



Number 9/2017 (April 28 - Mai 11, 2017)

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METRIX

**3,300
per cent**

According to **data published** by the payment and compliance technology company Accuity, the number of so-called "correspondent" or bank-to-bank relationships operated by Chinese banks surged more than 3,300 percent. The huge jump from 65 in 2009 to 2,246 in 2016 underscores the speed at which Chinese lenders are globalizing to support Chinese companies in their growing overseas activities.

TOPIC OF THE WEEK: BELT AND ROAD FORUM

China rallies international leaders around flagship project

The "[Belt and Road Forum for International Cooperation](#)" in Beijing is meant to demonstrate China's resolve to assume a constructive global leadership role and to shape international relations on the basis of its own visions. By hosting 28 heads of state and government on May 14 and 15, the Xi Jinping leadership suggests that China might be willing to let others weigh in on the future design of its flagship foreign policy project. The project which has also been labelled the "New Silk Road," aims to build trade and infrastructure corridors to connect China to South and South East Asia, Africa, the Middle East and Europe.

The eclectic guest list includes the presidents of Russia and Turkey, Vladimir Putin and Recep Tayyip Erdogan, alongside the prime ministers of Spain, Italy and Poland. Other EU member states will send senior government officials.

The purpose of the meeting will be to define a framework for cross-border cooperation on projects related to the "Belt and Road Initiative" (BRI) and to lay down rules of governance. [European stakeholders in particular](#) hope to discuss the socioeconomic and geostrategic implications of these projects. Many of China's investments in Central Asia and Eastern Europe have raised concerns over issues of transparency and sustainability.

[UN Secretary-General António Guterres expressed high hopes](#) for the forum's role in finding new approaches to global development and international integration. Talking to Chinese media outlets prior to his departure for Beijing, he echoed President Xi Jinping's defense of globalization at this year's World Economic Forum in Davos by saying: "We need initiatives of international solidarity to make people believe that there is a better globalization, to make people believe that free trade can meet the benefit of all."

It remains to be seen to what extent China is truly willing to multilateralize its attempt to build a multi-regional integration project from scratch. China has reportedly not sought outside input in preparing the first draft of the summit's communiqué. But the experience with last year's G20 summit in Hangzhou, showed that China was willing to accept feedback in a multilateral setting.

The forum may well result in the further institutionalization of the initiative that especially European governments would like to see. But participants should also bear in mind who is in charge. "China is the leading voice in 'One Belt, One Road,'" [State Councilor Yang Jiechi was quoted in People's Daily](#). "However, this is not a solo act, but a symphony of many countries."

MERICS analysis: "[Belt and Road Forum: China's global leadership experiment](#)" – blogpost by Jan Gaspers

Related research: "[Europe and China's New Silk Roads](#)" – A Report by the European Think-tank Network on China (2016) with contributions by MERICS experts

CHINA AND THE WORLD

Germany remains prime target for strategic Chinese investors

Germany remains a prime target for Chinese investors. A number of high-profile deals in recent weeks show that strategic investments into key industries remain unaffected from tightened controls for capital outflow. The trend seems to indicate a focus on quality instead of quantity of investments in the future.

The world's largest auto part supplier **Bosch announced that it would sell its generator and starter business** to Zhengzhou Coal Mining Machinery Group Co. (ZMJ). The deal's value was not disclosed but is estimated at more than 500 million USD. The purchase appears to be in line with Chinese companies attempts to upgrade the level of their manufacturing capabilities through technological acquisitions abroad.

In another announcement, Beijing WKW Automotive Parts Co. made the news with its plans for a green-field investment in Germany. The company plans to spend 1.13 bn EUR (1.24 bn USD) on **building a factory for e-vehicles** in the Eastern German state of Saxony.

The Chinese conglomerate HNA Group remains one of the most active investors abroad. Following its purchase of Hahn Airport, HNA has reportedly also **raised its stake in Deutsche Bank** from a previously estimated three percent to 9.9 percent, making it the financial institution's biggest shareholder.

The dramatic increase of Chinese direct investment in Germany triggered an intense political debate over the sell-out of sensitive technologies in 2016, especially following the sale of German robot maker Kuka to China's Midea Group in 2016. In China, the global buying spree raised concerns over unhealthy levels of capital outflow, which the government has reined in through increased capital controls and stricter scrutiny of investment activities.

The restrictions however, are most likely to affect vanity investments into prestigious real estate projects or sports clubs. Strategic investments abroad in industries seen as vital to China's economic transformation can be expected to continue.

MERICS analysis: Chinese investment in Europe: record flows and growing imbalances, Joint Report by MERICS and Rhodium Group

"Four reasons why Chinese acquisitions in Germany are likely to remain strong" – blogpost by MERICS Senior Policy Fellow Marc Szepan

Thousands of Uighurs fight in the Syrian war – for other groups than ISIS

Syria's ambassador to China has told Reuters that up to 5,000 ethnic Uighurs from Xinjiang are fighting in Syria. While some had been recruited by the Islamic State (ISIS), he claimed that most were fighting "under their own banner," suggesting a connection between their activities and their separatist agenda at home. "China as well as every other country should be extremely concerned," the ambassador, **Imad**

Moustapha, said on the sidelines of a business forum in Beijing with the aim to woo Chinese investment back to Syria.

The comments reinforce the Chinese government's perception of a global terrorist threat emanating from its restive Western province. Beijing has blamed violence at home and against Chinese targets around the world on Islamic militants with foreign connections. The Syrian government seems keen to use this threat scenario to align itself with China. In an interview with Hong Kong-based **Phoenix Television** in March, President Bashar al-Assad praised the "crucial cooperation" between Syria and Chinese intelligence against Uighur militants. In his comments to Reuters, the Syrian ambassador to Beijing praised Chinese counter-terrorism efforts as superior to Western governments' policies.

The Syrian numbers are fairly consistent with estimates by various other sources. The sources agree that large numbers of Chinese fighters are engaged in militant groups other than the Islamic State. According to Rami Abdurrahman, who heads the UK-based Syrian Observatory for Human Rights, **the majority of an estimated 5,000 Chinese fighters in Syria** are aligned with the Turkestan Islamic Party (TIP) in the country's north. A **report by the Israeli Foreign Ministry**, which contains material from military intelligence and the Mossad, stated that 3,000 Uyghurs are fighting with Jabhat Fateh al-Sham, the al-Qaeda branch in Syria (formerly known as the al-Nusra Front).

News in brief

- „Belt and Road“: **China seeks up to 85 percent stake in strategic port in Myanmar**
- Signal to North Korea: **China tests new missile in Bohai Sea**
- African engagement: **China doubled its investment on the continent in 2016 as US and UK fell**
- World tour: **China's navy visits more than 20 countries linked to “Belt and Road” trade initiative**
- Capital controls: **Macau monitors ATM withdrawals, raids casinos as top official visits**

POLITICS, SOCIETY AND MEDIA

China takes on Wikipedia with gigantic online reference project

China has tasked more than 20,000 scholars from universities and research institutes with writing the entries for an **internet version of the Chinese Encyclopedia (中国大百科全书)**, which is scheduled to go online next year. With more than 300,000 entries in more than 100 disciplines, the reference work will be twice as large as the Encyclopedia Britannica.

The mega project is in line with the Chinese leadership's attempts to control the public discourse on history, politics and current events. “The Chinese Encyclopedia is not a book, but a Great Wall of culture,” the project's editor-in-chief Yang Muzhi told a meeting at the Chinese Academy of Sciences. He had earlier stated that the project's goal was to “overtake” Wikipedia.

The freely and collectively edited online platform **Wikipedia is only partially accessible** in China today. 91 percent of its Chinese-language content is blocked. The officially sanctioned “Chinese Encyclopedia” was first published in 1993, but has not been updated since 2009. In 2011, the State Council approved the plan to compile an updated version online.

China aims for globally competitive culture sector – while increasing censorship

The Chinese leadership aims to increase the competitiveness of China’s media and entertainment sector. According to a blueprint of the **13th “Five-year plan for cultural reform and development,”** which was published by the Communist Party and the State Council on May 7, the state will help to groom **cultural enterprises with high market share and strong brands.** “Several of them should strive to be among the top in the industry globally by 2020,” the document said.

The plan is to create “national champions” by way of mergers and reorganization of state-owned institutions, by attracting private capital, and by supporting innovations that will result in the creation of an “internet-based cultural market.”

With this level of support, China’s culture industry may well be able to become a “pillar of the national economy,” but it may struggle to gain international recognition, as it will be subject to even stricter censorship. According to **new regulations issued by China’s Cyberspace Administration** on May 2, online platforms will only be allowed to disseminate news if they have a special license. **These new rules, which will enter into force on June 1,** will not only apply to traditional news media, but will include “websites, applications, forums, blogs, microblogs, public accounts, instant messaging tools and internet broadcasts.”

CCP works on completing Xi Jinping’s political theory before Party Congress

The Communist Party is working on **completing Xi Jinping’s political philosophy,** raising expectations that his ideological contributions will be enshrined in the party constitution at the 19th Party Congress this fall. According to Li Zhanshu, who heads the General Office of the Central Committee, Xi’s system of thought was “basically complete.” Li had delivered the message in an internal speech that was now made public on the social media account of the overseas edition of “People’s Daily” as well as **on the website of Qiushi Journal,** an official mouthpiece of the CCP Central Committee. He referred to a series of important speeches by Xi, which covered a range of issues from the economy and the political system to security and military issues.

Should Xi Jinping’s contributions to CCP ideology be incorporated in the party constitution, this would significantly elevate his status as a leader. Each leader or generation of leaders has had their ideas enshrined in the Party Constitution alongside Marxism-Leninism, but while Mao Zedong’s and Deng Xiaoping’s contributions were named after them (“Mao Zedong Thought” and “Deng Xiaoping Theory”), Jiang Zemin’s and Hu Jintao’s contributions were called the “Important Thought of ‘Three Represents’” and “Scientific Development Outlook.” Li’s reference to “important speeches by Xi Jinping” could be an indication that Xi’s theory will be named after him. This would make him the first leader after Deng whose

name is added in the party constitution – and the first leader since Mao who receives this honor during his lifetime.

Private think tanks told to serve the CCP

Privately run think tanks in China will come under stricter control by the Communist Party. New **guidelines issues by nine ministerial agencies** stipulate that think tank's activities must serve the goals of the CCP and the government.

The guidelines introduce a “dual management system.” This means that think tanks will have to register with the respective provincial civil affairs department and with the agency overseeing the respective institute specialist area. Think tanks will be required to report major business activities including publicity campaigns and to register big events and foreign donations. They will have to ask for permission if they want to do business with foreign counterparts. In case of non-compliance, they face the risk of being shut down.

At the same time, however, think tanks are called upon to participate in exchanges with foreign organizations with the aim to increase the international visibility of Chinese institutions.

The sector has experienced a boom in China after President Xi Jinping had called for the development of “**new types of think tanks with Chinese characteristics**” two years ago. With 435 registered think tanks by the end of last year, China ranks second only to the U.S. Yet Chinese think tanks lag behind their U.S. and European competitors when it comes to the quality of research and international recognition.

News in brief

- Analyzing an unstable region: **Party sets up special bureau for Xinjiang**
- Call for release: **UN criticizes China for sustained crackdown of human rights lawyers**
- Upgrade for Xi Jinping's former workplace: **County of Zhengding wants to become „state-level new district“**

ECONOMY, FINANCE AND TECHNOLOGY

China's first big jetliner takes to the skies

China's first large-size domestically made passenger aircraft has **completed its maiden flight** in Shanghai on Friday, May 5. The C919 was developed by the state-owned Commercial Aircraft Corporation of China (Comac) over the past eight years. The single-aisle, twin engine plane with up to 168 seats and a range between 4,075 and 5,555 kilometers is designed as the Chinese equivalent of the Airbus A320 and of Boeing's 737.

Chinese media reports celebrated the event as a “historic breakthrough.” For China, building its own big commercial airliner is a key symbol of its capability to catch up technologically and to become a serious competitor on a high-value global market dominated by western players.

China’s aim is to first reach self-sufficiency on the domestic aviation market, and to ultimately compete with Europe’s Airbus and the U.S.’s Boeing. According to a **market forecast by Boeing**, the Chinese market will need nearly 7,000 new aircraft valued at 1 trillion USD over the next 20 years (2016 - 2035), 75 percent of which will be single-aisle passenger planes like the C919.

The C919 will still need several years of further testing before it can be produced and delivered to airlines. But Comac already has 570 orders for C919s, mostly by China’s state-owned airlines. Europe’s aviation safety regulator has started the certification process for the plane. The Chinese manufacturer might attract international customers with its price advantage: the C919 is around 50 million USD cheaper than Boeing’s and Airbus’ models.

Many analyst are however skeptical that the new competitor will make serious inroads into the fiercely competitive aviation market in the medium term. It is also unclear if China will be able to meet the goal laid down in its industrial plan “Made in China 2025,” according to which ten percent of its passenger jets would have to be domestically produced by 2025.

Even the China-made C919 still relies heavily on foreign technology. The engine is produced by CFM International (French-U.S. joint venture of Safran Snecma and General Electric). Key subsystems such as wheels and brakes, flight control electronics and auxiliary power units are from **U.S. Honeywell Aerospace**.

MERICS analysis: “The C919 is seen as a first step in a decades-long project to erode the Boeing and Airbus duopoly,” **MERICS’ Head of Program Economy and Technology Jost Wübbeke told the Wall Street Journal**. “Westerners often underestimate China’s top-down approach. It wastes resources, but it also produces results.”

Industrial profits rebound due to strong performance by SOEs

Industrial profits in China grew 28.3 percent in the first quarter. The rebound corresponds with stronger demand amid better than expected GDP growth. A recovery of the Producer Price Index (PPI), including commodity prices, also contributed to better profit development at companies.

An overly positive interpretation would however be misleading. Profit growth will likely cool down as **economic growth and the PPI are expected to rise more slowly** in coming months. The recovery also cannot disguise structural problems and inefficiencies at China’s SOEs, which were the main driver for the rebound. Stronger SOE profit growth may even make it more difficult to press on with reforms and reduce overcapacities.

In addition, the data suggesting a strong recovery of profit growth of SOEs from a weak base in 2016 is less convincing than it seems at first glance. The breakdown of the profit growth shows a significant gap between overall profit growth (70.5 percent) and growth from principal business activities (18.0 percent)

of state-owned companies. The discrepancy may have been caused by a statistical break (e.g. a new method of statistical accounting) or by investment activities outside of the companies' core business. The latter would be a worrying development, as it would increase risk exposure.

In contrast, profits of private enterprises rose at a slower pace. Overall profits and profits from principal business activities grew by 15.9 percent and 12.8 percent respectively, indicating a more balanced development.



News in brief

- Focus on Chinese tourists: **Internet giant Tencent extends WeChat Pay to the U.S.**
- Troubled debt market: **China's defaulted Dongbei Steel owes banks USD 6.4 billion in credit**
- Decrease in industrial production: **China's purchasing managers index (PMI) drops to 51.2 Percent in April**
- Goodbye to easy money: **China's central bank puts squeeze on liquidity**

THE EUROPEAN VIEW

New EU anti-dumping rules signal compromise to China

New EU anti-dumping rules could help defuse a longstanding conflict over China's demand to be recognized as a market economy. On May 3, all EU member states agreed on a **new methodology to assess market distortions in third countries**, which would allow bypassing the distinction between market economies and non-market economies under WTO law. EU trade ministers still have to formally pass the compromise on May 11.

December 2016 marked the end of a 15-year long transition period after China's WTO accession, after which the country would have to gain the status of a full market economy. The EU's refusal to explicitly grant China that status had triggered a fierce dispute with Beijing.

The European Commission had suggested the compromise solution as early as July 2016. At the same time, it also recommended tightening the methodology for anti-dumping investigations in general. The **European Council has repeatedly postponed a decision** on this proposal due to Italy's concerns that the new rules were too lenient on China.

In the future, the EU will levy anti-dumping duties only on the basis of verified market distortions, such as subsidized energy prices in the exporting nation. It remains to be seen if the European solution will pass the scrutiny of the WTO where China has already lodged a complaint.

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