



Issue 1/2018 (December 15, 2017 - January 11, 2018)

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## METRIX

**13.8  
billion**

China plans to invest 13.8 billion CNY (2.1 bn USD, 1.7 bn EUR) in a new technology research park in Beijing dedicated to the development of Artificial Intelligence.

## TOPIC OF THE WEEK: Discipline and ideology

### CCP set to increase control over state in 2018

After the 19th Party Congress last fall, Xi Jinping will continue to strengthen the Communist Party's grip over the country ahead of the National People's Congress (NPC), further integrating functions of state and party. Xi reportedly plans to install his close aide Li Zhanshu, one of the new members of the Politburo's Standing Committee, as the NPC's new chairman. There are also speculations that a number of organs under the State Council will no longer separate the offices of ministers and party secretaries, a decision that China's highest legislative organ would have to approve at its annual session in March.

The NPC is also expected to **amend the constitution** of the PRC for the first time since 2004. On 27 December, the Politburo of the Central Committee of the CCP decided to discuss the planned changes at its second plenary session to be held later this month. According to speculative media reports, the constitution might be amended to lift the limit to two terms for positions in the top political leadership, allowing Xi a third term as president after 2022.

The recent efforts to institutionalize China's anti-corruption campaign require a wide-ranging constitutional amendment that would effectively bring all public state organs under party control. The change would put an end to a heated debate over the proposed National Supervision Law, which would extend the reach of the party's anti-corruption campaign to non-party members. Under this law, a new "National Supervision Commission" would be set up next to party organs in charge of "discipline inspection." The bill would allow the commission to investigate state officials and even delegates of the National People's Congress, formally China's supreme state organ. The bill, which would also ban legal representation of those under investigation, has provoked unprecedented criticism by leading Chinese lawyers who have questioned its constitutionality.

There are also speculations that the term "Xi Jinping Thought for Socialism with Chinese Characteristics in the New Era" could be added to the **preamble of the PRC Constitution**, following the adoption of Xi's ideological contribution into the Communist Party's constitution at the 19th Congress. A speech by China's leading propaganda official in January suggested that the party will intensify its focus on Xi Jinping's personal leadership role in the coming year. At the annual meeting of the heads of provincial level propaganda departments, Wang Huning, the new Politburo Standing Committee member in charge of propaganda and ideology, **called on cadres** to "arm the minds [of the people] with Xi Jinping Thought." Wang is seen as the CCP's chief theoretician and has been credited with crafting concepts from Jiang Zemin's "Three Represents" to Xi's "Chinese Dream" or "Belt and Road Initiative."

## CHINA AND THE WORLD

### China strengthens cooperation with Pakistan, Afghanistan in times of US retreat

Demonstrating its growing confidence and regional security ambitions, China has held trilateral talks with Pakistan and Afghanistan and proposed an extension of the China-Pakistan Economic Corridor to Afghanistan as part of China's Belt and Road Initiative.

The talks coincided with increased speculation in US media reports that **China plans to set up a new naval and air force base** on the Jiwani peninsula near the civilian port in Gwadar, which was re-built with Chinese financing and by Chinese companies. It would be China's second military base overseas after the one it opened in Djibouti last year.

China's engagement comes at a time when the United States is withdrawing from the region. President Donald Trump's New Year's Day Twitter **announcement to suspend at least 900 million USD** in security aid to Pakistan until it took action against militant groups drew criticism from Beijing, with the party-state Global Times commenting that **Trump's "Twitter attack"** would draw China and Pakistan closer together.

**China has used the growing discord** between Washington and Islamabad over the past year to draw Pakistan and Afghanistan closer into its own sphere of influence. Though the three countries have engaged in counter-terrorism talks before, the China-Afghanistan-Pakistan Foreign Ministers' Dialogue on December 26 was the first such meeting at ministerial level. The second round of talks is scheduled to take place this year in Kabul.

The **three sides agreed in a joint statement** to deepen their economic relations and their cooperation in the fight against terrorism. Beijing is deeply concerned with Uyghur separatism in Xinjiang and is troubled by Islamic extremism on its border and the possibility of separatists training in Pakistan and Afghanistan. In an attempt to improve strained relations between Pakistan and Afghanistan, China's foreign minister Wang Yi also stated China's commitment to the peace process in Afghanistan, reiterating calls for talks between the Taliban and the Afghan government.

### China's overseas engagements come under closer scrutiny in United States and EU

Takeover bids by Chinese companies have come under increased scrutiny in the United States and the EU, resulting in the failure of two high-profile deals in recent weeks. The US Committee on Foreign Investment in the United States (CFIUS) **has blocked Ant Financial's bid** for the US money transfer company MoneyGram. A **high-profile deal** between US telecom company AT&T to distribute Huawei smartphones also fell through amid growing security concerns. **Germany's economic ministry is making use of a new law** to scrutinize the takeover of aerospace parts maker Cotesa by Advanced Technology and Materials, a subsidiary of state-owned China Iron and Steel Research Institute Group.

Stricter rules on outbound foreign investments by Chinese regulators have not eased American and European concerns, as the Chinese interest in strategically important technology companies remains strong. While other high-profile deals continue to make the news, such as the **acquisition of Swedish**

truck maker Volvo by Geely at the end of 2017, the pushback is likely to continue in 2018 among growing fears of China's state-led strategy to acquire foreign technology for its industrial upgrading.

Combined with China's own efforts to stem financial risk and capital outflow, the deteriorating investment climate for Chinese companies will likely lead to a further slowdown of Chinese overseas investment. Chinese outbound investment dropped by 33.5 percent in the first 11 months in 2017.

#### News in brief

- Guard against cheap imports: EU report singles out China as distorted state-run economy
- South Sudan: PLA media applauds Chinese peace-keepers for negotiating with militants
- Korean crisis Chinese Foreign Ministry welcomes direct talks between South and North

## POLITICS, SOCIETY AND MEDIA

### Xi starts new year by tightening grip over China's military forces

China's state and party leader Xi Jinping has further tightened his grip over China's armed forces at the beginning of 2018. On January 1, the paramilitary People's Armed Police (PAP) was placed under the sole command of the Central Military Commission (CMC), which is headed by Xi. On the same day, the People's Liberation Army (PLA) started a trial implementation of revised military training regulations, which adhere to the principle of absolute leadership of the Communist Party of China (CPC). On January 3, Xi spoke at a mobilization meeting held by the CMC, the first ever for the entire armed forces.

The three events were further steps in Xi's ongoing effort to centralize military power. Past measures have included breaking up the four general departments of the CMC, shrinking the CMC and replacing the majority of the top PLA brass, as well as demanding the absolute loyalty of the armed forces. Xi has been pushing for the implementation of a "chairman responsibility system," by which the whole of the armed forces must follow Xi's (as chairman of the CMC and the Central Committee) instructions.

The move to bring the PAP under the CMC's authority will allow Xi to further consolidate his control over internal security. China's paramilitary police force is primarily responsible for civilian policing and fire rescue duties, as well as providing support to the PLA Ground Force during wartime. It was previously under the joint authority of the CMC and the State Council.

The PAP has often been used by local leaders for personal purposes. A high-profile case was when the former Chongqing Party Secretary Bo Xilai mobilized the local PAP to arrest police chief Wang Lijun after the latter had implicated Bo and his wife in the murder of a British businessman and sought shelter at the US consulate in Chengdu. This reportedly sparked fears in the central leadership that the PAP could be used by local leaders or other factions to undermine Xi's authority.

At the CMC's January 3 mobilization meeting at a base in Hebei, Xi addressed over 7,000 soldiers, with thousands more listening from over 4,000 venues around the country. He instructed the armed forces

to strengthen real combat training and improve their capability to win wars. He also called on the PLA to modernize and digitalize. The meeting included massive live-fire drills, as troops across the country took part in new-year exercises.

MERICS Research Associate Helena Legarda: “Even though Xi’s speech mostly rehashed 19th Party Congress themes, it is significant as it illustrates his firm commitment to the long-term goals of combat-readiness and digitalization. China will continue to invest in the modernization of the PLA and to increasingly operate overseas to gain real operational experience.”

### **Hashtag #Woyeshi: #MeToo debate reaches China’s universities**

The international debate over sexual harassment **has arrived in China** with some delay. On January 1, a professor of Hangzhou’s Beihang University was suspended several months after a female student had accused him of molesting her while she studied for her PhD ten years ago. Luo Qianqian, in her mid-thirties, had publicized the accusations online shortly after the #MeToo campaign gained global popularity in mid-October. Seven more former students reported similar incidents. Contacted by Luo, the university saw no reason to react until the former student posted her account of the events on the popular platform Weibo using the hashtags #metoo and #woyeshi, which means “Me too” in Chinese.

Luo then published an **open letter** to her alma mater, inquiring if further measures were planned to prevent “academic harassment.” One day later, on January 5, the party-state People’s Daily published a commentary titled: **“Beihang sexual harassment scandal: being brave is your best posture.”** A few days later, the well-known women’s rights’ activist Xiao Meili joined the discussion with an open letter with 16 co-signatories, in which she shared her own experiences and proposed a plan with prevention measures against sexual harassment to her own alma mater, the Communication University of China.

According to a **report by the All China Women’s Federation**, 57 percent of all female students in China have experienced sexual harassment. A **survey among college students and recent graduates** in Guangdong even found that 69 percent had been harassed, yet only four percent of these cases were reported to the police. The organization **Human Rights Watch is skeptical** that the recent revelations will lead to a Chinese #MeToo movement. Observers caution that censorship and self-censorship in Chinese media have prevented many cases from becoming public. The posts by women’s rights activist Xiao Meili have also been deleted in the meantime.

### **News in brief**

- **“Red genes”:** Jiangxi to introduce “red culture” text books for students
- **Big data:** internet companies file application for joint online personal credit platform
- **Hong Kong:** new year starts with pro-democracy protests
- **Illegal privacy?** WeChat challenges cybersecurity law with denial of storing conversations

## ECONOMY, FINANCE AND TECHNOLOGY

### Expecting rising pressure on yuan, China works hard to maintain stable exchange rate

Even as the yuan showed remarkable strength at the beginning of the year, Chinese authorities are doubling down on their efforts to prevent capital outflow and maintain exchange rate stability vis-à-vis the US dollar. A new list of capital control measures issued late last year has further tightened rules for Chinese companies investing overseas. The amount of cash that **Chinese citizens can withdraw** from their bank accounts was limited to 100,000 CNY (15,400 USD/ 12,900 EUR) per year.

Also before the end of the year, China responded to the corporate tax cuts in the United States by **granting tax breaks to foreign earnings** that are reinvested in China, although only in sectors encouraged by the Chinese governments, such as railways, mining, technology and agriculture. The drastic cuts to corporate taxes by the Republican Congress has sparked fears of increasing amounts of capital finding its way to the United States despite outflow controls in China. Even though China's growth goals leave little wiggle room for monetary policy makers, the People's Bank of China also responded to the latest **rate increase by the US Federal Reserve** in December by slightly hiking its 7-day and 14-day reverse repo rates, the rates at which the central bank can borrow money from commercial banks.

So far, so good for China: At a value of 6.49 to the US dollar, the CNY was at its strongest level since May 2016 on January 2. But as growth is expected to weaken in 2018 and with incentives to chase higher returns in the United States, China is unlikely to succeed in staving off depreciation pressure on its currency.

### Global tech ambitions, delayed reforms: China struggles to balance growth

China's economy performed strongly in 2017. GDP growth **most likely accelerated to 6.8 percent** compared to 6.7 percent in 2016. This follows after several years of declining growth since 2010.

In line with its declared focus on quality growth, the Chinese leadership is trying to ignite new growth engines in the tech sector. It can be expected to double down on its ambitions for industrial upgrading outlined in its Made in China 2025 strategy. It will also increase its efforts to strengthen China's global competitiveness in newly emerging tech areas such as Artificial Intelligence, Big Data and e-vehicles.

In 2017, Chinese regulators were battling financial risks and attempting to reduce overcapacities and environmental pollution. These attempts to rebalance the economy will continue in 2018, but structural reforms will be constrained by China's inability to drop GDP growth targets. These targets have to stay in place if China wants to keep its political promise of doubling the economy and income by 2020 compared to the levels of 2010.

**MERICS analysis:** **Xi's promise of 'quality growth' for China will have to wait**, Max J. Zenglein and Maximilian Kärnfelt, in: Nikkei Asian Review, December 31, 2017.

## News in brief

- Price liberalization: New regulation enables Chinese airlines to set their own prices
- Fight against pollution: China will end production of 553 gas-guzzling vehicle models
- Risk reducing: Regulator introduces new rules for China's financial markets
- Ride-hailing competition: China's Didi Chuxing partly acquires control of Brazilian app
- Free trade zones: State Council eases some regulations for foreign investors

## THE EUROPEAN VIEW

### Macron tries “horse diplomacy” in China

Perhaps inspired by China's “panda diplomacy,” French President Emanuel Macron visited China this week bearing the slightly unusual gift of an eight-year old gelding named Vesuvius. Plucked from the elite presidential cavalry corps, the thoroughbred is supposedly a “symbol of French excellence,” chosen after Chinese President Xi Jinping had marveled at his 104-horse escort on a 2014 trip to Paris.

Going all out to impress his Chinese hosts, Macron's itinerary – starting in the ancient capital of Xi'an – was minutely calibrated to demonstrate his interest in Chinese culture. Macron even tried his hand at Mandarin, trolling the global warming skeptic Donald Trump by reiterating his catchphrase, “Make the planet great again,” in Chinese. He later charmed Chinese netizens by releasing a [behind-the-scenes video](#) showing him practicing his pronunciation.

The finely tuned state visit, which was praised in European and [Chinese media](#), contrasts with Trump's less graceful stopover in China last November. The tone of [Macron's speech](#) in Xi'an contrasted with Trump's isolationist leanings, stressing France and China's mutual commitment to free trade, multilateralism, and the fight against climate change.

But like Trump, Macron pledged to address imbalances in his country's economic relationship with China when he came to power last May. In a speech at a start-up incubator Tuesday, with Alibaba Founder Jack Ma at his side, along with other French and Chinese companies, he [complained about unequal market access](#) for European companies in China.

The French finance minister, Bruno Le Maire, was [even tougher](#) on a mutually open trade relationship, claiming that his department would be screening more Chinese investments and rejecting “many” that aimed at “looting” French companies.

Macron was intent on making friends in Beijing this week, but he didn't shy away from the more difficult economic issues. Although his gift to Xi was undoubtedly a generous one, Xi might do well to remember that Macron's Chinese name “Makelong” (马克龙) can be translated as “horse overcomes dragon.”

## MAD MERIX

### Books make the man

The president's New Year's Eve address is always closely watched by Chinese netizens hoping to get a glimpse into the mindset of China's most powerful man. Apart from listening to his plans for the coming months, it has become an **annual tradition to analyze the contents of the bookshelf** before which Xi Jinping is seated.

That Xi likes to read is a well-known fact. His office library includes Marxist-Leninist **classics as well as works of world literature**, such as "War and Peace," "Les Misérables," and „The Odyssey.“ But this time around, two new books captured netizens' attention: Pedro Domingo's "The Master Algorithm" and Brett King's "Augmented: Life in the Smart Lane."

Xi's interest for books on Artificial Intelligence should not be surprising since his "China Dream" aims at overtaking the United States as a technological superpower.

Speaking of the United States. Unlike Xi, President Donald Trump is not known as an avid book reader. Quite the contrary: When he took power, he declared to be too busy to read. Yet he seems to enjoy surrounding himself with books and magazines that cover his favorite topic: Donald Trump. The **recently published "Fire and Fury"** however is unlikely to make it into Trump's collection. Who knows – we might find it on Xi's bookshelf on this coming New Year's Eve?

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