



Issue 13/2017 (June 30 – July 13, 2017)

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## METRIX

**10**  
percent

Governmental agencies in China have issued an ambitious **directive** on the country’s future energy mix: By 2020, natural gas is set to account for around ten percent of the country’s total energy consumption. In 2015, natural gas made up only 5.9 percent of China’s total energy pie, coal still reaches a share of more than 60 percent.

## TOPIC OF THE WEEK: CHINA AT THE G20 SUMMIT



Group photo of the heads of state and government at the G20 Summit just before the first working session. Source: Bundesregierung/Bergmann

### Xi plays constructive role at G20 meeting – and keeps his head down

China has weathered the diplomatic turbulences at the G20 summit by presenting itself as a calm and reliable member of the international community. In his address to the summit, President Xi Jinping stressed the need to build “bridges of cooperation.” Xi had prepared the ground with state visits to Moscow and Berlin before the summit.

In Hamburg, Xi supported the agenda of his German hosts. China gave unequivocal support to the summit’s **final statement**, which contained a hard-won compromise with the United States on the importance of fair and free global trade and stated the differences between the 19 other countries and the United States on the necessity to combat climate change through the Paris Agreement. With an emphasis on the themes connectivity, financial stability and sustainability, the statement built on the agenda of last year’s summit, which China had hosted in Hangzhou.

Xi may have benefited from the fact that the summit was dominated by transatlantic discord and by coverage of the United States’ self-imposed isolation. This allowed him to keep a low profile on **sensitive**

issues that could have harmed China's image at the summit. News about China's dispute with the United States over North Korea and about its border disputes with India had dominated the international news before the summit, along with China's treatment of the dying human rights lawyer and Nobel Peace laureate Liu Xiaobo.

In his bilateral meetings, Xi also steered away from confrontation. He emphasized China's willingness to cooperate on trade issues in his meeting with US President Donald Trump, and both sides tried to downplay reports about bilateral friction over North Korea. Xi decided against a bilateral meeting with India's Prime Minister Narendra Modi.

### China's media struggle to explain riots in Hamburg

As to be expected, China's party-state media praised Xi Jinping's G20 performance and his bilateral meetings at the sidelines of the summit. But they also covered the heavy riots in Hamburg that overshadowed the summit. In their reports, China's official media strove for objectivity and avoided harsh criticism of the demonstrators.

Some articles described the security precautions as weak compared to the previous year's summit in China, where the city of Hangzhou had forced some residents to temporarily leave their apartments while the summit was taking place. Some authors gave detailed accounts of the damage in the streets, comparing Hamburg to a "war zone." Xinhua News quoted the German tabloid "Bild" with the assessment that the chaos would damage Germany's global image.

Some private commercial media organizations attempted to analyze the demonstrators' motivation. At least one outlet interviewed opponents of globalization and tried to present a nuanced image of the protesters.

## CHINA AND THE WORLD

### China and Russia propose de-escalation plan for North Korea

Underlining his reluctance to work with the United States on North Korea, China's President Xi Jinping has joined diplomatic forces with Russian President Vladimir Putin. During Xi's state visit to Moscow, both countries released a de-escalation plan on July 4.

Earlier that day, North Korea had successfully launched an intercontinental ballistic missile for the first time. North Korea had chosen the symbolic date of the American Independence Day holiday to test this long-range missile, which could reach as far as Alaska or Hawaii. But according to experts, North Korea still lacks the capability to attach a nuclear warhead to the missile.

The Sino-Russian proposal calls for North Korea to freeze its missile tests and for South Korea and the United States to halt their joint military exercises in the region. China and Russia are both opposed to the installation of the US-South Korean missile defense system in South Korea.

The statement was remarkable because China and Russia formulated concrete demands to the other parties in the North Korea conflict. In contrast, the meeting between Xi and US President Donald Trump on the sidelines of the G20 summit yielded no concrete results on North Korea.

In the United States, regional experts fear that a tightening of Sino-Russian cooperation would **complicate US efforts to increase pressure** on North Korea. Some commentators warn that the **lack of a coherent North Korea policy by the Trump administration** is drawing China and Russia closer together. During an interview with Russian media ahead of his visit, Xi said that bilateral relations were **“at their best time in history.”**

**MERICS analysis:** **“Trump plays dangerous game by pressuring China on North Korea,”** a MERICS blogpost by Yuan Jingdong.

#### News in brief

- **Military base takes shape:** China deploys first soldiers to Djibouti
- **War of words:** India criticizes Chinese road building project in border region
- **Testing operation:** Chinese-built dam in Cambodia to start electricity production

## POLITICS, SOCIETY AND MEDIA

### Nobel Peace Prize laureate Liu Xiaobo dies of liver cancer at 61

Chinese dissident Liu Xiaobo died of liver cancer in a hospital on July 13, Shenyang justice authorities announced in a **statement**. Over the past days, his state had deteriorated despite “intense medical efforts,” and Liu had to be transferred to the intensive care unit. According to the statement, the Nobel Peace Prize laureate died of **multiple organ failure**.

Liu Xiaobo was imprisoned soon after the Beijing Olympics in 2008. He was given an eleven-year jail term for “subversion.” Liu co-authored a manifesto called “Charter '08,” which advocated more democracy in China. Liu had been moved from prison to the hospital last month with terminal liver cancer.

Liu had expressed the wish to be transferred abroad for further treatment, but the Chinese authorities refuse to let him go. Last weekend, two cancer specialists from Germany and the US were permitted to examine the prisoner. After the visit, videos and audios of the doctors talking to Liu in hospital were posted online. As a result, the German embassy issued **a statement** on its website accusing China of recording the visit against the “expressed wishes of the German side.” The unusually harsh statement denounced a breach of doctor-patient confidentiality by “certain authorities.”

The German accusations were rebuked by Chinese party-state media. The **Global Times** described Western appeals to have Liu transferred overseas for treatment as “hypocritical” and accused the Western forces of “politicizing Liu’s cancer treatment.” Liu is the first Nobel laureate **to die in state custody since Carl von Ossietzky**. The German pacifist died under guard during the Nazi period in 1938.

## German-Chinese soccer cooperation progresses - but not always smoothly



Der chinesische Staatspräsident Xi Jinping und Bundeskanzlerin Angela Merkel besuchen das deutsch-chinesische Fußball-Sommercamp am 5. Juni 2017 im Stadion am Wurfplatz in Berlin. Quelle: Oliver Hardt/Getty Images

Angela Merkel and Xi Jinping's joint attendance of a **soccer match between German and Chinese youth teams** was one of the visual highlights of the Chinese president's state visit to Berlin from on July 5 and 6 – rivaled only by the presentation of the two pandas, which Beijing loaned to the Berlin zoo. The event was also attended by Germany's national team coach Joachim Löw and other prominent German soccer managers.

Germany and China agreed to deepen their cooperation on the training of coaches and referees, on youth training and exchanges of professional players over the next five years – building on an **agreement signed by both governments** last November.

The images showed Merkel and Xi smiling and in a good mood. Both leaders are known to be fervent soccer fans. For China, soccer is one of the issues that can help promote a softer image of China abroad.

But not all is well in the Sino-German world. The decision to let China's 2022 Olympic team **participate out of competition** in the fourth division of Germany's south-western regional soccer division, has drawn **criticism from soccer teams and fans in Germany** for its lack of transparency. According to a compromise proposed by the German soccer association (DFB), the Chinese team will only play against 15 out of

19 German teams in the league starting in November – and the German teams would receive a **compensation of 15,000 euros** whenever they play against the Chinese team on an otherwise free day.

### **Chinese regulators ban wide range of online content**

In the latest tightening of control over the media and the internet, China's national trade association for online broadcasting has **published a list of banned online content**. The regulations, which the government-affiliated China Netcasting Services Association issued on June 30, stipulate that all audiovisual content published online will have adhere to "core socialist values." The list of banned content ranges from homosexuality and "provocative kissing" to drug addiction and the defamation of national heroes.

**Human rights groups have criticized the move** as further limiting the freedom of speech and as violating the rights of sexual minorities. **Filmmakers, bloggers and educators across China** now fear that their sites will be shut down amid the crackdown on what Beijing considers inappropriate content. The regulations cover all original online audiovisual content, including web series, cartoons, and documentaries.

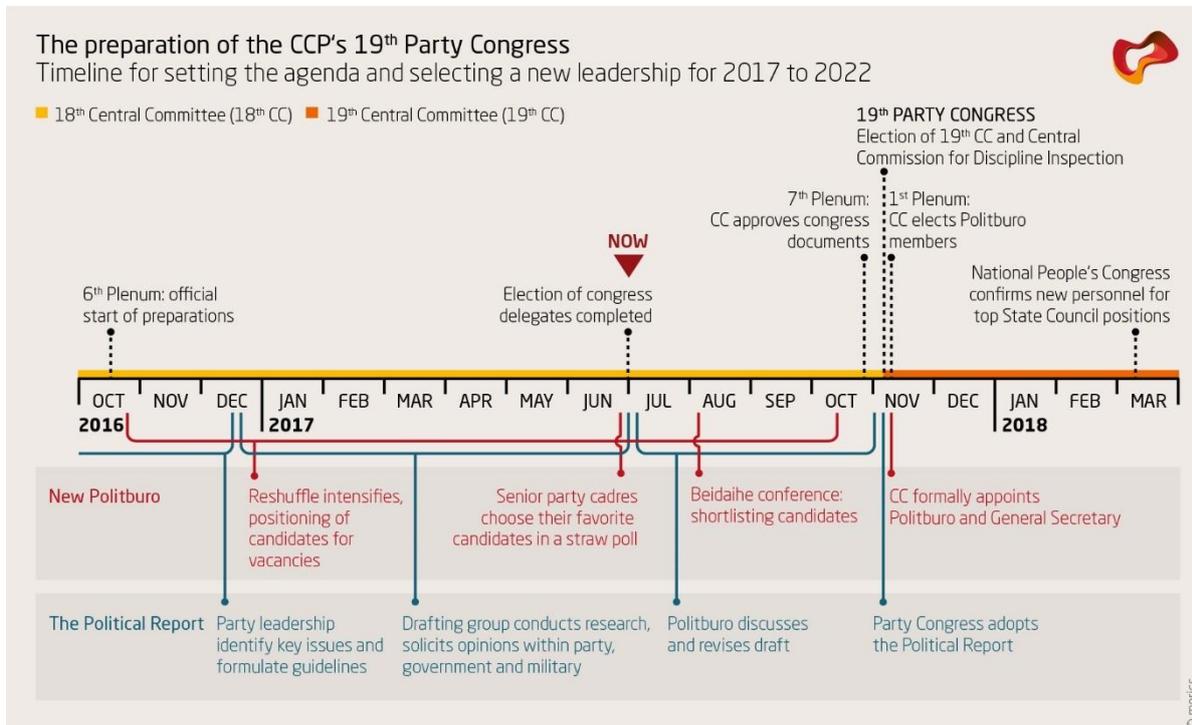
Over the past month, authorities have increasingly gone after the non-political but highly popular content in the online entertainment sector. A number of regulations limit what people can post and stream online, and China's big internet firms were ordered to close the social media accounts of close to 60 celebrities.

**MERICs analysis:** China Monitor by Nabil Alsabah on "**Information control 2.0: The Cyberspace Administration of China tames the internet**"

### **Delegates for 19<sup>th</sup> Party Congress are selected**

The exact date for this fall's 19<sup>th</sup> Congress of China's Communist Party (CCP) has yet to be announced, but the delegates to the event have been selected. According to a report by the party-state-led Xinhua News Agency, all 40 electoral units across the country released their lists of names at a conference on June 28. The Communist Party **published the majority of names** of the 2,300 delegates on its website on July 10.

The Congress is formally the highest decision-making organ of the CCP. The delegates will elect a new Central Committee. They will also vote on the political strategy of state and party leader Xi Jinping for the next five years, which is currently being hashed out by the Politburo, the Central Committee's executive organ. Work is also underway on a list of candidates to move up to the next Politburo.



## News in brief

- **Widening wealth gap:** Income inequality on the rise in China
- **Tight control:** Personal VPNs to be blocked by February 2018
- **One hour only:** Tencent restricts access to popular online game for children under twelve
- **Propaganda first:** Chinese cinemas ordered to play government video message before film
- **Investigation:** UN to look into arrest of Taiwan NGO worker in China
- **Anniversary of crackdown:** Overseas NGOs announce inauguration of China Human Rights Lawyers' Day

## ECONOMY, FINANCE AND TECHNOLOGY

### China opens new industries to foreign investment

Following on Xi Jinping's promise to improve market access for foreign companies in China, China has removed restrictions on foreign investment in a number of industries, while leaving them in place in many others. The 2017 Foreign Investment Catalogue (外商投资产业指导目录) reduces the number of restrictions from 93 to 63 compared to the 2015 version. The document **was released on June 28** by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) and will enter into force on July 28.

The changes illustrate China's efforts to steer investment into sectors and technologies, in which China needs foreign support. At the same time, the new list does not take into account calls of the international business community for access to a number of key industries.

**Restrictions have been lifted** in the service sector, among them highway passenger transport services, ocean shipping, credit investigation and rating, accounting and auditing and oil and gas exploration. The catalogue also increases access to the manufacturing sector, for example by lifting investment restrictions for a range of food processing industries as well as for the manufacture of rail transport equipment or e-car batteries.

For the first time, the **catalogue** abolishes the requirement to establish a joint venture with a Chinese partner for the manufacturing of motorcycles. International car manufacturers will be allowed to establish more than two joint ventures for producing e-cars with Chinese partners. Volkswagen has already been able to do this when it added JAC iEV as its third Chinese partner in addition to FAW and SAIC Motor. The new list openly encourages and offers subsidies for investment in emerging technologies like 3D printing or virtual reality.

The Chinese government wants to keep the Chinese market attractive for foreign investors in times of rising wages and real estate prices. But the changes are not as wide-ranging as suggested by China's authorities. Many sectors that are of interest for international companies remain on the "negative list," in which investment is either prohibited or limited. Among them are financial services, healthcare, telecommunications and aviation.

Foreign investors will see real change in 19 out of 30 sectors, in which restrictions were lifted. The other 11 sectors are still listed in another, more general negative list, that applies to foreign as well as Chinese companies.

### **Dim prospects for Chinese tech company LeEco**

The business activities of China's tech giant LeEco have ground to a halt as the company struggles with an acute cash shortage. The founder Jia Yueting is **no longer the company's legal representative**. He also **stepped down from all his positions** at the publicly listed Leshi Internet and other subsidiaries after the **High Court in Shanghai had frozen 1.24 billion CNY** (183 million USD) of assets owned by the company and by Jia and his wife because of missed loan payments. The freezing of LeEco's assets with the Shanghai branch of China Merchants Bank **might only be the beginning**, as other creditors and banks could follow.

Leshi, which started out as the Chinese counterpart to Netflix, has been hyped as China's version of an Apple-like tech empire in the making. In an attempt to combine content and hardware, the parent LeEco has invested heavily in smartphones and television manufacturing as well as e-car development.

Jia remains chairman of the auto unit, which he wants to focus on in the future. The future does not look bright in this sector either, though. According to US media reports, the LeEco-backed start-up **Faraday Future has scrapped the planned construction** of a one-billion-dollar factory in Nevada to build the world fastest electric car.

Chinese tech companies have been praised for their fast development. But while companies like Alibaba and Tencent seem to be successfully building their ecosystems, LeEco illustrates the dangers of rapid expansion outside a company's core businesses.

LeEco has struggled financially since November last year, and the Leshi stocks have been suspended from trading since April. But the freezing of its assets seems to represent a major turn for the worse. Investors like Harvest Fund, China Post and Sunac will lose out massively if the crisis worsens.

#### News in brief

- **Acquisition:** Cosco Shipping buys Orient Overseas and becomes world's third largest shipping company
- **"Bond Connect" launch:** China opens onshore bond market to foreign investors
- **Restructuring:** Dalian Wanda sells hotels and tourism projects for 9.3 bn USD
- **Deal secured:** Airbus wins order from China to supply 140 jets worth 22 bn USD

## THE EUROPEAN VIEW

### EU-Japan FTA sets high bar for China

The EU and Japan sent a strong signal when they announced their "agreement in principle" over a free trade pact on July 6. At the G20 summit in Hamburg, news reports about the deal mostly **underlined the isolation of US President Donald Trump** who has pulled his country out of the Transpacific Partnership Agreement (TPP) and has put the TTIP negotiations with the EU on hold. But the EU-Japan agreement also increases the pressure on China to prove its commitment to free trade.

Under the planned deal, whose members would account for **19 percent of global GDP**, Japan agrees to lower tariffs for European dairy products in exchange for lower tariffs for Japanese car exports into Europe. The "Economic Partnership Agreement" (EPA) also sets out a comprehensive consensus on standards and regulations, and it is the first free trade agreement that includes a specific commitment to the Paris climate agreement. While negotiations over issues such as investment protection are still ongoing, the EU and Japan hope to finalize the text of the EPA by the end of this year.

The announcement is in line with Beijing's calls for open global markets and its rejection of protectionism. At the same time, such an agreement would pose a challenge to China's own trade plans in the Asia-Pacific region. In the face of an unclear future for TPP after the US withdrawal, China has stepped up the promotion of the less ambitious regional trade project RCEP.

According to India's "Financial Express," the EU-Japan deal, due to its high standards, provides a **"credible alternative to China's plans."** Whereas China-led approaches to economic globalization often lack transparency as well as necessary standards and regulations, the EU-Japan EPA promotes high regulatory standards. Both sides still have to resolve their **differences on investment protection**, where the EU pushes for setting up a new multilateral investment court system, while Japan prefers arbitration.

The deal with Japan sends a powerful signal that the EU is eager compete for influence over shaping the rules of trade in Asia. The EU had already taken a strong stance when it **refused to back a statement on trade** at China's Belt and Road Summit in May, which fell back behind agreed G20 language China had signed up to previously. The EU-Japan approach now sets an example for other TPP and RCEP countries that are interested in reducing their economic dependence on China. And some are already suggesting that perhaps the **EU should take the vacant spot** left by the United States in TPP.

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