



Issue 8/2018 (April 13-26, 2018)

<b>Contents:</b>	<b>Page</b>
<b>TOPIC OF THE WEEK:</b>	<b>2</b>
China lifts foreign ownership cap for car manufacturers	2
<b>CHINA AND THE WORLD</b>	<b>3</b>
Chinese navy stages show of strength in contested waters	3
China's new international aid agency to play key role in Belt and Road Initiative	4
<b>POLITICS, SOCIETY AND MEDIA</b>	<b>4</b>
Ministry of State Security calls on citizens to report alleged spies online	4
China merges state media outlets to tighten CCP control	5
China plans life-long professional skills training system	5
<b>ECONOMY, FINANCE AND TECHNOLOGY</b>	<b>6</b>
US government hits China's ZTE with seven-year export ban	6
Strong economic growth continues in first quarter	6
<b>THE EUROPEAN VIEW</b>	<b>7</b>
Growing unease in the EU with China's Belt and Road Initiative	7

## METRIX

40%

Concentrations of ground-level ozone have increased sharply in northern China despite efforts to tackle air pollution. While concentrations of harmful airborne particles known as PM2.5 fell, ozone levels are up 40 per cent or more in ten northern cities, according to a study published by Peking University. Traffic congestion is a major cause of the worsening pollution.

## TOPIC OF THE WEEK:

### China lifts foreign ownership cap for car manufacturers

International carmakers have reacted with relief to China's decision to lift the foreign ownership caps in the auto industry. From Germany's BMW to US electric carmaker Tesla, **companies welcomed the announcement** by the National Development and Reform Commission on April 17.

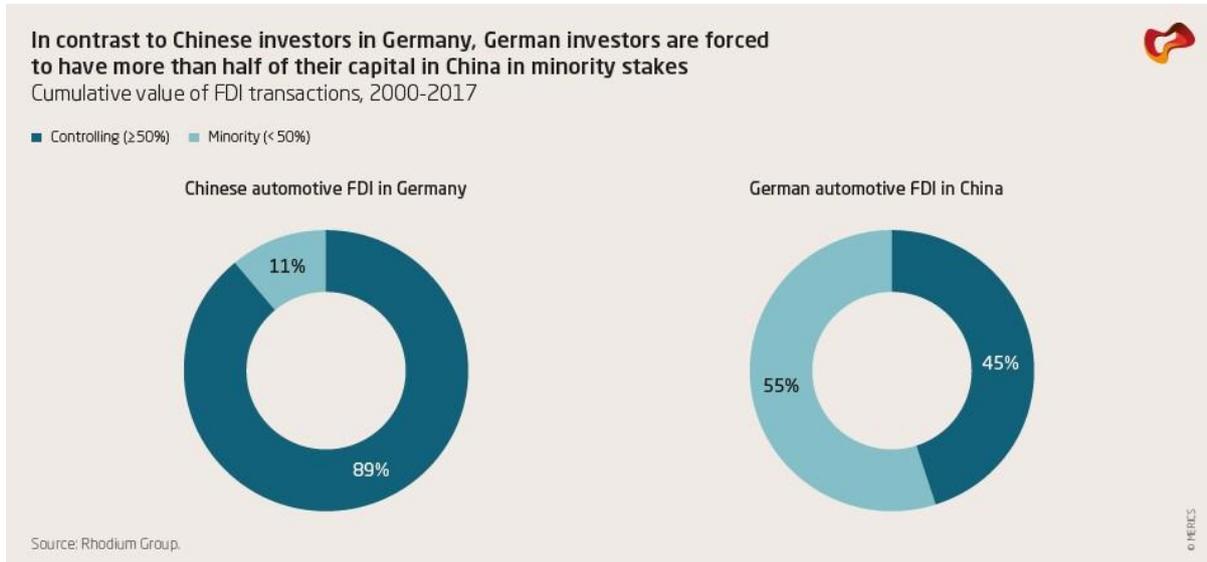
Tesla is set to benefit the most in the short term, as the restrictions for new energy and hybrid fuel vehicles are set to fall before the end of this year, while the foreign ownership limits for the wider car market will end in 2022. According to the announcement, foreign ownership caps in the shipbuilding and aircraft industries will also be scrapped in 2018.

The highly symbolic move comes after China's party and state leader Xi Jinping had renewed his promise to further open the Chinese economy to foreign investment in a speech at the annual Bo'ao economic forum. It also comes amid a trade spat with the Trump administration in Washington, which accuses China of unfair trade and investment practices and is threatening to impose wide-ranging tariffs on Chinese products.

Tesla could make use of the new rules as it plans to open a factory in Shanghai. International carmakers already in China are more likely to keep their established structures with local partners for now. Analysts expect a changing market environment in the medium to long term though as international carmakers will now be free to set up new production facilities without Chinese involvement. Some predict that China might evolve into an Asian or even global production center, especially for electric vehicles.

The announced opening does not address the overall lack of reciprocity in investment relations between China and the EU. China ranges far below OECD average and even below other developing countries when it comes to investment openness, and it has a long history of discriminating against foreign investors. Chinese investors still enjoy mostly unrestricted access to European industries. But the majority of recent large-scale Chinese investments in the EU would not have been possible in the other direction, as **a new report by MERICS and the Rhodium Group** has found.

**Mikko Huotari**, Head of Program International Relations: "The opening of the car industry follows a well-known pattern: China opens its markets only when it views this as in its own strategic advantage. In this case, the failure of state-owned domestic players in the sector has contributed to the decision to let foreign investors play a larger role."



**MERICS analysis:** EU-China FDI: Working towards reciprocity in investment relations. By Thilo Hanemann and Mikko Huotari.

## CHINA AND THE WORLD

### Chinese navy stages show of strength in contested waters

The Chinese Navy (PLAN) has carried out four drills and exercises in the contested South China Sea and the Taiwan Strait in recent weeks. The show of force comes amid rising trade tensions between China and the United States and recent US freedom of navigation patrols near the disputed Spratly islands.

The latest drill took place on April 18 and included a live-fire exercise near the Taiwan Strait. This was the first naval drill in the area since late 2015. Earlier in April and at the end of March the PLAN staged three naval exercises, some involving the aircraft carrier Liaoning and live-fire drills, near the island of Hainan in the South China Sea. Those exercises took place **before, during and shortly after** the nearby Bo'ao Forum during which Chinese president Xi Jinping emphasized his country's path of peaceful development.

While all drills were conducted in areas that are not particularly sensitive, the exercises were one of the largest shows of force of the **Chinese Navy** in the region in recent years.

**Helena Legarda**, Research Associate at MERICS: "These many exercises within a few weeks send a strong message to regional powers and to the United States that China is ready and willing to defend its territorial claims in the region."

**MERICs analysis:** [China Security Project](#). Joint project by MERICS and IISS.

### **China's new international aid agency to play key role in Belt and Road Initiative**

China's new International Development Cooperation Agency (国家国际发展合作署) was officially inaugurated last week (April 18). The new body **will be responsible** for strategic guidelines and policies on foreign aid while the implementation will remain with existing agencies and ministries. Many details of the new agency are not yet clear, such as its size and when it will become operational. However, appointments at the top suggest that the new agency will play a key role in the Belt and Road Initiative (BRI), focus on development through infrastructure investment and promote China's domestic development approach abroad.

The leadership team has no previous experience in overseas aid. Head of the new aid agency is Wang Xiaotao (王晓涛), a former deputy head of the National Development and Reform Commission (NDRC) who **led many delegations** to countries interested in BRI projects. His deputies are Zhou Liujun, who previously held a senior position in the Ministry of Commerce, and Deng Boqing, a former ambassador to Nigeria, who more recently led the department for party-related affairs at the foreign ministry. The new agency will report directly to the State Council, China's cabinet.

#### **News in brief**

- [Sino-US steel dispute: EU seeks to join WTO consultations](#)

## **POLITICS, SOCIETY AND MEDIA**

### **Ministry of State Security calls on citizens to report alleged spies online**

China's Ministry of State Security is asking citizens to report alleged security threats **through a new website**. The site, which was set up on China's "Day of National Security" on April 15, urges Chinese citizens to report "espionage activities" and efforts "to overthrow the socialist system."

The site, which is available in Mandarin and English, promises rewards to informants, and warns of foreign attempts to "stir up unrest." The ministry also published a cartoon titled "A friend with a mask," which tells the story of a foreign NGO worker who promotes "western-style" workers' rights in China.

On April 17, **Xi Jinping presided** over the first session of the National Security Commission after the 19th Party Congress. The Chinese Communist Party founded this commission in 2013 to address security challenges to the party-state. On April 16, Zhao Kezhi, Minister of Public Security, highlighted the crack-down on "extreme" religions, sensitive online speeches, social assemblies or activities that might "overthrow or infiltrate" the party-state, in a nationally televised conference.

Over the past few years, China has enacted a series of laws (such as the National Security Law, the Antiterrorism Law, the Foreign NGO Law) to “safeguard national security.” These laws have sparked concerns about the government’s infringement on civil rights.

### **China merges state media outlets to tighten CCP control**

China has merged its state television and radio networks into one mega broadcaster in an overhaul designed to tighten the Communist Party’s grip on public opinion. The new China Media Group (中央广播电视总台) was officially inaugurated on April 19. **The new platform** is made up of China Central Television (CCTV), China National Radio (CNR) and China Radio International (CRI).

The new broadcaster is also known as the “Voice of China” in English. The organization has the rank of a ministry. Although formally placed under the State Council, the new group is under the direct leadership of the Central Propaganda Department of the CCP.

The new media group was created as part of the recent State Council reshuffle announced at the National People’s Congress (NPC) in March. This included the dissolution of the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT), a government organ previously responsible for the administrative side of media control. All media supervision was given to the Central Propaganda Department.

At the inauguration ceremony, Huang Kunming, head of the Central Propaganda Department stressed that the creation of the new media group followed “the principle that the party is exercising control over the media.”

### **China plans life-long professional skills training system**

China aims to improve economic productivity by raising the level of professional qualification in its workforce. On April 18, a State Council executive meeting chaired by Premier Li Keqiang decided to establish a **lifelong professional skills training system** for both urban and rural workers.

The structural shift in China’s economy towards higher value-added production has increased the need for qualified workers. Despite growing numbers of university graduates, companies are finding it hard to fill positions with highly skilled personnel.

Life-long learning also gains importance in light of China’s demographic pressures. Similar to many developed countries, China struggles with an ageing society struggling to keep up with economic and technological change.

The ministries of education, finance, human resources and social security are tasked with conducting research on the implementation. The goal is to set up incentives for companies to set up apprentice systems. The government also plans to subsidize vocational colleges and private learning institutions to encourage non-university careers.

## News in brief

- [New regulations specify passenger behavior that will result in air travel ban](#)
- [China wants to build top university in Xiongan](#)

## ECONOMY, FINANCE AND TECHNOLOGY

### US government hits China's ZTE with seven-year export ban

The US Department of Commerce has barred American companies from selling telecommunications equipment and components to Chinese telecom giant ZTE, a move that could seriously harm the company's international competitiveness. The seven-year ban took effect on April 16.

The US government says ZTE [violated the terms](#) of a sanctions settlement that was imposed last year. Back then the Chinese company had admitted to having shipped telecommunications equipment which contained US components to Iran and North Korea in violation of trade sanctions against the two countries. ZTE was also fined 890 million USD. Another fine of 300 million USD could follow now. [According to media reports](#), a similar probe into possible sanctions violations has been launched against Huawei.

ZTE is one of the largest telecommunications companies in China. About 30 percent of the key components for its products were thus far imported from the US, including Intel and Qualcomm computer chips which are crucial for smartphones. ZTE now loses some of its main suppliers and fears that its business could face serious trouble.

The move by the US government highlights that many Chinese tech companies still depend on overseas components. The export ban could also slow China's plan to build the world's largest 5G-network.

### Strong economic growth continues in first quarter

China's GDP grew by 6.8 percent in the first three months of 2018. Consumption remained the most important driver of growth contributing 77 percent to the expansion of the world's second largest economy. Private investment was also surprisingly strong.

In February, China registered an overall trade deficit, but over the first quarter of the year trade was more balanced. Consequently, exports were slightly lower than expected and pulled down growth by 0.62 percentage points.

Last year, China's economy grew by 6.9 percent. For this year, the government aims at 6.5 percent. The stronger than expected growth in the first quarter gives the government room for economic reforms.

Over the next quarters growth could slow if China continues to address its debt problem, gives higher priority to protecting the environment, and if trade tensions with the United States worsen.

**MERICS analysis:** **MERICS Economic Indicators Q1/2018: Stable economic growth to face headwinds in 2018.** By Max J. Zenglein and Maximilian Kärnfelt.

#### News in brief

- Troubled HNA Group further reduces stake in Deutsche Bank
- Tropical Hainan island to become free trade zone by 2020

## THE EUROPEAN VIEW

### Growing unease in the EU with China's Belt and Road Initiative

China's ambitious Belt and Road Initiative (BRI) is likely to hurt the European Union's trade interests, EU ambassadors have warned. In a report leaked to German business daily "Handelsblatt" and "Frankfurter Allgemeine Zeitung" the diplomats cautioned that the mega infrastructure project "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies."

The statement was signed by 27 of the 28 EU ambassadors – with Hungary being the only exception. The unusually strong criticism follows similar remarks by several European governments – including French president Macron.

The diplomats' statement hasn't been published yet. However, a spokesperson for the Chinese foreign ministry said, Beijing had taken note and had "clarified" the issues with the European side. The EU did not comment on the diplomats' statement. Brussels is currently working on a White Paper on the BRI, which will probably be published in October.

China has promised that BRI projects will benefit all countries along its route, thanks to greater connectivity. But Beijing's main trading partners are growing increasingly suspicious over Beijing's strategic objectives, amid concerns that Chinese firms are set to reap most of the benefits.

Brussels has struggled to maintain a united approach to China despite central and eastern European countries negotiating separately with Beijing via the 16+1 format. The fact that all but one EU ambassadors have now endorsed the joint statement is seen as a push-back against Chinese attempts to divide the EU. Recently, some countries such as Greece, which have already seen considerable Chinese infrastructure investments, appear to take a more cautious approach. Hungary's separate stance does not come as a surprise. The government of Viktor Orban has repeatedly praised Chinese investments as an attractive alternative to EU funds.

Meanwhile, European, Greek and Italian authorities are investigating suspected wide-scale tax fraud at the Greek port of Piraeus, one of China's main trade gateways to Europe. Since 2016, the Chinese state-owned shipping company Cosco hold a majority stake in Piraeus port, a key BRI project and a

symbol for China's growing influence in Europe. Italian investigators said that Chinese firms were suspected of fraudulently avoiding VAT and import duties on large shipments through Piraeus port.

**Jan Weidenfeld**, Head of the European China Policy Unit at MERICS:

"The fact that the EU ambassadors almost unanimously criticized unfair BRI trading and investment practices is a severe setback for Beijing's attempts get more European support for its global infrastructure foreign policy."

---

© Mercator Institute for China Studies (MERICS)

This newsletter is based solely on freely available media reports. It does not necessarily endorse the opinions expressed in these reports and cannot guarantee that their sources and materials are (legally) valid. Any use of link citations assumes that these links were created in accordance with existing laws and regulations.