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METRIX

340
million

China's micro-blogging platform Weibo has overtaken Twitter for the first time, attracting **340 million monthly active users each month**. Weibo was launched three years after Twitter. There is hardly any overlap between Twitter and Weibo in their user base, since Twitter is blocked in China.

TOPIC OF THE WEEK: Li Keqiang visits Berlin and Brussels

Li and Merkel vow to cooperate on trade and climate issues

Germany and China want to cooperate more closely on issues of free trade, climate protection, and security. After meeting with Chinese Premier Li Keqiang in Berlin, German Chancellor Angela Merkel said Germany and China would work together in defending “certain principles like open markets and trade.” Li confirmed that his country would comply with the Paris agreement at a time when U.S. President Donald Trump has refused to endorse a global climate pact.

Li’s visit comes at a time when Europe and the United States are drifting apart over disagreements on issues such as trade and climate change. In light of the unpredictable foreign policy of the Trump administration, China has recently tried to present itself as a reliable partner and a stalwart of the global order. Germany and Europe are at the center of Beijing’s charm offensive. Merkel’s recent remarks, in which she questioned the reliability of the United States as a diplomatic partner, were noted in Beijing.

Speaking at a Sino-Chinese forum on innovation, Li urged for more cooperation of small and medium enterprises to develop innovative products and ideas. Li stressed that all foreign companies, including German businesses, were welcome to invest in China, adding that competition must be fair, which could only be assured through strong regulation. He did, however, ask for understanding that reforms in China sometimes took longer. Merkel, for her part, urged China for a “stronger” opening of its markets to foreign companies and investors.

In light of the strained transatlantic relations Merkel called for further deepening of the German-Chinese relationship. At the same time, she stressed that certain conditions had to be fulfilled in order to reach more common ground: Foreign academic organizations, NGOs and foundations should be allowed to “fully operate” in China, she said. A new law passed recently in China has made it difficult for those types of organizations to work in the country.

Li’s and Merkel’s meeting also served as preparation for the visit of Chinese President Xi Jinping at the G20 summit in Hamburg in July. Li is on his way to Brussels today.

In Brussels, **Li will co-host the 19th EU-China summit on June 2 and meet** with European Commission President Jean-Claude Juncker. Beijing might use the opportunity to advertise its “Belt and Road Initiative” to connect Eurasia. It will also likely renew its demand to be recognized as market economy by the EU.

MERICS analysis: "Li Keqiang visits Berlin: China’s importance for German and European foreign policy is growing rapidly,” MERICS China Flash, May 30, 2017.

CHINA AND THE WORLD

China tries to regain control over CNY exchange rate

In an effort to stabilize its currency, China's central bank is tweaking the mechanism by which it calculates the exchange rate of the Chinese Yuan (CNY). The China Foreign Exchange Trade System (CFETS), which is supervised by the People's Bank of China, **announced on May 26** that a "countercyclical" factor will be added to the formula used to determine the daily reference rate.

The bank did not provide details on the new system, but the change is suspected to lower the role of the market and to align the CNY exchange rate closer with the US dollar (USD). **According to the statement**, the new mechanism is intended to prevent "herd effects" and "irrational expectations" and would instead steer the market to focus less on speculation and more on macroeconomic fundamentals.

The CNY's exchange rate to the Dollar has been under downward pressure since slowing economic growth and lower returns caused a sharp increase in capital outflow starting in 2016. The PBOC's interventions to prop up the exchange rate resulted in a rapid drop of foreign exchange reserves.

China has used a managed floating exchange rate system since it abandoned the CNY's peg to the US dollar (USD) in 2005. Following a set of reforms since then, the government introduced major changes in August 2015 aimed at strengthening market mechanisms in determining the exchange rate. The adjustments were also made to meet the criteria for the inclusion of the CNY into the IMF's reserve currency basket (Special Drawing Rights). Under the resulting regime, the CNY's exchange rate was permitted to rise or fall by up to two percent against an official midpoint rate set by the central bank every morning based on the previous day's closing rate.

"The latest move, which decreases the transparency of China's exchange rate regime, underlines the Chinese leadership's mixed feelings about market mechanisms and desire for economic stability, including a stable CNY. The move has also dampened international expectations that China will move towards a fully convertible currency in the near future." Max J. Zenglein, Research Associate, MERICS

Moody's lowers China's credit rating

Citing slowing growth and rising debt, **Moody's has downgraded China's sovereign credit rating** from Aa3 to A1 and changed the outlook from negative to stable. It is the first downgrade for China since 1989.

The downgrade is likely to increase the costs for China's credit-fueled growth. As a result, **Chinese businesses will face higher costs** for borrowing money on international markets. Interest rates in China for products such as treasury bonds, AAA bonds, as well as interbank loans had already trended upward since the beginning of the year.

The Chinese government reacted by calling the credit downgrade “inappropriate” and “absolutely groundless.” At the same time, a number of recent measures such as numerous new financial regulations and efforts to reduce the debt burden of state-owned enterprises through debt-to-equity swaps indicate that the government is also worried about the increasing leverage of China’s businesses. China’s total debt is currently estimated at close to 300 percent of GDP.

News in brief

- **North Korea’s nuclear program:** China’s top diplomat holds talks with Japanese officials
- **Arctic and Antarctic cooperation:** China signs MoUs with US, Russia, Germany, Norway, Chile and Argentina
- **Airbus Helicopters** breaks ground on a final assembly line in Qingdao
- **13th round of BIT negotiations between EU and China**

POLITICS, SOCIETY AND MEDIA

Xi Jinping protégé Cai Qi named Communist Party Secretary of Beijing

Beijing’s mayor Cai Qi has been appointed as the new Communist Party Secretary of Beijing. The protégé of President Xi Jinping was promoted to his new position on May 27. It now appears certain that Cai will become a member of the new Central Committee and the Politburo during this year’s 19th Party Congress. Beijing’s party secretaries have traditionally occupied a seat in China’s top political decision-making body.

Cai’s sudden promotion differs from the established system in which cadres move up the career ladder step by step and in which Politburo members are selected exclusively from among the members of the current Central Committee. Cai is not a member of the Central Committee.

Cai’s career took off in 2014 after he was appointed Deputy Director of the General Office of the Central National Security Commission. Before that he served as Deputy Governor of Zhejiang province. Between 1997 and 2007, Cai held several mayoral and city-level party secretary positions in the provinces of Fujian and Zhejiang, and he rose quickly after Xi became Party Secretary of Zhejiang in 2002.

Cai’s replacement as Beijing mayor, environment minister Chen Jining, also made a surprise career move. The engineer spent the past two decades almost entirely in leadership positions at Tsinghua University, before he became environment minister in 2015. In contrast, Wang Anshun, Beijing’s mayor from 2012 to 2016, served in various leadership positions in Gansu, Shanghai and Beijing before becoming mayor of the capital.

Cai’s and Chen’s cases could indicate that Xi is trying to make the cadre promotion system more flexible. This sheds more uncertainty on the leadership reshuffle at the 19th Party Congress. If the established rule of seniority no longer applies, the pool of potential candidates for the Politburo and the Politburo Standing Committee becomes larger than China watchers have anticipated.

Intelligence law gives sweeping powers to security authorities

China has released a draft intelligence law, which would give wide-ranging powers to its security authorities to monitor, investigate and arrest individuals and groups suspected of endangering China's national security. The scope of the new law extends to Chinese citizens and foreigners, and to operations inside and outside of China.

The standing committee of the National People's Congress published the **draft National Intelligence Law** on its website on May 16, inviting public comments until June 4. The draft is the latest in a series of national security legislation since President Xi Jinping took power, ranging from laws to counter espionage and terrorism to the cybersecurity law that enters into force on June 1.

Extending beyond China's already broad laws on state secrets and security, **the new law allows** intelligence officials to use privately owned real estate, vehicles or communications devices if needed to conduct their operations.

Critics have warned that China defines national security too broadly, also cautioning that the laws could be used to repress dissent.

China has also made headlines with its harsh prosecution of espionage for foreign governments. According to a **New York Times report on May 20**, Chinese authorities have killed or imprisoned more than a dozen CIA sources between 2010 and 2012. Six Japanese nationals have been in detention in China since March on suspicion of alleged "illegal activities." The circumstances of their arrest remain unclear.

In a sign that China might use its national security laws to prosecute political opponents, a **human rights activist from Taiwan was detained and later arrested** in Hunan province on suspicions of subversion.

Cybersecurity Law entered into force

Despite massive international criticism, China's controversial Cybersecurity Law has entered into force today. The legislation, which is the first of its kind on the national level, aims to protect companies that are critical for China's national security against hacker attacks and cyber sabotage.

The law goes beyond cyber legislation in many democratic countries in the extent to which it expands the government's control of data, networks and critical infrastructure. Many **observers fear that it would enable the theft of trade secrets or intellectual property** of foreign companies.

The law mostly affects international companies that sell hardware and software solutions to the operators of China's critical infrastructure. They will require an official security approval to operate in China, and it is unclear whether they will be forced to reveal their products' source codes during this process. Many companies had complained that the new law would force them to store their data in China.

Similar to a series of other new laws and regulations, the cyber security law also has the explicit purpose to guarantee the country's "political stability." The law allows the government to turn off the internet in times of crisis, as it did in 2009 after unrest in Xinjiang province

MERICS-Analysis: China's new Cybersecurity Law: Stricter regulations for companies, greater powers for the state, MERICS China Flash, November 9, 2017.

Taiwan to allow same-sex marriage

Taiwan is set to legalize same-sex marriages as the highest court, the **council of grand justices, ruled on May 24** that banning homosexual couple from marrying violated the principle of equality before the law. Taiwan's parliament, the Legislative Yuan, now has two years to pass the necessary legal changes.

Gay rights groups and legal experts around the world praised the step as a model for Asian countries, where same-sex marriage is banned. The renowned **Chinese law expert Jerome A. Cohen** specifically called the ruling a challenge for Mainland China, as it highlighted Taiwan's commitment to the rule of law (in contrast to China's lack of it) and as it boosted its reputation among the world's democracies.

China's party-state **Xinhua news agency reported on the decision**, but highlighted the tensions it created within Taiwan's society. A number of Chinese media reports in favor of the court ruling were removed by China's censors, among them a report in "Sixth Tone," an online magazine under the "Shanghai Media United Group." The article had praised the development in Taiwan as proof that same-sex marriage was possible in a Chinese cultural context.

Gay and lesbian couples are already allowed to register their partnerships in several Taiwanese cities. Taiwan's president Tsai Ing-wen had expressed support for same-sex marriages during her election campaign, but has not taken concrete steps after taking office in May 2016.

Chinese exchange student draws nationalistic wrath for praising US

A Chinese exchange student has drawn the wrath of Chinese nationalists for criticizing her home country. In her **graduation speech at the University of Maryland, Yang Shuping** praised the "fresh air" in the United States, referring to the actual air quality as well as the open political climate.

When the party-state led "Global Times" posted a video of her speech online, Yang became the target of verbal abuse and personal threats by nationalists in China as well as by other Chinese exchange students overseas. China's party and state leader Xi Jinping has reduced the space for civil rights such as freedom of speech since he took power and tried to reinforce ideological orthodoxy among students, including those overseas.

Yang tried to smooth the waves by apologizing for her remarks on the Chinese microblogging platform Weibo. She professed her love for her home country and for her hometown Kunming, which is among the worst polluted cities in China.

China's censors finally stepped in to prevent the situation from spiraling out of control. According to MERICS observations, the censors focused on deleting messages on **WeChat** that contained insults against Yang or published her personal information. On **Weibo**, the majority of the deleted messages

contained patriotic content praising the Communist Party and accusing Yang of defaming her home country.

“The fact that a speech by a student can trigger a smear campaign in China’s social media illustrates a dangerously high potential for nationalistic mobilization in China. At the same time, it also reveals a deep sense of uncertainty within Chinese society.” (Kristin Shi-Kupfer, Head of Program Politics, Society and Media)

News in brief

- **Chinese authorities try to undermine Muslim tradition of fasting:** restaurants ordered to remain open in Xinjiang amid Ramadan fast
- **Hong Kong:** Beijing signals tightening grip over the semi-autonomous city ahead of handover anniversary on July 1
- **China’s Cyberspace Administration releases new rules for online news**
- **Outspoken Chinese law professor and government critic is falling silent:** He Weifang told The Associated Press he would no longer publish on social media
- **Sri Lanka floods:** Xi Jinping pledges disaster aid

ECONOMY, FINANCE AND TECHNOLOGY

China seeks to tame booming bike-sharing industry

The Chinese government has moved to regulate its booming bike-sharing industry for the first time. A **draft released by the Ministry of Transport on May 22** addresses some of the most common challenges created by China’s bike-sharing frenzy, such as traffic congestion and liability issues.

Bike-sharing models in China have spread faster than anywhere else in the world. The decade-old industry only came to China just over a year ago, but the market leader Ofo already claims to have five million registered users in 24 Chinese cities and **plans to expand to the UK**. The bike-sharing market has become a **battlefield for China’s tech giants**. Ofo is backed by the ride-hailing service Didi Chuxing, which has kicked Uber out of China’s market. Tencent is the main investor in Ofo’s biggest rival Mobike.

In this short time, Chinese companies have developed to **global trendsetters**. Ofo’s biggest rival Mobike pioneered GPS-tracking models, which allow users to locate, unlock and pay for their bicycles via a smart phone app and to park them wherever they want.

China’s authorities are now trying to catch up with the problems created by these new models. The new regulations order municipal governments to identify the areas where bicycles can be legally parked. Geo-fencing technology would alert users when their bikes are outside the perimeters of such a permitted space.

China's draft regulations furthermore oblige companies to provide insurance for their users. They also encourage bike-sharing providers to integrate their businesses into the country's nascent Social Credit System, which collects data on companies and individuals and calculates their "social credit score" based on their compliance with laws and social norms.

The new regulations are likely to slow down the growth of the so fast-changing industry. They might also lead to a further market concentration around the two biggest providers, as the requirements to provide insurance and to install GPS equipment will raise the costs for entering the market.

News in brief

- [China announces market reform plan for oil and gas industry](#)
- [Real wage growth in urban areas slows to 6.7 percent in 2016](#)
- [Online retailer JD.com is developing heavy-duty delivery drones](#) capable of delivering payloads weighing one ton or more
- [Purchasing Managers' Index \(PMI\) data](#) on business confidence better than expected in May

THE EUROPEAN VIEW

China's extradition issues cause headache in Europe

Ever since the Chinese leadership started its "Operation Fox Hunt" to track down "economic fugitives" from its domestic anti-corruption campaign, European capitals have been inundated with requests for extradition and police cooperation from China. Two parallel developments in Spain and France are now raising doubts about China's treatment of suspects who live overseas.

In the most sensitive and largest case so far, the Spanish prosecutor general now questions the [government's decision to extradite 269 Taiwanese and Chinese nationals](#) to the People's Republic. They are accused of being involved in a large-scale transnational phone scam operation, and their arrest had been celebrated as the result of an unprecedented cooperation between Chinese and Spanish investigators.

After both [China and Taiwan had requested the suspects' extradition](#), the Spanish government decided to process China's request. Further investigations by the Spanish attorney general have not been able to substantiate the allegations against the suspects. According to a [report in El Confidencial on May 10](#), there were no indications for "criminal activities." The future fate of the suspects is now in limbo.

Just like Spain in 2007, France also ratified a bilateral extradition treaty with China in 2015. In seeming violation of this agreement, [Chinese authorities now bragged about the repatriation of a corruption suspect](#) from Ningxia province. The French government apparently only learned about the secret Chinese security operation on French soil through [media reports](#). According to the French daily Le Monde on

May 23, a French government official called the operation, which Chinese media said was closely coordinated with the Chinese embassy in Paris, “very problematic.” Similar secret Chinese police operations abroad had earlier stirred controversies in the [United States](#) and [Canada](#).

As Beijing is pushing to conclude further extradition agreements with EU member states, these recent cases are likely to raise doubts about closer law enforcement cooperation with China.

MERICS analysis: [China's Global Law Enforcement Drive](#): The need for a European response, MERICS China Monitor No. 36.

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