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TOPIC OF THE WEEK: 40 years of reform and opening up

Deng Xiaoping's legacy: CCP leadership struggles to define reform era

China is headed towards a major anniversary. December 18, 1978 marks the beginning of the famous third plenum of the 11th Central Committee when Deng Xiaoping launched China's reform and opening-up policy. The leadership has not revealed how it plans to commemorate the historic day. Two exhibitions in Beijing and Shenzhen trace the country's development from a poor rural economy into the world's second largest economy. Yet the CCP leadership appears divided over how to interpret Deng's legacy and what it means for China's future course. At the heart of this struggle is the growing discontent with the economic policies of current state and party leader Xi Jinping.

Deng's shift of course helped revive China's economy after Mao Zedong's devastating Cultural Revolution. The reform and opening-up policy released the entrepreneurial energy of millions and led to China's integration in the world economy. It also unleashed fierce ideological debates about the future of socialism that are still ongoing today. Deng's pragmatic middle road was: yes to economic opening, no to political reform.

There are signs that the current party leadership struggles to reconcile Deng's legacy as China's paramount reformer with the personality cult it has created around Xi. [At the Shenzhen exhibition](#), a wall relief showing Deng on his famous Southern Tour in 1992 was reportedly temporarily replaced by a Xi Jinping quote but is now on display again.

The anniversary has also emboldened Xi's critics to speak out. In a speech in September, Deng's influential son [Deng Pufang](#) had accused Xi of discarding central aspects of his father's reform policy. He reminded the audience of Deng's famous dictums to "seek truth from facts" and to "hide your strength, bide your time." This was interpreted as criticism of Xi's unusually confident – some would say aggressive – foreign policy posture.

In a clear departure from Deng's cautious foreign policy, Xi has stated China's ambition to shape the international order. Within China, he aims to establish his concept of "socialism with Chinese characteristics for a new era" as a central contribution to the socialist canon and to be recognized as a leader on par with Mao and Deng. After Xi had appeared invincible at last year's Party Congress, he now faces stronger headwinds. As of the end of 2018, his status seems less assured as the anniversary highlights the unbroken public appeal of his predecessor Deng Xiaoping as the architect of China's reforms.

Kristin Shi-Kupfer, Director of the Research Area on Public Policy and Society at MERICS: Xi is currently moving away from Deng's legacy of reform and opening-up. In the absence of economic and foreign policy successes, he may lose support inside the CCP.

PUBLIC POLICY

For the CCP giving up the monopoly of power was never an option

The third plenary session of the 11th Central Committee in 1978 marked a new beginning for the Chinese Communist Party (CCP). Following the turmoil and violent excesses of the Cultural Revolution, the party's various wings agreed on gradual economic reforms. This gave rise to hopes at home and abroad for political liberalization, too. In 1987, CCP General Secretary Zhao Ziyang introduced a program to professionalize the civil service and restrict the CCP's powers. However, with the violent crackdown on urban protests in 1989, the CCP leadership under Deng Xiaoping sent out a clear signal. Liberal forces were punished by the party. Zhao Ziyang was put under house arrest.

As a result, the economic reform process also stalled. It was not until spring 1992 that Deng Xiaoping was able to re-launch market-oriented reforms through his trip to the southern provinces (南巡). In the following years, the CCP benefited from the economic boom as the population enjoyed increasing prosperity. In 2000, party and state leader Jiang Zemin opened the CCP to private entrepreneurs and other new groups, such as IT specialists. Consequently, it came as little surprise when **it was confirmed recently** that Jack Ma, founder and CEO of the internet giant Alibaba and China's richest man, is also a card-carrying member of the CCP.

However, the fusion of political and economic interests also led to a sharp increase in corruption, which caused growing frustration among ordinary Chinese. Shortly after taking up his role as party leader in 2012, Xi Jinping launched a campaign against corruption and nepotism. At the same time, he defined four objectives that should be implemented "comprehensively" (四个全面): building a moderately prosperous society; the continuation of economic reforms, rules-based governance and the strict leadership of the party.

In recent years the CCP has further emphasized that the rise of the country and the party are inseparably intertwined. This was clearly illustrated by the changes to the CCP's statute at the 19th party congress in 2017 and the constitutional amendments approved in March 2018. Both meetings cemented the CCP's leadership and control in all areas of public life. Also, **recently published party documents** make it clear that the CCP sees no need for increased political participation.

KMT comeback makes PRC the second winner in Taiwan's local elections

Taiwanese President **Tsai Ing-wen has resigned** as chairwoman of the Democratic Progressive Party (DPP) after the party's stinging loss in the November 24 local elections. The Kuomintang (KMT) now controls 15 out of 22 cities and counties, including former DPP strongholds. The prognosis is that if the DPP fails to turn the situation around, it risks dramatic losses in the elections for the Legislative Yuan in 2020.

The KMT comeback and the defeat of the pro-independence DPP **plays into the hands of pro-China forces**, at least for now. But calls for independence might gain support again if allegations of mainland Chinese influence in the elections are confirmed.

The DPP has accused Beijing of influencing the elections through illegal campaign funding in favor of the KMT. Taiwan's Investigation Bureau **is currently probing the issue**. Mainland Chinese media have denied the accusations.

Regardless of Chinese involvement, the DPP's pro-independence stance may have helped increase turnout among supporters of the KMT, paving the way for rapprochement with the PRC. But the deepening political and economic rift with China may have also made traditional DPP voters uneasy.

Overall, most commentators blamed domestic issues for the swing in the electoral mood. The DPP is said to have alienated key constituencies by failing to revive a stagnating labor market, by introducing a contentious pension reform for the public service, and by wavering on its support for gay marriage.

The DPP also failed to gain approval for its social reform agenda in a **multi-item referendum** alongside with the election. The referendum item on whether Taiwan should use the designation "Taiwan" instead of "Chinese, Taipei" in international sports events was voted down by a narrow margin, but voters were almost evenly split.

News in brief

- **Repression of Muslim minorities: China plans to take Xinjiang approach to Ningxia region**
- **Exit bans: China holds American children of Chinese fugitives hostage**

SOCIETY AND MEDIA

The "fifth modernization" – what happened to hopes for political liberalization?

The Communist Party stands above everything – and, as China's party and state leader Xi Jinping affirmed on this week's **National Day of the Constitution**, this includes the law. China's constitution may list the same civil rights and liberties as constitutions of liberal democracies, but Article 1 clarifies the difference: "The People's Republic of China is a socialist state under the democratic dictatorship of the people, which is led by the working class and is based on the alliance of peasants and workers."

Throughout 40 years of China's reform and opening-up policy, there were many failed attempts to push for political liberalization in China. On December 5, 1978, the former Red Guard Wei Jingsheng published his essay, "**The fifth modernization**," (the fifth referring to democracy) as a "big-character poster" on the "Wall of Democracy" in Beijing. The brick wall near Tiananmen Square had become a meeting point for political activists. After some hesitation, Deng Xiaoping ordered an end of the protests and the arrest of the protestors.

Events like these became a regular occurrence in China's history post 1978. Calls for political liberalization resurfaced on average once per decade. In the spring of 1989, the death of the reform-oriented Party Chairman Hu Yaobang sparked a nationwide urban protest movement, which was initially directed against mismanagement and corruption, but eventually included demands for rule of law, freedom of the press and democracy. In the night from June 3 to June 4 the People's Liberation Army opened fire on the protesters on Tiananmen Square, clearing it by force. The score: thousands of dead and wounded, show trials and repression across the country.

In the fall of 1997 a group of intellectuals, many of them known democracy activists, prepared the founding of the "China Democratic Party." Capitalizing on the international attention during US president Bill Clinton's visit to China in the early summer of 1998, they **filed applications to register the new party** in different cities. As soon as Clinton had left, the Chinese leadership ordered the arrest of the activists and declared the groups "illegal."

In December 2008, civil rights activists around the philosopher **Liu Xiaobo** tried a different route. Their political manifesto, "**Charta 08**," which included 19 demands for political and societal liberalization, was signed by citizens from all walks of life. The CCP leadership ordered Liu – and many others – to be arrested. He was convicted to 11 years in prison. Liu was awarded the Nobel Peace Prize in 2010. He was later diagnosed with liver cancer and died in state custody in 2017.

Another ten years have passed since the Charta 08. There are sporadic protests, from labor protests in Guangdong to the democracy movement in Hong Kong, but so far none has developed into a nationwide movement. Beijing has prevented this by increasing the surveillance of universities, media and non-government organizations and by arresting dissidents. In 2018, political liberalization in China seems a very distant prospect.

Chinese scientist disappears after genetic engineering controversy

The controversial scientist who claimed to have altered the genome of two newborn twin girls has disappeared. **As the South China Morning Post reported**, He Jiankui has not been seen after his appearance at the Second International Summit on Human Genome Editing in Hong Kong last week. A spokeswoman for the Shenzhen-based Southern University of Science and Technology (SUSTC), with which He had been affiliated, denied claims that he had been detained but refused to answer questions about He's current whereabouts.

The Chinese scientist had shocked the international community when he announced the creation of the world's first genetically altered babies. In a **series of Youtube videos** released on November 26, He claimed to have used the CRISPR gene editing technology to make the embryos resistant against an infection with HIV. **At the conference in Hong Kong on November 28**, He revealed the existence of a second pregnancy with a gene-edited embryo.

Joining the global outcry, **more than 100 Chinese scientists** condemned He's work as unethical in an open letter. **Renowned geneticists have also stated** that – based on the limited data He provided – his use of the CRISPR technology was flawed, which could have created health risks for the twin girls rather

than eliminating them. In China, the case has sparked a debate about the ethical limits of technological development and about potential gaps in oversight of research.

China's **Ministry of Science and Technology has ordered an investigation** of the case and a temporary stop of all research related to human genetic editing. SUSTC had claimed that it knew nothing about He's research objectives. He had been on leave from the university since February. SUSTC said it wants to set up an independent committee to investigate the case.

MERICS analysis: "A debate on ethics of new technologies is overdue in China." A blogpost by Mao Yishu.

News in brief

- **Crackdown on labor group: Human Rights Watch demands release of activists**
- **Dolce & Gabbana backlash: "Chopstick" ad sparks public outcry**
- **Community watch groups: Rock star's arrest sheds light on Mao-era style tactics**

CHINA AND THE WORLD

China becomes a global player, but economic integration remains incomplete

Listening to Chinese President Xi Jinping's pledge to introduce further market-oriented reforms at the G20 summit in Buenos Aires, international political and business elites must have found his words both familiar and disappointing. Most of them have grown accustomed to the Chinese leadership's rhetoric. "China owes its progress to reform and opening-up and will continue to advance on this path," Xi said without giving much detail.

Since the rapprochement between China and the United States in 1972 and the beginning of reform and opening-up in 1978, the international community has hoped that China would integrate into the liberal international order, turn into a fully-fledged market economy and liberalize politically. Key moments re-enforced the hopes for Chinese integration into the global system over the years: China's accession to the WTO in 2001, the Beijing Olympics in 2008, and the 3rd Plenum of 2013 on market reform. More recently, Xi Jinping promoted China as a champion of free trade at the 2017 World Economic Forum in Davos.

Undoubtedly, the policies that set off China on a path of economic growth 40 years ago have greatly contributed to global growth. However, over the years China has failed to convince the international community that it is serious about implementing systemic economic reforms.

Buenos Aires was no different: Xi repeated that China would increase imports, protect intellectual property rights and promote fair competition. Yet his remarks remained unsubstantiated. He did not provide details or timelines. Instead, the Chinese leader pictured China as still a developing country. The subtext was clear: China should be granted preferential treatment as it is not yet on par with developed nations.

While economic integration remains incomplete, China has become a global player in many other areas. For years China maintained a cautious approach in international security policy, prioritizing its economic rise. At the United Nations, the Chinese government stressed national sovereignty and the principle of “non-interference” in other countries’ affairs. But since the turn of the century, China has gradually increased its global security footprint, for example by increasing its contribution to UN-led peace keeping missions. Under Xi Jinping the country has stated its global ambitions more clearly, and it has dramatically increased its global security engagement. China has built up massive military facilities in the disputed South China Sea. And it has become active along its Belt and Road Initiative (BRI), engaging in conflict management and providing security for BRI-related infrastructure projects and investments in Central Asia.

China offers US no public concessions in trade dispute at G20

At the G20 summit in Buenos Aires, China confirmed a ceasefire in the trade dispute with the United States, but left the world guessing over where they stood on open markets and free trade. In his speech, Chinese President Xi Jinping emphasized the need for an open global economy, as he had done at the G20 meeting in Hamburg last year. But he offered no suggestions for accommodating other countries’ calls for better market access in China.

China also made no public concessions to Washington in return for a reprieve in the tariff war – contrary to what the White House claimed. After the bilateral meeting between President Xi Jinping and President Donald Trump, the White House announced that the United States would hold off on a planned additional tariff hike on Chinese products for another 90 days. Prior to this announcement, the tariffs on 200 billion USD worth of Chinese products introduced this year had been scheduled to rise from 10 to 25 percent on January 1.

According to the Trump White House, China is allegedly willing to enter into “immediate negotiations” over forced technology transfer, intellectual property protection, non-tariff barriers and cyber theft. In its separate account of the meeting, China made no mention of such planned talks on structural issues but stressed that both sides were working on bringing tariffs back to normal.

The temporary truce between the US and China could be short lived though. On Wednesday it was confirmed that the Chief Financial Officer of the Chinese telecommunications giant Huawei **was arrested in Canada** at the request of the United States and faces extradition to the US. The arrest is a further sign that relations between Beijing and Washington remain tense.

German president calls for debate on the ethics of digitization and AI

German president Frank-Walter Steinmeier has called for a discussion on the ethical limits of digitization and artificial intelligence. If technological progress improves people's lives, it is welcome in Germany, said Steinmeier on Wednesday after arriving in Guangzhou **for a six-day visit** to China. But AI should not be used for surveillance and control.

The German president is also expected to address the situation in the northwestern province of Xinjiang, where, according to human rights organizations, around one million Uighurs are said to be detained in re-education camps.

The situation in Xinjiang is also likely to come up in the German-Chinese human rights dialogue, which will take place on December 6 and 7 December in the Tibetan capital Lhasa. The German government's human rights commissioner Bärbel Kofler will attend the meeting. **According to the German foreign ministry in Berlin**, she originally wanted to travel to Xinjiang to get an idea of the situation there. However, the Chinese government refused permission for such a trip. Before departing for China Kofler described reports on human rights abuses in Xinjiang as "shocking" and the situation in Tibet as "disturbing."

MERICS-Analysis: "Germany's promotion of liberal values vis-à-vis China: Adapting to new realities in political relations." Contribution by Lucrezia Poggetti and Kristin Shi-Kupfer to the 2018 report of the European Think-tank network on China.

News in brief

- **Exclusive partners: Panama and China sign multiple cooperation agreements**
- **Counter influence: New Zealand will send 14 new diplomats to the South Pacific region**
- **Joint drill: Chinese and Spanish navies hold medical rescue drill in the Gulf of Aden**

ECONOMY, FINANCE AND TECHNOLOGY

Economy still fairly closed off after 40 years of experimentation

China's experimental zones have been key drivers of China's 40-year-long efforts to open its economy to the rest of the world. Such local points of experimentation were introduced in three waves.

- Firstly, Special Economic Zones (SEZs) were established in the 1980s to serve as catalysts for China's transition from a planned economy to a more liberal model.
- Secondly, Pilot Free Trade Zones (PFTZs) were introduced in 2013. As of today, eleven such PFTZs exist in China.
- Thirdly, China's president Xi Jinping introduced the concept of so-called "Free Trade Ports with Chinese characteristics" (FTPs) in October last year.

Starting with Shenzhen in 2020, China's new FTPs are to be established within existing free trade zones. They do not, however, differ much from previous free trade zones.

In theory, the three types of experimental zones represent a gradual introduction of a more liberal approach akin to the Western economic model. And indeed, hopes were high for the initial SEZs to herald a new era of far-reaching reforms breaking through China's closed economy. This initial enthusiasm, however, has not carried over to the PFTZs. Promised measures were often not implemented or nullified by post-market entry regulations. De facto discrimination against foreign investment still exists even in

those industries that formally welcome investment as well as competition from abroad. Another factor impeding the success of China's PFTZs – and most likely that of FTPs – is the lack of incentives for local authorities to experiment with profound economic reforms. The current trend under president Xi to centralize decision-making power and recent campaigns to align local government approaches with CCP ideology offset the original advantages of pilot zones as hubs for policy innovation.

Beijing also still applies a highly selective and strategic approach in opening its economy to foreign actors. This is especially visible in industries such as the financial sector that rely on foreign input to spur growth. Thus, after four decades of proclaimed opening-up, China's economy remains fairly closed off.

Stock markets volatile in reaction to G20 trade announcements

Stock markets around the world initially climbed sharply after the US announcement to delay the imposition of further tariffs against China after President Donald Trump and President Xi Jinping's meeting on the sidelines of the G20 summit in Argentina. The United States said it would give China 90 days to make concessions in the bilateral trade disputes.

But the mood soon shifted amid confusion over what both sides had actually agreed upon. In the days following the G20 meeting stock indices across the world have taken hits. In New York the S&P 500 fell by more than three percent. The sell-off has spread to other bourses across the world, including in China. **Markets slumped further on Thursday** after it was confirmed that the CFO of the Chinese telecommunications giant Huawei has been arrested in Canada at the request of the United States. More volatility is likely in the coming days as markets try to work out where the trade war is heading.

The Chinese currency and stock markets have had a difficult year. The currency experienced the steepest fall in value in its history during July. The Shanghai stock exchange has lost more than 20 percent in value during the year.

News in brief

- **Record funds for AI company: Audi partner Horizon Robotics raises 1 billion USD**
- **Financial supervision: New guidelines for systemically important institutions**
- **Slowing growth: China's industrial profits weaken further**
- **Financial market opening: China allows UBS to control local securities JV**
- **China announces new punishments for intellectual-property theft**

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