETY AND MEDIA

### China issues rules to stem excessive spending on foreign soccer players

China's plans to become a soccer superpower are increasingly at odds with its attempts to stem the outflow of capital from China. According to media reports, regulators worry about the staggering amount of capital leaving China via deals in the sports industry, which is notorious for its lack of transparency.

The **Chinese Football Association imposed new rules** to limit the number of foreign players in the Chinese Super League on January 16. It also announced measures to curb "irrational investments" by Chinese clubs.

Throughout the past year, Chinese soccer clubs have spent record sums on transfers of international players. In the transfer period in January 2016 they spent USD 296 million, 244 percent more than in the previous year. This January will see more mega deals, with Brazilian player Oscar leaving Chelsea for Shanghai SIPG and Argentine striker Carlos Tevez signing a contract to play for Shanghai Shenhua.

Apart from transfer deals for players, regulators are also wary of Chinese take-over offers for European soccer clubs. Both transfers and acquisitions might be in violation of the capital export controls that China introduced last November.

EN: <http://asia.nikkei.com/Politics-Economy/Policy-Politics/Even-soccer-cannot-escape-China-s-war-on-capital-flight>  
CN: <http://www.ftchinese.com/story/001071007>

### China announces official sponsors for foreign NGOs

Many international charities and non-profit organizations are bracing themselves for further restrictions on their activities in China as the country's first Overseas NGO Law entered into force on January 1, 2017. The law is widely seen as curtailing foreign organizations' independent operations in China, forcing them to find an official Chinese sponsor ("Professional Supervisory Unit") and to file regular reports with public security authorities about their activities, staff and funding.

Only a few days before the law's entry into force, the MPS released a long-awaited **list** of permitted fields of activity and potential official sponsors, most of them government agencies.

Expert insight: MERICS research associate **Bertram Lang** gave a comprehensive interview on the topic to **Deutsche Welle News**.

EN: <https://www.ft.com/content/fab2de32-ce53-11e6-864f-20dcb35cede2>

## THE EUROPEAN DEBATE ON CHINA

### Chinese extradition requests create headache for Europe

The [arrest of more than 200 suspects in a Chinese phone scam ring in Spain](#) last December was a model of cross-border police cooperation. Spanish and Chinese authorities worked together to crack down on the transnational criminal network, which had defrauded citizens in Mainland China. But now the Spanish government is caught in a diplomatic dilemma. Based on the bilateral extradition treaty, China is demanding the extradition of all suspects, including of 40 who hold passports from Taiwan.

A growing number of European countries are entering similar agreements with China. Working with China is a necessity, especially in light of China's growing role as a hub for transnational crime, from drug and human trafficking to cybercrime. But the cooperation also creates challenges to international and European norms, according to a new [MERICS Monitor \(China's global law enforcement drive: The need for a European response\)](#).

China's justice system does not currently meet the international legal norms such as access to a fair trial, and China requests these extraditions without agreeing to judicial reforms and without granting foreign embassies reliable access to repatriated individuals in China. The report urges European countries to formulate a common response to these pressing questions to ensure that its treaties with China include the strongest possible safeguards and protections.

## NEWS IN BRIEF

### CHINA AND THE WORLD

- [China releases White Paper on activities in space](#)
- [China receives first advanced SU-35 fighters from Russia](#)
- [China's aircraft carrier conducts training operation in South China Sea](#)

### ECONOMY, FINANCE AND TECHNOLOGY

- [China's producer price records 5-year high in December](#)
- [China plans partial privatization of state-owned China Railway Corporation](#)

### SOCIETY AND THE MEDIA

- [CCTV launches global media network](#)
- [Beijing grants more than 220 residence permits to foreign technology experts](#)

## THE LATEST FROM MERICS

### Upcoming events

- 7 February 2017: **MERICS China Lounge** with James Kynge on China's Belt and Road initiative
- 25 to 28 April 2017: **MERICS European China Talent Program 2017** gathers post-graduates and young professionals for a three-day workshop in Berlin, apply by 7 February 2017.

### Job vacancies

- MERICS is looking for **full-time interns** contributing to MERICS research programs starting in April 2017.

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