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METRIX

731
million

Due to the abundant availability of internet-enabled smart phones, the number of internet users in China has increased to **731 million**. In 2016, the Chinese internet market gained 43 million internet users, which is equivalent to the whole population of Ukraine or Argentina.

TOPIC OF THE WEEK

China and Germany close ranks against U.S. protectionism



China and Germany seek closer collaboration to protect the international trade order against the threat of potentially protectionist U.S. trade policies under President Donald Trump. In a phone call on January 25, Prime Minister Li Keqiang and Chancellor Angela Merkel stated their commitment to the worldwide liberalization of trade and investment. **According to a German government statement**, both sides advocated for a speedy conclusion of negotiations on a Bilateral Investment Treaty, which have made slow progress since their initiation in 2014. Li accepted an invitation to visit Germany.

As the U.S. seems to retreat into economic nationalism, the rest of the world looks to China and Germany as the key anchors of the existing global economic order. The two large export nations stand to lose the most in trade confrontations with the U.S. Trump has vowed to bring manufacturing jobs back to the U.S. and has threatened to impose punitive tariffs on German and Chinese imports. Although his administration has not yet followed up with actions, politicians in Germany and China are highly alarmed.

China has reacted by presenting itself as a responsible leader in global economic policy. “China and Germany should send signals of stability to global markets,” **Li was quoted by the Xinhua News Agency** after his call with Merkel. In an **OpEd for Bloomberg Businessweek** on January 26, he called for “economic openness”, mirroring President Xi Jinping’s speech at the World Economic Forum in Davos and renewing Xi’s promise to open more sectors of the Chinese economy to foreign investors.

Partners like Germany are more important than ever for China, should the U.S. export market erode. For Berlin, this may present an opportunity to break the recent deadlock in its own economic relations with China, which were dominated by disputes over Chinese purchases of German technology and by German companies’ complaints over a lack of market access in China. **In his inauguration speech, Germany’s new foreign minister Sigmar Gabriel**, who previously headed the economics ministry, called to redefine the partnership with China on “new and fair” terms.

CHINA AND THE WORLD

Beijing is not ready to replace U.S. in TPP

U.S. President Donald Trump fulfilled his campaign pledge to withdraw the United States from the Trans-Pacific Partnership (TPP), a trade agreement with 11 other nations in the Asia Pacific region. Following Trump’s executive order of January 23, **acting U.S. Trade Representative Maria Pagan asked New Zealand to notify the other participating nations** that the U.S. “does not intend to become a party” to the TPP. The 12 nations had signed the trade pact on February 4, 2016. So far, only Japan has ratified the agreement.

The U.S. withdrawal removes the main pillar of the Obama administration’s policy of seeking closer cooperation with the Asia Pacific region (“pivot to Asia”, “rebalancing”). Washington’s retreat has now triggered speculations on China’s role in a future regional trade architecture. **Suggestions by Australia and Chile** that China should take the U.S.’ role in TPP were hyped in international media reports.

It is highly implausible that China will become a member of TPP. China has no interest in joining a new international agreement that was designed without its participation and that is based on cross-sectoral bargains between other major countries (such as Japan and the U.S.). The substance of the deal is not in line with Beijing’s priorities as China would be unable and unwilling to adhere to many of its provisions, among them rules on electronic commerce, competition policy, government procurement, state-owned enterprises, IPR protection, as well as environmental and labor standards. Also, other signatories like Japan, Canada and Singapore would reject a TPP without the U.S.

According to China’s foreign ministry, Beijing will continue to promote the Regional Comprehensive Economic Partnership (RCEP) and the Free Trade Area of the Asia-Pacific (FTAAP) as “alternatives to TPP.”

“Beijing will struggle to take on a more substantial leadership role in global trade affairs - for the same reasons that prevent it from joining TPP. Beyond relatively unambitious regional agreements, China's domestic reform backlog limits its capacity to shape the trajectory of globalization.”

Mikko Huotari, Head of Program Foreign Relations

Related MERICS analysis: [Read](#) the contribution of Research Fellow George G. Chen to a ChinaFile Conversation on TPP.

POLITICS, SOCIETY AND MEDIA

Internet censors shut down liberal economic website

China's censors have cracked down on the website of a famous liberal economic think tank in an apparent attempt to silence critical voices ahead of the National People's Congress in March and the 19th Party Congress this fall. The website of the independent Unirule Institute of Economics (天则经济研究所) was [one of 17 sites](#) that were shut down by the Beijing Internet Information Office on January 21. The social media account of the institute's founder Mao Yushi (茅于軾), winner of the 2012 Milton Friedman Prize for Advancing Liberty, was taken down as well.

According to [official explanations](#), the websites' licenses were revoked because they had allegedly published pornographic content and false news. But at least in the case of the independent think tank and its founder this appears to be a formal pretext.

The site was shut down two days after Mao Yushi had criticized the President of the Supreme People's Court, Zhou Qiang, for rejecting judicial independence as a “flawed Western concept.” Mao had also published a critical commentary on President Xi Jinping's speech at the World Economic Forum in Davos.

The Unirule Institute is one of the few remaining independent think tanks in China after many of them had been closed over the past two years. The institute was one of only nine Chinese organizations in the University of Pennsylvania's annual [Global Go To Think Tank Index Report](#). Even China's official [People's Daily](#) had reported on the ranking.

Party members told to counter “Western ideology” in private chatrooms

Members of China’s Communist Party are expected to promote party line as private citizens. The Xinhua News Agency published [guidelines for party members and cadres on using WeChat](#) on January 22 that were compiled by a party activist and picked up by "People's Daily". In this text, private circles of friends on WeChat are declared as part of the “public space.” Party members are encouraged to “employ their red beliefs as weapons to counter the diffusion of Western ideology,” to push back against “negative” and “black” energy and to educate their friends accordingly.

The article refers to revised rules for prosecuting violations of party discipline in early 2016. These rules banned cadres from criticizing the party center. Up until now, at least in theory, censorship was limited to public debates and did not extend to chats among private friends. The fact that the party activist's article was picked up by party-state media like Xinhua and "People's Daily" can be interpreted as a hint that the CPC is increasingly paying attention and trying to control what is happening in private chatrooms like WeChat.

(This article was updated on July 4, 2017. New: guidelines for WeChat use were compiled by a party activist.)

China creates new commission for advancing civil-military integration



As part of China's military modernization plans, the Politburo has decided to set up a **new Central Commission for Integrated Military and Civilian Development** (中央军民融合发展委员会). The new body will be headed by Xi Jinping.

The Chinese leadership views civil-military integration (CMI) as decisive for augmenting the capabilities of the People's Liberation Army (PLA). Exploiting cutting-edge technologies, like artificial intelligence, robotics, big data and nanotechnology, is crucial for modern warfare. The new commission is expected to facilitate the transfer of innovative developments from technology companies like Tencent or Alibaba or from leading national research institutes.

The aim of advancing CMI in China dates back to the 1980s, but has only been partially achieved so far. The new commission is modelled on similar bodies that were created to steer economic policy and national security policy. The hope behind this is that a central coordinating body under direct leadership by the general secretary can help break gridlock and bypass vested interests.

Antibiotic resistant bacteria in Chinese hospitals show need for tougher regulation

Antibiotics resistance appears to be on the rise in China, according to a study published by **The Lancet**. Research on patients with gut infections in two hospitals in Zhejiang and Guangdong province showed that one percent of the bacteria samples were resistant to colistin, an antibiotic that is considered the "last option" if other antibiotics fail. The researchers examined more than 17,000 samples over eight years.

China is the world's biggest producer and user of antibiotics, and over-prescription in hospitals has been an issue for many years. The antibiotic colistin has been widely used in agricultural industry to speed up animal growth. While it is usually not used in human medicine because of its severe side effects, the Lancet study serves as evidence that overuse in animals can spread to people.

According to a report in **Xinhua Net**, China is working on a law to better regulate the distribution and use of medicines. The use of Colistin as a growth promoter in animal breeding was recently banned in China. In other parts of the world, including Europe, its use in animals is still permitted.

News in brief

- **China briefs over 100 foreign envoys** on anti-graft work
- **Hearing in case against pro-democracy** Hong Kong lawmakers postponed to March
- **EU urges China to investigate reports** of torture of lawyers
- **Birth rates are rising in China** - but not fast enough to prevent demographic crisis
- **Women's rights activist faces harassment** after Oscar nomination for documentary about her work

ECONOMY, FINANCE, TECHNOLOGY

Ministry of Industry cracks down on VPN providers

China-based Internet service providers have to brace for stricter government regulation. On January 22, **China's Ministry of Industry and Technology (MIIT) announced a series of changes** between now and March 2018, which will force all telecommunication providers to register with the government before setting up or renting out VPN lines.

These Virtual Private Networks route users to foreign servers, where they can access foreign news or social media sites that are blocked in China. It is to be expected that many Chinese VPN providers will not be approved under the new regulations – further limiting access to online information in China.

It is unclear if the new limitations will apply to foreign VPN providers and how they will **impact foreign companies in China**. An **MIIT official was quoted in the Global Times** as saying that “some multinational companies in China such as Microsoft Corp have a reasonable need to communicate with their headquarters overseas via VPNs.” Internet controls have successively tightened under Xi Jinping. In November 2016, China passed its cybersecurity law, which will take effect this June.

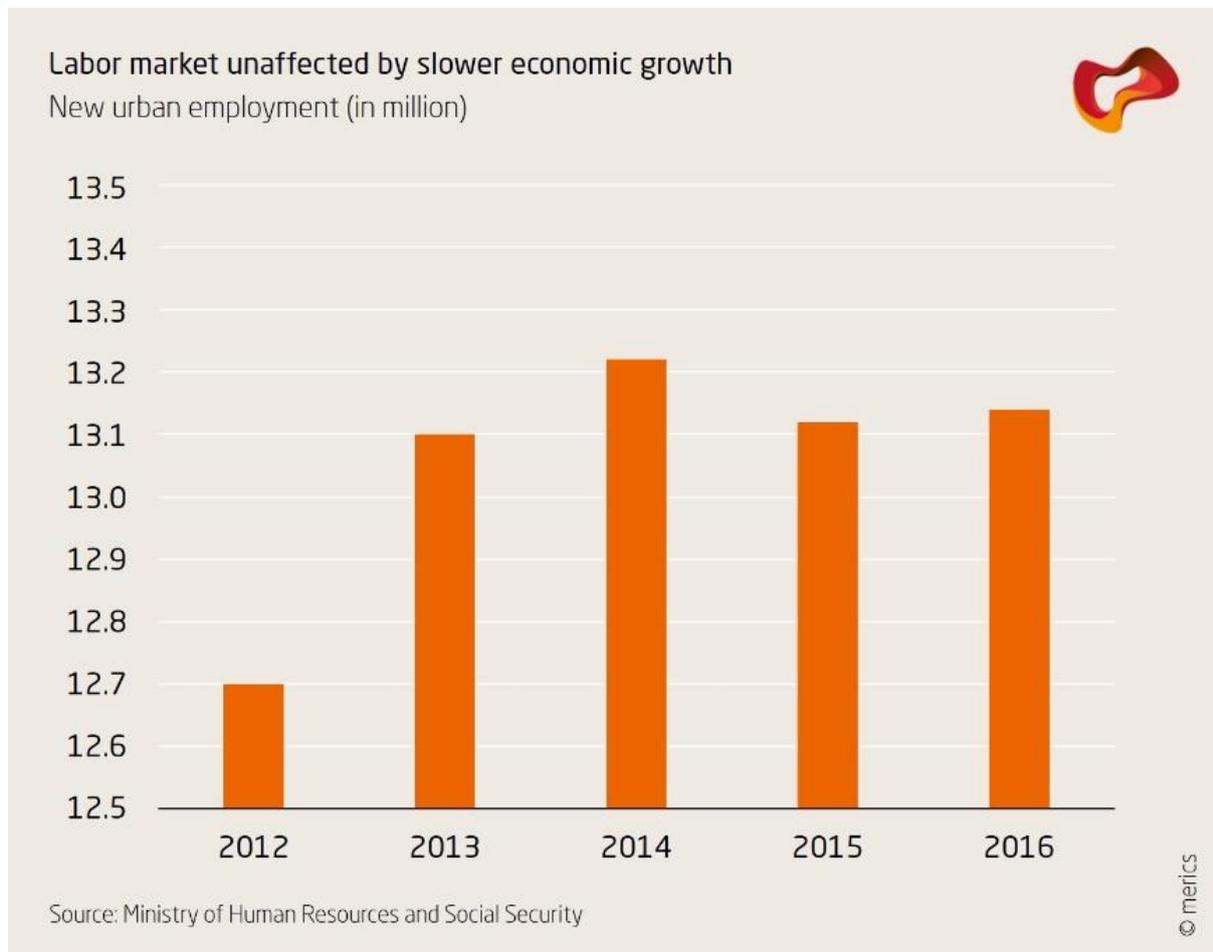
Related MERICS analysis: Research Associate Nabil Alsabah analyzed the law's content and potential effects in a **China Flash**.

Urban employment rises despite slower economic growth - for now

Employment in Chinese cities has risen at a comfortable pace despite slower economic growth. **13.14 million new urban jobs were created in 2016**, exceeding the government's target of 10 million. The number was slightly higher than in 2015, when 13.12 million new jobs had been created.

Last year's high growth rate largely appears to be the result of a record number of new business registrations, mostly in the e-commerce sector - buffering the downside pressure in the manufacturing sector where restructuring is leading to mass layoffs.

The government is likely to step up efforts to keep unemployment steady in 2017 as downward pressure on employment is increasing. China's business confidence index PMI suggests continuing weak demand for labor both in manufacturing and services. This downward trend will push down wage growth and eventually affect consumption. At the same time, an estimated 7.95 million university graduates will enter the workforce in 2017 - compared to only 7.65 million in 2016.



News in brief

- **International use of CNY down:** Value of international yuan payments fell 29.5 per cent in 2016
- **New EU tariffs on steel** from China and Taiwan
- **National Bureau of Statistics to cut reliance** on provincial statistics in wake of Liaoning fraud case

THE EUROPEAN DEBATE ON CHINA

European policymakers have started to take stock of the changing playing field for global trade under the new U.S. president Donald Trump. With both the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) in shambles, the EU's bilateral efforts in Asia are the only venue for promoting high regulatory standards in international trade negotiations.

EU Trade Commissioner Cecilia Malmström wasted no time to send positive signals to China in the hope of reviving stalled talks on a bilateral investment agreement. A deal with the EU has the potential to move to the top of Beijing's priority list after the souring of US-China relations, and European governments should take up China on its recent free trade rhetoric to push for improved market access.

Europe could also use the opening created by the U.S. retreat to bolster its position in Asia through agreements with like-minded countries. There are already promising signs for stronger cooperation between Asian TPP states and the EU. Asian states intent on reducing their economic dependence on China are now looking to Europe.

For more on this topic, please read the latest [MERICS blogpost](#) by Thomas Eder.

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