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POLITICS

Premier Li under pressure? Interview in party mouthpiece fuels speculation

An interview with an “authoritative source” commenting on the development of the Chinese economy in the first quarter of 2016 caught widespread attention. In the interview that covered a third of the front page of the Communist Party’s mouthpiece *People’s Daily* on May 9, the interviewee called for a correction of economic measures and warned from reliance on debt-fueled growth.

According to the article, the world’s second-largest economy is set to enter a so-called L-shaped recovery trajectory for a few years and it is unrealistic to expect any rebound. The interview was later circulated by Xinhua. The paper’s international edition confirmed online that the remarks could be seen as coming from the top leadership and were intended for consumption by the general public and government officials.

The “authoritative source” is most probably not one person of the top state leaders. In mainland media and the Hong Kong based *South China Morning Post*, there was speculation, President Xi Jinping’s top economic aide, Liu He, could fit the profile of the “authoritative source”.

International observers argue that the article implies criticism of policies pursued by the State Council under Premier Li Keqiang, including propping up stocks and boosting the leverage ratio. However, this argument assumes that Li has had leeway to promote his own preferred economic policies—a line of reasoning directly in opposition to the often-cited notion that Xi Jinping has been heavily involved in economic policy. Against this background, the critique would not necessarily be his alone but question the economic policy of the Xi administration in general.

An alternative interpretation of this article would be that it is directed at lower level officials as a signaling device to prepare them for the difficult task of restructuring the economy.

EN: <http://www.scmp.com/news/china/policies-politics/article/1942972/guessing-game-who-mystery-authoritative-figure-claiming>

CN: http://paper.people.com.cn/rmrb/html/2016-05/09/nw.D110000renmrb_20160509_6-01.htm

Xi Jinping, “Commander-in-Chief of Joint Operations”, but more powerful?

On 20 April, China’s President Xi Jinping paid a visit to the People’s Liberation Army (PLA) Joint Operations Command Centre in Beijing, which was founded in January. The new facility and the innovative methods of warfare that it entails lie **at the heart of the military reforms introduced in 2015**. The **state news agency Xinhua** reported that Xi visited the centre in his dual capacity as chairman of the Central Military Commission (CMC) and commander-in-chief of the Joint Operations Command Centre.

Xi’s new title and his appearance wearing camouflage combat fatigues have sent out conflicting political signals. **To some observers they demonstrate the PLA’s combat readiness**, but to others they reflect Xi’s wish to stand on an equal footing with the US president, as the Constitution of the United States stipulates that the president is also commander-in-chief of the armed forces. If China’s communist leaders followed this line of thought, however, they would have to amend the Chinese constitution to give his new title a sound legal basis.

Western military experts question why Xi has accumulated so many offices. They also observe that in the past, the chairman of the CMC did not play a role in military planning. According to the experts, Xi may not trust many people in the army, which would explain his reluctance to delegate power to others.

CN: <http://cn.wsj.com/gb/20160426/BCH092614.asp>

EN: http://www.nytimes.com/2016/04/22/world/asia/china-xi-jinping-military-commander.html?_r=2

MERICs POLICY RECOMMENDATIONS

A new law allows Chinese security forces to exercise much stricter control over the activities of foreign non-governmental organisations (NGO) in China. According to Chinese officials, the law on NGO management is intended to clarify uncertainties as to how these groups can operate. Critics consider the law as being part of a campaign against unwanted foreign influences.

China's Foreign NGO Law: Time for a sober assessment

By Sebastian Heilmann

NGOs operating in China need to make a sober assessment of their transformed legal environment and should refrain from any wishful thinking: If the NGO law is enforced in a strict way, it will disrupt and reorient a large part of the transnational societal cooperation with China that has been built up since the 1980s. NGOs must absorb the unpleasant fact that many activities related to legal aid or civic participation will have to be terminated in the near future.

For the time being, however, NGOs active in China should seek to reframe projects wherever possible rather than to preemptively eliminate all seemingly risky projects (i.e., those projects that could be classified as harming national interests or security by the Chinese government). NGOs should scrutinize available official documents that may help to identify those areas of activity (such as poverty reduction, education, etc.) that are explicitly welcome and submit projects in these areas. In order to pre-empt charges of foreign or western “infiltration,” NGOs should prove that they evidently seek to broaden people-to-people ties and social innovations, thereby bolstering the Chinese government’s efforts to foster homegrown NGOs.

NGOs and foundations should proactively seek dialogue with Chinese governmental and nongovernmental actors to build trust and thereby try to moderate a potentially harsh enforcement of the law. Such active communication must include the Ministry of Public Security (MPS), which will likely open more channels for consultation with foreign NGOs. NGOs that were previously invited by the MPS to participate in discussions should take the lead in starting a dialogue with the MPS. The Chinese government, however, is not a monolith. NGOs should therefore work with other ministries and local governments that benefit from their work to ensure that different actors within the Chinese government have a concrete interest in their continued presence and their activities in China. Rather than wait until lists of permitted areas and Chinese partners are published, they should seek clarification and try to comment on pending implementation measures. Importantly, they should do so during the period before January 1, 2017, when the law officially takes effect.

So as to protect their internal integrity and external credibility, NGOs and foundations need to define “red lines” to determine under which conditions it will no longer be worthwhile for them to operate in China. If these “red lines” are crossed by administrative curtailments of their activities, NGOs need to be willing to suspend or significantly reduce their activities, at least temporarily. NGOs could define “red lines” either individually or in cooperation with other NGOs that fall within the same area of activities. One “red line” should be the ability to safeguard the security of NGO employees and Chinese partners.

NGOs with offices in China whose “red lines” may be infringed upon should clarify in advance of possible frictions over their activities what their legal options are for temporarily halting their activities in China without losing their registration.

Part of the NGO law’s agenda is to “divide and control.” NGOs need to work against this. They should coordinate their responses to the new law and to future implementation through regular consultation meetings amongst NGOs that are operating in China. These consultation meetings should enlist the support of their respective national governments to strengthen preparedness for consular protection or even for a joint diplomatic response whenever “red lines” are crossed. When an NGO’s lawful activities are infringed upon, there needs to be an immediate, preferably concerted and multinational, non-governmental, as well as diplomatic response.

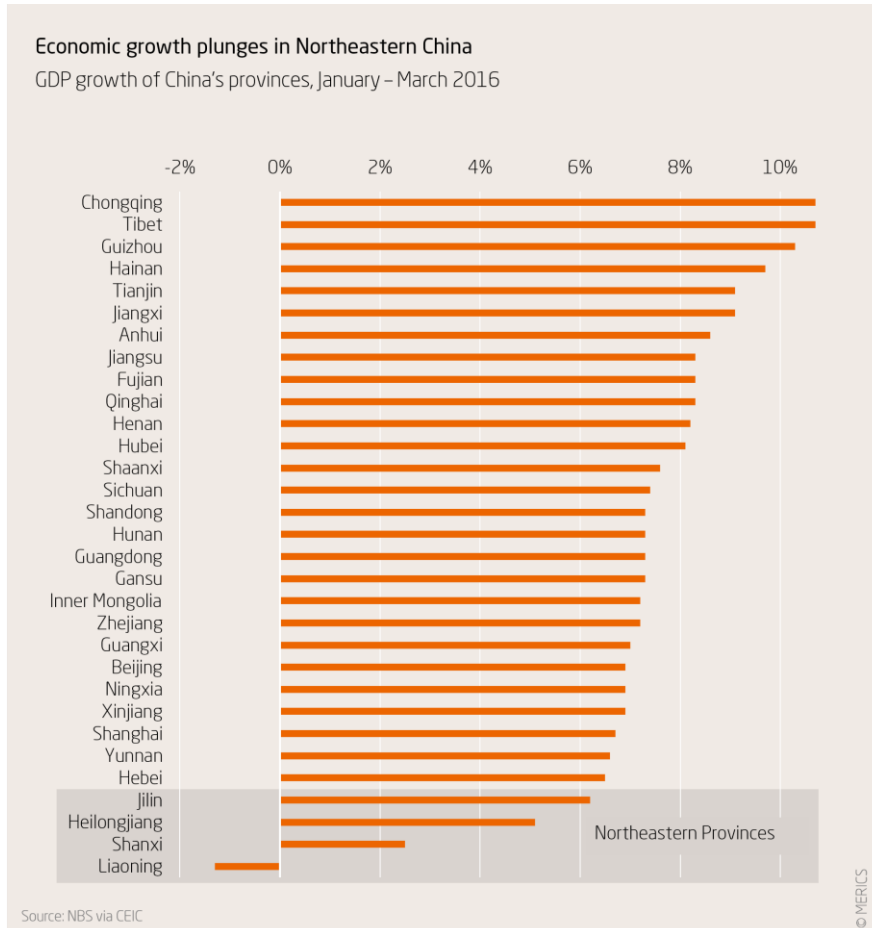
EN: <http://www.chinafile.com/conversation/how-should-global-stakeholders-respond-china-new-ngo-management-law>

THE ECONOMY

North-east China hit hardest by economic slump

Due to the downturn in China’s economic growth, gaps in development between the **country’s different regions** are widening. China’s north-east is feeling the economic headwind most acutely: Jilin, Heilongjiang, Liaoning and Shanxi reported the lowest economic growth of all Chinese provinces for the first quarter of 2016. A full-blown crisis is developing in Liaoning, where the economy **shrank by 1.3 per cent compared to the first quarter of the previous year**, placing the province at the bottom of the ladder. It was the first time in seven years that a Chinese province experienced negative growth.

China’s north-eastern provinces are dominated by state-run heavy industrial operations and by the mining industry, all of which would be hit especially hard by proposed job cuts in the steel and coal industries. A **development plan** published by the central government on 26 April aims at propping up the economically underdeveloped region. According to that plan, state-owned businesses are to be restructured and manufacturing modernised. These steps will place the north-eastern provinces at the forefront of efforts to implement structural changes.



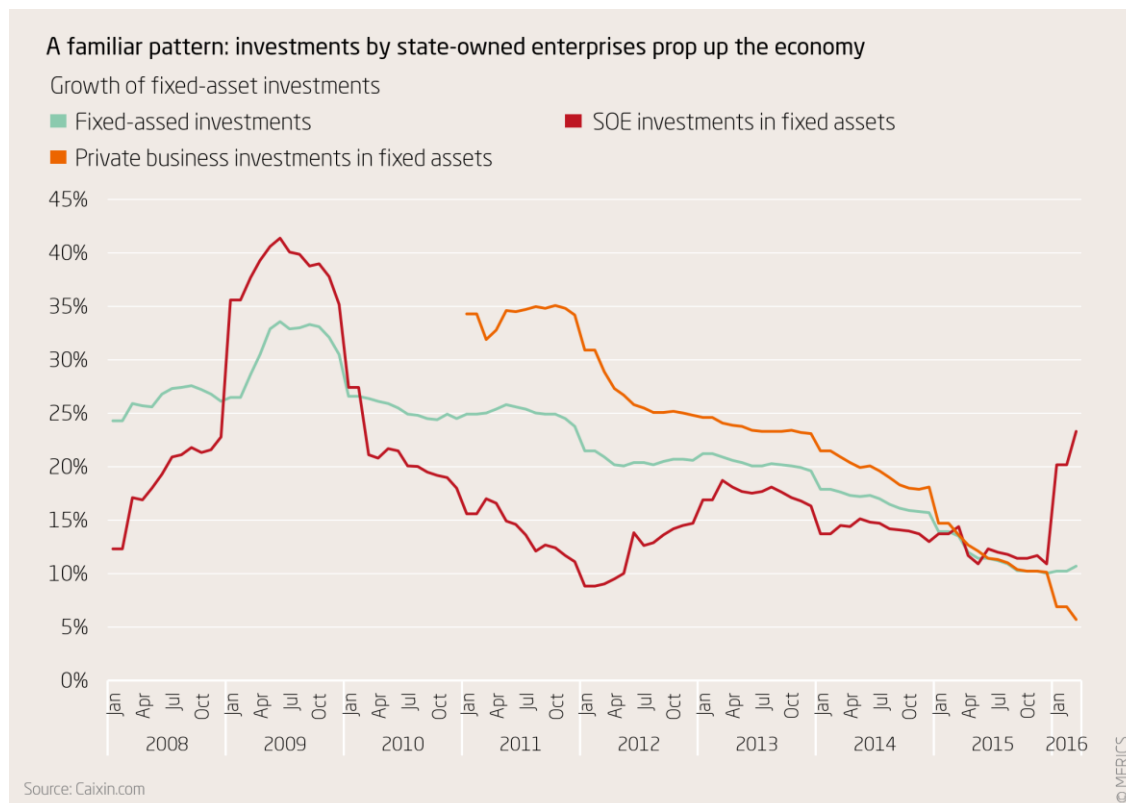
EN: <http://www.ft.com/intl/cms/s/0/61346c8c-0d09-11e6-b41f-0beb7e589515.html#axzz47UVtipNN>
CN: http://news.xinhuanet.com/finance/2016-04/28/c_128940178.htm

China maintains steady economic growth, but jeopardises reforms

The growth of the Chinese economy only slowed down moderately in the first few months of the year. In the first quarter of 2016, it amounted to 6.7 per cent compared to the same quarter in the previous year – down from 6.8 per cent in the fourth quarter of 2015. The problem with this, however, is that this fairly stable situation was achieved by reverting to old sources of growth. A more lenient financial and fiscal policy led to growing investments in fixed assets such as machines, buildings, and traffic and transport routes. Whilst investments by private businesses did decline markedly, those of state-run enterprises rose significantly.

The drivers of this growth, which was funded by loans, were primarily the property sector and state-funded investments in infrastructure. Contrary to this, growth in the service sector slowed to 7.6 per cent, due primarily to a slump in the financial service sector, which had experienced extremely high growth in the previous year due to the stock market bubble.

Thus, the latest data clearly indicates a departure from the government's declared objective of promoting urgently needed structural changes. If the current investment boom continues, corporate debt, which has already reached dramatic proportions, will rise accordingly. That would make reforms increasingly difficult to implement, and the risk of a hard landing would increase significantly.



EN: <http://www.ft.com/intl/cms/s/0/faa4576c-0203-11e6-9cc4-27926f2b110c.html#axzz46A4goAsM>

CN: <http://opinion.caixin.com/2016-04-18/100933603.html>

Tax reforms will strengthen the service sector

A far-reaching change in corporate taxation in the service sector went into effect on 1 May. Value-added tax is now applied to consumer services and to services rendered in the construction, property and finance sectors, replacing a previous business tax. This marks the conclusion of a tax reform that began in 2012 and was designed to strengthen the service sector. It was rolled out step by step to cover the entire country and a variety of sectors. Under the previous business tax, companies in the service sector were unable to deduct input tax, unlike industrial operations, which were subject to VAT. This disparity often resulted in double taxation.

On 1 May the government also began offering tax reductions to the manufacturing industry as incentives for investment in research and development. As a result, businesses are expected to save around 500 billion CNY (67 billion EUR) this year alone.

These savings will increase the deficits of chronically underfunded regional governments, however, as the old business tax was previously the primary source of tax revenue at lower levels of government. While such revenue flowed almost entirely into the coffers of the regional governments, the largest portion of the revenue gained from VAT benefits the *central* government. The latter now plans to ease the financial strain on regional governments by redistributing VAT revenue at various levels.

EN: <http://www.bloomberg.com/news/articles/2016-04-21/china-s-biggest-tax-reform-in-two-decades-aims-to-boost-growth>

CN: http://www.jjckb.cn/2016-04/29/c_135321470.htm

SOCIETY AND THE MEDIA

Xi Jinping cites religion as “a key challenge to the government”

In his first keynote speech on religion since taking office, President Xi Jinping strongly urged Communist Party members to strengthen control over religion. Religious issues are critical factors in the party's governance, he declared, particularly regarding national security and unity. Xi spoke at a national conference on religion held in Beijing from 22 to 23 April. Almost all members of the party leadership attended – for the first time in 15 years. Premier Li Keqiang chaired the session, and all but one of the members of the Politburo Standing Committee were present.

Xi cited the growing percentage of China's population that is affiliated with a religious group as an important trend the party must address. He called on party members to fortify their own stance as “unrelenting Marxist atheists”. An [article](#) that appeared in the internal party journal of the Disciplinary Control Commission shortly after the conference also confirmed this statement, discussed the growth of religion within the ranks of the CPC.

Xi also warned of extremism and attempts at “infiltration by foreigners using religion”. Beijing views foreign Christian missionaries as promoting liberal political concepts of law and order such as the inclusion of civil society in political decision-making. [Chinese Christians](#) are not likely to let repression stop them from resisting state control, as recent incidents in the provinces of [Henan](#) and [Zhejiang](#) have shown.

EN: <http://www.scmp.com/news/china/policies-politics/article/1938284/be-guard-foreign-religious-infiltrators-chinese>

CN: <http://news.sina.com.cn/c/nd/2016-04-23/doc-ixrpvcy4384732.shtml>

China's government wants to increase transparency in times of crisis

In the aftermath of crises such as natural disasters, the central government as well as the subnational governments concerned will be required to hold a press conference within 24 hours. The State Council announced this in a communiqué on 18 April (国务院办公厅关于印发 2016 年政务公开工作要点的通知) as part of its efforts to increase the transparency of government activities. Authorities should closely monitor

public opinion on the internet to be able to guide online discussions with “precise and authorised information”, the Council said.

The document also stipulates that information should be disseminated through a variety of media outlets and with particular target groups in mind. Communications should “spread the truth” and highlight the government’s official crisis management measures. The directive also mandates that industrial project communications, economic indicators and official documents are to be published more quickly and with clearer language than in the past.

Beijing has been striving for greater transparency at least since last year’s huge explosion in Tianjin when some of the information about the disaster spread faster through social media channels than via official ones. With this initiative, the government aims to strengthen its own credibility as an efficient “crisis manager”. In addition, the CPC views the disclosure requirement as a tool for monitoring the implementation of inconvenient and difficult structural reforms of the economy. Thus, mandatory transparency in the name of the people also backs up the government’s anti-corruption campaign.

CN: http://news.xinhuanet.com/politics/2016-04/18/c_128906985.htm

THE EUROPEAN DEBATE ON CHINA

Chinese investment plans fuel competition among ports in Southern and Western Europe

Looking for further investment opportunities in European ports, China is likely to once again target Southern Europe. The Chinese ambassador to Portugal, Cai Run, created **quite a stir** when he stated that Chinese transport companies should search for **“a suitable Portuguese port”** to continue developing trade routes to Europe. The ambassador stressed that Portugal should become the **“gateway to Europe”**, a phrase that China has used in an almost customary manner on various occasions in the recent past to describe other EU member states as well, **particularly in Southern Europe**.

China’s interest in taking over more European ports in Southern Europe hardly comes as a surprise considering that it is aiming to develop new maritime trade routes from Chinese harbours to Central and Eastern Europe. The recent announcement by the Chinese ambassador in Lisbon is thus also to be seen as an indication that the recent **purchase of the port of Piraeus** has further heightened China’s interest in port investment projects in Southern Europe. Beijing views the purchase of Greece’s biggest port by the state-run China Ocean Shipping Company (COSCO) **as being a huge success that ought to be built upon in future**.

The interest shown in Portuguese ports also appears to indicate a more general trend in the policy of Chinese investment in European infrastructure: Southern Europe is playing an increasingly important role next to that of central and Eastern Europe. Portugal is especially attractive in this respect since it is already one of the **key targets for direct Chinese investment in Europe** and it has gained a reputation **for being a reliable investment location** in recent years.

Meanwhile, some observers in Western Europe are watching China's port investment plans in Portugal with mixed feelings. On the one hand, major ports such as **Hamburg** and **Rotterdam** are hoping to find new business opportunities from the Chinese Silk Road Initiative, while on the other hand, China's ambitions in southern Europe are thought to be quite capable of **permanently altering established maritime trade routes to the detriment of Western European ports**. Indeed, it is feared that Chinese investments could create a medium-term shift in trade volume from Western to Southern Europe. For this reason, **the ports of Antwerp and Rotterdam are considering ways of jointly confronting** what is likely to be much heavier competition in Southern Europe in the future.

EN: http://www.macauhub.com.mo/en/2016/04/22/china-believes-that-portugal-can-be-gateway-for-goods-entering-the-eu/?utm_source=rss&utm_medium=rss&utm_campaign=china-believes-that-portugal-can-be-gateway-for-goods-entering-the-eu

CONTROVERSIES OUTSIDE OF GOVERNMENT

Trump's China-bashing can't stop Chinese netizens from loving him

By Lea Shih

Donald Trump's rants against China have not hurt his popularity in Chinese social media debates. China's netizens view the Republican presidential candidate as a pragmatic businessman who could fix relations between the world's two biggest economic powers. And many would certainly prefer him to Hillary Clinton.

Donald Trump does not come across as someone who would seek good relations with China as president of the United States. At a campaign rally on 1 May the presumptive Republican presidential candidate used blunt language when he accused China of engaging in unfair trading practices vis-à-vis the US. "We can't continue to allow China to rape our country", he told a crowd in Fort Wayne, a working-class city in the state of Indiana. "It's the greatest theft in the history of the world."

China's official news media's reactions to the "Trump phenomenon" (特朗普现象) have echoed global expressions of disbelief and outrage in the face of Trump's aggressive statements on foreign policy and other issues. Editors of China's party and state run media also use Trump to highlight the weaknesses of the American electoral system. The Xinhua news agency analysed Trump's success in the Republican primaries as a sign of **American society's weariness** with the battles between its two political parties. The populist Global Times stated a **"loss of orientation"** of America's democratic system.

But Trump's image in China is much better than these official views let on. As a look into the debates in China's social media seems to reveal: if Chinese netizens could vote in the US presidential elections, many would vote for Donald Trump. The eccentric candidate enjoys avid support in Chinese online chat rooms – and his admirers don't seem to be deterred by his anti-Chinese rhetoric.

In a poll on the online portal **Guancha** (观察者), the overwhelming majority of participants expressed "delight" (喜悦) at Trump's speech on foreign policy in late April. Chinese Trump supporters have set up accounts on the Twitter-like platform Sina Weibo, some of which have reached thousands of followers.

The owner of the best-known account, “Trump’s Fanclub” (川普粉丝团), who claims to be registered in the US, does not only post statements in support of Trump but also criticizes the US media for allegedly slandering the presidential candidate.

There are several factors that contribute to the Chinese Trump infatuation. First, Trump is admired as a man who built a successful business empire, and many Chinese seem more inclined to trust an entrepreneur than a professional politician. On the online portal **Zhihu** (知乎) which claims to have 17 million registered users, **netizens argued** that Trump’s career in business contributes to his “pragmatic way of thinking” and his “negotiating skills”. They trust that a businessman would focus on the economy and cast ideology aside. They also believe that he would be best positioned to bring the relations between the world’s two biggest economic powers back on track.

Not only do these fans not mind Trump’s attacks on China on the campaign trail. Many even express sympathy for his criticism of China’s trade surplus with the US, of its currency interventions or of a lack of protection of workers’ rights and the environment.

Regardless of whether or not they agree with Trump on the issue, the fact that he seems to stand up for its own country resonated with his Chinese fans. His boisterous nationalism is the second reason for his popular appeal in China. Zhihu users **compared Trump’s promise to “make America great again” to the concept of the “China Dream”**, which their president Xi Jinping has coined to describe China’s rise as a global power.

But Trump has a third important selling point in China: he is not Hillary Clinton. The leading Democratic candidate has major image problems in China. During this year’s campaign, she criticised China for human rights violations and cyberattacks as well as for its military expansion in the South China Sea. Chinese netizens worry that **she would promote the export of American ideology** and enforce American hegemony in the rest of the world if she were elected president. They are highly critical of the “pivot to Asia”, which Clinton declared as Secretary of State, since they view the reorientation of US foreign policy towards its allies in Asia-Pacific as a threat to China’s goals in the region.

For all these reasons, China’s netizens seem to prefer the ideologically flexible businessman Trump to the principled politician Clinton in the White House – no matter how much he ends of bashing China on his way there.

*This article was also posted on the MERICS blog “**European Voices on China**”.*

THE LATEST FROM MERICS

Job vacancies

- MERICS is looking for **two full time interns** contributing to MERICS research programs starting 1 June 2016.

Latest blog posts

- [Western NGOs in China – Not trusted but still needed](#) by Bertram Lang
- [A German businessman's secret of success in China: Buy real estate and sell baby products!](#) by Claudia Wessling
- [Australian submarine deal is no kow-tow to China](#) by Hanns W. Maull
- [Little to celebrate on Labour Day: Strikes expose risks of China's new growth path](#) by Simon Lang
- [Is censorship bad for business? How trade laws could break through China's Great Firewall](#) by George G. Chen

Latest Podcasts MERICS Experts

- [With Yuen-ying Chan: "Press freedom - China cannot impose draconian controls forever"](#)

MERICS in the media:

- [German Businesses assess China's PMI closely](#), Max Zenglein in Bloomberg TV (2 May 2016)
- [Here's How China Is Building the Car of the Future](#), Sebastian Heilmann in Fortune (24 April 2016)
- [Moscow's Failed Pivot to China - And How It Benefits Europe](#), Op Ed by Thomas S. Eder and Mikko Huotari in Foreign Affairs (17 April 2016)

Forthcoming events in Berlin:

- Thursday 2 June 2016: [Lunch Talk with Arthur Kroeber](#)
- Thursday 9 Juni 2016: [China Lounge](#) with Mike Fuchs, Center for American Progress on "U.S. elections and American China Policy"
- Thursday 23 June 2016: [China Dispute](#) „The Xi Jinping Challenge: Will Top-Down Leadership Achieve Political Stability in China?“

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