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METRIX

6.28

The exchange rate between the Chinese Yuan and US Dollar stood at 6.28 to 1 on February 7. Since its devaluation in 2015, the yuan has not been this strong against the dollar. In China, exporters are uneasy about the persistent strength of the yuan. However, the yuan has since devalued by about 1%, one of the highest devaluations since 2015.

TOPIC OF THE WEEK: BELT AND ROAD

China's Latin American and Arctic Silk Road plans unnerve Washington

China's plans to expand its Belt and Road Initiative (BRI) to the American continent have set alarm bells ringing in Washington, D.C. Kicking off his first visit to Latin America as Secretary of State, **Rex Tillerson warned** against the region's exposure to "new imperial powers." Speaking in Austin, Texas before his departure, he explicitly named China, claiming that Beijing's "path to development... often involves trading short-term gains for long-term dependency." In a hearing before the U.S.-China Economic and Security Review Commission of the US Congress, several leading US China experts warned of the growing strategic competition with China and called on the United States to reassert itself in areas covered by the Belt and Road.

Chinese foreign minister Wang Yi had **encouraged Latin American and Caribbean countries** to participate in the BRI at the Forum of China and the Community of Latin American and Caribbean States (CELAC) in Santiago de Chile in late January. This was followed by the release of China's first **policy white paper on the Arctic** on January 26, in which it declared its intention to build a "Polar Silk Road" (冰上丝绸之路), an idea China's president Xi Jinping had first raised in Moscow last year.

While Latin America had not been explicitly invited to join the BRI until now, the initiative has long been a talking point for Chinese diplomats visiting countries in the region. Trade and investment ties have deepened, with Chinese overseas direct investment to Latin America reaching 106 billion USD in 2014. Similarly, the Arctic has been on China's radar for some time. China became an observer in the Arctic Council in 2013, and Chinese academics ruffled a few feathers by first referring to China as a "near Arctic state" (近北极国家). There is already an Arctic BRI project - an investment in the Yamal LNG liquified gas project, which is operated and partly owned by China's Silk Road Fund.

Canada's reception of China's arctic plans has been mixed. While some experts expressed concern that Beijing could challenge Canada's presence in the Arctic, others sensed opportunities for greater trade with China.

"Western countries are slowly waking up to the geopolitical implications of Beijing's Belt and Road Initiative. There is a growing awareness that BRI is more than a regional infrastructure project. It is a foreign policy concept with the aim to secure a Chinese foothold in every region of the world and to create an image of Beijing as a leading global power." **Sabine Mokry**, Research Associate in the International Relations program at MERICS.

CHINA AND THE WORLD

Australia takes steps to counter China's political influence

Australia is moving to counter Beijing's increasing influence over the country's politics, business and society in a number of areas. On January 31, it became public that the Australian Security Intelligence Organisation (ASIO) had **listed the PRC as an "extreme" threat** on its country-by-country counter-intelligence index. ASIO's Deputy Director-General Peter Vickery was quoted as saying that the level of espionage and foreign interference in Australia had reached Cold War-levels and that it was not aimed solely at the political level but "across our society as a whole."

On February 1, the Financial Times revealed that the Australian government **considers tightening rules on foreign investment** in electricity infrastructure and agricultural land in response to Chinese activities in these sectors. On February 6, media reported that a book on China's influencing activities in Australia **will be released in March** after a previous publisher had delayed the publication last year, presumably as a result of Chinese pressure.

While **Australia** and **New Zealand** have been key targets of Chinese overseas activities, the impact of China's influencing efforts has moved beyond China's direct geopolitical sphere of influence in the Asia Pacific. A new report by MERICS and the Global Public Policy Institute shows that China's growing political and economic influence in Europe has led to growing concerns over Chinese investments and to political divisions among EU member states.

The promise of Chinese investments has led Eastern and Southern European governments to break ranks on European China policy. Beijing tries to influence the public discourse on China through paid inserts in European media outlets and it attempts to influence the agenda of academic research and exchanges through Chinese-funded think tanks and Chinese students' associations at European universities.

MERICS analysis: "Authoritarian Advance: Responding to China's Growing Political Influence in Europe." Joint report by MERICS and GPPi.

"China's road to influence in Europe can't be a one-way street." A blogpost by **Sabine Muscat** and **Kristin Shi-Kupfer**.

China steps up engagement in Afghanistan

In a demonstration of its growing strategic interest in Afghanistan, Beijing is sending the former director of its Silk Road Fund as China's new ambassador to Kabul. The **appointment of Liu Jinsong**, which was announced on January 29, shows that Beijing now considers Afghanistan a priority and wants to include it firmly in its Belt and Road Initiative (BRI) with the aim to create infrastructure and communication corridors connecting China with Central Asia and Europe.

The appointment of Liu, a native of China's restive Xinjiang province, also shows that China sees security and counter-terrorism cooperation with Afghanistan as central for protecting its own border regions. China is concerned that Uighur extremists could hide and train in Afghanistan before coming back to China to perpetrate attacks.

Beijing has gradually increased its security involvement in Afghanistan over the last few months. Besides participating in efforts to restart peace talks to end Afghanistan's Taliban insurgency, China is also mediating between Kabul and Islamabad. At the first China-Afghanistan-Pakistan Foreign Ministers' Dialogue in Beijing in late December, the three sides announced that they would **discuss the extension** of the China-Pakistan Economic Corridor (CPEC) into Afghanistan.

Media reports also claimed in late January that China was planning to **build a military base** in northern Afghanistan, in the Wakhan corridor, although China has **denied this**. Even if the building of a base in northern Afghanistan is a rumor, China will most likely build some sort of military facility in the region, with the most likely candidate being Gwadar, Pakistan.

MERICS analysis: "China Global Security Tracker" by **Helena Legarda**. A new publication as part of the cooperation between MERICS and the International Institute for Strategic Studies (IISS).

News in brief

- Accused: **China allegedly spied on headquarters it built for African Union**
- Concerned: **Sri Lanka wants to prolong FTA talks amid concerns about Chinese investments**
- Negotiated: **China and the Vatican close to reaching deal on appointment of bishops**
- Established: **China will set up international courts to deal with BRI disputes**

POLITICS, SOCIETY AND MEDIA

Xi Jinping ally Wang Qishan seems poised for political comeback

The news that China's former anti-corruption czar Wang Qishan was "elected" a provincial legislator in Hunan has sparked speculation in **Chinese** and **Western media reports** that the confidant of China's president Xi Jinping will make a political comeback at the upcoming National People's Congress (NPC) in March, presumably in a top government position. Wang, who is viewed as one of Xi's most powerful allies, had retired from the Politburo Standing Committee at last October's party congress.

It has been an unwritten rule in China that all top state officials must hold seats in the NPC. The fact that Wang is the only senior retired party cadre on the current list of new NPC delegates makes it appear almost certain that he will take on an important position in the executive. While the Communist party has an official age limit of 68 for Politburo members, there are no such limits for government positions.

Most observers agree that the vice presidency is the most likely position for a veteran party leader of Wang's political stature. It is considered a mostly ceremonial office, but its occupant could gain real political influence and power if he has the personal backing of Xi.

China takes steps to improve teacher training and pay

In an attempt to improve the quality of public schools, China plans to improve the training of teachers and raise their salary. In a [statement of January 20](#), the State Council announced the aim is to train millions of new teachers across the country. The candidates are to undergo a stricter selection process and receive higher-quality training than in the past. The statement also emphasized teachers' patriotic duties.

At the same time, the government plans to raise the salary of teachers in public schools (from preschool to university) to at least the level of that of civil servants in local government positions. In China, teachers are labeled "[public servants](#)" and, therefore, do not enjoy the same social welfare and retirement benefits as civil servants. This promise had already been made in the [Teachers' Law of 1994](#), but many regions have failed to implement it.

According to a [report by China Labor Bulletin](#), China's [almost 16 million professional teachers](#) are "over-worked and under-paid." This condition has triggered hundreds of strikes and protests over the previous years. At the same time, scandals have raised doubts about the standards in private education institutions. At the end of last year, revelations of mistreatment of children in a privately-run preschool had angered parents across the country.

News in brief

- Education: [Dutch university reacts to new regulations of CCP influence](#)
- Tencent: [Concerns about information misuse lead to shut down of credit scoring system trial version](#)
- Weibo and WeChat: [Chinese authorities criticize platforms for not efficiently curbing "harmful content"](#)
- Supreme People's Court: [Local governments must pay for damage when seizing people's land](#)

ECONOMY, FINANCE AND TECHNOLOGY

Rural modernization moves up in CCP's priority list

China has released a long-term plan to revitalize rural areas and agriculture, indicating that a higher priority will be given to the development of long-neglected rural regions. For the first time, the party-state's annual report on agricultural policy includes a [timeline for upgrading the sector](#) until 2050. The document also covers a broader range of issues compared to previous years – covering employment,

commerce, productivity, environment and governance. It also for the first time contains an explicit commitment to **reforming China's system of land use rights** with the aim to reduce inefficiencies.

The plans were released in this year's Document No.1, which is traditionally the first document that the CCP's Central Committee and the State Council issue at the beginning of a new calendar year. But despite its status on the political calendar, the document contained mostly symbolic language over the previous years. The fact that this year's paper contains specific goals and timeframes can be seen as a sign of the higher priority of rural development.

As the first benchmark, the document calls for a sufficient increase in productivity to eradicate rural poverty by 2020. According to the plan, increasing rural-urban integration will ensure that rural and urban residents have equal access to social services by 2035. The more flowery vision for 2050 is a "beautiful countryside" populated by wealthy farmers.

With 42 percent of the Chinese population still living in the countryside, the "Three Rural Issues," agriculture, rural areas and farmers, are of high importance for the CCP's legitimacy. Only if it succeeds in revitalizing its rural sectors and in closing the dramatic urban-rural income gap will the CCP have a chance to reach its self-proclaimed national goal of a "moderately prosperous society."

Senior HNA executive sees company as victim of anti-Chinese conspiracy

The co-chairman Wang Jian at China's HNA group has blamed the company's financial problems on a conspiracy to bring down China. "They want to disrupt the entire Chinese economy, then disrupt HNA, leading to social unrest, subverting the entire 19th Party Congress, China's 'Belt and Road' initiative and the planning for further, deeper reform," **Bloomberg quoted** from the transcript of a speech delivered by the company's co-chairman Wang Jian on February 3.

The Chinese airline and tourism conglomerate is facing rising financing issues after it went on a debt-fueled global buying spree. The owner of Hainan Airlines acquired stakes in global brands ranging from Hilton Worldwide Holdings to Deutsche Bank. The US government is **withholding approval** for new HNA investment deals unless the company provides information about its shareholders. The company's opaque ownership structure has fueled speculations about its political connections.

In the latest indication of HNA's financial difficulties, a **February 7 Reuters report** quoted sources as saying that the company's real estate subsidiary had failed to make a promised early payment to CITIC trust on a 1.7 billion CNY (272 million USD) loan product. HNA Real Estate's parent company, HNA Infrastructure, has assured investors in a statement that it would start repaying the loan on its original due date on February 16.

HNA is facing liquidity pressure and a potential cash shortfall of at least 15 billion CNY (2.4 billion USD) in the first quarter of the year, the company had told its major bank creditors last month. Co-chairman Wang rejected allegations that HNA is overleveraged in his speech.

Daimler's China business in the spot light

Daimler's dependence on sales in China have been a double-edged sword for the German car and truck maker this past week. Analysts **saw the company's outlook strengthened** by media reports claiming that Chinese carmaker **Geely has bought shares** in the German company, potentially providing Daimler with a strong partner in the development of electric car technology.

At the same time, Daimler has created a global PR disaster with a **public apology to China** for using a quote by the Dalai Lama in a social media advertisement on Instagram, which is banned in China. Under the hashtag #MondayMotivation, the quote had said: "Look at situations from all angles, and you will become more open." The same afternoon, Daimler posted an apology on China's state-controlled social media network Weibo, apologizing to "the people in this country" and promising to "take practical actions to deepen our understanding of Chinese culture and values – including for our overseas colleagues – and regulate our behavior to prevent such incidents from occurring again." Daimler later also posted its apology on Instagram. According to China's party-state news agency Xinhua, the apology was also expressed in a **letter to the Chinese ambassador in Germany**.

Germany's Süddeutsche Zeitung criticized the company's "servility" towards China. The commentary also noted that the incident had **coincided with the release of a new report** by MERICS and the Global Public Policy Institute on China's influencing efforts in Europe. Daimler is not the first international company to be pressured into submission by China. Marriott International, Delta and Zara had been forced to apologize for listing Taiwan, Tibet and Hong Kong as independent countries.

China has the world's largest car market and is a crucial growth market for Daimler both in sales and profit generation. Daimler's car sales there **grew by more than 25 percent last year**. But international carmakers see themselves forced to increase the production of electric and hybrid cars ahead of tough new quotas for e-mobility go into force in China. Global ambitions by China's car companies are also on the rise.

Geely is one of China's leading private car manufacturers. It has invested in several international brands among them Volvo, Proton and Lotus. The size of the stake it bought in Daimler **is believed to be** under 3 percent, which would not force the company to make a regulatory disclosure. Reports claim that Daimler had turned down an offer from Geely to buy a five percent stake last November.

News in brief

- Manufacturing: **Roadmap for Made in China 2025 strategy receives update**
- Science: **China will boost investment in basic science research**
- Investments: **Alibaba and Tencent invest heavily in troubled Wanda units**
- Technology: **China's military calls for the protection of domestic tech from foreigners**
- Cryptocurrency: **China bans all Bitcoin trading**
- Internet: **Ban on non-approved VPNs expected for March**

THE EUROPEAN VIEW

Theresa May's trip to China – reality check for “Global Britain”

Should Theresa May have hoped that her trip to China would be an opportunity for “Global Britain” to make new friends outside the EU, her meetings in Beijing must have been a sobering experience. Rather than succeeding as a global dealmaker, the Prime Minister got a foretaste of the difficult path that lies ahead in carving out a new role for the United Kingdom on the world stage.

She may have brought home the obligatory business deals that are a tradition on such visits, but with a view to Britain's long-term goal of securing a trade and investment agreement with China she got no closer than a cautious Chinese commitment to a joint review of the trade relationship.

At the same time, May experienced the asymmetry post-Brexit Britain will encounter in its future relations with major powers. Others before her have sidestepped Hong Kong and human rights issues to accommodate the Chinese leadership. But May found herself subjected to unusually fierce Chinese attempts to pressure her into endorsing Beijing's Belt and Road Initiative, following many smaller countries who have praised China's signature foreign policy project.

May eventually withstood the pressure, but China clearly sensed an opening – and that is the image that will stay behind after her trip.

MERICs analysis: “In China, Theresa May's ‘Global Britain’ had a date with reality.” Blogpost by **Jan Weidenfeld**, head of the European China Policy Unit at MERICs.

MAD MERIX

Follow the frog!

A virtual frog with a passion for seeing the sights of Japan has become all the rage in China. The smart phone game Tabikaeru (Travel Frog) by the company Hit-Point has hit it off with Chinese users. **96 percent** of the 200 million downloads so far have ended up on Chinese smartphones.

The rules of the game are simple: players provide their frogs with food and supplies to send it traveling. Properly equipped, the frog disappears at random for hours or even days until it returns bearing snap shots of its travel destinations and selections of local snacks.

The game's success **remains a mystery**. Some might find it relaxing that it requires so little input from the player. It might also appeal to the travel-hungry younger generation in China. But perhaps the quasi-parental urge to provide for the frog can be also compared to the Tamagotchi fever in the early 1990s, which was fueled by youths who were not able to hold a real pet.

The tourism industry will take any of these explanations as the frog's wanderlust has transpired into the real world. Japan has been a favorite destination for Chinese tourists for many years, but the frog has taken this to a new level. According to tour operators, bookings to the animal's most frequent travel destinations in Japan have more than doubled within a month.

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