



Issue 18/2018 (December 7 - 20, 2018)

Contents:	Page
TOPIC OF THE WEEK: DIPLOMATIC ROW OVER HUAWEI	2
Canadians are caught up in diplomatic feud over Huawei CFO arrest	2
CHINA AND THE WORLD	3
BRI language disappears from UN documents	3
POLITICS, SOCIETY AND MEDIA	4
Fake Merkel speech becomes social media hit in China	4
CCP paves way for stricter supervision of party members	4
ECONOMY, FINANCE AND TECHNOLOGY	5
Xi Jinping, praising 40 years of reform, stays silent on future reforms	5
Beijing wants to adjust its “Made in China 2025” strategy	5
THE EUROPEAN VIEW	6
Huawei fears create headache for Europe	6
IN PROFILE	7
Wang Yi: Hard times for courageous pastor	7

METRIX

3.52
trillion

This is the amount in Chinese Yuan (448 billion Euro) consumers in China spent in November. The figure sounds staggering but is actually disappointing. November marked the month with the **slowest growth in retail sales in 15 years** – despite tax cuts for consumers and despite record sales on „Singles Day,“ which is hyped as a national day of shopping. The nominal growth rate of retail sales fell to 8.1 per cent compared to November 2017.

TOPIC OF THE WEEK: DIPLOMATIC ROW OVER HUAWEI

Canadians are caught up in diplomatic feud over Huawei CFO arrest

The diplomatic feud between the United States and China over Chinese telecommunications giant Huawei is drawing other countries into its orbit. Three Canadian citizens have been detained in China in an apparent Chinese move to retaliate against the **arrest of Huawei CFO Meng Wanzhou** in Vancouver on December 1. Meng, who is the daughter of Huawei founder Ren Zhengfei, was arrested at the request of US authorities who demand her extradition for alleged violations against export sanctions to Iran, among other things.

Asides from the legal case, the United States and other countries are increasingly concerned about national security risks connected to employing Huawei technology. Washington has been lobbying its allies to cut ties with Huawei and refrain from hiring the company for the rollout of 5G networks, many European nations are forced to choose sides (See also the section European View below).

In China, Meng's arrest is seen as a political move to thwart Chinese competition in the technology sector. Beijing called it "extremely nasty." US President Donald Trump has contributed to these misgivings by indicating that **Meng could be used as a bargaining chip** in the US-China trade dispute.

Canadian authorities have stressed that Meng, who has since been released on bail to await her extradition hearings, will be treated according to the procedures of Canada's independent legal system. The Canadians arrested in China arguably cannot expect fair and transparent proceedings in China's one-party state, although they were reportedly granted access to consular services.

Michael Kovrig, a former Canadian diplomat and currently senior advisor with the International Crisis Group (ICG), was **detained on Monday, December 10**, in Beijing by Chinese state security. **The second Canadian, Michael Spavor**, was detained in the same week. Spavor is a businessman based in Dandong who organizes business, cultural and tourism exchanges with North Korea. The **Canadian government confirmed the detention** of a third citizen in China on December 19, without providing details about the case.

The first two Canadians were reportedly detained for allegedly engaging in activities that endanger China's national security. In the case of Michael Kovrig, Chinese officials suggested that this could be related to the fact that ICG is not registered as an NGO in China, in accordance with China's new Foreign NGO Law.

The unusually blunt targeting of researchers and business people for political purposes demonstrates a hardening of Beijing's policies. The case also shows that Beijing is willing to use its new legislation, such as the Foreign NGO Law and the National Security Law, to protect national "private" companies.

CHINA AND THE WORLD

BRI language disappears from UN documents

China's attempts to insert its own foreign policy concepts into international documents appear to be running into growing resistance at the United Nations. Since 2017, references to China's Belt and Road Initiative (BRI) have disappeared from UN documents, while similar documents from previous years saw the concepts included.

For example, unlike last year, this year's UN General Assembly's [resolution on the situation in Afghanistan](#) from 6 December makes no reference to the BRI. In two similar cases in December 2017, BRI references had been dropped from two resolutions dealing with cooperation for peace and interreligious dialogue.

Over the past three years, Chinese diplomats have significantly stepped up efforts to insert Chinese concepts such as the Belt and Road Initiative or "community of shared destiny" into UN documents. In a recent example from March 2018, China managed to include the term "mutually beneficial cooperation" between states into a UN Human Rights Council resolution. To avoid any form of reference to the Chinese mantra of "win-win" cooperation, the United States casted a "no" vote on the resolution and privately criticized European countries for not following suit.

However, now, there seems to be a concerted effort by a coalition of Indian, US and some European diplomats to push back against China's attempts to include vaguely defined concepts that could potentially be leveraged to displace other established concepts within the UN context, for instance, when it comes to human rights.

The fact that BRI was dropped from the resolution on the situation in Afghanistan is the most prominent example of this shift so far. The preceding Afghanistan resolutions in 2017 and 2016 had highlighted the BRI as one measure to promote regional economic cooperation. The 2018 text still referred to other regional initiatives, such as the Turkmenistan-Afghanistan-Pakistan-India gas pipeline or the Chabahar agreement between India, Afghanistan and Iran, but did not mention BRI.

The removal of previously inserted Chinese terminology is not consistent so far. The Security Council resolution on Afghanistan in March 2018, which renewed the mandate of the UN Assistance Mission, still contained a BRI reference.

MERICs Analysis: [Decoding Chinese concepts for the global order. How Chinese scholars rethink and shape foreign policy ideas.](#) China Monitor by MERICs expert **Sabine Mokry**.

News in brief

- ["Prosper Africa": New US-strategy seeks to diminish Chinese influence on the continent](#)
- [Tensions in East Asia: Japan decides to deploy aircraft carriers for the first time since WWII](#)
- [South Asian cooperation: Chinese and Indian troops undertake joint military drill in Chengdu](#)
- [Mediation: China convenes governments of Pakistan and Afghanistan in order to build trust](#)

POLITICS, SOCIETY AND MEDIA

Fake Merkel speech becomes social media hit in China

A fictitious farewell speech by German Chancellor Angela Merkel became an instant hit in Chinese social media. The speech with the title, “My destiny and Germany’s future” was dated November 21, 2018. Merkel was quoted as warning of a rise of nationalism in Germany and as urging closer cooperation with China. An article by a Xinhua reporter in Berlin debunked the speech as fake news on December 16.

The alleged Merkel speech had been reposted on a number of internet accounts and was viewed over 100,000 times on several of them. Although Merkel is highly popular and well respected in China, it appears unusual that her retreat from the chairmanship of her Christian Democratic Party (CDU) would draw such public attention in China. One reason might be concern over the future of Europe and global policy after the end of the Merkel era. The fictitious speech accordingly contained the following warning: “Isolationism, unilateralism and protectionism destroy the entire world.”

CCP paves way for stricter supervision of party members

The CCP is moving ahead on establishing a new mechanism for mutual supervision among its members. On December 16, the General Office of the CCP passed provisions defining a new procedure for discussing and deciding disciplinary sanctions against party members within party committees and smaller party cells, which will enter into force for trial implementation on January 1, 2019. The CCP Statute was amended in 2017 to include this new measure.

Since 2015, there has been an ongoing campaign to establish small party cells in all organizations, institutions and companies, both public and private. According to Xinhua, until the end of 2017, 61 percent of all social organizations, 73 percent of non-state-owned enterprises, and 95 percent of public institutions have established party cells.

In the past, disciplinary sanctions were imposed directly by the CCP’s discipline inspection agencies. Based on the new provisions, anti-corruption teams now will investigate cases and issue a proposal for sanctions to the party committee or cell, which discusses and officially decides on the disciplinary measures. In recent months anti-corruption teams under the joint leadership of the Central Commission for Discipline Inspection CCDI and National Supervision Commission (NSC) were established at all party, state and public institutions, as well as state-owned enterprises.

According to CCDI chief Zhao Leji, their task is to function as “human surveillance cameras.” Party discipline includes both the economic (corruption) and the political (loyalty) realm as well as “moral behavior.”

Kristin Shi-Kupfer, Director of the research area on public policy and society: “The new procedures are likely to foster an atmosphere of mutual surveillance and distrust among CCP members.”

MERICS analysis: China's National Supervision Commission. Impacts on foreigners and foreign companies.

News in brief

- Umbrella movement: Trial against nine activists ended - judgement to follow in April 2019
- Dragonfly: Violation of Google's internal data protection rules spells end for China search engine
- Early death: Meng Lang, poet and co-founder of the Independent Chinese PEN Center, dies with 57
- Gender equality: China is becoming less equal place for women WEF study says

ECONOMY, FINANCE AND TECHNOLOGY

Xi Jinping, praising 40 years of reform, stays silent on future reforms

In a speech to commemorate the 40th anniversary of the beginning of China's "Reform and Opening Up" period, **China's President Xi Jinping** praised the success of the reform policies, but offered no new reforms going ahead. Speaking in the Great Hall of the People on December 18, Xi proclaimed that the party's leadership and strategy had been "absolutely correct" and that "no one is in the position to dictate to the Chinese people what should and should not be done." This may be **seen as a reaction** to demands for concessions and reforms by the US government in the bilateral trade dispute.

The reforms that were started on December 18, 1978 by then-leader Deng Xiaoping initiated decades of economic growth and transformed China into the second largest economy in the world. During this time, 700 million people were lifted above the poverty line defined by the UN. **Xi acknowledged this** by saying that, "the torments of hunger, lack of food and clothing, and the hardships, which have plagued our people for thousands of years, have generally gone and won't come back."

The speech comes at a time when Chinese growth is slowing and trade frictions with the United States are starting to impact the economy. Markets rose slightly in the morning in expectation of economic policy announcements but declined again soon after the speech had started. Shanghai's composite index fell by 1.2 percent, the Hong Kong based Hang Seng Index fell by 0.9 percent, while Shenzhen's index fell by as much as 1.5 percent to an eight-week low.

Beijing wants to adjust its "Made in China 2025" strategy

The Chinese government considers changing or even replacing its industrial policy called "Made in China 2025." According to reports by **The Wall Street Journal**, a new plan might be published in early 2019.

The "Made in China 2025" strategy was published in 2015. It identifies ten core industries in which China aims to achieve a leading position in the next few decades. The strategy is one of the most contentious

issues in the [ongoing trade dispute with the United States](#) as Washington sees it as an example of China's protectionist and "unfair" policies.

Over the past few months, Chinese media stopped reporting on the strategy as adjustments to the country's industrial policy were underway. The revision of "Made in China 2025" is not solely the result of international pushback. Even Chinese decision makers voiced skepticism over the effectiveness of the strategy. Possible adjustments are, thus, in line with the government's efforts to restructure the entire economy and raise its efficiency.

"Made in China 2025" was also taken off [the list of priorities for local governments](#), which lends credibility to the view that a major revision of China's industrial policy might be imminent. This does not necessarily mean a fundamental change of course. Despite a toning down of its rhetoric the Chinese leadership will continue to employ industrial policies to modernize the country's economy and make it less dependent on external factors.

News in brief

- [Growth of industrial production and retail sales shows renewed weakness](#)
- [Beijing takes control over the dissemination of local economic data](#)
- [Germany tightens foreign acquisition rules amid China's push for technology deals](#)
- [China to support venture capital firms with new tax incentives](#)
- [China to resume import of US soy and cut auto tariffs following G20 talks](#)
- [US readies charges against Chinese hacker group Cloudhopper](#)

THE EUROPEAN VIEW

Huawei fears create headache for Europe

European companies and governments are torn over how to adjust their telecommunications strategies in the face of growing national security concerns. Some have pulled the plug on plans to hire the Chinese company to build up their national 5G networks, while others are moving ahead.

In December, [French mobile operator Orange](#) announced that it will not hire Huawei to build the 5G network in France, working with traditional partners – Nokia (Finnish) and Ericsson (Swedish) – instead. [Deutsche Telekom](#), which relies heavily on Huawei for its hardware, said that it is reviewing its purchasing strategy in Germany and other European markets. On December 18, the [Czech government](#) became the first European country to announce its decision to restrict the use of Huawei technologies in state institutions. On the other hand [Portuguese telecommunications operator Altice](#) signed an MoU with Huawei on December 5 to upgrade the country's 5G network.

Liberal democracies are worried that Huawei equipment could be used by Chinese intelligence and the United States is lobbying its closest partners to disassociate from Huawei. [Spy chiefs from the Five Eyes intelligence sharing network](#), which includes the United States, Canada, the United Kingdom, Australia

and New Zealand, had reportedly agreed that Huawei presented a danger to liberal democracies. The United States, Australia, New Zealand, and Japan have banned Huawei from supplying equipment for their 5G networks. Canada remains undecided.

European countries are now beginning to reconsider their engagement with the Chinese firm. The **chief of British spy agency MI6** has recently raised questions over Huawei's involvement in communications infrastructure. Similar concerns had first been voiced by British intelligence agency **GCHQ** in July 2018. In November, **senior German officials also raised security concerns** over Huawei's involvement in the country's 5G rollout. This came shortly after Huawei had agreed to submit its products to German government control in a new **Security Innovation Lab in Bonn** – following its practice in the UK.

Telecommunications networks constitute critical infrastructure that would give Huawei – and, indirectly, the Chinese government – access to users' sensitive data and industrial secrets, and that could be used to disrupt other countries' infrastructure in a conflict.

A debate about Huawei's involvement in critical infrastructure is overdue in Europe. The cases of Orange, Deutsche Telekom and Altice reflect Europe's wide spectrum of opinions on Huawei's involvement in national 5G rollout plans. Mobile operators and government officials are torn between national security concerns and the appeal of Huawei's low costs for building 5G infrastructure.

It is likely that weaker economies will be more welcoming to Huawei based on these cost calculations. Besides Portugal, the Italian government is very positive about letting Chinese telecommunications companies like Huawei and ZTE build Italy's 5G network. However, the request from the United States to ban them might change this.

MERICS analysis: "**The global success of 'Silicon China': How Europe can react.**" China Lounge with **André Loesekrug-Pietri** and **Stephan Scheuer** on October 31, 2018.

In Profile

Wang Yi: Hard times for courageous pastor

As pastor of the "Early Rain Covenant Church" in Chengdu, Sichuan, Wang Yi never held back with criticism of China's ruling class. A legal scholar by training, Wang had fought for human rights even before his conversion to Christianity 13 years ago. The 45 year old was now **arrested during a raid on his underground church community** and accused of inciting subversion of state power.

In his sermons, Wang criticized the persecution of Christians in China and encouraged them to stay loyal to their faith. He drew large crowds in China where his masses attracted more than 800 believers. The outspoken pastor is known beyond China's borders. In 2006, former US president George W. Bush hosted him at the White House.

The courageous cleric is now under siege in China. Wang's wife and 100 worshippers were rounded up alongside Wang. His 11-year old son is in the custody of his elderly grandmother. Both are **under police surveillance** around the clock.

China's authorities have intensified their crackdown against unofficial religious communities and underground churches. The pastor seems to have had knowledge of his impending arrest. He had **prepared an open letter** and asked his followers to publish it he went missing for more than 48 hours. "My savior Christ requires me to joyfully bear all costs for disobeying wicked laws," Wang wrote. The price for his passive resistance could be high: He could be sentenced to up to 15 years in prison.

© 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.