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At China's 'Two Sessions', Xi Jinping Leaves His Mark on the Party State

By Willy Lam

One common theme has run through the "two sessions"—a reference to the just-ended plenary sessions of the National Peoples' Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC)—which handled momentous issues ranging from revising the PRC constitution to streamlining the structure of the State Council: the Chinese Communist Party's assertion of direct, and much tighter, control over the Legislature, the CPPCC, State Council ministries, and other sectors, including the newly set up National Supervisory Commission. And because President Xi has become to all intents and purposes "leader for life," swearing allegiance to the CCP practically

means professing fealty to the most powerful PRC leader since Chairman Mao Zedong. Some critics, however, have pointed out that the potential adverse consequences of one man rule—which were demonstrated very clearly during the Cultural Revolution—could affect the quality of Xi's decision-making and his ability to handle both domestic and foreign-policy problems.

The major objective of the two sessions has been to make clear, beyond the shadow of a doubt, the Party runs all sectors of the polity. And even as both party members and ordinary citizens are asked to pledge allegiance to the party, even more emphasis is put on expressing personal loyalty to Xi. This could be seen from the statements made by the outgoing NPC Chairman Zhang Deqiang, and the new CPPCC Chairman Wang Yang. Zhang said in his last NPC report that "CCP lead-

ership is the fundamental requirement and greatest superiority of the NPC system.” Yet Zhang’s emphasis is obedience to Xi. “The NPC must resolutely insist upon the concentrated and unified leadership of the party central authorities with comrade Xi Jinping as its core” ([Xinhua](#), March 11). Similarly Wang Yang, who has a liberal reputation, said the CPPCC must “uphold the leadership of the CCP.” Specifically, Wang noted that party leadership manifested itself in “using Xi Jinping Thought on socialism with Chinese characteristics for the new era as the overriding principle that overrules all kinds of work” ([CCTV](#), March 15).

A top item on the NPC agenda was a wholesale streamlining of the central government ministries under the State Council, as a result of which eight ministerial-level units and seven vice-ministerial-level units were slashed. According to Politburo member Liu He, who is considered Xi’s top economics advisor, the administrative restructuring highlighted the fact that “the core question [of governance] is to strengthen the party’s overall leadership.” Again, party leadership is equated with Xi’s personal orders and proclivities. Liu added that the bureaucratic streamlining was to satisfy “General Secretary Xi Jinping’s important demands”—and to demonstrate “the strong leadership of party central authorities with comrade Xi Jinping as its core” ([People’s Daily](#), March 13).

In fact, the restructuring of the bureaucracy, including the mergers of individual departments, has made it even easier for Xi to exert personal influence over the State Council through means that include naming key protégés to senior positions. One example is the merger of the China Banking Regulatory Commission and the China Insurance Regulatory Commission, and the additional powers granted to the People’s Bank of China (PBOC) to formulate and enforce financial and banking regulations. Liu, who became Vice-Premier in charge of finance, is set to oversee the PBOC as well as the two merged regulatory commissions. This move has further marginalized Premier Li Keqiang ([Securities Daily](#), March 14; [Caixin.com](#),

March 13). Despite the tradition that the premier has the final say over financial and economic policy, Li, who comes from the rival Communist Youth League Faction (CYLF), has been denied weighty portfolios since Xi became supreme leader in 2012. Other Xi protégés heading important ministries include the head of the National Development and Reform Commission (NDRC) He Lifeng and the head of the Ministry of Commerce Zhong Shan. Both He and Zhong worked with Xi in the provinces of Fujian and Zhejiang, and as such are bona fide members of the Xi Jinping Faction ([HKO1.com](#), February 27; [RFI Chinese Service](#), February 24).

Yet Xi’s boldest move to impose his personal policy preferences on the whole party-state system is his appointment of long-time political ally Wang Qishan as Vice-President. This is despite the fact that Wang, 69, had retired from the Central Committee and the Politburo at last October’s 19th Party Congress. Never since the late Rong Yiren, a “patriotic businessman” and symbol of Deng Xiaoping’s support for private entrepreneurship—who was vice-president from 1993 to 1998—has any person with no party ranking been appointed to this symbolically important post ([BBC Chinese](#), March 17; [Radio Free Asia](#), December 12, 2017). Xi has broken with CCP convention and tradition by ensuring that while Wang, while technically a mere “ordinary party member”, ranks No. 8 in the leadership pecking order, just behind the seven Politburo Standing Committee (PBSC). It has been reported that Wang will be Xi’s point man in foreign affairs, especially negotiations with the U.S. However, this could set the stage for possible bureaucratic warfare between Wang and the newly elevated Politburo member Yang Jiechi, a former Foreign Minister who is slated for a top spot at the CCP’s Central Leading Group for Foreign Affairs or the Central National Security Commission ([Ming Pao](#), March 20).

Another reason for Xi’s keeping Wang is that the latter has a strong power base in the party. During his five years as the PBSC member in charge of China’s top anti-graft unit, the Central Commission

for Disciplinary Inspection (CCDI), Wang has become a master at using its anti-graft weapons to attack or marginalize Xi's enemies, including members of the Shanghai Faction once led by former president Jiang Zemin and the CYLF that used to be led by former president Hu Jintao. Wang, who like Xi, is a princeling, is also in a position to help Xi deal with fellow princelings who oppose Xi's Maoist restoration. The fact that Xi has broken with party convention by elevating Wang to the vice-presidential slot again illustrates his putting his personal concerns and goals ahead of party laws and traditions (New York Times Chinese Edition, March 19).

Xi's apparent hijacking of the party and state seems to have met with little opposition. He was unanimously re-elected as State President; during the vote to confirm Xi's 21 proposed constitutional revisions (China Brief, March 12), there were only two votes in opposition and three abstentions. The official media went into overdrive, glorifying what some liberal critics call China's "emperor for life." For example, the *People's Daily* called Xi "a great helmsman who is a leader of the people." Other official media cited numerous NPC or CPPCC deputies as heaping hagiographic praises on Xi. (People's Daily, March 21; Economic Daily, March 10).

Political analysts in Beijing said going forward, Xi could face substantial difficulties in policy-making, let alone introducing reforms. The first issue is that due to his much-elevated position as supreme leader for life, he alone is responsible for decisions on both domestic and foreign issues—not even his trusted advisers dare to contradict him. The possibility of Xi making Mao-like blunders has risen. Mao's rule from 1949 to 1976 demonstrates the tendency for one-man rule to give rise to misjudgments and political infighting (China Brief, Mar 5). It is unlikely that Xi can get away with an "imperial restoration" without introducing far-reaching instability to the PRC's undemocratic and non-transparent political system (Tw.appledaily.com [Taipei], March 17; China Digital Times, March 11).

Moreover, several of Xi's newly implemented "reforms demonstrate that he is much more interested in control—the party's control over other organs of power as well as the party's overall control over ordinary citizens—than in actual reform. Take for instance the establishment of the National Supervisory Commission (NSC), which was billed as having the same bureaucratic status as the State Council. The ostensible goal of the NSC is to extend the powers of the CCDI—which at least in theory is authorized to only investigate party members—to cover government and public sector officials and employees, including the management of enterprises, universities, hospitals, media, as well as cultural and sports organizations (VOA Chinese, March 18). However, the person chosen to run the NSC was Yang Xiaodu, an ordinary Politburo member and deputy party secretary of the CCDI. He will have to defer to CCDI secretary and PBSC member Zhao Leji. This is despite the fact that Yang, who worked closely with Xi when the latter was Party Secretary of Shanghai in 2017, is supposedly a member of the Xi Faction.

Moreover, there were hopes before the NSC's establishment that the Commission would abide by the rule of law in investigating graft. Yet the NSC had made known that it will utilize some of the same extralegal procedures as the CCDI, such as locking up suspects for up to six months without judicial processes. Similar to the CCDI, the NSC also has the right to deny suspects legal aid. Moreover, the NSC's ability to search and wiretap suspects in addition to freezing their bank assets renders it an even more draconian graft-buster than the CCDI (South China Morning Post, March 19; BBC Chinese, March 18). The NSC is thus another manifestation of the party's augmented control over the anti-corruption campaign—as well as the CCP's goal of rendering this new anti-graft unit a part of the CCP's labyrinthine police-state apparatus (China Brief, July 21, 2017).

The day after the NPC closed on March 20, party authorities announced a further series of administrative restructuring geared toward subsuming

State Council departments or functions under party organs. One notable example is the party's United Front Work Department, which absorbed three State Council units—the State Ethnic Affairs Commission, the State Administration of Religious Affairs, and the Overseas Chinese Work Department. The abolition of the three State Council departments testifies to President Xi's instructions about “the party running state organs.” This also portends more vigorous oversight over China's ethnic minorities, Christians (including worshippers in house churches) and the activities of ethnic Chinese domiciled abroad. The head of the expanded UFWD is You Quan, another Xi protégé with connections to Fujian Province ([Bjnews.com](#), March 21; [Sina.com](#), March 21). And looming above the much-changed landscape of Chinese governance is Xi, the hands-on supreme leader who is determined to run this huge nation as if it were his personal fiefdom.

In his maiden speech as the newly installed head of China's top legislature, Li Zhanshu, a close confidant of Xi's, heaped five titles on the leader for life: “core of the party, military commander, the people's leader, the helmsman for a new era in socialism with Chinese characteristics, and the people's *lingluren* (“guide”).” In CCP history, only Mao has been accorded the encomiums “helmsman” and “*lingluren*” ([People's Daily](#), March 20). The history of both the Soviet and the Chinese Communist Party is replete with demigod-like figures such as Mao Zedong and Stalin who have not only modified the party in their own images but also subsumed much of the resources and powers of the party-state apparatus to their own overarching ambitions. Like those figures, criticism from both domestic and foreign opinion-makers is unlikely to make the slightest dent on Xi Jinping's determination to remain China's supreme helmsman.

Dr. Willy Wo-Lap Lam is a Senior Fellow at The Jamestown Foundation. He is an Adjunct Professor at the Center for China Studies, the History Department and the Program of Master's in Global Political Economy at the Chinese University of

Hong Kong. He is the author of five books on China, including “Chinese Politics in the Era of Xi Jinping” (Routledge 2015).”

In A Fortnight: The End of the Singapore Model

By Matt Schrader

In many more ways than one, this year's Two Sessions—an annual March meeting of China's two highest legislative bodies—marked the end of an era. Among other developments, Xi Jinping signaled his unmatched control of the levers of power by remaking, seemingly at a stroke, China's constitution and government, subsuming many of the latter's functions into the Communist Party. His actions brought to a definitive close China's era of “collective leadership”, and signaled unambiguously the opening of a period of one-man rule.

The Two Sessions also signaled the end of another era, less noticed and commented upon than Xi's high-profile reforms: It marked the end to the usefulness of the “Singapore model” as a way of understanding China's political evolution, for people both inside and outside China. For better or for worse, the Two Sessions underscored that Xi's PRC now believes it has its own model to offer the world, one for which it is beholden to no one, including Singapore ([China Brief](#), February 26).

A Model City

When Deng Xiaoping began to open China to the outside world in 1978, he quickly identified Singapore as an example his country should study. The reasons were obvious: Singaporean Prime Minister Lee Kwan Yew had built a country that married efficient economic management, clean governance, and rapidly rising standards of living with an enduring one-party hold on power, all in a multi-ethnic, majority-Chinese society. In his first visit to Singapore in 1978, Deng was reportedly

“shocked” by its prosperity [1]. In 1992, Deng exhorted CCP cadres to “learn from the world, especially from Singapore”, touching off a “Singapore fever” in PRC political and academic circles. The enthusiasm was institutionalized: from the 1990s to 2015, some 50,000 PRC officials made the pilgrimage southward to “learn from Singapore”. The intensity of the PRC’s focus on the Singapore model was not lost on Western academics or journalists, who probed the flourishing ties between the two for clues on China’s future direction (New York Times, August 9, 1992). People inside of China hoping for political liberalization also saw a glimmer of hope in this embrace of Singapore.

But the two countries’ mutual enthusiasm has now begun to wane, with ties sliding from respect towards suspicion, prompted by Singaporean concern over PRC assertiveness in the South China Sea and the subsequent PRC reaction. One important consequence has seen the CCP has begun to cut back the number of cadres it sends to Singapore (Global Times, June 29, 2017). The public debate in Singapore has also swung in a hawkish direction: Singaporean ambassador-at-large Bilahari Kausikan has called the PRC’s policy towards overseas Chinese communities an “existential” threat to Singapore, saying pushback is a “matter of survival” (Straits Times, July 9, 2017). Last week, Singapore’s government heard public testimony from an academic panel empowered to investigate ‘online falsehoods’ which asserted that an unnamed foreign state had “had waged information warfare against Singapore in recent months through news articles and social media, in its attempts to influence specific segments in the international sphere” (Today, March 16). Although the state actor was left unnamed, for a number of reasons the PRC is by far the most likely candidate. On Beijing’s side, official and quasi-official statements often portray the friction as a result of Singapore’s difficulty adapting to the PRC’s expectation that it be shown a deference commensurate with its growing influence.

A New Direction

In the 20/20 lens of hindsight, the deterioration of relations makes some sense, since the PRC’s enthusiasm for the Singapore model was never quite the meeting of the minds it was portrayed to be. More perceptive observers have recently noted that the version of Singapore held up as a model inside China was an airbrushed version of a much more complex picture, meant to flatter China’s leaders chosen development path. [2] Commentary by authoritative political observers in China frequently expressed admiration for how Lee Kwan Yew had managed to “concentrate the power of the state to bring about strategic development” so as to “bring prosperity and progress to Singaporean society, and provide for the [people’s] welfare”, words that seem to describe the CCP’s approach to governing as much as Singapore’s. (Beijing Daily, March 30, 2016). By the same token, Western who drew hope from the PRC’s close study of Singapore’s political institutions were often quick to note that Singapore’s ‘managed democracy’ had real opposition parties that could supervise and act as a check on government actions, an observation that reinforced their own ideas of how China could (and, in some cases, should) develop.

Xi’s NPC reforms, explored in more detail by Dr. Willy Lam in his column for this *China Brief*, put thoroughly to rest the notion that China will follow Singapore’s path. Rather than a managed democracy and limited state interference in the market, Xi envisions a society where everything, including government and business, submit to the guidance and leadership of the Communist Party. Hand-in-hand with Xi’s confident reassertion of Party prerogative, Chinese leaders have begun to speak of a “China model” and “Chinese wisdom”, asserting that China’s unique development path is one worthy of study, if not always emulation (China Brief, February 26). Although PRC academia and policymakers will continue to study other political systems as a matter of course, Xi has declared that China has its own model now, a reality to which

Singapore, as well as the rest of the world, will have to adapt.

"In A Fortnight" is a bi-weekly column by Matt Schrader, the editor of China Brief. Follow him on Twitter at @tombschrader.

Notes

[1] This anecdote is pulled from "The 'Singapore Fever in China': Policy Mobility and Mutation", written by Kean Fam Lim and Niv Horesh for *The China Quarterly*, December 2016.

[2] See Stephan Ortmann and Mark R. Thompson, "China and the 'Singapore Model'", writing in the *Journal of Democracy*, January 2016.

Lost in the Shuffle: China's New, Overlooked Financial Regulatory Commission

By Andrew Polk

Momentous developments have taken place over the past several weeks in China. The entire government has been reorganized, key personnel appointments have been made, the Party's imprint on the State has been institutionalized, and Xi Jinping has opened the door to an indefinite term as China's leader. With so many landmark changes taking place, the many more nuanced developments have become difficult to track. But some of these more granular developments, which seem small by comparison, will have a considerable and immediate impact macroeconomic management in China.

One such development has been the rising influence of a key new economic body, which has largely been overlooked during this National People's Congress. It is called the Financial Stability and Development Committee (FSDC), and it will

play a critical role in macroeconomic policymaking. What's more, it should lead to more coordinated policies across the monetary, fiscal, and industrial spaces—giving China a powerful new macroprudential toolkit to avoid a financial crisis and fund its industrial policy priorities. Given that it will be headed by China's most powerful economic official, Vice Premier Liu He, businesses, governments, and serious analysts would be wise to get better acquainted with the new committee.

A Powerful New Body

The FSDC is a relatively new committee under the State Council, headed by the Vice Premier charged with the economic portfolio. Until last week, that person was Ma Kai, but now it is Xi's go-to economist, Liu He. The fact that it is headed by a key lieutenant of Xi Jinping should demonstrate the import of the new entity, in and of itself. Indeed, its recent establishment appears to have effectively been undertaken with Liu's pending leadership in mind.

The relatively new FSDC was established in July 2017 at the National Financial Work Conference, a meeting that was notable in its own right for a number of reasons:

- 1) The meeting was long-delayed, having been expected to take place in 2016. The delays led to speculation that a lack of consensus would lead to few changes in the financial regulatory architecture, but those expectations were proven wrong by the outcomes of the meeting and the subsequent regulatory overhaul.
- 2) Xi's Jinping's presence at and leadership of the conference elevated its importance, given that financial regulation is not generally considered the remit of a General Secretary of the CCP.
- 3) The meeting cemented financial policy as an overall priority for the Party and the government, reiterating Xi's statement

from early 2017 that financial risk has become a national security risk.

- 4) It thoroughly enshrined the “back to basics” theme, discussed in more detail below, as a mantra for the financial sector.
- 5) Finally, it established the new Financial Stability and Development Committee ([Xinhua](#), July 15, 2017).

Indeed, in the immediate wake of the National Financial Work conference, each of the main financial regulatory bodies (as they were then constituted) held meetings to study and express fealty to the leadership of the newly created body -- an early, but clear, indication of where the balance of power is gravitating in the financial sector ([PBOC Press Release](#), July 18, 2017).

While the committee was officially established at the State Council level, day-to-day operations for the committee are run out of the central bank—the People’s Bank of China (PBOC). The FSDC is meant to be a high-level deliberative body, where stakeholders from across the financial spectrum can debate policy. And given that its daily operations will take place within the central bank, this deliberative function should give the PBOC enhanced standing as an intermediary between the State Council and the other regulators. Additionally, the FSDC will cut across various parts of the financial system, allowing the body to be used as a venue to break deadlocks when regulators cannot agree over the proper trajectory of policy ([Xinhua](#), July 15, 2017).

What’s more, the FSDC is expected to be used to exert greater authority over local governments when it comes to financial policy, given that the individual regulators largely lack this capability. Authority over the localities will be ensured by the fact that the FSDC is also planning to build out a mechanism to undertake inspection tours over local regulators and governments ([Caixin](#), July 17, 2017). Given these wide-ranging responsibilities, the FSDC is meant to be much more than simply a financial cat herded—i.e. making sure that policy

emanating from the various commissions and the central bank are all aligned, instead of working at cross purposes ([Xinhua](#), November 8, 2017). Rather, the goal for the entities is not only to coordinate financial regulators among themselves, but to ensure that overall financial policy is aligned with monetary policy, fiscal policy, and industrial policy. In other words, a host of important policymakers will lay out industrial policy goals, after which the FSDC will ensure that those goals receive adequate financial and fiscal resources.

So rather than thinking of the FSDC as a traditional commission—like the CBRC or the CIRC—or even a bread-and-butter office of the State Council, it is better conceived as a type of leading small group. And while it will not rival the Party’s Central Leading Small Group on Finance and Economics, it will essentially act a government counterpart to that entity.

Devil in the Details

While the broad strokes of the FSDC’s remit are basically agreed upon, the details of how it will function are still evolving. Over the past several months, that evolution has occasionally played out in public, giving clues as to the ultimate fate of the body. The basic question that most policymakers and Chinese analysts are asking, though, is not whether the FSDC will be powerful, but exactly how much authority will it need to have in order to accomplish its key tasks.

The primary financial priorities that the FSDC will support were delineated in the official newspaper of the central bank, *The Financial News*, in late October, 2017 ([Financial News](#), October 30, 2017). First, the FSDC is to ensure that financial activity is geared toward supporting the real economy. One of Xi Jinping’s mantras for the financial sector over the past year has been “back to basics.” That effectively means doing more to finance the smooth functioning of businesses and doing less to engage in speculative financing behavior to boost bank profits. The FSDC is meant to oversee that process. Secondly, the FSDC will

seek to improve overall macroeconomic regulation and control. Thirdly, it will strengthen policy coordination. Finally, it will seek to help institutions prevent and resolve financial risks.

Accomplishing those difficult tasks will require a high level of authority. And so policymakers are trying to decide whether the FSDC should establish special sub-committees within each of the various financial regulators—a so-called regulation matrix that would see the various sub-committees report upward to the main FSDC ([Caixin](#), February 9, 2018). A second option would be to devolve various decision-making authority to the FSDC over time while embarking on a wider financial regulatory consolidation ([Caixin](#), February 12, 2018). Given the recent announcement of the government restructuring plan, it appears that the latter path may have won out for now.

How the FSDC Fits into a Revamped Government

When it comes to the financial sector, the key development from the government restructuring plan that was announced on March 13 included a merging of the China Banking Regulatory Commission (CBRC) with the China Insurance Regulatory Commission (CIRC). Equally important was the elevation of the central bank's role in macro-prudential policy-making that was accomplished by transferring the CBRC's and CIRC's responsibilities for writing major regulation and financial laws to the central bank. Such an arrangement will allow the central bank to play a more dedicated macro-prudential role, while the CBRC and CIRC focus on strict implementation of policy at the individual institution level. The elevation of policymaking power to the central bank appears to be a precursor for the centralization of decision-making into the FSDC.

That likelihood, though, made the absence of the FSDC—and its role in financial and economic policymaking—in the government restructuring plan

seem quite conspicuous. However, the explanation for the body's absence in the wide-ranging government reorganization is straightforward. The most basic reason that the FSDC wasn't mentioned in the government restructuring plan that was approved by the National People's Congress (NPC) was that it didn't need to be, for two reasons. First, the FSDC wasn't actually restructured in any way by the recent plan, even though entities under its authority were. Entities that weren't affected by the sweeping changes were left out of the draft.

But more fundamentally, as a special committee that reports to the State Council, legislative approval is not required for changes to this particular body. Even when the committee was first announced in July 2017, it didn't require NPC approval; neither is an official legislative explanation required to explain how the FSDC fits into the new regulatory architecture involved in the government restructuring plan.

Still, the fact that the FSDC was not listed in the government restructuring plan has not stopped market actors from recognizing its importance. Just 24 hours after the plan was announced, China's financial media had coined a new acronym to refer to the regulatory architecture. Over the past decade, the four key financial regulators have been referred to as 一行三会—one bank and three commissions. The phrase was not only a pithy way to refer to the full group of financial regulators, but it also clearly indicated that the PBOC was the first among equals. The new phrase the financial media is using, however, is 一委一行两会—one committee, one bank, and two commissions ([China Securities Journal](#), March 14, 2018).

The phrase is a touch less pithy, but it has the same effect of being reasonably compact and conveying a clear hierarchy. The FSDC will be the clear leader of the financial regulatory pack going forward. That means that the early gains that China has made in reducing financial risks over

the past year will be advanced by this powerful new body that has both a broad remit, and the ability to see across various silos in the financial system. To be sure, the specter of a regulatory misstep will always hang over China's financial officials. But the FSDC gives Vice Premier Liu He a much stronger chance of keeping the ghosts of an acute financial crisis at bay.

Andrew Polk is a founding partner of Trivium/China, a Beijing-based advisory firm. He was formerly director of China research at Medley Global Advisors and senior China economist at the Conference Board's China Center. Follow him on Twitter at @andrewpolk81.

China's Counterintelligence "Trinity" and Foreign Business

By Matt Brazil

As the Chinese Communist Party (CCP) pursues a domestic anti-spy campaign and new espionage laws, PRC national security concerns and greater suspicion of foreigners may trump foreign business complaints about unfavorable treatment, rising trade barriers, and feeling unwelcomed. Foreign firms in China should not ignore these warning signs, but instead plan for a period of higher business risk and harsher conditions, especially since strong historical parallels indicate that this period may not pass quickly.

New Anti-Spy Laws and Regulations Reflect Real Problems

Since CCP General Secretary Xi Jinping convened the first meeting of the Central State Security Commission in 2014, a spate of new security measures has emerged including the National Security Law, the Counterterrorism Law, the Intelligence Law, the Cyber Security Law, the Counter-espionage Law, as well as additional regulations meant to guide implementation (en.people.cn,

May 18, 2017; China Brief, May 11, 2016; cpcnews.cn, April 15, 2014).

The party pursued these measures for clear reasons, including real espionage problems uncovered by Chinese counterintelligence. Notable among them was a multi-year roundup, ending in 2012, of over 20 PRC citizens spying for the United States, and more than 40 cases reported two years later against Chinese citizens accused of spying for Taiwan (Sina.com, October 27, 2014; New York Times, May 20, 2017).

Guided by these new laws and regulations, a media campaign emerged over two years ago that continues into the present. The first annual National Security Day inaugurated on April 15, 2016, promoted popular awareness of foreign espionage after PRC authorities unveiled their report-a-spy hotline, 12339, in late 2015. Numerous media pieces followed, including television news segments on foreign spying, and propaganda videos tailored to audiences from primary school students to young adults (Chinanews.com, April 20, 2016; binews.com.cn, April 10, 2017; South China Morning Post, November 6, 2017). Echoing the reality of an escalating espionage competition between Washington and Beijing, the Chinese campaign more than matched efforts by American authorities to warn of Chinese espionage in the U.S. (FBI videos Game of Pawns April 2014 and Company Man July 2015).

Echoes of Mao in Xi's Counterintelligence "Trinity"

The CCP and its compliant media have dubbed the campaign "Trinity" (三位一体, *Sanwei yiti*), using a well-worn phrase in Chinese to herald a "new era" of security management. True to its name, there are three broad efforts: 1) employ new laws and regulations to integrate national counterintelligence efforts, as noted above, 2) improve communication between Chinese security agencies, civilian and military, and 3) advance a "broad concept of national security" going beyond

traditional counterintelligence from earlier, less connected times to better protect China in a time of heightened foreign influence inside the PRC (Xinhuanet.com, July 2, 2015).

The “broad concept of national security” is not just about catching spies, but seeks to better prepare and shape the PRC environment, making it a harder target for foreign influence of all sorts. In part the “broad concept” addresses a problem that began a decade before Xi Jinping’s anti-corruption and anti-spy campaigns, when his predecessors expanded the rolls of the party outside the traditional pool of workers, peasants and soldiers. They sought to attract society’s “advanced productive forces,” in other words, wealthy entrepreneurs and capitalists, under the “Three Represents” (三个代表, *Sange daibiao*) promoted by Jiang Zemin beginning in 2000. The effort continued under Jiang’s successor, Hu Jintao (en.people.cn, September 29, 2007). [1] China’s nouveau riche were not the only new party members after 2000, but they became increasingly visible, with yuan-billionaires appearing in the National People’s Congress. [2]

As the CCP’s membership grew after 2000 [3] and its profile changed to include the moneyed classes, public dissatisfaction over corruption increased, whether or not there was a causal link between affluent communists and graft. To help preserve the party’s legitimacy, Xi Jinping entered office in 2012 determined to attack corruption. After a difficult start, his campaign netted thousands of lower level officials and a number at the top, like Bo Xilai and Zhou Yongkang, who might have resisted Xi’s accrual of authority, the establishment of his “thought” as an unassailable ideological standard, and a widening hunt for enemies within. Perhaps to show precedent for purging corrupt members of the communist elite, party propaganda early in Xi’s campaign reminded us that Mao “selflessly destroyed seven big tigers” in 1932-34 (People.cn, July 31, 2014).

Xi’s ascent to a position of unchallenged leadership within the CCP took place during a very different time than when Mao Zedong took control (1937-45), and Xi does not seem to be pursuing Mao’s permanent revolution or a radical leftist agenda. But some parallels are apparent. The CCP accepted droves of new members who flocked to their Yan’an base area in patriotic fervor after the Japanese invasion began in July 1937. As the Chinese Nationalist Central Government sought to surround Yan’an and pursue a military and espionage offensive, the CCP developed doubts about their new acolytes, pursuing a “cadre checking” hunt for spies and infiltrators among them (1941). The Rectification Campaign (整风运动, *Zhengfeng yundong*, 1942-1944) followed, promoting ideological unity behind “Mao Zedong Thought,” while Mao finished off his only credible opponent, Wang Ming. In the midst of this, the infamous Salvation (抢救, *Qiangjiu*) Campaign forced large numbers of people to falsely confess to spying in 1943. Perhaps not by coincidence, Mao was first designated as Chairman of the CCP in March of the year the Salvation Campaign began. (He fully consolidated his grip on the CCP in 1945 at the Seventh Party Congress.) Mao’s partisans in Yan’an during these movements included not only the infamous black sheep of CCP intelligence, Kang Sheng, but also modern-day saints in the communist Chinese pantheon: Xi Zhongxun (Xi Jinping’s father), Liu Shaoqi, and Chen Yun. [4]

A decade later, during Mao’s early rule of the People’s Republic, the party conducted another major drive to eliminate enemies and silence critics. In 1955, the CCP targeted five percent of officials nationwide, claiming that they were hidden counterrevolutionaries—that is, people resisting the Chinese Communists in the name of the U.S. or the Guomindang (Nationalist) ancien régime exiled on Taiwan. Though far less than five percent of officials were actually purged, the campaigns led to the imprisonment in labor camps of over 1.3 million people that year. [5] By coincidence, the CCP Central Discipline Inspection Commission,

which leads purge activity under Xi Jinping, announced late last year that 1.34 million officials have been punished for graft since 2013 ([Reuters](#), October 7, 2017).

The Six Percent Illusion

But what about the spies? A notably fantastic claim arose in 2016 that continues to circulate online in China, undeleted and uncensored: 115,675 people in the PRC are engaged in foreign espionage, including 48,564 foreigners and 67,111 Chinese nationals. The largest spy teams are said to work for Germany, Japan, the United States, France, and South Korea. The first Chinese reports with these numbers were originally attributed to Agence France Press, but the French connection was omitted from most subsequent postings and internet searches produce no such AFP report ([Sohu.com](#), May 3, 2016 and [September 15](#), 2016; [360doc.com](#), Dec 1, 2016; [jmqmil.sina.cn](#), March 10).

Though estimates of the foreign population living in China published in English tend toward 600,000, those published in Chinese are closer to 800,000 ([People.cn](#), January 14, 2016). For those who accept the idea that there are over 48,000 foreign spies in the country, the math indicates that six percent of foreign residents in the PRC are active in espionage—again reminiscent of Mao's time, when the party center targeted five percent of officials as counterrevolutionaries.

Avoiding Irrational Exuberance

Some foreign business observers believe that the today's new security laws and the anti-spy campaign merely codify past practices—the PRC putting down on paper what they have always done to spy on foreigners and control business activities. [6] One could see efforts like the “Dangerous Love” propaganda cartoon as mildly ridiculous, and view as an illogical “one-off” the 2014-16 detention of Canadian missionaries Kevin and Julia Garratt, who ran a coffee shop in Dandong, a city

on the North Korean border.[7] Official Chinese pronouncements in English reassure foreigners that they will not be affected by stricter VPN controls ([Shanghai Daily](#), January 31, 2018) in response to reports that some foreign companies are facing problems with connectivity while others do not ([RFA.org](#), January 16). There is an element of truth to this optimism, but it too quickly dismisses the possibility that the CCP could be embarking on yet another historic anti-spy catharsis under a great leader consciously modeling himself after Mao, a man who worried about erosion of his party's missionary fervor, eventually became unconcerned by the need to build consensus among equals, and reacted harshly to even the slightest opposition.

This is not solid proof of danger that should prompt an exit from the Chinese market, but it does indicate heightened risk to foreigners on Chinese soil, especially if their home nation comes into conflict with Beijing. It could also warn against overvaluing the prospects for doing business in the PRC as we approach the 2020s.

Foreign companies in China should reexamine their typically optimistic assumptions and plan for the possibility that a strategic inflection point has arrived in China, with more strident host government interference with operations, including seizures of shipments and property, far-fetched allegations about ordinary matters, intensified surveillance leading to IP theft or worse, and the detention of employees. In short, to sustain business and avoid pitfalls that endanger people and assets, it's time to develop a Plan B.

Matthew Brazil, Ph.D. is a non-resident Fellow at The Jamestown Foundation. He worked in Asia for over 20 years as an Army officer, American diplomat, and corporate security manager. Matt runs Madeira Security Consulting Inc. in San Jose, California, specializing in advice to Silicon Valley companies doing business in China. With Peter Mattis, he is the co-author of a work on Chinese intelligence operations to be published in spring 2019 by the Naval Institute Press.

Notes

[1] Orville Schell and John Delury, *Wealth and Power: China's Long March to the Twenty-First Century* (New York: Random House, 2014) p. 348. David Shambaugh, "China at the Crossroads: Ten Major Reform Challenges." The Brookings Institution, Washington, DC, October 1, 2014, p. 6. Joseph Fewsmith, "Studying the Three Represents," in China Leadership Monitor, No. 8, Fall 2003, pp. 2-3.

[2] Tony Saich, "The National People's Congress: Functions and Membership." The Ash Center, Harvard Kennedy School, November 2015, p. 9. http://ash.harvard.edu/files/ash/files/the_national_peoples_congress.pdf

[3] From 64.5 million members in 2000, when Three Represents was first announced, CCP membership grew to 75.9 million in 2008 and 85.1 million in 2012, when Xi Jinping took the reins as General Secretary. Sina.com, June 30, 2015.

[4] Hao Zaijin, *Zhongguo mimi zhan – Zhonggong qingbao, baowei gongzuo jishi* [China's Secret War – The Record of Chinese Communist Intelligence and Protection Work] (Beijing: Zuojia chubanshe, 2005), pp. 249-50. Gao Hua, *Hong taiyang shi zeyang shengqi de* [How did the Red Sun Rise Over Yan'an: A History of the Rectification Movement] (Hong Kong: Chinese University Press, 2000), pp. 461-62. Michael Dutton, *Policing Chinese Politics* (Durham and London: Duke University Press, 2005), pp. 106-108. Peter J. Seybolt, "Terror and Conformity, Counterespionage Campaigns, Rectifications, and Mass Movements, 1942-1944" in *Modern China*, Vol. 12, No. 1 (Jan. 1986), pp. 56-57.

[5] Gu Chunwang, *Jianguo yilai Gong'an Gongzuo Dashi Yaolan* [Major Highlights in Police Work Since the Founding of the Nation] (Beijing: Qunzhong Chubanshe, 2003) p. 89, entry for August 25, 1955. Andrew Walder, *China Under Mao, A*

Revolution Derailed (Cambridge, Massachusetts: Harvard University Press, 2015), p. 66.

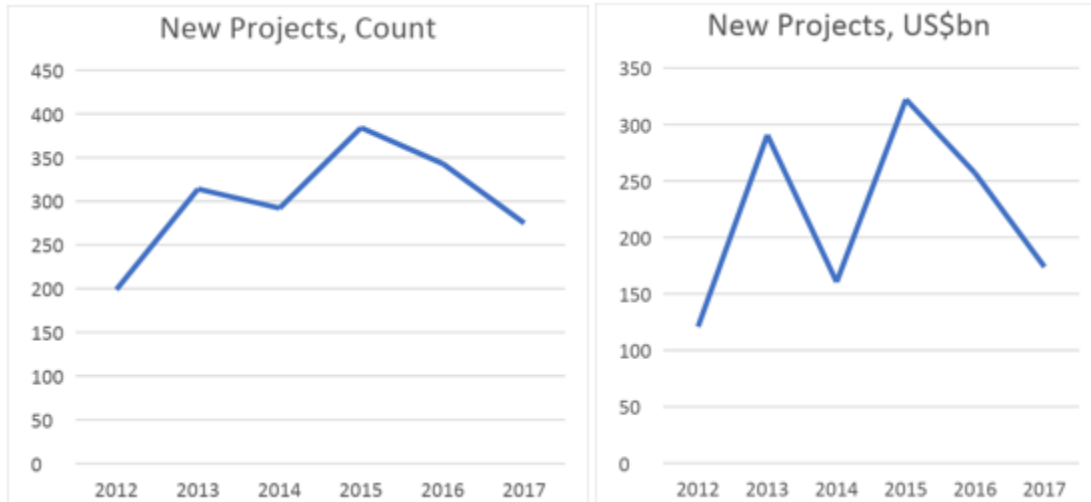
[6] Author's interviews with foreign business executives in China, December 2017 – January 2018.

[7] The cartoon "Dangerous Love" (危险的爱情, *Weixian de aiqing*) appeared in China during April 2016. Displayed in public using large posters, it depicted a female Chinese state employee being seduced by a red-haired Westerner with a prominent nose, who convinced her to hand over classified materials. (New York Times, April 21, 2016).

The Belt and Road Initiative: Is China Putting Its Money Where its Mouth Is?

By Johan van de Ven

Five years after it entered discussions surrounding China's foreign policy, the Belt and Road Initiative remains a subject of political priority and public attention. Beijing has recently made a habit of attempting to persuade visiting heads of state to offer formal endorsement of the initiative, as Emmanuel Macron, Theresa May, and Dutch Prime Minister Mark Rutte have all found. Major international banks, among them Standard Chartered and Deutsche Bank, have signed on to Belt and Road-themed programs, while public attention towards the initiative continues to grow after a May 2017 spike. [1] Against this backdrop, it seems only natural that new project openings and capital commitments should continue on an upward trajectory. However, data collected by RWR Advisory Group shows that new projects in infrastructure, power, and energy—the lifeblood of the Belt and Road Initiative—have declined every year after peaking in 2015, measured both in terms of number of new projects and dollar amounts spent. [2]



Source: RWR Data

There are several possible explanations for this observed decline in outbound investment:

- The central government is pursuing meaningful curbs on capital flight. A secondary and not unwelcome consequence of the curbs may be a cutting of some of the chaff surrounding Belt and Road investment.
- What appears in aggregate to be a decline in capital intensiveness may actually represent a development of geographical refinement. Data from the same time period shows a continuation of the upward trend in a number of countries, such as Iran and Egypt.
- While Belt and Road is widely seen as a whole-of-country initiative, it could be that a select group of companies (SOE or private) have been handpicked to drive related projects forward.
- Aggregate data may also be hiding evidence of a more refined approach to the question of what Belt and Road is, in addition to where it is. This means that project openings in the infrastructure and energy sectors may be continuing to grow, despite overall activity showing a downturn.
- The Xi Administration has made ambitious strides in presenting China as a global power. But the proliferation of Belt and Road is such that it has become a bureaucratic meme. The downturn of new project announcements may merely be the result of the end of a cycle in a boom-and-bust policymaking environment.
- Lastly and quite simply, is not enough for projects to be announced—they must also be built.

While the Chinese economy does conform to a state capitalist model, it is unlikely that the government can guide the extent of the Belt and Road Initiative merely via indicating preferences and priorities. While the uptick in Iran and Egypt is likely the result of Chinese corporations taking the signal offered by Xi's state visits to those countries, this is only an indirect means of setting the initiative's trammels. Instead, capital controls and outbound investment review processes, as laid out by new NDRC rules and existing SAFE regulations, offer a much more tangible means of cutting the chaff from the Belt and Road Initiative. The lack of significant industrial concentration and the failure of Belt and Road "national champions" to emerge supports the analysis that the decline is the result of a tamping-down on superfluous investment, ra-

ther than the indication of discrete targeting. However, the NDRC regulations do strengthen the state's ability to dictate what kind of outbound investment it wants, and what kind it does not want. Although the data does not yet show this, years to come may see a clearer emergence of targeting. In that sense, the decline shows an attempt to rein in a runaway policy. The next phase will be to (re)define what Belt and Road should look like.

Reining in Capital Outflows

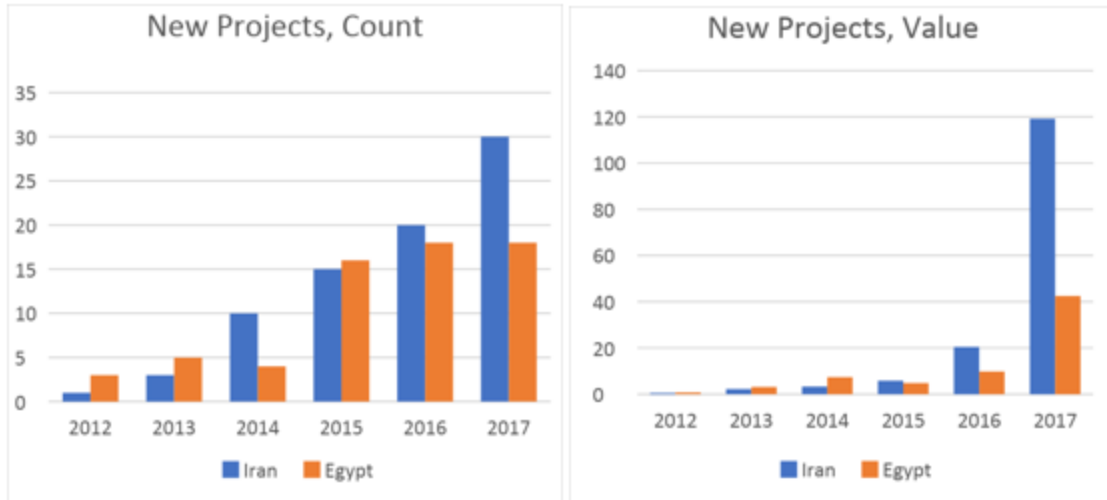
Throughout 2017, the National Development and Reform Commission (NDRC) led a regulatory drive to restrict outbound investment presented as targeting "irrational" investments by private conglomerates such as HNA, Wanda, and Anbang ([State Council](#), August 4, 2017). But the unfolding of the Belt and Road Initiative has not been immune from high risk and dubious rationality. The International Monetary Fund's October 2017 analysis that Chinese loans have put Zambia at risk of debt distress is a sign of the former, while mention of a "Digital Silk Road" points towards the latter ([IMF](#), October 10, 2017; [China Daily](#), December 4, 2017). A leaner, more targeted portfolio of Belt and Road projects would be a welcome consequence from controls on capital outflows. Indeed, the NDRC investment guidelines made this clear: investments that further the Belt and Road framework are explicitly encouraged.

But encouragement does not mean that a reversal of the overall downward trend should be expected. The focus across the Chinese bureaucracy on finding ways to control unwanted investment, paired with efforts to deleverage across the state-owned and private sectors, suggests that even though the NDRC rules do back Belt and Road investment, projects marketed as BRI-relevant will not receive carte blanche. Such a relaxation of control would simply be too abrupt. Instead, the goal remains a leaner and more targeted BRI. Cutting the chaff also means a greener BRI. Re-

strictions on investments that contravene environmental standards, contained within the NDRC document, show a growing sensitivity towards the need to maintain a positive reputation for Chinese projects overseas ([State Council](#), August 4, 2017).

Regional Refinement

Tied to the notion of a leaner BRI is a refinement of where projects are opened and money is committed. While most major recipient countries saw a downturn in Belt and Road activity after 2016, Iran and Egypt both saw a major growth in overall new projects, not just those related to infrastructure, energy, and power. Both countries saw surges in investment after 2016 visits by Xi Jinping ([Ministry of Foreign Affairs](#), 2016). In Iran's case, these include a July 2017 \$2.5 billion loan agreement between the Export-Import Bank of China to Islamic Republic Railways for an electrification project covering the 900km Tehran-Mashhad railway, as well as a \$544 million railway construction contract agreed in January 2018 by China Civil Engineering Construction Corporation and Iran's Construction and Development of Transportation Infrastructure Company ([MEHR News Agency](#), July 25, 2017; [China Railway Construction Corporation](#), January 4, 2018). In Egypt, China has become the largest investor in the Suez Canal Corridor, including a joint Suez Economic Trade and Cooperation Zone ([Xinhua](#), March 3, 2017). Separately, China Harbor Engineering Company is set to begin construction this year of a \$10 billion high-speed rail artery linking Aswan, Cairo, and Alexandria ([My Salaam](#), December 1, 2017). If we understand the Belt and Road Initiative as a way for China to incentivize close political relationships around the world, both Iran and Egypt make sound strategic sense, particularly within the context of China's drive to solidify its energy security. Iran is strategically located along one side of the Persian Gulf and is China's fourth-largest source for crude oil imports, while Egypt's Suez Canal is a chokepoint for Chinese trade into the Mediterranean and beyond.

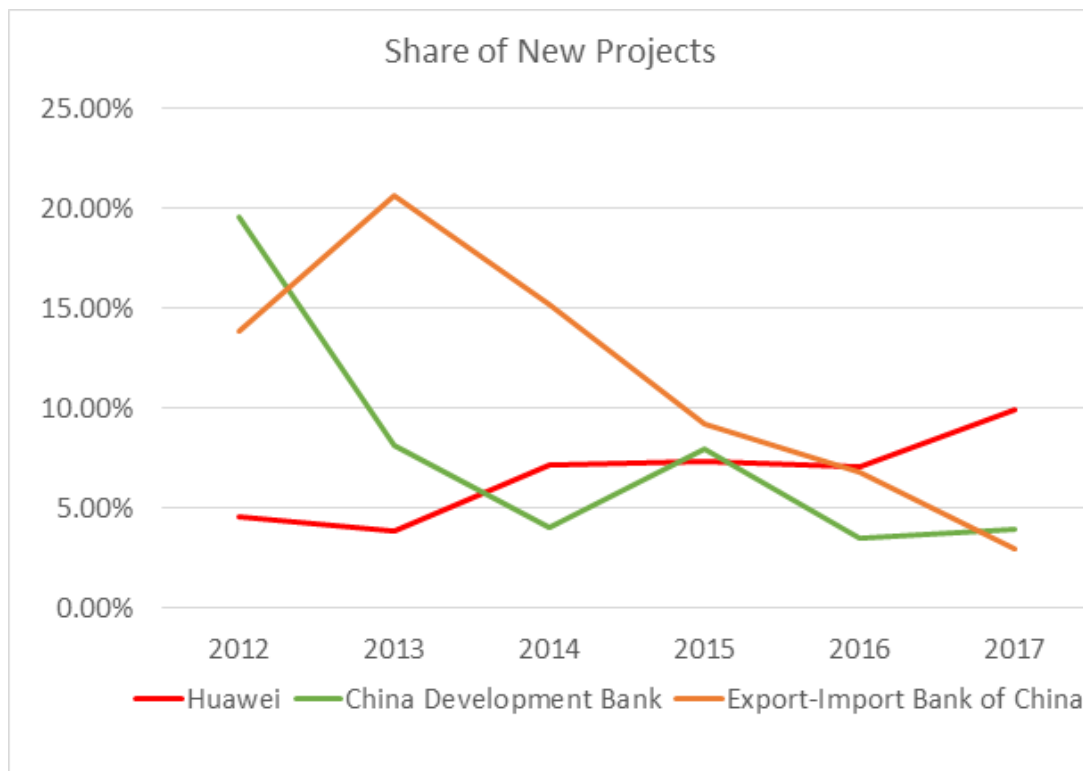


Source: RWR Data

The Chosen Few?

While there does seem to have been some refinement in terms of where Belt and Road projects are taking place, a whittling-down of contracting companies has not accompanied the decline in new projects. China Development Bank (CDB) has maintained a position of prominence throughout

the period surveyed, while the Export-Import Bank of China, which fills a similar role, has seen its share of new projects decline, implying that CDB has become the preferred lender for projects in the developing world. But these are providers of finance, rather than contractors like Huawei, which saw its involvement in the overall share of BRI projects fall from 19.5% of new projects in 2012 to only 3.9% in 2017.

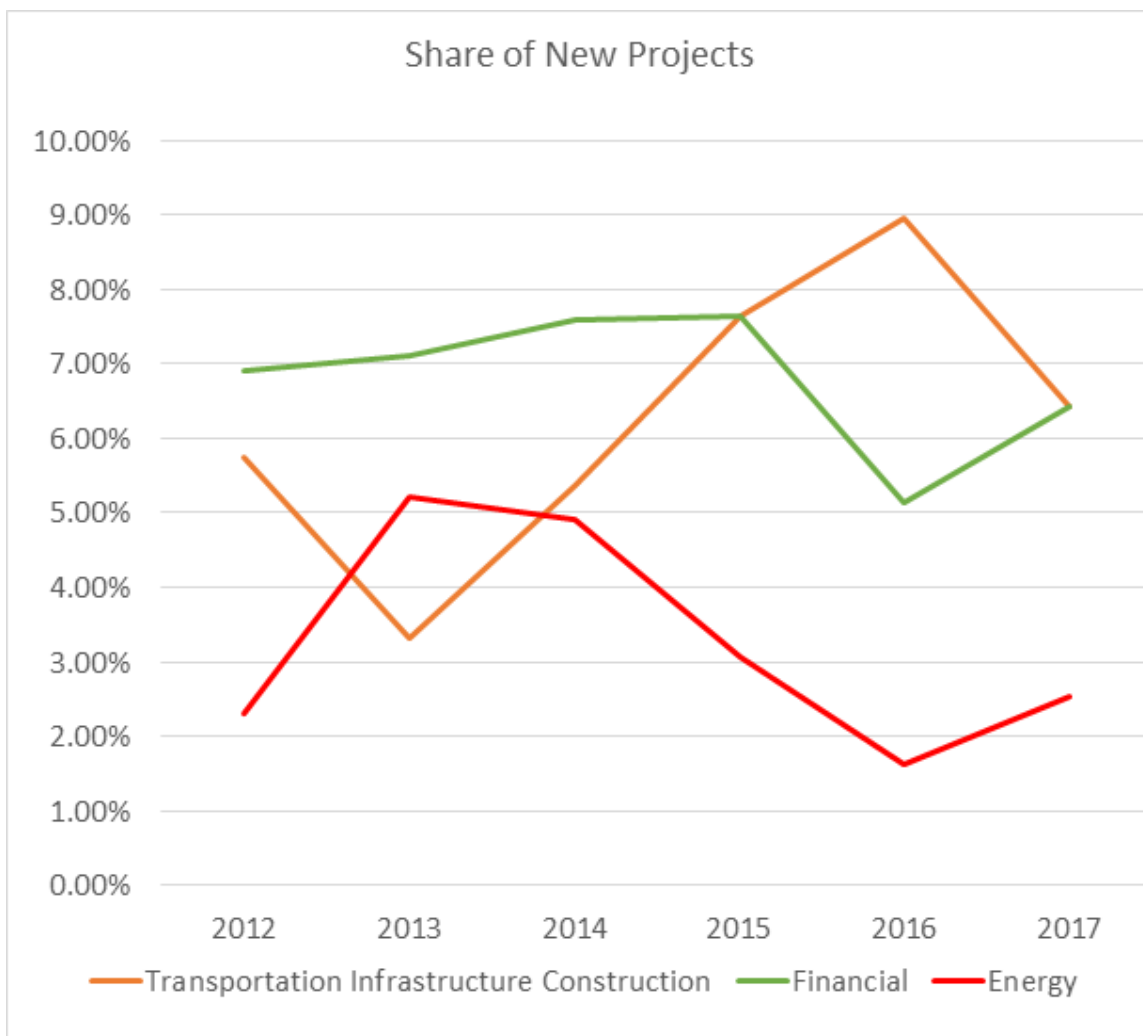


Source: RWR Data

This suggests that rather than selecting a handful of companies to be developed as Belt and Road “national champions”, companies—both state-owned and private—are engaged in a competitive process to identify and initiate new projects that fit within the Belt and Road paradigm. Indeed, since 2016, no contracting company has won more than 4% of total projects for the year in question. Interestingly, Huawei had the most projects of any non-financial entity in any of the years surveyed, but their share has declined substantially since the highs of 2012.

Greater Sectoral Focus?

As RWR’s data shows, industrial concentration between 2012 and 2017 highlighted the bread and butter of Belt and Road: transport infrastructure construction, and finance. But in 2018 year to date figures, finance-related projects rank only fourth in 2018, supporting the earlier suggestion that the Belt and Road Initiative has entered a less capital-intensive second phase. Transport infrastructure construction projects still rank in first place, but only occupy 6.7% of overall outbound activity.



Source: RWR Data

Other industries are on the rise within the context of overall Chinese outbound activity: real estate construction has occupied a greater share of total projects in every year since 2015, despite government attempts to curb real estate-related capital flight. But while there is growth in some sectors, there is scant evidence for any refinement in terms of the nature of China's outbound activity. This aligns with the lack of an emergence of Belt and Road "national champions". In both cases, it is possible that this is representative of a bottom-up competition for the political favor that is associated with Belt and Road. But pairing the lack of contractor or industry refinement does not square with the overall downturn in new projects since 2015: if there was a competitive process underway, it would be expected to lead to a rise in new projects, rather than a fall. Instead, the Belt and Road Initiative may be finding itself on the falling side of a boom-and-bust policy cycle.

From Project Announcement to Project Construction

Building transport infrastructure takes time, even before the proverbial first brick is laid. In the case of the 350km Belgrade-Budapest high-speed railway project, construction of the segment between Belgrade and the Serbian-Hungarian border only began in 2017, four years after the project was first announced, and the same year that was initially targeted for completion ([Government of Serbia](#), December 16, 2014). Work is not scheduled to commence on the section between the border and Budapest until 2020 ([Budapest Business Journal](#), October 4, 2017). Under such circumstances, it would be surprising if the project is completed inside ten years of the initial announcement. Cases like this are common in infrastructure construction. While high levels of new project announcements bolster the soft power dimensions of the Belt and Road Initiative by building a head of public and policy attention, projects must be completed to have their fullest and most tangible effect—not only in rebalancing supply chains but also in maximizing associated soft power growth. In that sense, the years between 2013 and 2015 showed a dedication to getting the Belt and Road Initiative off the launch pad. Five years after Xi's Kazakhstan speech, it may simply be that initiative is entering a second phase that sees the emphasis move from announcing projects to giving the chronically under-defined Belt and Road Initiative a more tangible form.

Shifting Attention?

The Belt and Road Initiative maintains a position of pride within the Chinese policy lexicon. This much was underlined at the recently completed Two Sessions, where the National People's Congress voted to establish an International Development Cooperation Agency, which will "allow aid to fully play its important role in great power diplomacy... and will better serve the building of 'Belt and Road'", according to State Councillor Wang Yong. However, it is far from the only focus. Reforms to the constitution and consolidation of Xi's position pull rank in terms of media coverage, while the anti-corruption campaign and drive to de-leverage China's companies occupy the mind of the bureaucracy. Overseas, other issues are driving China's relationship with the wider world. These range from restrictions on Chinese investment to concern about China's influence operations. Driven by a dynamic of competitive appeasement within Chinese bureaucracy and business, BRI seemed *primus inter pares* among Chinese policy initiatives. Now, however, BRI is at minimum moving to a less capital-intensive second phase. Understood in the context of the curbs on capital outflows, it is undergoing a course correction. Seen against political and policy developments associated with the 19th Party Congress, it is re-adjusting to sharing the spotlight. The Belt and Road Initiative is here to stay—at least as represented by the highways and railways that remain under construction—but it is entering a new reality that will not see unending growth.

Conclusion

It is clear that new projects have declined, whether measured by project value or announcement count. The reasons for the decline are less clear. It is overly simplistic to point to contracting companies and financiers that were occupied with getting the Belt and Road Initiative off the ground have now moved their focus to actual construction work. Instead, a more compelling rationale is that regulators in Beijing are attempting to cut the chaff from outbound investment overall, and that the Belt and Road Initiative forms a subset of the target material. Evidence of a leaner BRI comes from greater regional specificity, namely a steep rise for new projects in Egypt and Iran. While there is a strong strategic motivation for amplifying China's presence in both of these countries, the evidence does not point to a

clear refinement in industrial concentration or the emergence Belt and Road “national champions” tasked with undertaking relevant projects. Indeed, while tighter capital controls and the pursuit of a leaner BRI do have good explanatory power, it should be remembered that the attention of Beijing policymakers may have been diverted by issues such as the anti-corruption campaign and the drive to de-leverage. This is not the death of Belt and Road, but the combination of tighter capital controls and competition for attention will result in a leaner BRI. Whether this results in greater definition of what BRI is remains to be seen.

Johan van de Ven is Senior Analyst at RWR Advisory Group, a Washington, DC-based risk management firm where he focuses on geopolitical dimensions of China’s international economic activity. Prior to RWR, he worked in policy consulting in Beijing. You can follow him on Twitter @Johanv91. The views expressed herein do not represent those of RWR Advisory Group.

Notes

[1] As approximated by related Google searches.

[2] RWR Advisory Group leverages open-source information to compile and maintain a database of outbound economy activity propagated by Chinese state-owned and private enterprises. For more information, please visit www.rwradvisory.com.

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For comments and questions about China Brief, please contact us at cbeditor@jamestown.org

The Jamestown Foundation
1111 16th St. NW, Suite 320
Washington, DC 20036
Tel: 202.483.8888
Fax: 202.483.8337