



Issue 10/2018 (May 18-31, 2018)

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**METRIX**

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Only 18 countries worldwide still have diplomatic relations with Taiwan, after both the Dominican Republic and Burkina Faso cut ties with Taipei and instead established official relations with China earlier this month. **China has launched a campaign** over the last two years to lure away Taiwan's remaining diplomatic allies, as it seeks to pressure Taiwanese president Tsai Ying-wen, who it fears wants to push for the island's formal independence.

## TOPIC OF THE WEEK: EU-CHINA INVESTMENT RELATIONS

### MEPs propose tougher investment rules as China eyes more takeovers in Europe

The European Parliament has urged EU member states to take a tougher stance on foreign investments to counter Chinese state-led strategic takeovers. The move by the parliament's International Trade Committee (INTA) comes as Germany's government reportedly considers blocking a proposed Chinese investment in a machinery manufacturer and another Chinese company's interest in buying a German automotive supplier has raised some eyebrows.

In the latest take-over bid, Ningbo Jifeng Auto Parts has made an approach to buy rival Grammer which is based in Amberg in southern Germany. The German company said **on May 29** that Ningbo Jifeng, already a major shareholder, was in "advanced negotiations" with the firm. A few days earlier, **Han-****delsblatt** reported that Germany's economics ministry may block a proposed Chinese investment in Leifeld, a manufacturer of machines to process titanium steel, citing "several problematic areas" in the deal. **The newspaper also said** that Chinese state grid operator SGCC was making a fresh attempt to buy a 20 percent stake in German high-voltage energy network 50Hertz after a prior attempt failed.

Concerns over Chinese acquisitions in Europe have risen for some time. The latest **proposals by the European Parliament**, passed on May 28, would make it easier for the EU to scrutinize such take-over attempts. The plan goes further than proposals by the European Commission and extends the list of sectors that could warrant a screening process on security and public order grounds to media, energy and water distribution, transport networks and. The EP also suggests to explicitly include, among others, the automotive industry, rail, aerospace, and ICT as "critical and *strategic* technologies."

Moreover, the MEP's plan also includes the concept of reciprocity, i.e. whether a similar investment would be possible in the investor's home country, as a basis for deciding whether a given investment has security implications and should therefore be screened. This measure particularly targets China which stands accused of supporting and subsidizing its companies to invest abroad while shielding its domestic market from foreign competition.

In addition, the European Parliament also wants to introduce a clause that would allow third countries to scrutinize certain deals. If at least one third of EU governments, together with the European Commission, believe that a foreign investment in an individual EU country is likely to affect their joint security or public order that country will have to explain its decision-making process. The Commission will act as an intermediary.

The parliament's committee on international trade wants to start talks with the European Commission and the Council of the European Union, which represents the EU member states, in mid-July. The aim is to pass the new legislation by the end of the year. However, it is unclear whether the proposals would get the necessary approval by all EU member states. Countries with sizeable Chinese infrastructure investments like Greece might raise objections.

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

“The proposal by the European Parliament’s International Trade Committee is a clear step forward in the legislative process to better protect European strategic economic interests. It also sends a strong signal to China over the lack of reciprocal market access. Whether the EU institutions will manage to pass this legislation by the end of the year will be a yardstick for the EU’s ability to act cohesively on China.”

**MERICS analysis:** [EU-China FDI: Working towards more reciprocity in investment relations](#). Joint report by MERICS and Rhodium Group.

## CHINA AND THE WORLD

### United States to impose 25 percent tariffs on tech goods from China

The US government [has announced](#) tariffs on 50 billion USD worth of Chinese tech imports and new restrictions on Chinese investments in the United States. The statement by the White House [on May 29](#) said the final list of covered goods will be published on June 15 but did not give a timeline on the implementation of these measures. The planned investment restrictions are aimed at preventing Chinese companies from acquiring US technology. [Those restrictions](#) will be announced by June 30, the Trump administration said.

The White House announcement appears to end the “trade truce” reached earlier in May after talks in Washington and Beijing’s decision to cut tariffs on US automobile imports. The US measures aim at one of the sticking points in these talks: Beijing’s “Made in China 2025” economic strategy to turn the country into a major global player in high-tech areas such as Artificial Intelligence (AI), robotics and electric cars. However, it seems highly unlikely that the Chinese government will retreat from its tech ambition. Chinese president Xi Jinping reiterated in a speech on May 28 that China wants to become a world leader in science and technology.

[The new threats from Washington drew sharp criticism from Beijing](#). “Every flip-flop and U-turn of a country will be simply depleting and squandering its own credibility,” Foreign Ministry spokeswoman Hua Chunying said at a regular briefing.

The timing of the tariffs announcement by the White House can be seen as a move to bolster the negotiating position of US commerce secretary Wilbur Ross who is expected for more trade talks in Beijing this weekend. However, [some media reports](#) say because of the tariffs decision those meetings might get cancelled.

### Merkel calls for closer cooperation on digitalization with China

German Chancellor Merkel has identified digitalization as a new challenge for Sino-German relations. During a two-day visit to China last week, she said it was necessary to develop similar norms and standards for expanding mobile phone networks, sensors, the internet of things, and other applications. She criticized China’s [new cybersecurity law](#) that obliges foreign investors to store some data on Chinese servers.

During her visit to Beijing and the southern city of Shenzhen she also re-iterated some long-standing sour points between Berlin and Beijing. She called on China to improve its human rights record and met with artists, human rights lawyers, and **family members** of imprisoned activists.

During a meeting of a Sino-German advisory group on economic relations, Merkel called for a level playing field for foreign companies in China. She said foreign companies wanted “reciprocal access”, especially in areas where China was already a **technology leader**. She also called on German companies to prepare for the challenges ahead. Germany had to adapt to digitalization and the resulting changes in the labor market, she warned.

Reciprocity in investment relations will also be on the agenda during the July 9 Sino-German government consultation talks. Merkel and premier Li Keqiang said at a joint press conference in Beijing that the bilateral dialogue on the rule of law will also continue and a new dialogue format on security issues will be established. The automotive sector and health care will continue to be central elements in the bilateral cooperation.

#### News in brief

- **Philippine President warns China over South China Sea**
- **French agents charged with passing information to China**

## POLITICS, SOCIETY AND MEDIA

### New audit commission bolsters CCP’s powers in anti-corruption campaign

Chinese party and state leader Xi Jinping has become head of yet another commission. Last week he chaired the first meeting of a new Central Audit Commission, a body that is going to help with the ongoing anti-corruption campaign. **At the meeting** Xi called the establishment of the new commission a great measure to enhance the CCP’s leadership over auditing work.

Turning former “Small Leading Groups” into official commissions is seen as giving them more power and influence. The director of any such commission, in this case Xi himself, has binding decision-making power. By contrast, the National Audit Office, which comes under the State Council, is part of the executive.

The new audit commission is expected to support and help the new Supervisory Commission which is an organ of the Central Disciplinary Commission (CCDI) of the CCP. The establishment of these new bodies gives more power to the CCP. During past anti-corruption campaigns, the CCDI got support from other state institutions.

### **Chinese lecturer fired for raising presidential term limits in class**

A lecturer at the Zhongnan University of Economics and Law in Hubei province has lost her job after her students reported her for making ideologically “incorrect” comments in class. Former associate professor Zhai Juhong was reported on April 25 after making comments about recent changes to China's constitution allowing president Xi Jinping to remain in post indefinitely. **According to media reports**, the 52-year old academic was suspended from teaching and researching at the university in the provincial capital Wuhan, lost her job and was expelled from the Communist Party (CCP).

The CCP has recently extended its control over Chinese universities. While university classrooms offered a relatively sheltered space for discussion, the CCP is now recruiting students to inform on their classmates and lecturers.

### **China sues man for defaming dead hero**

Chinese prosecutors have filed a lawsuit against an individual accused of insulting a fireman who died in the line of duty, **the first such case** since the country adopted a law in April that bans the defamation of heroes and martyrs, state media said.

The fireman, Xie Yong, fell to his death from a building during a rescue operation on May 12 in the eastern province of Jiangsu. **The Global Times** reported that he had given his respirator to a colleague. Xie was declared a martyr a day after his death in heavy smoke. A person identified only by his surname Zeng had “allegedly spread hate speech” against Xie on social media, the reports said.

The family of the dead fireman did not file any complaints against Zeng, but prosecutors filed a lawsuit in “the public interest.” **He was asked** to change his behavior and apologize publicly through the media. After Zeng complied, the prosecution decided to drop the charges.

The law banning the defamation of martyrs and heroes is one of several laws ushered in by President Xi Jinping in the name of protecting China and the Communist Party from perceived threats both internal and external.

### **Chinese students mark international day against homophobia**

Chinese students organized awareness campaigns and other events at schools and universities on May 17, the international day against homophobia, transphobia and biphobia. The students waived rainbow flags, distributed leaflets and organized events amid concerns of growing intolerance towards LGBT causes.

**Reuters reported** that the organizers tried to keep the events low key. In the central city of Wuhan the local university administration had urged students to stay away from any gatherings.

Recently, there have been a few incidents against members of the LGBT community. On May 13, security guards in the **Beijing art district 798** beat two women who wore rainbow badges. Videos of the incident circulated on the internet but were swiftly deleted by censors.

A week earlier, the European Broadcasting Union (EBU) had canceled television rights granted to the Chinese broadcaster Mango TV to air the Eurovision Song Contest. Mango TV had blurred LGBT symbols during the semi-finals and censored a performance by two male dancers.

In April, Weibo, a popular microblogging service, announced it would no longer tolerate LGBT content. The decision was only reversed after massive protests by internet users.

All these developments might explain why the international day against homophobia was not mentioned by state-controlled media. The Chinese leadership is particularly concerned about any issues that have the potential to lead to nation-wide debates and protests. LGBT issues are often labeled as “imported from the West.”

#### News in brief

- China calls on all mosques to raise national flag
- Beijing mulls end to “two-child policy”
- Last Maoists find refuge in Hongkong

## ECONOMY, FINANCE AND TECHNOLOGY

### China to end “one size fits all” environmental policies

The Chinese government wants to end the centralized approach to environmental protection and give local governments room for more nuanced measures. The **Ministry of Ecology and Environment (MEE)** said in a notice published earlier this week that the failure to take heed of local conditions would be regarded as a form of bureaucratic thinking.

China often imposes blanket restrictions on traffic, coal use and industrial activity to meet environmental targets. During heavy smog in some northern cities last winter, polluting industries were forced to reduce their production capacity. Companies complained that these measures did not take account of local conditions. A more nuanced approach could potentially provide room for long-term solutions rather than quick fixes. However, local authorities will be careful to avoid job losses and negative effects on profits.

The MEE’s notice comes just days after China’s president and CCP leader Xi Jinping called for stronger efforts against pollution. After a **high-level meeting on May 19** Xi was quoted as saying that progress was not made in a firm manner despite overall improvement in China’s ecological environment.

Decades of breakneck growth have led to widespread environmental degradation in China. Last year, **the CCP** listed efforts to fight pollution among its priorities for 2018.

### Wave of corporate bond defaults expose companies’ financial risks

The Chinese energy company CERCG is the latest in a string of firms that have failed to repay corporate bonds in the last few months. The defaults are the result of the deleveraging campaign by China’s central

bank, the People's Bank of China (PBOC), aimed at curbing risky lending and tightening credit conditions. At least six publicly traded bonds have defaulted this quarter alone; a total of at least 14 **missed payments** this year.

The **China Energy Reserve & Chemicals Group** failed to repay a 350 million USD bond and said in a statement this was due to a "tightening in credit conditions." **Media reports** say the total value of this year's bond defaults now stands at 2 billion USD.

Because of the ongoing deleveraging campaign, more defaults are likely to follow in the months ahead. In the past, companies used to take out new loans to extend previous obligations. But if rates rise or if banks no longer extend financing to risky firms, these companies may face a liquidity squeeze.

The flurry of defaults shows that the regulators are determined to go ahead with cleaning up the domestic financial market and reduce financial risks. The developments have also exposed weaknesses in many companies' foundations. Their financial situation is often less rosy than it might have appeared.

### **Ministry releases White Paper on China's blockchain industry**

China is making headways in the development of blockchain technology and its application in the real economy. A White Paper published by the **Ministry for Industry and Information Technology (MIIT)** on May 21 says a complete industrial chain for blockchain technology from hardware manufacturing to application services and investment has already emerged.

As of March 2018, 456 blockchain technology **companies** were operating in China, six times more than in 2014. Last year, China topped the list of blockchain patent applications, with 225 of 406 applications worldwide.

Blockchain technology was originally developed as a safe means to record transactions in virtual currencies such as Bitcoins. The technology has expanded into fields such as product traceability and copyright protection.

Blockchain is one of the key technologies mentioned in National Informatization Strategy of China's 13th Five-Year Plan (2016-2020). To strengthen capabilities in this area is seen as an important stepping stone on China's path to upgrade its industries. The State Council, China's cabinet, recently called for accelerated research into blockchain technology in the **Guangdong Free Trade Zone**. China's first national standard for blockchain technology is expected **to be issued** before the end of 2019.

### **News in brief**

- **Chairman of Chinese bank found dead in his office**
- **Beijing to step up controls of real estate markets**

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