MERICS CHINA UPDATE

Issue 19/2017 (November 10-23, 2017)

Contents: **Page**

METRIX

71,7 million

Propaganda sells: 71.7 million copies of documents and books about the 19th national congress in late October have been sold so far. The publications include the report delivered by Xi Jinping at the opening session of the congress, as well as books including a Q&A about the report and the CCP constitution.

TOPIC OF THE WEEK:

China reacts to Germany's failed coalition talks: "Merkel's end"

China has used the failed coalition talks in Germany to launch a broad attack on Western liberal democracies. Xinhua, the official news agency, said the collapse of the talks in Berlin marked "Merkel's end". The agency predicted a "sad future" for Germany. The broadcaster CCTV said "major upheavals in Germany's economy and society" had contributed to the collapse of the talks. The broadcaster added that in Germany stability was now "rather fragile" and the social order could easily "break down". The report said these developments were most visible in everyday politics.

Many Chinese internet users called Ms Merkel "baizuo," a term that literally means "white left". Chinese online commentators use the term to describe people they consider educated but naïve. They say "baizuo" people call for peace and equality only to claim the moral high ground. Such people, the online commentators said, were preoccupied with refugees, minorities, gay and lesbian issues or the environment and would stubbornly stick to political correctness. To realise a multicultural society, such people would allow the backward values of political Islam to make inroads in their societies.

China's propaganda apparatus often uses developments abroad to criticize western liberal democracies and promote China's own political system. The bi-weekly political magazine "Qiushi" ("Seeking Truth"), the flag-ship journal of the Chinese Communist Party, recently said in an article that western democracy had created "money-obsessed politics and populism." This was not suitable for other countries. The magazine called China the „world's largest democracy."

In several European countries and the US, poor election results of left-leaning parties and the rise of populism have led to a polarization of politics. This has allowed China to sing the praise of its own political system.

CHINA AND THE WORLD

China's role in Zimbabwe coup gives rise to speculations

The discussions about Beijing's potential involvement in the political coup in Zimbabwe have cast a spotlight on China's interests on the African continent. According to rumors, the military in Zimbabwe sought China's approval before ousting dictator Robert Mugabe.

These rumors were fueled by a meeting between the commander of Zimbabwe's Defense Forces, Constantine Guveya Chiwenga, and the chief of the Joint Staff Department under China's Central Military Commission, Li Zuocheng, earlier this month in Beijing.

The Chinese government emphasized the nature of this visit as part of a regular military exchange, but official Chinese reactions to the coup raised eyebrows around the world. Contrary to expectations, Beijing did not condemn the ousting of its long-standing ally Mugabe. Commentaries in party-state media expressed sympathy with the population of Zimbabwe.

Fearing for the viability of Chinese investments, China had viewed the destabilizing economic and domestic policies of the Mugabe government with growing concern. China is the largest investor in Zimbabwe, with which it has had diplomatic relations for 37 years. But the country is now only one of many African countries, in which China pursues economic and political interests.

News in brief

- Anti-dumping: EU Parliament passes new law to protect industries against cheap imports
- Competition policy: EU Commission and China start new dialogue on state aid control
- Strengthened cooperation: 4th EU-China high-level People-to-People Dialogue held in Shanghai

POLITICS, SOCIETY AND MEDIA

China plans to transfer state assets to social security funds to make up for shortage of money

Facing an increasing demographic challenge with its aging population, China will set aside state-owned enterprises' assets to make up for the shortage of money in the nation's pension funds. On November 18th, the State Council issued a plan envisaging the transfer of ten percent of such assets into social security funds.

The process will start with a rather small-scale pilot project involving three to five state-owned enterprises (SOEs) and two financial institutions administered by the central government. Some provinces will also tentatively implement the program, the statement said. Based on the experimental results, more SOEs and financial institutions will be added in 2018.

The State Council's statement noted that the nation's pension funds have seen widening gaps between income and expenditures because of an aging population and improving pension standards. For a long time, the nationwide basic pension allowance for retirees in China had been as low as 55 CNY per month. In 2015, the central government raised this amount to 70 CNY. Some provinces and municipalities have higher standards than other places: Shanghai for instance recently raised the amount of monthly pensions from 750 yuan to 850 yuan, the highest in China.

The country is faced with serious demographic challenges: according to the UN, the proportion of the elderly in the population will double from 10 to 20 per cent in the 20 years to come.

During last month's 19th Party Congress, Xi Jinping reiterated the goal for achieving "moderately prosperous society" by 2020, along with an emphasis on structural reform to tackle "unbalanced and inadequate development." The move to fill up the gap in pension-funds is a step to realize the promise in a substantial form. By integrating the SOEs prominently in his plan, Xi stresses their importance within the overall Chinese socio-economic system.

Human Rights Watch criticizes big data policing platforms

The advocacy group Human Rights Watch (HRW) has called on Beijing to stop building big data platforms that collect and analyze citizens' personal information and allow the authorities to track behavior. In a report issued on November 19, the group said the "Police Cloud" (警务云) was used to target activists, dissidents and ethnic minorities.

Provincial-level databases have been built since 2015 to enhance nation-wide information sharing. The data, collected by government institutions and third parties, includes addresses and medical and birth records. By linking this information to data from other sources, authorities hope to uncover hidden relationships and patterns and predict citizens' behavior.

In light of the larger ambitions of the Chinese government to build a comprehensive Social Credit System to monitor, evaluate and steer the behavior of citizens, the "Police Cloud" is an example of how big data is already aggregated and used in China. While the "Police Cloud" is not officially linked to the Social Credit System, it is part of the same trend: the increasingly sophisticated use of big data to monitor and evaluate people without meaningful privacy protections.

"Privacy and data protection are discussed in China, but the focus is on private companies and their activities, while authorities are not subjected to the same scrutiny." Mareike Ohlberg, research associate at MERICS

News in brief

- Australia: publisher drops critical book in fear of Chinese retaliation
- Freedom House Report: China worst abuser of internet freedom for third consecutive year
- Strengthening political control: CCP orders foreign-funded universities to set-up party cells
- "Xi Jinping – leader for a new era": Xinhua article fosters personality cult
- German soccer fans display Tibetan flag: China's under 20 team interrupts first match against fourth-division club

ECONOMY, FINANCE AND TECHNOLOGY

China to open financial markets for foreign firms

China announced on November 10 that foreign businesses will now be allowed to own as much as 51 percent of the shares of joint ventures in the securities, fund management and futures industries. The cap will be phased out in three years. The ownership limits of banks and asset-management companies will be scrapped immediately. In the life insurance sector, the foreign ownership cap will be lifted to 51 percent after three years and removed after five years.

The changes represent a long-awaited first step that would allow international finance corporations to operate more freely in China. But China also benefits from the opening in a number of ways: 1. Foreign competition will force domestic players to raise their standards. 2. Bringing in foreign funds can be preferable to injecting liquidity into capital markets. 3. Chinese firms that work together with foreign partners can learn to improve their processes. 4. The decision appeases the United States, which has called for better access for a long time.

The timing of the announcement by Vice Finance Minister Zhu on the last day of US President Donald Trump’s visit to China led some to speculate that this step was a concession to US demands. But the fact that the US delegation had not been informed of the decision suggests that China had drawn up these plans a long time in advance.

US financial industry leaders were very pleased indeed. International financial giants such as Morgan Stanley and Goldman Sachs have announced that they intend to bring up their stakes in their Chinese JVs to 51 percent, at which point they will also increase their own equipment, technology and staff.

Pakistan and Nepal pull out of major Belt and Road projects

Pakistan and Nepal have pulled out of two major Chinese-financed dam projects, casting doubt on the financial credibility of projects launched under Beijing’s ambitious Belt and Road Initiative.

Last week, Pakistan decided to halt a 14 billion USD project for the proposed Diamer-Bhasha dam. Rather than accepting the strict Chinese conditions for the deal, Pakistan said it would provide its own financing for the hydropower project instead. During the same week, a new administration in Nepal announced that it would scrap a 2.5 billion USD deal to build the Budhigandaki Hydroelectric project dam with Chinese SOE China Gezhouba Group. It cited the lack of an open tender process as the reason to withdraw from the agreement.

The two failed infrastructure projects are unlikely to affect the overall progress of China’s plans to build economic corridors through Eurasia. This week, China and Pakistan finalized a long-term plan for the China-Pakistan Economic Corridor, which targets infrastructure investments worth 57 USD by 2030. Overall, China has pledged 124 billion USD for the new Silk Road and has attempted to raise massive funds to make the plan a reality.

Nevertheless, Pakistan's withdrawal from the high-profile dam project is an embarrassment to China, which appears to have been surprised by the move of its ally. It reflects widespread dissatisfaction with the lack of transparency in deals that involve the Chinese government and state-owned companies. In some cases, recipient countries have deemed Chinese terms such as demands for use of Chinese equipment and labor to be unacceptable.

Volkswagen invests 10 billion euros to build electric cars in China

Volkswagen and its local partners want to develop and manufacture more electric cars in China. VW's top China executive, Jochen Heizmann, said his company wants to invest 10 billion euros by 2025. Under the plan announced last week ahead of the Guangzhou auto show, Volkswagen aims to develop and produce as many as 40 new energy vehicles (NEVs) over the next eight years. The first model will go into production in 2018 with the group's new joint venture partner JAC Motors.

International car makers have come under pressure in the world's biggest auto market. In September, the Ministry for Industry and Information Technology (MIIT) announced tough new targets requiring car makers to reach a quota of ten percent for NEVs starting in 2019. At the same time, Beijing is working on a long-term plan to phase out combustion engines. In the light of these developments, international car makers increasingly adapt their electric car strategies. Tesla, for example, plans to set up a car factory in Shanghai while Ford announced plans to spend 700 million euros on producing and selling electric cars in China.

Volkswagen's move illustrates that the world's largest car maker sees China as the lead market for e-mobility. But the company's strategy is also crucial for keeping VW in a dominant position in China. Like other car manufacturers, VW has become highly dependent on the Chinese market. It is unclear, however, how demand for electric cars will develop in China. So far, government subsidies have been key to e-car sales. Yet in 2016, new energy vehicles accounted for only two per cent of total car sales.

News in brief

- Bike-sharing bubble bursts: third largest company goes bankrupt
- Shadow banking: new regulations targeting financial risk amid launch of Financial Stability and Development Committee
- Growth slowdown: campaign to manage credit risks slows economic expansion in October
- Inner Mongolia: autonomous region halts subway projects amid tightened scrutiny of infrastructure financing by central government
- State-owned enterprises: another 31 SOEs included in pilot mixed-ownership reform scheme
- Aviation industry: Airbus plans second global innovation center in Shenzhen

THE EUROPEAN VIEW

16+1 summit in Budapest: a stress test for EU cohesion

When the leaders of China and 16 central and eastern European countries meet in Budapest for their annual summit next week, Brussels will watch very closely. China is trying hard to forge closer cooperation with the region while EU officials in Brussels worry about EU cohesion.

China works hard to institutionalize its cooperation with the countries of the 16+1 format, i.e. 11 central and eastern EU member states plus five Balkan countries still outside the EU (CEEC). But what Beijing really wants is to turn the 16+1 format into a platform for its ambitious Belt and Road Initiative (BRI) and thus extend its reach far into Europe.

So far, success is thin on the ground. China has yet to deliver on many of its promises of infrastructure investments in the region. Yet, Eastern European countries are keen on Chinese money and will use the summit to present themselves as ideal destinations for Chinese investments under the BRI label.

The Budapest gathering could thus turn into a stress test for EU cohesion. In fact, the EU has viewed the 16+1 format with concern for years. A 2015 resolution by the European Parliament called on EU member states to speak with one voice to the Chinese government. Next week's gathering will show if European leaders are ready to heed those calls.

MAD MERIX

Hero rewarded with lifetime supply of fish heads

A man in the eastern Chinese province of Zhejiang has received an unusual reward for saving four people from drowning. The brave man will receive a lifetime supply of fish heads.

Computer engineer Liu Xinting and his colleagues were returning by car from a lunch at a fish restaurant near Qiandao Lake in Hangzhou when they witnessed an accident. A car travelling on the opposite lane was rammed by another vehicle and plunged into the lake. Liu leapt into the water and managed to rescue all four passengers unharmed. He was later rewarded for his heroic action by a company that operates several fish restaurants in the area.

While outside China, people may be most astonished by the type of reward, the Chinese public focused on the selfless action of Liu. According to the World Health Organization (WHO), an estimated 700 people are killed on Chinese roads every day. Reports and videos frequently emerge that show indifferent witnesses who do nothing to help.