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For comments or questions about *China Brief*, please contact us at mattis@jamestown.org

1111 16th St. NW, Suite #320
Washington, DC 20036
Tel: (202) 483-8888
Fax: (202) 483-8337

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In a Fortnight

SHELVING DIFFERENCES WHILE HEDGING IN THE SOUTH CHINA SEA

By Peter Mattis

With the summer winding down along with the tensions in the South China Sea, China engaged the principle disputants of this round of regional tensions. China hosted Philippine President Benigno Aquino III for a five-day state visit beginning August 30. In Beijing, Chinese and Vietnamese defense officials met in late August to discuss way to reduce tension and the two sides met again in Hanoi last week for the fifth round of the Annual Sino-Vietnamese Steering Committee. Although the rhetoric of these meetings reiterated commitments to peaceful settlement of disputes and pushed economic ties, Hanoi and Manila both sought domestic and foreign means to hedge against Chinese coercion in the South China Sea.

Both sets of bilateral dialogues downplayed recent tensions and played up the importance of economic ties. In the spirit of boosting trade, both of China's dialogue partners declared "the South China Sea problem is not the entirety of [our] relations" (*Dongfang Zaobao*, September 6; *China Daily*, September 6). As if to emphasize the economic nature of the visit, Aquino brought 200 businesspeople as part of his entourage and Philippine officials hinted at Chinese interest in joint mining ventures the goal of enticing \$2 to \$7 billion of new investment (*Xinhua*, August 31; *Sun Star* [Philippines], August 31). In addition to signing

mining agreements, Beijing and Manila agreed upon a five-year plan for doubling bilateral trade to \$60 billion and the number of tourists to 2 million by 2016 (Xinhua, September 1; Reuters, September 5). These kinds of deals have propelled China toward becoming the Philippines' third largest trading partner, following the United States and Japan (Xinhua, September 1).

Sino-Vietnamese defense talks at the end of August and fifth Annual Sino-Vietnamese Steering Committee exhibited a similarly conciliatory tone. As part of the discussion on the South China Sea, Defense Minister Liang Guanglie—just as he did with Admiral Mullen earlier this summer—encouraged Vietnam to join China in opposing internationalization or avoiding complexity in the territorial dispute (*PLA Daily*, August 30; “China Reacts to Admiral Mullen Visit,” *China Brief*, July 29). Both sides appear to have decided to move forward on a military hotline between Beijing and Hanoi, but it's not clear what concrete steps have been agreed (*Global Times*, September 1). The Steering Committee dialogue carried a somewhat softer tone, celebrating the rapid growth of Sino-Vietnamese trade and China's status as the Vietnam's top trading partner (Xinhua, September 7; *China Daily*, September 6). The committee chairs, State Councilor Dai Bingguo and Deputy Prime Minister Nguyen Thien Nhan, issued a joint statement reiterating promises to abide by the Declaration on the Conduct of Parties in the South China Sea. Although not present for this meeting, Vietnamese Party Chief Nguyen Phu Trong stated “forming a friendly and cooperative relationship with China is a priority in Vietnam's long-term strategy” (*China Daily*, September 9).

Hanoi and Manila however are not taking Beijing's reassurances at face value, even if China's newly released white paper, *China's Peaceful Development*, states China has “done its utmost to uphold peace and stability in the South China Sea.” Almost concurrently with Aquino's visit, the Philippine military hosted a U.S. congressional delegation from the House Armed Services Committee to discuss how Washington can support Philippine defense needs (*Sun Star*, September 6). Following Aquino's departure from China, Manila announced it would purchase another U.S. cutter and six training aircraft and, according to the Chinese press, increased its maritime patrols of the disputed areas in the South China Sea (*Chongqing Chenbao*, September 5; *Dongnan Zaobao*, September 5).

Without reliable treaty partners, Hanoi has been intensifying engagement with India and securing higher-quality weapons—at odds with Beijing's direction to avoid internationalizing regional concerns—in addition to its growing relationship with the United States. India probably has been the suitor, but, as the recent controversial Indian Navy ship visit to Nha Trang—a port closed for many years to foreign militaries—shows, Hanoi has received Indian overtures with increasing willingness (*PLA Daily*, August 18; *Times of India*, September 13). Vietnam's long-awaited purchase of 6 Russian-built Kilo class diesel-electric attack submarines appears to have been finalized in July and Russia will deliver the submarines in 2014. Drawing upon both relationships, Hanoi also may be able to buy the joint Indo-Russian BrahMos anti-ship missile if it can get the agreement of both partners (*Asia Times*, August 17; Phoenix Net, August 15; RIA Novosti, June 3, 2010). The larger question is whether these moves provide Hanoi and Manila with a credible counterbalance in the face of the stronger domestic pro-trade and business constituencies created by the rush for Chinese investment.

South China Seas tensions may be winding down with the talk of burgeoning trade; however, friendly rhetoric does not conceal that no real progress was made, except by the Churchillian standard of “to jaw-jaw is always better than to war-war.” Semi-official press reports indicate Beijing stands behind its claim that it “has indisputable sovereignty over the [South China Sea's] islands and surrounding waters...based on unambiguous and undeniable historical facts” (Xinhua, August 31). On September 2, Beijing dispatched another Fisheries Administration enforcement vessel to the South China Sea near the Paracel Islands to join the two ships already there (Xinhua, September 2). Although tensions may have temporarily cooled, all sides appear to be preparing for the next round.

Peter Mattis is Editor of China Brief at The Jamestown Foundation.

Local Elections Open for All but the Independent Candidates

By Willy Lam

While much of the Middle East and North Africa has been swept by a “spring of democracy” since early this year, the Middle Kingdom is shrouded in deep winter. The latest manifestation of the Chinese Communist Party (CCP) administration’s determination to “nip all destabilizing forces in the bud” consists of draconian ways to prevent roughly one hundred public intellectuals from running for local-level parliamentary elections. This comes despite a host of articles in the official media pledging that citizens’ rights, including the right to participate in politics, will be fully honored. Moreover, there are signs that the roll-back of political reform will continue after the change of leadership at the 18th CCP Congress scheduled for October next year.

Since May, scores of academics, writers, bloggers, businessmen and NGO activists have announced their intention to run in elections for People’s Congresses (PC) at the level of counties and townships as well as municipal districts. Higher-level legislatures—such as those of big cities, provinces and the National People’s Congress [NPC]—are not open for direct elections. According to China’s Election Law, any citizen can become a candidate for PC elections as long as he or she has secured the nominations of ten citizens living in the relevant constituency. Big-name public intellectuals and community figures who wanted to become “independent candidates” for PCs included veteran labor activist Liu Ping from Jiangxi Province; Shanghai writer and businessman Xia Shang; Sichuan’s Net-based social critic Li Chengpeng, whose blog has 3 million subscribers; and Guangzhou-based NGO activist Liang Shuxin, who runs a respected educational foundation (*The Economist*, June 16; *Ming Pao* [Hong Kong] July 21).

None of these well-regarded intellectuals managed to become official candidates. This is despite the fact that all of them are considered moderate social critics, not political dissidents, like Liu Ping. She was disqualified from taking part in the recently held polls in the city of Xinyu, Jiangxi Province. Since she declared her desire to run in May, the activist was subjected to police harassment. Her flat was raided and she was briefly detained by public

security officials. As a result of police intimidation, the majority of Xinyu residents who had nominated her for her candidature withdrew their support. Liu’s political platform—ensuring that all employers observe the Labor Law—can hardly be called radical or destabilizing (Caing.com [Beijing] May 21; China-review.com [Beijing] May 18).

Similar incidents have happened to other aspiring candidates. After making known his desire to run in Shanghai’s Jing’an District, several Ministry of State Security officers visited Xia Shang. Xia also noted the local taxation department wanted new audits of his two firms’ accounts. “I’m all for incremental, non-confrontational politics,” said Xia, who added he did not understand why the authorities wanted him not to contest the elections. Sichuan’s Li Chengpeng was prevented from becoming an official candidate because the majority of his nominees had succumbed to police pressure and forced to withdraw their support. While taking part in the Hong Kong Book Fair last July, Li said he faced immense pressure from the authorities. The popular blogger and writer said a Chengdu firm had backed out of a tennis sponsorship for his son due to pressure from a “mysterious [government] department” (South China Morning Post, July 21; CNN, July 25).

Liang Shuxin, who lives in the middle-class Panyu District of Guangzhou, persevered until late last month. His platform—building an open grocery market to help fellow citizens beat inflation—was the least political among all the would-be legislators. Moreover, he had secured 23 nominations from citizens living in his constituency. Local authorities announced in August, however, that all independent candidates running in the district must be non-CCP members and female. The “regulation” was waived due to protests by Liang, who is both male and a party member. The bulk of the activist’s original nominees however withdrew their names after receiving warnings from police (Radio Free Asia, May 27; Chinaelections.org, August 7; Newcenturynews.com, August 19).

Apart from using force, the authorities have mounted a publicity blitz against the would-be candidates. An official at the NPC’s Commission for Legislative Affairs (CLA) indicated in June that “there is no such a thing as an ‘independent candidate’ as this is not recognized by law.”

He added that citizens wanting to run for PCs could only become official candidates after “discussion, consultation or primary elections” organized by the government’s electoral committees. The CLA cadre also indicated “all campaign activities must be organized by electoral committees.” This apparently meant that Internet-based campaigning is illegal. At the same time, the *Global Times* pointed out in an editorial that China’s one-party system had no room for candidates who adopted an “opposing attitude” toward the authorities. It warned “independent candidates could destroy the current [political] system by soliciting votes on the Internet” (Xinhua News Agency, June 8; *Global Times*, May 30).

Wang Zhanyang, a law professor at the Central Socialism Academy, stated “nobody can deny the legal basis of independent candidates...The participation of independent candidates will be beneficial to social stability.” According to lawyer and media commentator Chen Youxi, if the NPC’s CLA does not recognize the term “independent candidates,” the latter can present themselves simply as “candidates nominated by voters.” Chen accused the CLA of “playing games with words” to confuse the public. According to Beijing-based political scientist Fang Shaowei, conservative elements in the political system might have objections to the idea of “independent candidates” because of its Western origin. “It is true that the term ‘independent candidates’ comes from the West,” Fang said, “but election itself is a Western concept and practice” (Chinaelections.org, June 16; *Lianhe Zaobao* [Singapore], June 10).

Irrespective of the protests of legal experts, the authorities are not in a mood for compromise. This was illustrated graphically by PC polls held in Guangzhou, capital of Guangdong Province, on September 8. Voters living in the metropolis and neighboring counties cast their ballots to pick 5,000-odd PC legislators from close to 9,000 candidates. The CCP, China’s eight so-called “democratic parties” (which are offshoots of and financed by the CCP) and recognized social and “mass” organizations nominated all of the candidates. Municipal authorities sent several hundreds of uniformed and plainclothes public and state security personnel to maintain order. Perhaps due to the lack of real competition, voters were noticeably unenthusiastic. In many voting booths, ballot casters were outnumbered by election officials and law enforcement agents by a large margin (*Ming Pao*,

September 8; Cable News Hong Kong, September 8).

The message that Beijing seems to be sending by hitting out at would-be independent candidates is that it is tightening its control over all forms of real and possible dissent. Renmin University political science professor Zhang Ming pointed out that with the 18th CCP Congress just a year away, the leadership’s motto was “upholding stability is the overriding task.” Zhang continued “There were quite a few independent candidates winning in grassroots polls in the past, but this year, the authorities are taking no chances” (*Ming Pao*, September 9; Sina.com.hk, September 8).

The plight of Yao Lifa, a primary-school teacher in the town of Qianjiang, Hebei Province, illustrates well the direction in which the political wind is blowing. Yao became famous in 1998 when he successfully ran for a place in the Qianjiang PC as an independent candidate. In 2004, the year he left the legislature, Yao was invited by the State Department to visit the United States to have a first-hand look at American-style democracy. He has since become an unofficial adviser to independent candidates nationwide. Earlier this year, however, this pioneer in Chinese-style grassroots democracy has been placed under police surveillance. During an interview with the Hong Kong media in early summer, Yao indicated “only independent candidates can speak up for the people, who are distrustful of the promises made by corrupt officials.” During the interview, however, electricity in Yao’s apartment was turned off and, later, the police took the former legislator away for interrogation (Cable News Hong Kong, June 18; Radio French International, August 8).

Apart from further constricting citizen’s electoral rights, Beijing has turned on the screw since early this year in its perennial battle against elements deemed to pose a threat to public and state security. The NPC is expected soon to pass a revision of the criminal law that will allow the police to detain suspects in undisclosed locations for up to six months. For “special cases involving national security, terrorism and major bribery,” the proposed legislation says, suspects can be held in a secret place and their relatives need not be told. Human rights lawyers see this move as Beijing’s effort to legalize draconian methods it had already been employing to silence dissidents. In the past couple of years, globally-known public intellectuals

and NGO activists including artist Ai Weiwei and lawyer Gao Zhicheng had “disappeared” for months without any information being given to their spouses or relatives. Ai’s lawyer Liu Xiaoyuan pointed out that “this new amendment will legalize ‘forced disappearance’” (*Los Angeles Times*, August 28; Radio Free Asia, August 28; *New York Times*, September 2).

At the same time, the CCP administration is devoting more funds and resources to policing the Internet, which is seen as providing a free and fast platform for dissidents and liberal intellectuals to broadcast their political viewpoints. “Internet opinion is spontaneous, but [it] increasingly shows signs of becoming organized,” said a recent commentary by the party’s top theoretical journal *Qinshi* (“Seeking Truth”). “Unless administration is vigorous, criminal forces, hostile forces, terrorist organizations and others could manipulate public sentiment by manufacturing bogus opinion on the Internet, damaging social stability and national security” (*Qinshi*, September 2; *People’s Daily*, September 2). Since the summer, Internet service providers have been asked to install more sophisticated software to police the information superhighway. As Beijing Party Secretary Liu Qi noted in a speech to the IT community last month, Internet companies should “step up the application and management of new technology and absolutely put an end to fake and misleading information” (*Wall Street Journal*, August 24; Cntv.cn, August 29).

The enhancement of China’s already formidable control apparatus has coincided with a spate of liberal-sounding messages given by senior cadres as well as the state media. Premier Wen Jiabao, for example, indicated earlier this month that government departments should do more in the area of transparency. “We must create more conditions to enable the people to supervise the government,” said Wen, who is widely deemed as the most liberal member of the Politburo. At a NPC press conference last year, Wen also pledged to “safeguard citizens’ democratic rights, especially election rights, the right to know, to take part [in politics], to express themselves and to supervise [the government]” (*Liberation Daily* [Shanghai], September 4; *People’s Daily*, March 5, 2010). In a similar vein, the *People’s Daily* noted in a recent commentary that an “open government requires ‘participatory citizens.’” The article quoted U.S. political scientist Samuel Huntington’s dictum that political institutionalization and political

participation would be conducive to social stability. “At the moment, the parameters for political participation are widening and enthusiasm [for participation] is increasing,” it added, “Confusion can only be avoided if vehicles for participation can be improved and platforms for participation expanded” (*People’s Daily*, August 25; Sina.com, August 25).

Possibilities seem relatively low that the new leadership endorsed at the 18th CCP Congress will reinvent political reform, which has basically been frozen since the 17th CCP Congress in 2007. Vice President Xi Jinping, who is slated to become party chief, state president and commander-in-chief in little over one year’s time, is regarded as a conservative more in tune with the ideals of Mao Zedong than “global values” that were once championed by Premier Wen (See, “Xi Jinping: China’s Conservative Strongman-in-Waiting,” *China Brief*, September 2). Moreover, there is a solid consensus among the CCP’s disparate factions that upholding political stability—which as practiced entails the ruthless crackdown on dissent—is the only way to ensure the CCP’s status as China’s “perennial ruling party.” While many of those frustrated would-be candidates may run for grassroots-level PCs again four years down the road, the chances are not high that they can become officially recognized candidates, let alone win in the polls.

Willy Wo-Lap Lam, Ph.D., is a Senior Fellow at The Jamestown Foundation. He has worked in senior editorial positions in international media including Asiaweek newsmagazine, South China Morning Post, and the Asia-Pacific Headquarters of CNN. He is the author of five books on China, including the recently published “Chinese Politics in the Hu Jintao Era: New Leaders, New Challenges.” Lam is an Adjunct Professor of China studies at Akita International University, Japan, and at the Chinese University of Hong Kong.

The 610 Office: Policing the Chinese Spirit

By Sarah Cook and Leeshai Lemish

Numerous official websites from the past six months—in Beijing, Qingdao, Shandong, and Jiangsu among others—mention the 610 Office, an entity engaged in efforts to “carry out comprehensive investigations,” strengthen “transformation,” and prevent unwanted incidents (Pingyin.gov.cn, September 5; Jsmr.gov.cn, August 15; Laoshan.gov.cn, April 2011). A June 2011 article in a reputable Chinese magazine briefly referenced the 610 Office as a key component of the Chinese Communist Party’s (CCP) “stability-preservation work” (*Caijing*, June 6). What is the 610 Office? How and why did it come to exist? Why is it carrying out measures ostensibly under the purview of the Ministry of Public Security?

The answers to these questions point to the establishment of a CCP-based, rather than a state-based, security organization, as well as a revival of the use of security agencies to enforce ideological compliance. Moreover, the 610 Office signifies a systemic arrangement by CCP leaders to avoid the reach of legal reforms when dealing with a perceived existential threat to their power. The willingness and ability of CCP leaders to take such actions has implications not only for how we understand the trajectory of rule of law development in China, but also for how we might anticipate the regime responding to present and future threats to its security.

The 610 Office’s beginnings lie partly in the CCP’s tradition of “leading groups.” Since 1958, the CCP has used leading small groups (*lingdao xiaozu*) to coordinate and guide action on various issue areas. They are typically secretive, arbitrarily created and dissolved, and headed by members of the CCP Politburo Standing Committee. In 2008, Alice Miller counted eight such “primary” leading groups in operation, their responsibilities ranging from foreign affairs to economics, with subsidiary entities running down the Party’s system and State Council offices to execute policy (“The CCP Central Committee’s Leading Small Groups,” *China Leadership Monitor*, September 2, 2008).

There is however another key leading group strikingly out of character with the broad focus of each of the other leading groups: “The Leading Small Group for Preventing and Handling the Problem of Heretical Organizations” (*zhongyang fangfan he chuli xiejiao wenti lingdao xiaozu*). Originally called “The Leading Small Group for Handling the Falun Gong Issue” (*falun gong wenti lingdao xiaozu*), the name change suggests its activity has expanded since 1999 (Lstdww.gov.cn, August 10, 2011; Gxbobai.gov.cn, April 2010). Though Falun Gong remains the primary focus, its targets now include house church Christians, Buddhists and other religious or spiritual groups, and it has been renamed accordingly.

The 610 Office was formed concurrently as this leading group’s implementing body and is named after the date of its creation: June 10, 1999. “Six-ten” functions outside the state system without any official standing. At its core, the 610 Office is a plainclothes CCP-based extra-ministerial security force focused on suppressing the Falun Gong spiritual group. The leading group sets the policy direction, which the 610 Office executes.

After featuring briefly in news articles in 2000, the 610 Office has since garnered only occasional international attention, leading to a common misperception that it is defunct. Recent evidence—including eyewitness accounts, official online documents, United Nations reports, and Congressional-Executive Commission on China (CECC) analysis—however, all points to an agency that remains active nationwide at all levels of Chinese governance. It was particularly involved in crackdowns surrounding the 2008 Beijing Olympics and the 2010 World Expo in Shanghai (Hnebp.edu.cn, November 6, 2008; Xzqs.gov.cn, June 23, 2010). Today, based on extrapolating from district-level numbers on local government websites, we estimate it retains at least 15,000 officers.

The 610 Office is Born

This office’s story begins on June 7, 1999, when then-Party Secretary General Jiang Zemin called a special Politburo meeting. Jiang was determined to resolve what he perceived as a serious challenge to the regime’s authority, “something unprecedented in the country since its founding 50 years ago” that “did not occur even during the Cultural Revolution”—a group of meditators who practice Falun Gong [1].

According to government sources, Western media reports, and Falun Gong witnesses, tens of millions of Chinese—from peasants to young professionals to military officers—were practicing the discipline at the time. With so many individuals dedicated to spiritual self-fulfillment independent of Party control or ideology, several top cadres began viewing Falun Gong as a threat (Associated Press, April 26, 1999; *New York Times*, April 27, 1999).

This translated into repression that showed first signs in 1996, and escalated to beatings and arrests in Tianjin in April 1999. On April 25, over 10,000 adherents of the meditative religious movement gathered outside the national petitions office in Beijing, adjacent to the Zhongnanhai government compound, asking for an end to abuses. According to the memoirs collection, *Zhu Rongji in 1999*, Premier Zhu took an appeasing stance toward Falun Gong and was prepared to resolve the grievances before Jiang intervened [2].

In a June 7 directive, Jiang ordered the creation of a special leading group within the Party's Central Committee to "swiftly handle and solve the 'Falun Gong problem'." He ordered that the team, placed under the responsibility of Politburo Standing Committee member Li Lanqing, "should immediately organize forces" and "get fully prepared for the work of disintegrating [Falun Gong]" [3].

A few days later, the CCP also established an office to handle day-to-day operations. This office was internally named 610, or "*liu yao ling*" for its June 10 creation. No legislation was passed establishing it. No provisions formally outlined its mandate. This extralegal flexibility has proved critical in recent years, as its responsibilities have expanded.

Given that the CCP already had control over a range of security agencies and military forces, forming yet another entity seems unnecessary. Several factors may have contributed to Jiang's decision:

- Numbering in the tens of millions, Falun Gong practitioners included many individuals within the military and security establishment. This contributed to a sense that Falun Gong had quietly infiltrated the CCP and state apparatus.

Jiang may have felt the need to create a trusted network of security agents to counter Falun Gong's influence.

- Given the task's scale, Jiang needed an entity that would act quickly and forcefully with no holds barred. He may not have envisioned that twelve years later millions would still be practicing with new believers joining and the 610 Office seemingly permanent.
- The creation of a new leading group quickly sent a signal down CCP ranks that countering Falun Gong was a new priority.
- Given that the entire anti-Falun Gong campaign functioned outside Chinese law, Jiang needed a security force that could operate outside the existing legal system and its potential restrictions [4].

Over the following months, 610 Office branches were created throughout China and a chain of command emerged, closely linked to the Political-Legal Committee (PLC) structure. Hao Fengjun, a former 610 Office official selected from the Tianjin Public Security Bureau, stated that the office's orders come directly from the Party's top echelons, then trickle down to cities and neighborhoods [5]. Much of this structure overlaps with the CCP's Political-Legal Committee (PLC). For example, after Li Lanqing retired in 2003, Jiang's confidant and politburo member Luo Gan took over the leading group overseeing the 610 Office, while also heading the PLC. In 2007, Zhou Yongkang replaced him as head of both the leading group and the PLC.

Hao's description of a nationwide network of 610 Office branches closely linked to the PLC apparatus is corroborated by a range of official sources. An online search reveals scores of recent references, pointing to the existence of active branches even in small cities and districts of Jiangxi, Guangdong, Zhejiang, and Shandong. A website of the Leiyang Municipal Party Committee in Hunan Province states its local 610 branch "reports to and is under the supervision of the municipal Party Committee's Political-Legal Committee," and is located in the Party Committee's office building (Leiyang.gov.cn, December 12, 2008).

Functions of the 610 Office

The 610 Office has two main functions: coordinating personnel at state institutions to assist in fulfilling the office's mandate and directly conducting operations against Falun Gong and other forbidden spiritual groups. The first coordination role can involve pressuring staff from state bodies to act according to the 610 Office's wishes, even when these run counter to their legal authority. Several lawyers who have defended Falun Gong practitioners report 610 Office personnel subverting the ability of judges and prison wardens to carry out their duties as outlined by Chinese law. Attorney Jiang Tianyong says compromised judges decide Falun Gong cases without recourse to Chinese legal standards but, instead, based on extrajudicial intervention from the 610 Office (Radio Free Asia, April 13, 2010). Meanwhile, Gao Zhisheng, Guo Guoting, and Wang Yajun have reported 610 Office interference in their efforts to meet with clients held in labor camps, prisons and detention centers ("Lawyer Barred from Representing Client by "6-10" Agents," Human Rights in China, September 10, 2010).

Second, the 610 Office also has an immediate role in executing the leading group's policies. In the process, the 610 Office appears largely exempt from even the basics of China's judicial and legal reforms, often employing methods that are technically illegal under Chinese law. Various credible sources describe 610 Office agents directly participating in extrajudicial killings, torture, sexual assault, and illegal confiscation of property. For example, the 2009 report of the U.N. Special Rapporteur on Extrajudicial Killings cited 610 Office involvement in pre-Olympic cases of Falun Gong deaths in custody [6]. Other Chinese dissidents and activists have detailed extra-legal detentions and torture on a scale and severity that appear to go beyond commonly-cited abuses in the law enforcement system. [7].

Reviving Thought Reform

610 Office activities also differ from those carried out under other leading groups in that its mandate does not relate to policy areas, like foreign affairs or economic reform. Rather, it targets Chinese citizens for thought reform.

Millions of Falun Gong practitioners place their moral teachings, revolving around Truthfulness-Compassion-Tolerance, as their spiritual compass. CCP leaders arbitrarily deemed these beliefs "heretical" in 1999 and "transformation" quickly became a key aim of 610 Office operations. Like "patriotic education" tactics used in Tibet, the purpose of this ideological reprogramming is to break the will of subjects by coercing them—reportedly including physical and psychiatric torture, sleep deprivation and manipulation of family members—to renounce Falun Gong, profess loyalty to the CCP, and ultimately participate in the forced conversion of others (*Washington Post*, August 5, 2001) [8].

Today, this objective remains fundamental to 610 operations, a testament to the Party's difficulty crushing a decentralized groups of dedicated believers. In March, an analysis of local 610 Office-related references on official websites indicated that the Central 610 Office launched a renewed campaign to "transform" Falun Gong practitioners nationwide scheduled to last from 2010 to 2012 (Congressional-Executive Commission on China, March 22).

The 610 Office's transformation work—like other aspects of the campaign against Falun Gong, such as the extensive use of labor camps and nationwide propaganda—is a throwback to Maoist-era practices. In the 1980s, reformers pushed for entities like the Ministry of Public Security to get out of the business of "resolving ideological questions" (*People's Daily*, April 5, 1979). The rise of the 610 Office however suggests a retrogression of the security apparatus to address thought crimes.

Conclusion

The 610 Office's operations long ago expanded beyond its core task of wiping out Falun Gong. Testifying before the European Parliament, Hao Fengjun said that in April 2003 Party leaders ordered the 610 Office to dispose of 28 other "heretical organizations" and "harmful qigong organizations" [9]. The broadened functions remain in effect today as local government websites detail 610 Office investigations of other spiritual groups (See, for example, Hlong.gov.cn, May 2009).

The expanded mandate points to the entrenchment of the 610 Office in the CCP apparatus. What began as a

temporary leading small group and task force has become a permanent fixture. It also highlights how 610 Office's existence undermines rule of law—whatever official state policy towards religion might be, this entity operates at the direction of a small group of CCP leaders with no official standing.

Such conclusions take on even greater significance at a time when the 610 Office may be serving as a model for new CCP initiatives. Since 2008, official reports, speeches and circulars have referenced a novel set of CCP “leading groups” maintaining stability. Reportedly, branches of the Office of Maintaining Stability “are being set up in every district and major street” in rich coastal cities. They are charged with “ferreting out ‘anti-CCP elements’” (*Wall Street Journal*, December 9, 2009).

Multiple official sources indicate that these new entities and the 610 Office are working closely together. In at least one district in Guangdong's Foshan City, for example, the 610 Office and the “leading group office for maintaining stability” were listed side-by-side in an online description of the local PLC's internal functioning and staff (Chongchuan.gov.cn, June 7, 2010). In some localities, staff and even the leadership of the two entities seem to overlap. A March 2010 notice from Zhejiang's Pingyang County government states that the same person was appointed to direct both 610 Office and the local stability maintenance office.

The rise of the 610 Office and stability maintenance offices suggests a sense among CCP leaders that existing internal security services, like the Ministry of Public Security and the Ministry of State Security, are not satisfactorily effective. That these officials are increasingly relying on more arbitrary, extra-legal, and personalized security forces to protect their hold on power does not only bode badly for China's human rights record. It also threatens the stability of internal CCP politics should 610 Office work become politicized—just as counterespionage was corrupted prior to Reform and Opening—amid the jockeying for power ahead of and beyond the upcoming 18th Party Congress.

Sarah Cook is an Asia Research Analyst at Freedom House and co-editor of the English translation of Gao Zhisheng's memoir, A China More Just.

Leeshai Lemish has been writing about Falun Gong since 2001, and is currently conducting research with Ethan Gutmann for an upcoming book on the subject.

Notes:

1. Jiang reportedly made at a high-level meeting in April 1999, extracted from the book “Zhu Rongji in 1999,” cited in excerpts published in the *Hong Kong Economic Journal*, September 18, 2001.
2. Zong Hairen, *Zhu Rongji zai 1999* [Zhu Rongji in 1999], Carle Place, N.Y.: Mirror Books, 2001.
3. “Comrade Jiang Zemin's speech at the meeting of the Political Bureau of the CCCC regarding speeding up dealing with and settling the problem of ‘Falun Gong’,” June 7, 1999. <http://beijingspring.com/bj2/2001/60/2003727210907.htm>
4. Yiyang Xia, “The illegality of China's Falun Gong crackdown—and today's rule of law repercussions,” Written Statement for European Parliament Hearing on China, in particular the situation of Human Rights Defenders, July 11, 2011, http://www.europarl.europa.eu/meetdocs/2009_2014/documents/droi/dv/506_yiyangxia_/506_yiyangxia_en.pdf
5. Hao Fengjun, signed statement on file with the authors, November 8, 2005.
6. Philip Alston, “Report of the Special Rapporteur on extrajudicial, summary or arbitrary executions,” May 29, 2009, A/HRC/11/2/Add.1, pp.66-67. <http://www2.ohchr.org/english/bodies/hrcouncil/docs/11session/A.HRC.11.2.Add.1.pdf>.
7. Ethan Gutmann Interview with Fang Siyi, Bangkok, July 1, 2008; Gao Zhisheng, *A China More Just: My Fight as a Rights Lawyer in the World's Largest Communist State*, San Diego, CA: Broad Press USA, 2007. Gao also wrote an open letter in 2005 to CCP leaders, presenting his investigation of 610 Office operations in northeastern China.
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China Leaps Back into the Canadian Energy Sector

By Wenran Jiang

As China has become the world’s second largest economy, its demand for energy has caused it to become the world’s biggest comprehensive energy consumer. Accompanying this process has been a sharp upward trend in Chinese foreign direct investment (FDI) focused on energy and other resources. Canada has become the latest addition to Beijing’s FDI investment priority list, with CAD15 billion worth of Chinese capital pouring into the energy-rich province of Alberta in 2010 [1].

These fast-paced investment activities have occurred against the backdrop of a sustained high energy demand forecast from China in the coming years and sluggish prospects for economic recovery in the United States. Additionally, there has been intensified protest from environmental groups against the import of Canadian oil

sands products to the United States, for example, against the controversial Keystone XL crude oil pipeline from Alberta to the southern United States. A closer look at the China’s leap into the Canadian energy sector, however, may reveal some surprising characteristics that are not associated with conventional assessments of China’s much talked-about “Go Out” strategy.

China’s Renewed Interest in Investing in Canada

Since the end of 2009, China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) all have made substantial investments in the Canadian energy sector with a particular focus on the Alberta oil sands development. The China Investment Corporation—a \$300 billion Sovereign Wealth Fund—opened its first overseas office in Canada early this year and chose Canada for its only energy sector equity investment.

The proposed PetroChina-EnCana shale gas deal in British Columbia, worth \$5.4 billion has failed to materialize. Therefore, so far the largest single Chinese investment in the Canadian energy sector is the \$4.65 billion takeover of ConocoPhillips’ shares by Sinopec in Syncrude Canada Ltd. The Syncrude Group is Canada’s largest oil sands production consortium with most of its production exporting to the U.S. market.

Major Chinese Energy Investment in Canada Since late 2009

<i>Investment Target</i>	<i>Dollar Value</i>	<i>Chinese Investor</i>
Teck Resources	\$1.5 Billion	China Investment Corp.
AOSC	\$1.9 Billion	PetroChina
Syncrude	\$4.65 Billion	Sinopec
Penn West Energy	\$1.25 Billion	China Investment Corp.
EnCana	\$5.4 Billion	PetroChina (failed)
Opti	\$2.1 Billion	CNOOC

The Sinopec-Syncrude deal was followed closely by the successful purchase of 60 per cent of Athabasca Oil Sands Corporation's MacKay and Dover oil sands projects by PetroChina (a CNPC subsidiary) worth \$1.9 billion. China also has invested actively in Canada's mining sector since 2009—notably the \$1.7 billion equity investment by the China Investment Corporation in Teck Resources, a Vancouver-based company with both energy and mining assets in North America. In its latest move, CNOOC, the third largest Chinese national oil company (NOC), acquired the struggling oil sands producer Opti Canada Inc., buying a 35 per cent stake in the joint Nexen-Opti oil sands project in Long Lake, Alberta.

A number of factors have contributed to China's renewed interest in Canadian investments.

First, the recent Chinese re-entry into Canada is more than a reflection of basic market movements. Chinese energy and resource needs have been driving China's foreign investment in these areas over recent years. A better-than-expected recovery from the recession in China also has fueled demand energy and resources. Such demand however did not translate into a steady inflow of Chinese investment in Canada's energy sector, as in other resource rich countries. In 2005, the three top Chinese NOCs made investments in Canada, including a \$2 billion memorandum of understanding between PetroChina and Enbridge to support building the Gateway pipeline system from Edmonton, Alberta, to Kitimat, British Columbia [2]. This momentum, however, did not continue. During the pre-crisis boom years from late 2005 to early 2009, Chinese firms made almost no major investment in Canada's energy sector.

In fact, the absence of major Chinese investment coincided with a very low point in Sino-Canadian diplomatic and political relations. Under the Conservative government of Prime Minister Stephen Harper, China was not on Canada's foreign policy priority list. Prime Minister Harper did not pursue a visit to China during his first three years in office, resulting in the suspension of bilateral summit diplomacy [3]. Since early 2009, the Canadian government has changed course in its China policy. Ottawa dispatched key cabinet ministers to Beijing, reassuring the Chinese that Canada values its relations with China and that Chinese investments are welcome. Such consistent and conciliatory messages culminated

in a December 2009 visit when Harper visited China. This attitude shift and improved political relations were important precursors to China's renewed investment activities in Canada's energy and resources sectors.

Global oil prices represent another reason why Chinese interest in Canadian energy has recently increased. After a brief plunge to the low \$30 per barrel range during the economic crisis, oil prices quickly climbed back and stabilized at the \$80-90 range. Various forecasts place future oil prices from \$80 to \$100 per barrel—a level that would sustain profitability for Alberta's oil sands extraction. One major question Chinese oil companies have asked is whether the global market would be able to support an oil price range high enough to justify long-term investment in Alberta's oil sands. The current oil prices seem to have removed initial doubts and Sinopec's generous payment for the ConocoPhillips shares in the Syncrude deal displayed a considerable new confidence from the Chinese side.

Chinese state banks also have provided large, state-owned energy and resource companies with loans and overseas expansion credits. Many cash-strapped Canadian energy and resource firms welcome such financial strength and secure funding. At the same time, the North American stock market was hit hard during the economic crisis and many energy and resource companies have become very good investments—an opportunity that has not gone unnoticed by Chinese NOCs. Even though the market has recovered significantly, the Chinese are optimistic that the timing is still good and their investments will yield further returns when the world economy finally climbs out of recession.

Implications for North America

Although top Chinese NOCs have leaped into Canada with fast pace, the total amount of investment is relatively small if measured against these companies' overall global investment. In the past two years, China's top energy firms have arranged various forms of loans in exchange for oil supply contracts with Russia (\$25 billion), Kazakhstan (\$10 billion), Brazil (\$10 billion) and Venezuela (\$20 billion) (“China Makes Strides in Energy ‘Go Out’ Strategy,” *China Brief*, July 23, 2009; United Press International, April 20, 2010). Chinese oil companies have become involved in joint ventures in Iraq

and Australia. The Chinese presence is also a relatively recent phenomenon, as foreign FDI, primarily from the United States, had poured in some CAD125 billion by 2009 (*Statistics Canada*).

The Sinopec-Syncrude deal announcement spurred talk about potential Chinese leverage over Canada's resources. Some have repeated charges that Chinese investment will lead to Chinese control of Canada's natural endowments - an accusation that lacks credible evidence or research backing. Others warn that any Chinese voice in the development of Alberta's oil sands would be counterproductive to Canada's national interests (*Globe and Mail*, April 13; April 14). Nonetheless, if the smooth approval of recent Chinese investments by the government of Canada is any indication, future Chinese capital inflow into Canada may not face substantial questioning or barriers.

Still, renewed Chinese investment in the Canadian energy sector raises some questions that need to be addressed.

First, does China insist on shipping its overseas oil production back home? This is clearly not the case for Sinopec's deal with Syncrude. There is no known clause in the transaction that states certain portions of production will be shipped to China. In fact, Sinopec may have made the investment on two assumptions. The first is that exporting oil to China will be possible only on a small scale in the foreseeable future, given the existing modest pipeline infrastructure on the west coast. The potential for large-scale supply exists only if Enbridge's Gateway pipeline gets the regulatory approval required for its construction. The second assumption may represent a shift in Chinese thinking—China's NOCs are now willing to invest in Canada's energy sector even without large-scale access to Canadian oil production for China's domestic use. Contrary to popular assumption, much of China's global oil production is not wind up shipped to China, but is sold on the world market, like oil produced by Western oil companies. At the moment, Syncrude production will continue to flow south to the United States and Sinopec's nine per cent ownership will not change this arrangement.

Second, is a pipeline that ships oil from Alberta to the Canadian west coast still desirable for the Chinese and Canadians? Currently, there is no large-capacity, direct

pipeline from Alberta to the west coast. Kinder Morgan, however, completed its TMX Loop project in 2008, linking pipelines from Alberta to the existing Mountain pipeline which reaches a port in southern Vancouver. The TMX Loop has a shipping capacity of 300,000 barrels per day (bpd). If construction of Enbridge's Gateway pipeline goes ahead as planned, it would have an additional 550,000 bpd capacity, but it will not be functional for several years. Recently, the Chinese have inquired about the state of the Gateway pipeline project and have continued to express strong interest. Such interest is understandable: this pipeline would certainly increase China's incentive to further invest in Alberta's oil sands. Also, an additional pipeline or two is beneficial for Canada as this would diversify its international markets. Canada currently sell crude oil to the United States \$20 below the global market price. None of the planned diversification projects, however, would fundamentally change the fact that Canada is overwhelmingly dependent on the U.S. market. Regardless, it is almost certain that if there are increased means of transporting Alberta's oil to the west coast, Chinese and other Asian investment will increase.

Third, is it in Canada's interest for Chinese and other Asian investors to build refineries in Alberta? Currently, most of Alberta's pipelines run south, shipping bitumen to U.S. refineries for value-added upgrading. It has been long known from both sides of the border that this is the nature of a North American integrated market. It is also true that Alberta's government has promoted a development strategy that will see investment being made to build refineries around Edmonton, thus taking advantage of the booming energy market in creating value-added jobs in Canada. If Chinese and other Asian economies become involved in Alberta oil sands extraction, there is good reason to consider investing in refineries as part of a long term strategy—especially under the condition that upgraded product oil may one day be shipped via improved pipeline and rail capacities to the west coast and then on tankers.

Fourth, should Canada pursue Chinese investment as a part of its diversification strategy away from the U.S. market and, if yes, should Canada worry about the potential for Sino-U.S. competition for Canadian oil? The question begs a response from Canada as much as from China and the United States. For Canada, the

answer seems to be more of a market-oriented one than a strategic one. When U.S. demand was high, there was very little discussion concerning diversification among Canadian producers. Alberta was content to ship most of its exports to the south. The recent U.S. economic downturn and talk of labeling oil sands production as “dirty oil” has concerned Canadian producers. Consequently, there has been a renewed Canadian interest in market diversification. Chinese investment came at the correct time and this investment has been welcomed by Canadian producers. There is also an indication that the United States and China are moving toward treating each other as partners rather than as competitors in seeking energy cooperation, as seen by US Secretary of Energy Steven Chu’s approach of active engagement in this area. This places Canada in an advantageous rather than antagonistic position.

Finally, where is the red line for Chinese investment in Canada’s energy sector? In the global context, Chinese oil companies certainly possess the financial wherewithal to invest and have done so on a large scale—up to \$40 billion in some countries. In the past few years, Canada has become more confident in believing that the country has the necessary regulatory framework in place to cope with increased Chinese investment. The current Canadian national discourse is more focused on whether investment from China will provide social and economic benefit to Canada and on the environmental impact of pipelines running to the west coast and prolonged large scale extraction of oil sands.

Facts run against the assumptions of those who perceive China’s “Go Out” strategy as a predatory behavior, or those who are concerned that Chinese presence in Canada’s energy sector may deprive the United States of its supplies. The dragon has returned to Canada, but cautiously. Beijing has been sensitive to the political, economic, social and environmental conditions of its investment in Canada, settling for minority positions in their equity and joint venture agreements. Most importantly, at present, crude produced by Chinese capital in Canada is only flowing south to the U.S. market, helping to the secure U.S. energy supply.

Wenran Jiang is Associate Professor of Political Science at the University of Alberta, Project Director on Canada-China Energy Relations, Special Advisor on China to the Energy Council and

*a Senior Fellow at the Asia Pacific Foundation of Canada. The author of *The Dragon Returns: Canada in China’s Quest for Energy Security*, Dr. Jiang has organized an annual Canada-China Energy Conference since 2004.*

Notes:

1. Alberta Minister of Energy Ron Liepert, Lunch Keynote Speech at the Canada-Asia Energy Cooperation Conference and the 7th Canada-China Energy & Environment Forum, Calgary, September 8, 2011.
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Destination Unknown: Investment in China’s “Go Out” Policy

By Ting Xu

From September 7 to September 10, Chinese Vice Premier Wang Qishan led a delegation of senior government officials and business leaders to hold the Fourth UK-China Economic and Financial Dialogue. This trip is just one of the many high profile visits Chinese central leadership have paid Europe in the last year and it came only eleven weeks after the Premier Wen Jiabao’s visit to Europe. During this dialogue, China officially supported the United Kingdom to become an offshore renminbi trading center. The two countries also reached a landmark memorandum of understanding on enhancing cooperation on infrastructure, which will likely open more doors for Chinese investment in the UK (Xinhua, September 9; *Shanghai Zhengquan Bao*, September 9).

This is yet another example of China deepening its “Go-Out” policy, targeting further entries to advanced markets such as the United States and Europe, where Chinese capital is growing remarkably and engaging in more sophisticated deals. China’s economic relationship with Europe however might be becoming more intimate than that with the United States, not only in trade but also investment. Different approaches to national security in the United States and Europe have made the entry into Europe much smoother for some large Chinese companies. So far, Chinese capital has not chosen to shift focus to Europe at the expense of the United States, but the potential persists.

An Evolving Strategy

At China’s National People’s Congress meeting in March, Beijing laid out its 12th Five Year Plan (the “Plan”) for 2011-2016. The Plan calls for accelerating China’s “Go-Out” strategy, which includes three parts: first, expand outward investment further; second, emphasize the equal importance of foreign direct investment (FDI) in China and Chinese outward investment; and, finally, speed up transformation of China’s international trade and outward investment models. The Plan also pays special attention to outward FDI by calling for a two-pronged approach. First, competitive Chinese manufacturing companies should invest overseas, establish international sales networks and globally-recognized brand names. Second, Chinese companies should invest in research and development (R&D) outside China. Finally, the Plan sets key goals for the Chinese development model by restructuring growth in favor of a cleaner, low-carbon, low resource-intensity, high-tech economy.

This apparent shift in the focus of China’s development is unsurprising. The concept of the “Go-Out” strategy was officially established during the 10th Five Year Plan (2001-2005) and was listed as one of China’s four main development strategies. During this Plan, the number of companies approved for overseas investment grew at an annual rate of 33 percent (*China Economic Weekly*, April 5, 2010). This international strategy became more visible during the 11th Five Year Plan (2006-2010), when large Chinese companies engaged in major multinational investment deals. From 2003 to 2009, Chinese outward FDI increased a staggering 1,400 percent. By the end of

2009, China’s total non-financial FDI stood at more than \$240 billion (*Wen Wei Po*, September 6, 2010). For 2010 alone Chinese non-financial outward FDI totaled \$59 billion, a 36.3 percent increase over the previous year [1].

While slow growth continues to characterize the world’s advanced economies in the post-crisis period, thereby hobbling global investment, outward investment by Chinese companies remains strong. Overseas investment by Chinese companies in non-financial sectors totaled \$23.9 billion in the first half of 2011, up 34 percent from a year earlier [2]. This growth is set to continue, with experts predicting Chinese investment abroad will soar to \$1 trillion by 2020 [3].

Go West with Changing Patterns

There are three important trends in the impressive growth emerging from China’s “Go-Out” strategy. First, though most Chinese FDI is still concentrated in Asia and Latin America, the amount directed toward the United States and Europe is growing fast. Chinese FDI stock in the 27 EU member-states quadrupled to €5.727 billion between 2006 and 2009 [4]. Chinese businesses invested \$64.3 billion in Europe from October 2010 to March 2011, more than double the comparable figure over the previous 11 quarters (*Financial Times*, April 25, 2011). The same picture applies to the United States: Chinese FDI stock grew from \$1.238 billion in 2006 to \$3.339 billion in 2009. Some experts note that the transatlantic market is overtaking Asia and the developing world as the top destination for Chinese investment [5].

Second, the forms of Chinese FDI are increasingly diversified and sophisticated. Mergers and acquisitions (M&A), which can help companies gain faster access to local technology and markets, are now playing a much larger role in Chinese FDI. M&A increased from \$60 million in 1999 to \$30.2 billion in 2008, accounting for 54 percent of total Chinese FDI.

Finally, acquiring advanced technology is emerging as a new priority for Chinese FDI, replacing a traditional focus on natural resources and sales (*China Economic Weekly*, April 5, 2010). This trend is particularly visible in FDI projects in the transatlantic market, which leads much of the world’s high-tech innovation. China’s Beijing Automotive Industry Holding, for example, acquired

Sweden's Saab for \$200 million in 2009. Additionally, Chinese automobile manufacturer Geely bought Ford's share of Volvo for \$1.8 billion last year. These deals were designed not only to capture established brands but also, and more importantly, to provide access to core technologies and R&D capacities—key needs for Chinese companies looking ahead.

Closed U.S. Doors, Open European Arms?

The new phase of the “Go Out” strategy is meeting different responses in the United States and Europe, where large developed markets with a rich history of technological innovation attract Chinese investors' interest. Though both indicate that they welcome Chinese capital, the United States has been much more cautious in granting access to sectors it deems to be important to national security.

A number of Chinese firms attempting to invest in or purchase U.S. companies over the last decade have faced political challenges. In 2005, the China National Overseas Oil Corporation (CNOOC) withdrew its \$18.5 billion bid for Unocal after fierce political resistance. In 2008, Chinese telecommunications giant Huawei retracted a bid for 3Com once it became clear that the Committee on Foreign Investment in the United States (CFIUS), the U.S. government panel that vets foreign takeovers of sensitive assets, would not allow the transaction. In 2010, China's Anshan Iron & Steel Group shelved its investment in a Mississippi steel plant after 50 members of the Congressional Steel Caucus urged CFIUS to investigate the transaction—despite the potential for 200 new jobs (*Bloomberg News*, August 19, 2010). Later that year Huawei and fellow Chinese telecommunications giant ZTE were excluded from a deal with Sprint. Finally, earlier this year, Huawei was forced to reverse its acquisition of 3Leaf, a server technology company, after CFIUS refused to approve the deal (*Financial Times*, April 8, 2011). These events may be more over-hyped stumbles than evidence of a general U.S. rejection of Chinese investment. Beijing however is increasingly wary of U.S. barriers to investment and has raised the issue repeatedly in recent high level U.S.-China dialogues. Chinese Vice Finance Minister Zhu Guangyao said earlier this year “We hope that the [United States] will provide a healthy legal and institutional setting for investment by Chinese companies. In particular, we hope that the [United States] will not discriminate against state-owned companies” (*China Daily*, May 10, 2011).

Europeans appear more at ease with Beijing's corporate incursions. Huawei, with its 5,500 European employees and multiple European offices, sells a wide range of products throughout the continent. During Vice President Xi Jinping's June visit to Italy, the company sealed an agreement with Telecom Italia for a national fiber-to-the-home (FTTH) network (*The Wall Street Journal*, June 3, 2011). The firm is looking to integrate fully into the region's industrial environment by hiring locally and entering its market for smart phones, tablets and cloud computing (*China Daily*, July 22, 2011). It is a similar story for ZTE, which has now emerged as a bitter rival for Huawei in the European market. Earlier this year, ZTE sued Huawei (and was subsequently countersued by Huawei) for patent infringement in Europe.

Europe's importance as a hub of Chinese corporate R&D has been steadily increasing as many large Chinese companies set up R&D centers in Europe. Huawei, for example, has six large R&D centers in Germany and half of its European employees conduct R&D. Chinese machinery manufacturer Shang-gong Group established its main research center in Bielefeld after acquiring sewing-machine maker Dürkopp Adler AG. China's auto sector is also taking advantage of German expertise. Northern Automobile and Sany Automobile have set up R&D centers and factories in Germany [6].

China has consequently become a major investment partner in Europe [7]. EU-China trade grew 21 percent in 2010, to \$480 billion, vaulting the Europeans over the Americans to become China's largest trading partner. During a five-day visit to Europe in June, Chinese Premier Wen Jiabao signed a trade agreement worth more than \$2 billion with Britain and set a goal of \$100 billion in annual Anglo-Chinese trade by 2015. Wen also secured \$15 billion in bilateral deals with Germany. These included the purchase of high-tech products, such as Airbus aircraft, and joint development of “future green industries,” such as electric vehicles and carbon-capture systems (*Financial Times*, June 28, 2011). China recently overtook the United States as Germany's largest non-European trading partner and bilateral trade is expected to double by 2015 (*China Daily*, June 29, 2011). While the United States is suspicious of China's intentions, EU Trade Commissioner Karel De Gucht and Chinese Commerce Minister Chen Deming launched on July

14 negotiations on a bilateral investment treaty (*People's Daily*, July 15, 2011).

The warming economic ties between Europe and China are also reflected in China's financial support of countries in fiscal crisis. In July last year, Beijing made a major investment in Greek bonds in exchange for a 35-year lease on the port of Piraeus. Three months later, Premier Wen promised to continue purchasing Greek debt. This culminated on July 28 when Greek Finance Minister Evangelos Venizelos told his parliament that a third source (after the EU/IMF and the private market)—thought by many to be China—could become a funding pillar for debt buybacks on the secondary market (*China Daily*, July 30, 2011).

In the past year, China also has promised to buy bonds from Spain, Portugal and Ireland. During his European visit in June, Wen even confirmed an interest in buying Hungarian bonds, labeling it China's "helping hand from afar" in the European debt crisis. Most recently, while the global market anxiously wait to confirmed whether China will step in to purchase Italian bond, the Chinese government reiterated that China has confidence in European economy and the Euro, and Europe will continue to become a major investment market for China (MFA Press Conference, September 13).

Is China Shifting from the United States to the EU?

Not, at least, for the moment. As in the United States, China's "helping hand" and increasing engagement has drawn cheers and jeers in Europe. Praise has come from those countries facing debt crises. Hungarian Prime Minister Viktor Orban said bond purchases by China would provide financial security and remove uncertainty about his country's medium-term financing. German Chancellor Angela Merkel saw Premier Wen's stop in her country (with 16 of his ministers) as the beginning of a "new chapter" in the bilateral economic relationship. Even EU Trade Commissioner Karel De Gucht admitted that Beijing's bond purchases "certainly help."

On the other hand, some observers worry that China's large R&D investments bring new challenges and "the battle over access to technology and intellectual property rights has now moved from China to Europe" [8].

Concerns also exist about China's ability to gain political influence through its growing economic leverage. A recent review of the EU arms embargo on China is suspected to be linked to Beijing's promises and ability to help restore liquidity to European markets. Despite Beijing's pledges, however, the extent to which China is really active in the European bond market is unclear. Many in Europe suspect that it is less than Beijing touts.

Europe also is stepping up efforts to vet Chinese investment. Two European commissioner (Italian and French) proposed a European Union-level committee similar to the CFIUS to vet foreign investment on strategic grounds and to prevent Chinese firms from swallowing high-tech companies (*Reuters*, March 8, 2011, *Financial Times*, April 20th, 2011). National security plays a role in this new approach as concerns about Chinese access to critical infrastructure and telecommunications networks grow.

At the same time, not all the signs emanating from the United States are bad for Chinese firms. Despite concerns about the U.S. fiscal predicament and the need to diversify its foreign reserves, China bought \$7.6 billion in Treasury bonds in April. The aforementioned controversial investment by Ansteel to the Mississippi steel mill moved forward eventually despite political resistance. The two companies signed the deal to establish joint venture in September 2010 (*Xinhua News*, September 15, 2010). Additionally, the latest controversial Sino-U.S. deal, the acquisition by China Aviation Industry Corporation of Cirrus Industries' line of four-seat propeller aircraft, occurred without CFIUS objection.

Got to "Go Out"

With more than \$3 trillion in foreign reserves, China has plenty of capital to invest internationally. High inflation and lack of investment opportunity at home will continue to force Beijing to relax capital controls and encourage overseas investment by private companies and sovereign wealth funds. These investments will be guided by the general national development strategy, which means more funds targeted to the United States and Europe. A recent corporate survey revealed that the United States and large European economies are among the most popular destinations for Chinese FDI [9].

China may yet move away from the United States and toward Europe, especially if an investment treaty between Brussels and Beijing is concluded. Washington's terrible fiscal circumstances, the political deadlock that triggered the country's historic credit downgrading and its continued security sensitivities may also make European markets more attractive for China.

Ting Xu is a Senior Project Manager with the Bertelsmann Foundation in Washington, DC.

Notes:

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