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## METRIX

**3,500**

People in the eastern province of Fujian are apparently the most generous in China when it comes to New Year's gifts. On average they stuffed 3500 CNY (448 EUR) into each gift envelope (hongbao) this year. The data were compiled by a personal finance app which analyzed users' entries. In comparison, children in Shanghai received about 1600 CNY (205 EUR) with each envelope. In poorer regions, like

Gansu province in north-western China, the traditional red envelopes were filled with 300 CNY (38 EUR) on average.

## TOPIC OF THE WEEK: SINO-GERMAN TRADE

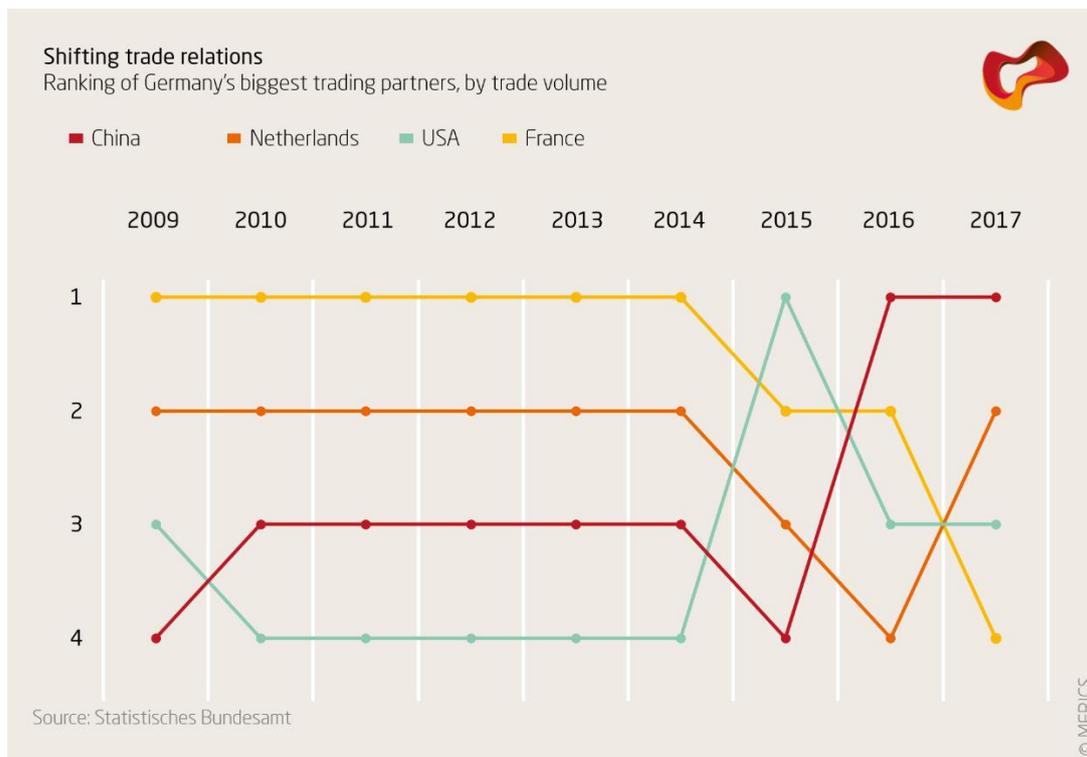
### China remains Germany's biggest trading partner

For the second year in a row China is **Germany's biggest trading partner**. Last year German imports from and exports to China rose to 186.6 billion EUR according to official German statistics released on Wednesday. The Netherlands came second (177.3 billion EUR), followed by the United States (172.6 billion EUR) and France (169 billion EUR). Trade with China rose by about 16 billion EUR last year in comparison with 2016.

Looking at German exports alone, the US remained the most important destination for goods "Made in Germany" despite protectionist tendencies in the Trump administration. France and China followed in second and third place. As for imports, China was number one, with Germany buying Chinese goods worth 100.5 billion EUR. Germany's trade deficit with China stood at 14.3 billion EUR.

China's continuous role as Germany's biggest trading partner is likely to fuel further discussions on mutual trade and investment conditions.

Max J. Zenglein, Senior Economist at MERICS: "With China remaining Germany's biggest trading partner, it is important to continue to address market access issues. China continues to shield many of its domestic companies from international competition through trade barriers and targeted investment regulations."



### **Chinese FDI rules: Wanda sells Atletico stake but SGCC to invest in German grid operator**

The latest trade figures come amid debates about China's expanding influence in Europe and controversial investment decisions. While Beijing continues to streamline inbound and outbound investments, strategic overseas acquisitions continue.

Just weeks before new Chinese rules on overseas direct investments are due to come into effect on March 1<sup>st</sup>, the conglomerate Dalian Wanda Group sold a 17 percent stake in the **Spanish soccer club** Atletico Madrid. Another active investor abroad, HNA, also continued to sell off some of its overseas assets and reduced its stake in Deutsche Bank. The new rules, first announced by the National Development and Reform Commission (NDRC) last year, impose **stricter controls** on Chinese overseas investments in areas such as real estate, entertainment and sports clubs.

Meanwhile, one of China's biggest state-owned companies, State Grid of China Corporation (SGCC), launched a bid to buy a 20 percent stake in the Berlin-based grid operator 50Hertz which serves 18 million customers **mainly in eastern Germany**. SGCC owns much of China's grid and has recently also bought into other grid operators worldwide, including in Greece, Italy and Australia. The plan to acquire assets in Germany is likely to further stir controversy over China's influence in Europe and market access.

While the German government can do little to block SGCC, China seems unwilling to allow US electric car maker Tesla to open a wholly-owned plant in Shanghai. **According to media reports**, Tesla and the Chinese authorities can't agree on the ownership structure for the planned factory. Under Chinese rules foreign car makers have to agree to a joint venture in which the Chinese partner holds at least 50 percent.

The recent developments underline that China continues to rigorously push national development goals by controlling outbound and inbound investment activities.

## **CHINA AND THE WORLD**

### **Chinese warships enter Indian Ocean amid Maldives tensions**

Eleven Chinese warships have sailed into the East Indian Ocean earlier this month according to reports by the Chinese news portal Sina. The deployment is widely seen as a response to the ongoing political crisis in the tropical island chain of the Maldives. The report **did not say when exactly** the fleet was deployed or for how long. The Chinese defense ministry did not respond to requests by journalists for comments.

China and India both vie for influence in the Maldives. The rivalry became particularly evident after Maldives president Abdulla Yameen signed up to Beijing's Belt and Road Initiative (BRI). China regards the islands as a key element of BRI and has invested heavily in infrastructure projects there. India,

which has longstanding ties to the islands, has tried to push back against China's expanding presence. Also, Maldives opposition leaders have urged the Indian government to intervene in the current crisis.

The domestic crisis began on February 1<sup>st</sup> when the Maldives Constitutional Court quashed convictions against nine opposition leaders and ordered the government to free those held in prison. **In response** president Yameen imposed a 15-day state of emergency to annul the court ruling. Earlier this week he sought parliamentary approval to extend the emergency for another 30 days.

The Chinese foreign ministry earlier this month advised Chinese citizens to avoid visiting the Maldives which are popular for their luxury hotels and scuba-diving resorts. Analysts say the Chinese warships in the East Indian Ocean could be seen as **a signal to India** that Beijing is willing to protect its interests and is more than capable of projecting force beyond its borders.

### **China steps up disaster relief in BRI countries in South Asia**

In a bid to strengthen its standing in South Asia and gather support for its Belt and Road Initiative (BRI), the Chinese government has announced two new disaster relief projects in Pakistan and Bangladesh. Earlier this month Beijing said it would provide 4 million USD for **reconstruction and household support** to more than 8000 families in the north-western areas of Pakistan and assistance worth 4 million USD to some 70,000 people in **flood-affected areas of Bangladesh**. Both projects will be financed through the South-South Cooperation Assistance Fund.

The Fund was **announced by Chinese president Xi Jinping** with an initial funding pledge of two billion USD at a UN summit in September 2015. Last year China **increased its contributions** by a total of 1.5 billion USD. The fund is managed by the Ministry of Commerce and aims to help developing countries achieve the UN's 2030 Sustainable Development Goals.

While the announcement of the South-South Cooperation Assistance Fund was accompanied by much fanfare in 2015, little has been heard since. Starting in November 2017 there has been an uptake of projects, including a **cooperation with the World Food Program** in Pakistan followed by a disaster relief **project in Nepal with the UNDP** last month. That and the latest announcements seem to indicate that China is now more actively engaged in using the fund.

Compared with development aid coming from Europe or the US, China's contributions are still relatively small. The Chinese aid under the South-South Cooperation Assistance Fund has – so far – also been clearly linked to BRI. Beijing has a strategic interest in maintaining stability in the countries along the BRI routes in order to protect its investments and trade flows.

### **News in brief**

- Pakistan: **Chinese worker killed in "targeted attack"**
- United Kingdom: **British warship to sail through South China Sea**
- China: **Overhaul at foreign ministry aimed at strengthening diplomacy**

## POLITICS, SOCIETY AND MEDIA

### Debate on racism after blackface skit during Chinese New Year's gala

Discord on Chinese New Year: The performance of a Chinese actress in blackface and a dismissive comment by a US basketball player have led to **heated discussions about racism on social media**. In the popular New Year's gala on state-run CCTV on February 15 a Chinese actress in blackface make-up and an African actor in a monkey costume performed a sketch which culminated in the actress calling out "I love China!"

While intended as praise for Sino-African relations, the sketch led to angry reactions. **A Chinese Twitter user wrote**, he was ashamed of China and his people because of the "racist show." An overseas student from Ethiopia **called for an apology from CCTV**. The broadcaster has not commented yet.

The debate on racism was further intensified by NBA player J.J. Redick. In a video featuring various basketball players wishing their Chinese fans a happy new year, Redick used the derogatory term "Chinks". After angry reactions on social media, **he issued an apology** on the messaging service Weibo, saying he misspoke in the video.

Some Chinese internet users showed little sympathy for the double standards displayed on occasion by their compatriots. One commentator wrote on Weibo that a television show insulting African people was as bad as the offending comments by Redick. Such comments may be a sign for a slow shift in Chinese society: People are getting used to non-Chinese ethnic groups due to an increase in foreigners living, studying and working in China.

Many sensitivities remain as various examples in the past have shown. EU Commissioner **Günther Oettinger** had to apologize in 2016 after using the derogatory term "Schlitzaugen" (chinky eyes). **A Spanish broadcaster** apologized for an overdrawn caricature of a Chinese in a comedy show. Also in 2016, the Chinese producer of washing detergent Qiaobi received angry remarks after literally "**white washing**" an African man in an advertisement.

### Anti-corruption campaign: Serious allegations against high ranking cadres

China's president and Communist Party leader Xi Jinping pushes ahead with his anti-corruption campaign: On February 13 the **Central Commission for Discipline Inspection (CCDI)** of the Chinese Communist Party (CCP) issued a draft guideline for "uncovering and punishing" high ranking cadres who contributed "openly or secretly" to the existence of corrupt structures in China. On the same day various official news reports were released that specified the accusations against former Central Committee member **Sun Zhengcai** and former Head of the Cyberspace Commission **Lu Wei**.

Sun was abruptly removed from his position as party secretary in the central city of Chongqing last July. Previously he had been party chief of Jilin province. **The party newspaper "Jilin Daily" reported** that "enormous sums" of money were involved in Sun's corruption case and that such "serious crimes" have

rarely been seen since the founding of the People's Republic of China. The paper said the provincial government had to ensure that Sun's "harmful influence" was "completely and thoroughly eradicated."

The former head of the influential Cyberspace Commission, Lu Wei, is also confronted with serious corruption allegations. According to the [South China Morning Post](#) the unusually long and harsh list of wrongdoings issued by the CCDI included accusations of being "arbitrary and tyrannical" and abusing power for his personal gains while pretending to follow official rules. He is also accused of having made false and anonymous accusations against others, deceiving the CCP leadership and having engaged in "improper discussions of the party."

The expansion and intensification of the anti-corruption campaign has been expected for some time. At the plenum of the CCDI in January, Xi Jinping emphasized the organization's commitment not only to fighting corruption but also to the strengthening of "ideological and political discipline." Loyalty to the party should be expected "at any time and under any circumstances," he was quoted as saying. During its annual plenary session in March the National People's Congress, China's parliament, is set to introduce constitutional changes to pave the way for a "[National Supervision Law](#)." It would extend the existing anti-corruption regulations aimed at CCP members to all public service employees.

QUOTE: "Corruption among party cadres is still a common phenomenon in China. It looks like Xi Jinping is using the anti-corruption campaign mainly to remove political adversaries and to ensure strict loyalty in the party." George G. Chen, researcher at MERICS

#### News in brief

- Hong Kong: [Bar Association laments "political screening" of election candidates](#)
- Family man: [Xi Jinping promotes "hold your mother's hand" campaign](#)
- The Holy See: [Mixed reactions to Sino-Vatican negotiations over bishop appointments](#)

## ECONOMY, FINANCE AND TECHNOLOGY

### After 25-year wait, yuan oil futures to start trading

After years of delays and setbacks, China, the world's biggest importer of oil, will get its own crude-futures contract. The launch of the yuan-denominated contract, which will be open to Chinese and foreign investors, is scheduled for March 26 in Shanghai, according to the China Securities Regulatory Commission (CSRC).

The listing is aimed at giving China more clout in pricing crude sold in Asia and removes currency risks for China. The new contract is also seen as [a challenge](#) to the world's dollar-denominated oil benchmarks Brent and West Texas Intermediate.

While some details of the new contract such as the size (1,000 barrels per lot) have been released, other information like the delivery depots for the crude are yet to be announced.

China's first attempt at a domestic crude oil futures contract date back to 1993. In recent years, turmoil in Chinese stock markets and other commodity futures caused further delays and raised concern about the country's capacity to handle financial turbulence.

The success of the new listing now hinges on the attractiveness of the Chinese currency. Some analysts are worried that potential international participants in the crude futures contract won't be able to freely exchange yuan because of a Chinese clampdown on capital outflows. Another concern are limited investment options for foreigners in China. They say an internationalization of the yuan won't happen as long as the currency is controlled by the central government.

### News in brief

- Trade tensions: **China to counter possible US restrictions on steel imports**
- Fighting debt: **New bond rules to pressure local governments to get finances in order**
- Investment freeze: **China prohibits capacity expansion of glass and cement in 2018**
- World record: **China's mobile payment volume reaches 81 trillion CNY**
- Innovation: **China leads patent applications worldwide**
- Pioneer: **Haier said to be first to launch Chinese D-shares in Germany**

## THE EUROPEAN VIEW

### Germany, France call for European answer to BRI at Munich Security Conference

The President of the EU Commission **Jean-Claude Juncker**, acting German Foreign Minister **Sigmar Gabriel** and French Prime Minister **Édouard Philippe** called for a unified European response to China's Belt and Road Initiative (BRI) at the 54<sup>th</sup> Munich Security Conference (MSC).

**Gabriel described** BRI as an attempt to shape the world in China's favor and as a vehicle for promoting its own value system as an alternative to the Western model of democracy, freedom and individual human rights. He said a strong answer by Europe was needed. Philippe said BRI could be a project of cooperation or domination depending on the rules. He called on the EU not to leave the rule-making to China. Juncker emphasized the need for European unity and reiterated calls for changes in the EU decision-making process to facilitate faster and more unified responses to global challenges, including those from China.

Calls for European unity are not new. In the past few years the EU has struggled to speak with one voice on China. In 2016, an EU statement on Beijing's rejection of an international court ruling on the South China Sea dispute with the Philippines was watered down after objections from member states. Last year the EU failed to issue a statement on Chinese human rights violations at the UN Human Rights Council due to a veto by Greece which seeks Chinese investments.

At the MSC, Gabriel said the West had only itself to blame for not having answers to the challenges from China. He called for a European infrastructure drive in Eastern Europe, Central Asia and Africa in

line with European standards and with European money. He said the shape of the global order for the next century was at stake and called for a strategy to uphold the “architecture of freedom.”

## MAD MERIX

### FBI helps to recover ancient Chinese terra-cotta thumb

China’s terra-cotta warriors are over 2000 years old and very, very famous. They are so famous indeed that a visitor to an exhibition in Philadelphia felt compelled to take not one but two souvenirs: a selfie and a thumb of one of the terra-cotta figures.

It was several days before the Franklin Institute discovered the incident which happened during a Christmas party. Neither the museum nor the Chinese authorities were amused. **The damaged statue** is worth some 4.5 million USD. It was thus a 5000 USD thump. No wonder that the Chinese side demanded compensation and harsh punishment of the culprit. That’s when the FBI got involved.

Their art crime team managed to apprehend a suspect within days and recover the stolen thumb. Two Chinese experts will now travel to Philadelphia to help restore the famous stone warrior. The suspect has been charged with theft of an object of cultural heritage from a museum.

Ten terra-cotta statues are currently on loan to the Franklin Institute. They are part of an army of 8000 life-size figures that were commissioned by China’s first emperor to guard his grave. The statues survived underneath the ground for 2000 years mainly undamaged.

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