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With the help of major tech companies from the UK and Japan, China may be poised to take an important step towards isolating its microchip supply chain from US pressure, as the Chinese Communist Party (CCP) accelerates an indigenous technology drive in the face of stiffening pressure from the Trump Administration.

On April 26, ten days after the US treasury department announced potentially crippling sanctions against ZTE, a major PRC consumer electronics firm, CCP General Secretary Xi Jinping spoke at the Three Gorges Dam on the topic of China's technological independence ([Xinhua](#), April 26) [1]. Standing atop one of the PRC's great engineering achievements, Xi said, "In the past we tightened our belts, gritted our teeth, and built the two [atomic and hydrogen] bombs and a satellite...In the next step of tackling technology, we must cast aside illusions and rely on ourselves."

His remarks came a few days after an editorial in the state-run *Global Times* (环球时报) newspaper that read, in part:

"ZTE's case suggests that US supply is not reliable ... China must prepare for the worst and integrate

resources to support the development of core technologies. China's technological exploration shouldn't be upset by US factors. It's time for China to make up its mind and develop domestic technologies.” [2]
([Global Times](#), May 6)

Read together with Xi's speech, the message is perfectly clear: the CCP will not allow China to depend on other countries for crucial processor technologies. The need goes beyond business; Xi and the CCP believe global technological leadership should be one of the PLA's core missions.

Xi's concern is not misplaced. What was done to ZTE could be done to others. The Treasury Department's punishment of ZTE was also a clear shot across the bow of Huawei, China's leading telecommunications hardware firm—indeed, word leaked on April 26, the same day as Xi's speech, that the Treasury Department had opened a similar investigation into Huawei ([New York Times](#), April 26).

ZTE was vulnerable to the US Treasury because it neither designs nor manufactures its own chips; in both respects it depends on foreign companies. Huawei's position is a little better. Its fully-owned subsidiary Hisilicon does some of the design work on the chips that go into its consumer smartphones and its upcoming 5G chipsets. But even Hisilicon bases its processor designs on chip architecture provided by a UK-headquartered firm called Arm Holdings.

Arm Holdings, which became a wholly-owned subsidiary of the Japanese tech conglomerate SoftBank in 2016, is as important to the processor industry as it is little known outside it. The company estimates that 95 percent of the smartphones sold each year use chips based on its designs ([Wired](#), July 18, 2016). Chip design is Arm's only business; unlike competitors such as Intel, it does no manufacturing. Arm likens the intellectual property it creates to “recipes”, which “chefs” like Apple and Huawei then license, and use to create customized chips that fit their hardware. Arm's designs are foundational to the smartphone, tablet, and mobile device businesses. It is an increasingly important player in the internet of things, and will be one of the prime movers in building out the worldwide 5G ecosystem. Intellectual property of the kind Arm controls is one of the key missing pieces in China's quest to build a self-sufficient, internationally competitive domestic chip industry.

Arm appears eager to help China's domestic chip industry progress. In 2015, it opened “ArmAccelerator”, a Beijing-based tech incubator focused on AI and the internet of things, the company's only such accelerator globally ([Economic Observer](#), May 5). Soon after, in 2017, Arm announced that it would establish a PRC-based joint venture, in which it would hold a 49 percent stake. The controlling stake would be held by a consortium led by Hopu Investment Fund, a PE firm headed by Fang Fenglei. One of China's most famous financial rain-makers, Fang helped set up Goldman Sachs' business in China, and is reportedly close to PRC Vice President Wang Qishan, with whom he worked at China International Capital Corporation (CICC), China's earliest investment bank. Wang Qishan led Xi Jinping's fearsome first-term corruption purge, and is probably the second most powerful person in China behind Xi [3].

At the announcement of the JV, Rene Haas, president of Arm's intellectual property products group, explained the business rationale behind the move, saying, “The intent is for that joint venture to develop products for the Chinese market for China partners, and specifically around the areas of technology that a Western company might not be able to do.” He singled out China's security services and military as potential buyers, adding, “the security has to be at a very high clearance in such a way that China wants to have it only inside China. With this kind of new joint venture, this company can develop that. In the past, this is something we couldn't do.” ([Nikkei Asia](#), June 1 2017).

Although Chinese analysts are divided as to whether the JV will result in the transfer of core IP, Nikkei Asia Review quoted a source familiar with the JV's planning as saying it could help allay Chinese chip designers' fears they might be shut out of access to Arm IP, adding that “with this joint venture, which is now a Chinese

company, [the designers] are expected to secure sources of Arm's fundamental IPs that are foundations of their chip products.”

Despite a dominant hold on its market, Arm's business has regressed under SoftBank. The company added significant new headcount in 2017, and posted its first annual operating loss since it began reporting annual results [4]. In this respect, the JV may provide a needed boost: a document seen by Nikkei projects that the JV will surpass the parent company's revenues by 2025. ([Nikkei Asia Review](#), May 3). The document also requests that investors in the JV not sell their holdings to non-Chinese entities after a three-year holding period.

The Arm-Hopu joint venture officially opened its doors in April and plans to list shares on China's domestic A-share market soon ([EE News China](#), May 2). Its progress will be worth tracking closely, as the CCP attempts to secure China's semiconductor future in the face of mounting foreign resistance.

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[1] The Treasury Department issued a “denial order” against ZTE, banning it from buying components from US companies as punishment for repeated violation of US sanctions banning sales of electronic components to Iran. 25 to 30 percent of the components inside a ZTE phone are US made, including some of the most critical parts. ZTE's chairman said the ban could “put the company immediately into a coma”.

[2] Although the *Global Times* is not as authoritative an interlocutor as, for example, *People's Daily*, it often acts as a mouthpiece for conservative parts of the PRC establishment, voicing sentiments that more official bodies are not able to say directly.

[3] For more information on Fang's career path, see [his Baidupedia page](#). Wang led CICC during Fang's time there as a vice-president. For more information on Wang's career and relationship to Xi Jinping, see this 2017 [South China Morning Post article](#).

[4] For more information on Arm's 2017 results, see [this Bloomberg article](#). For Arm's previous annual financial results, see: <https://www.arm.com/company/investors/financial-results>

Concern Mounts in Beijing over Xi's Aggressive Tactics

By Willy Lam

Recent days have seen a burst of relatively moderate views from official opinion-makers in China. *Global Times* chief editor Hu Xijin wrote in his weibo blog last week that “our country has indeed in the recent past adopted some high-sounding rhetoric.” “This has boosted the concern of the U.S. and the West about China's rise,” said the boss of the Chinese Communist Party (CCP) mouthpiece, known for its hawkish views. “It's essential to make some adjustments.” “The public will understand necessary compromises [with the West],” he added ([Weibo.com](#), April 20). At more or less the same time, the CCP's Propaganda Department ordered that the top-grossing documentary *Amazing China (lihaile, wo de guo)* be mothballed. The work glorifies the stunning advances of China in areas including science, technology and the military ([Radio France Internationale](#), April 20; [Liberty Times \[Taipei\]](#), April 20). Beijing's apparent turn toward moderation could also be a factor behind the decision by the People's Liberation's Army (PLA) to cut short by one day a large-scale naval exercise off Hainan Island scheduled immediately after the Bo'ao International Conference ([Global Times](#), April 13; [Tiexue.net \[Beijing\]](#), April 13). The exercise was kicked off by CCP General Secretary and

Central Military Commission Chairman Xi Jinping, who took advantage of the occasion to orchestrate the largest naval troop review by a top leader in recent history.

These unusual developments have mirrored long-standing concerns among liberal scholars that owing to its urge to fulfil the “Chinese dream” of becoming a superpower by 2049 or earlier, Beijing’s projection of hard and soft power may suffer from what Renmin University America expert Shi Yinhong characterized as “strategic overdraft.” ([China Brief](#), May 11, 2017). Pointing to China’s ultra-ambitious agendas in the economic, diplomatic and military fields, Shi indicated that the CCP leadership must “prevent excessive expansionism, which will result in ‘strategic overdraft’” (战略透支) ([Phoenix TV](#), October 4, 2016; [Lianhe Zaobao \[Singapore\]](#), September 21, 2016). In a similar vein, Nankai University international relations scholar Liu Feng has introduced the term “strategic adventurism” (*zhanlue maojin*) to describe Beijing’s global gambit. “A country on the rise should guard against the problem of ‘strategic adventurism,’ meaning staging in different areas excessively fast-paced and agitated challenges to the big country in control” ([Theoretical Research \[Beijing\]](#), June 16, 2017).

Doubts first raised by the likes of Professor Shi about China’s strategies toward the U.S. – and the country’s global expansionism in general – have been reinforced by President Donald Trump’s April 16 announcement that Chinese Internet giant ZTE would be barred for seven years from procuring American components such as computer chips and software systems. Much more than another facet of the on-going trade dispute between the two countries, Trump seems to be targeting the entire Chinese high-tech sector, which is committed to Beijing’s vaunted “Made in China 2025” goal ([BBC Chinese](#), April 24; [Radio French International Chinese Service](#), April 19). The highly ambitious plan envisages Chinese technology in areas such as ICT, artificial intelligence (AI), robotics, big data and DNA engineering overtaking that of advanced countries such as Germany, Japan and the U.S. in the next seven years. A blitz of technological breakthroughs is key to the restructuring and upgrading of the Chinese economy – and the Trump administration seems determined to counter this through a series of hard-hitting punches against Chinese tech giants. One day after the ZTE announcement, the Federal Communications Commission banned federal funds from being spent on products by PRC companies such as Huawei and ZTE that are deemed to be a “risk to U.S. national security.” Influential American senator Marco Rubio last week accused Chinese tech firms of “hijacking U.S. technology ... to prepare for ‘cyber battles of the future’.” Moreover, world-class ICT and e-commerce giants such as Alibaba have been barred from taking over American tech companies ([Washington Examiner](#), April 13; [Bloomberg](#), April 17, [Lianhe Zaobao \[Singapore\]](#), February 8).

The European Union seems to be joining the U.S. in reining in Made in China 2025 and other Chinese efforts to overtake Western technology. One day after Trump’s ZTE announcement, Britain’s National Cyber Security Centre issued a warning to telecommunications firms against dealing with ZTE, citing “potential risks” to national security ([The Guardian](#), April 17). In the past two years, the French and German governments have lobbied the EU headquarters to consider legislation barring Chinese behemoths from acquiring technological companies throughout Europe. Paris and Berlin have also taken measures to restrict PRC companies from buying tech firms in France and Germany ([Apple Daily \[Hong Kong\]](#), April 23; [Deutsche Welle](#), February 5; [South China Morning Post](#), July 23, 2017). Other countries that seem equally determined to frustrate President Xi’s technological leap forward have included Australia and India.

The Chinese tech sector’s lopsided dependence on imports of core components is highlighted by an official report entitled “Analysis of the Current State of China’s Integrated Circuit Industry in 2017.” According to the document, close to 100 percent of the microchip needs of the computer industry and the general electronics systems sector (通用电子系统) have to be satisfied by imports from Intel, Qualcomm and other American companies ([China Industries News](#), August 10, 2017). Estimates of the value of annual imports of microchips alone range from \$200 billion to \$220 billion ([Sohu.com](#), December 3, 2017; [CCTV Finance](#), September 4, 2017). Two years ago, President Xi, who heads the Central Commission for Cyberspace Affairs, admitted that “irrespective of the size and market valuation of an Internet company, it will be tantamount to building a

house on somebody else's foundation if there is a serious dependence on foreign countries for core components" ([Xinhua](#), April 19).

After the ZTE bombshell, various Chinese tech giants including Alibaba boosted investments in domestic chipmakers – and vowed to shorten the time required for full self-sufficiency. It is well-known, however, that there is no quick fix to finding alternatives to imports of American high-tech components including not only chips but also modems, software operating systems and optical instruments. The Chinese authorities have put up a brave front. Foreign Ministry spokesperson Hua Chunying last week decried the U.S. government for “going against the flow” of globalization. “If the U.S. policy is based on all kinds of possible nonsense, it is extremely irresponsible and extremely dangerous,” she said. With reference to the ZTE incident, Hua threatened that the Chinese side was well-prepared to “brandish the sword” ([Voice of America](#), April 17; [Sohu.com](#), April 17).

But other Chinese commentators, and even some officials, have signalled a different attitude toward handling the U.S. threat. A policy paper published by the Research Office of the State Assets Supervision and Administration Commission (SASAC) put the blame of the ZTE crisis squarely on the Shenzhen based high-tech giant. It said many enterprises “have paid a steep price for the short-sightedness and dishonest management of ZTE.” “China’s diplomatic posture and state image has inevitably been affected,” the SASAC document said ([Ming Pao \[Hong Kong\]](#), April 23; [Thestandnews.com \[Hong Kong\]](#), April 23).

Equally significantly, veteran political analyst Deng Yuwen pointed out after the ZTE shock that CCP administration had committed the two errors of “misinterpreting” American intentions as well as “excessive expansionism” in the area of global power projection. Deng noted that Beijing had failed to perceive a sea change in Washington’s China policy: the fact that Trump and his advisers now perceive China as the biggest threat to U.S. power. “[Beijing] has put into practice a ‘confrontational’ mentality of using tough tactics against tough tactics,” he wrote. And China’s aggressive geopolitical gambit, including forming a quasi-alliance relationship with Russia against the U.S., might have “exacerbated the negative image of China among Americans” ([BBC Chinese Service](#), April 23).

Rhetoric aside, the true measure of whether the CCP leadership is genuinely fine-tuning its relatively pugilistic trade and foreign-policy posture—and whether Western governments and multinationals will be placated—will depend on the extent to which Beijing can live up to the open-door goals laid down by Xi at the Bo’ao International Conference early this month. In his keynote speech, the supreme leader outlined four major objectives: “significantly broadening market access”; creating a “more attractive investment environment”; “strengthen protection of intellectual property rights” and expanding imports ([China Daily](#), April 10; [Hong Kong Economic Times](#), April 10). At the same time, Xi announced that Hainan Island, which became a province 30 years ago, would become a pilot free trade port and in effect, the country’s largest free trade zone (FTZ).

Key ministers such as Yi Gang, the new Governor of the People’s Bank of China (PBOC), elaborated on Xi’s Bo’ao pledges following his speech. The U.S.-educated Yi noted that the door to multinational financial services would be opened wider by, for example, removing the foreign ownership cap for banks. Similar arrangements were announced for multinational auto firms.

There are, however, obvious limits to the Xi team’s new open-door policy. Take, for example, the designation of Hainan as “China’s largest FTZ.” The Chinese government pledged to boost the number of FTZs in 2013, since which more than two dozen FTZs have been set up in cities and provinces across the country. However, multinational corporations have not bought into the new FTZs, since other pledges—including partial rollbacks of capital-account controls—have not materialized. For the past year, the regional leaders running these FTZs have seemed more interested in hitching their star to the Belt and Road Initiative

(Silkroad.news.com, April 3; [South China Morning Post](http://SouthChinaMorningPost.com), December 30, 2016). As for the opening of the financial sector, it could be a case of too little too late. Barriers to market entry have kept the total market share of foreign banks in China below two per cent, 17 years after China's accession to the WTO. It would thus be well-nigh impossible for multinational financial institutions to make a dent on the near-total dominance of the four major Chinese commercial banks, which now rank among the world's ten largest financial institutions by assets ([South China Morning Post](http://SouthChinaMorningPost.com), April 11; K.sina.com.cn, January 22).

According to political scientist Wu Qiang, unorthodox views such as those expressed in the SASAC paper reflect the rise of new thinking not only on trade and Sino-U.S. relations but China's relationship with the U.S.-led global order. "A number of technocrats and professionals are dissatisfied with the fact that ideological concerns such as nationalism have hijacked China's economic and foreign policy," said Wu, a former politics lecturer at Tsinghua University. He added that the recent clash with the U.S. has strengthened the view that China should return to the "keep a low profile" foreign policy mantra laid down by Deng Xiaoping – and that China should work with global norms and not circumvent or challenge them ([Cable News Hong Kong](http://CableNewsHongKong.com), April 23). It remains to be seen whether President Xi, who has emphasized "brandishing the sword" in a full range of economic and geopolitical issues, might be amenable to at least toning down Beijing's overarching policy of attaining superpower status by the 2040s.

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How PRC Diplomatic Messaging Impedes Its Foreign Policy Objectives

By Zhibo Qiu

In today's emotionally charged international moment, with populism and "fake news" dominating headlines, it is more important than ever for politicians and diplomats to work together effectively to manage perceptions and address the concerns of partner nations. China has particularly well-known concerns over its inefficient policy feedback process. The issue is not a new one in Chinese political thought; for thousands of years, Chinese emperors fought against local officials' efforts to hide negative information. In the present day, concerns caused by China's overseas initiatives—including the Belt and Road Initiative (BRI)—are seemingly not reported back to Zhongnanhai for airing in front of China's top leadership. Meanwhile, the Chinese diplomatic apparatus's inability to communicate in ways that foreign audiences can understand hampers efforts to reassure partner nations, and can result in miscommunication of China's intentions that contribute to mutual misunderstanding and suspicion. This has been particularly clear in the ways that the EU has embraced—or failed to embrace—the BRI.

"Report the Good, Ignore the Bad"

Chinese diplomacy has a serious information asymmetry problem. For many years, the overwhelming tendency of Chinese diplomats and reporters stationed abroad has been to "report the good news and ignore the bad (报喜不报忧)", an issue that is deeply rooted in bureaucratic politics and official mindsets ([Phoenix News](http://PhoenixNews.com), November 24, 2011). A social and cultural tendency towards "face-saving" also makes Chinese people, particularly officials, reluctant to openly discuss negative information ([China News](http://ChinaNews.com), January 13, 2015), while the bureaucracy's performance-based evaluation system also discourages local officials from passing bad news up the ranks.

As a result, Chinese diplomats frequently fail to send objective information back to their political leaders, while internal diplomatic reporting and media reports capture only positive feedback from foreign audiences, and routinely overstate China's success in internationalizing its economic presence abroad. In the process, negative comments, concerns and emotions are filtered out and ignored.

China has begun to address this problem. Since 2016, the Chinese MFA has helped each province produce and publicize its own provincial branding videos. The mindset of Chinese diplomats and officials needs to be shifted from internal reporting to political superiors within the bureaucratic hierarchy to external public engagement with foreign audiences (Oriental Outlook, October 12, 2017). Otherwise, the clumsy communication that results can manifest itself in a number of ways.

Getting the Little Stuff Wrong

Perhaps the most obvious is a failure to tailor message to audience. Simply translating publicity materials from Chinese to foreign languages is not effective communication. China spends billions of dollars every year on communicating with external audiences. However, much of the time, the content is not adapted to Western audiences' tastes (People.com, March 26, 2010). In 2010, a PRC national branding video was criticized for using Chinese celebrities unfamiliar to western audiences, instead of focusing on ordinary people with whom Westerners might connect more easily (Xinhua Daily, August 10, 2010; Xinhua Net, March 6, 2011). A focus group of foreign audiences found China Daily's BRI promotional videos are too long and unappealing (People.com, January 26). A more successful public diplomacy program would carefully select target audiences and produce tailor-made materials, with evaluations and contingency plans for potential risks and spillover effects (both negative and positive).

Second, official and quasi-official communication tends to rely too heavily on Chinese idioms, poems and political jargon, particularly at the operational level such as the MFA press conferences. This is a favorite practice of politicians and officials in China, but outside the country it can weaken the message being delivered. Chinese interlocutors frequently fail to ask themselves whether a message delivered in such a way can be understood and accepted by non-Chinese audiences without the historical, cultural and social context. Otherwise, ambiguity can create a huge space for speculations and mistrust towards the intentions of Chinese diplomatic activities. It can only reinforce the perception that China is mysterious, distant and difficult to understand, which is clearly not the diplomatic signal that China's leadership want to send to the rest of the world.

China's leadership has, to some extent, noticed this and tried to adjust. But the formal, stilted mode of its adjustment has only served to underscore the perception gap that still must be overcome. After Xi Jinping came to power, his team introduced the term "new type of international relations featuring win-win cooperation (以合作共赢为核心的新型国际关系)". In his 19th Party Congress Report, delivered last October, Xi refined the term, adding that this "new type of international relations" should be based on "mutual respect, fairness and justice, and win-win cooperation (推动建设相互尊重、公平正义、合作共赢的新型国际关系)" (Xinhua News, October 23, 2017). These concepts are meant to communicate a steady commitment to international peace, economic prosperity, climate change, infrastructure development and poverty reduction. But without clear and supportive messaging, they have been understood quite differently in some quarters, by some who believe China is intent on superseding existing rules.

Third, Chinese diplomats need to leave behind their habit of relying on simultaneous interpretation in public communication, since it strips their message of the emotion and empathy needed to connect to their audiences. Ironically, many are trained in interpretation or foreign languages at college; indeed, the majority of Chinese diplomats are drawn from language universities precisely because of the MFA's stringent requirements for language proficiency. But their cautious and reactive approach makes them reluctant to use their language

ability to address foreign audiences when it is needed the most. Directly quoting from government reports and official speeches reduces the chance they will make a career-damaging mistake.

BRI As Case Study

The rollout of the BRI in Europe provides an excellent case study for how these issues have hampered Chinese diplomatic reporting, making it hard to provide Beijing a full picture of reactions to the BRI, as well as making it difficult for Beijing to get its message across to a diverse set of European stakeholders, whose reactions have varied widely.

To cite one example, while EU companies perceive BRI as a huge business opportunity, and have competed to find a way to “have a bite of this big cake”; EU politicians are more suspicious, and have tended to decline any affirmative engagement with the BRI ([Financial Times](#), January 31). BRI has also been received differently in Eastern and Western Europe. While Eastern Europe has fully embraced the BRI, Western Europe is deeply concerned that China is “deliberately” using BRI to take advantage of the growing East-West tension ([Financial Times](#), November 27, 2017). Furthermore, the EU is also extremely nervous about China’s bilateral approach to BRI negotiations, which runs directly counter to the EU’s multilateral, consultation-based approach. The EU Parliament in Brussels increasingly feels left out of China’s negotiations with Central and East Europe.

Judging from Chinese leaders’ public statements, these concerns have not flowed back into China’s policy-making process. Without accurate information feedback, the Chinese leadership may actually not be fully aware of the concerns of their EU partners. Blinded by BRI success stories, they have missed opportunities to reassure audiences in Western Europe. In many cases, they have instead doubled down, emphasizing the large scale of the next round of BRI investment, which serves only to aggravate, rather than calm European concerns. Thus, despite Chinese leaders’ repeated assurances that BRI is not a China-centric initiative, but rather a global platform for peace and prosperity, a new wave of “China threat” sentiments has continued to grow.

Building Better Diplomacy

It will not be easy to better explain and promote China’s foreign policy initiatives abroad, given the institutional and political obstacles constraining Chinese diplomats who want to adopt more flexible, imaginative approaches to communicating with foreign audiences. The MFA has not taken substantial measures to combat the political resistance and bureaucratic inertia to institutional changes, to more provide competitive compensation and incentive programs for diplomatic jobs, or to provide diplomats more operational space for diplomatic flexibility and creativity. But there are concrete steps can be taken to improve the situation.

China’s outdated diplomatic corps do not match its global standing ([South China Morning Post](#), April 1). To achieve President Xi’s ambitious foreign policy agenda, the MFA needs an urgent reform of its personnel selection and training process ([Foreign Policy](#), January 23, 2017). For many years, the selection of diplomats in China has focused more on loyalty, discipline and language skills, rather than strategic thinking, creativity or interpersonal skills ([South China Morning Post](#), April 1). The majority of Chinese diplomats follow the same career path, studying languages in college and entering the MFA through national exams. Most do not have any prior work experience. This personnel homophily reduces the diversity of skills and mindsets across China’s diplomatic corps. The MFA needs to attract more expertise in areas such as international relations, international law, environment studies, commerce, economics and advanced manufacturing. To do so it should diversify its talent pool, open a dialogue with academia, and try to attract people with varied educational backgrounds and work experience.

The MFA should also look beyond language universities to recruit attract more students from China's top elite universities, such as Peking University, Tsinghua University, Fudan University and Renmin University. Students in these universities are educated by China's best scholars in international relations, politics and international law. They are often outgoing, social, well connected with foreign audiences, with good interpersonal and presentation skills (*Foreign Policy*, January 23, 2017). Students are also much more likely to come into contact with foreign scholars and future foreign elites at these schools, both of which are excellent ways to build their communication skills and social networks.

The MFA is increasingly concerned about its aging senior diplomatic line-up (*South China Morning Post*, April 1). The solution is staring it in the face: China has an abundance of young, creative, internationally-minded talent. But its outdated recruitment policies have failed to attract the best of this talent pool. If the MFA wants to sell China's diplomatic message of peace and cooperation, it needs to reform its recruitment policy to provide a more open foreign policy platform for China's most promising and passionate young talent.

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Putting Xi's Imperial Presidency in Perspective

By Ben Lowsen

The removal of presidential term limits from China's state constitution is another step along the road of authoritarian rule for China. However, most observers today seem to miss that this in no way signifies a fundamental shift in the CCP's mode of governance [1]. Rather, Xi is part of a cycle of weaker and stronger rulers [2], with term limit removal but one among a series of measures concentrating authority under Xi. Indeed, within the ranks of China's leadership, titles such as "president" are symbolic, and do not necessarily reflect an individual's power. Instead, it is social standing from which power flows, and always has. As in Mao's time, China's leadership collective today is all too easily united behind a single strong will, a tendency which can ease decision-making in difficult times, but which has more than once led to abject ruin.

Although Xi has amassed a considerable degree of power, it is still far less than that of Deng Xiaoping, much less Mao Zedong. While the clearest manifestations of this power to date lie in the economic realm, more aggressive diplomatic and military actions are possible as well. Set against this are China's prospects for continued growth, economic interdependence, and need to be perceived as a positive force on the international stage, all of which suggest a preference not to engage in large-scale, destructive conflict. Thus, significant room remains for the United States and others to insist that China channel its newfound confidence in positive directions.

Ghosts of Leaders Past

During the years of rule under Deng Xiaoping, China's leadership dynamic shifted from Mao Zedong's absolutism to "collective leadership" (集体领导). Deng placed his subordinates in the PRC's highest political offices and allowed them to play some role in decision making, a more collaborative leadership style less prone to Mao's calamitous errors [3]. The idea of shared power was consummated in the peaceful, almost regularized transition of power to Presidents Jiang Zemin, Hu Jintao, and Xi himself.

These peaceful transfers of power, however, fostered the misconception that China's government had standardized its power sharing arrangements. Xi has dispelled that illusion. More than the leaders that preceded him,

Xi illustrates that the underlying form of China's leadership dynamic has not changed; it remains more personal than institutional.

Numerous commentators, foremost among them Deng himself, suggest that Mao Zedong's power in the beginning flowed from the leadership's willingness to follow him. Later on, this became a fear of not following him and finally mob terror spurred on by Mao's cult of personality [4]. The various positions and honorifics Mao held in his lifetime represented this power but did not define it. The People's Republic of China had no tradition or mechanism to say which positions its leader should hold or what limits that power might have. For example, Mao's retirement from his role as head of state (国家主席, the same term used today for China's president, although the English-speaking world invariably dubbed Mao "Chairman") in no way diminished the potency of his personal cult during the Cultural Revolution.

Conversely, Deng made due with the simple appellation "core" (核心) of the "Chinese Communist Party's second generation leadership collective" (中国共产党第二代领导集体) [5]. The only top position he ever held was CMC chairman, prompting use of the term "paramount leader" (最高领导人) to describe the person who runs China, regardless of their office. Thus, although in English a leadership "core" sounds as though it might refer to multiple people, the term "core" was originally synonymous with "paramount leader," although Hu's failure to earn the title has remade it into a mark of social standing for Xi. Conversely, Deng's naming of his subordinates to top positions in no way changed his status as paramount leader.

For all the hope Deng generated with his Reform and Opening Up, the years after the Tiananmen Massacre made clear that he had in no way changed the fundamental principles of PRC political leadership. Although Deng otherwise obliterated Mao's governing program, his violent suppression of protestors proved anew the CCP's enduring adherence to Mao's dictum that "political power proceeds from the barrel of a gun" (枪杆子里面出政权), and to solidifying its rule by restricting free expression. Indeed, by the 2000s, China had become a world leader in bloodlessly suppressing the thoughts and actions of its people.

Bending the System to Xi's Will

Thus, Xi's extension of his tenure, presaged by the retention of his lieutenant Wang Qishan past the customary retirement age ([Voice of America](#), November 1 2016), is best understood as a stepwise continuation of illiberal policies and not a divergence from a program of modernization. Xi's recognition as "core," one of the previous steps in this process, placed him nominally above Hu whose "core" status never appeared in official print. Chinese media have suggested that Deng's unacknowledged Party age limit never applied to "core" leaders, which helps explain Xi's decision to make himself one ([China News](#), February 5 2016) [6].

A recent editorial in the People's Daily, China's paper of record, attempts to claim that removing presidential term limits was neither intended to change the Party's existing retirement system nor to ensconce a "leader for life" [7], citing Article 38 of the Party Constitution, which says that "leading Party cadres at all levels, whether elected through democratic procedure or appointed by a leading body, are not entitled to lifelong tenure, and can be transferred from or relieved of their posts." ([People's Daily](#), March 1) [8]

However, it should be noted that, while this passage does give the Party a veto over continued service, it in no way explicitly forbids lifetime tenure. The editorial is determined to downplay the idea of indefinite tenure. Another editorial, however, makes clear the lack of true checks on Xi's ability to rule as long as he sees fit:

In this round of soliciting opinions and base-level research, many localities, offices, and the mass of Party cadres unanimously called for amending the rule concerning term limits for the president. During the seventh plenum of the 18th Party Congress and during the 19th Party Congress, the representatives in attendance were also strongly in support. We all accept that neither the Party Charter nor state Constitution make any provision limiting the service of the Party Central Committee General Secretary or [Party or state] CMC chair to two consecutive terms. Adopting the same convention for the state

presidency would be advantageous for protecting Party Central Committee authority, with Comrade Xi Jinping as the core, and for the consolidation of a unified leadership, as well as for strengthening and perfecting the national leadership system. (Xinhua, March 8)

Thus, we come to the essential fault in China's system of succession: the only check on an individual's power comes from the collective. But as long as that collective is rewarded for loyalty, punished for defection, and temperamentally averse to rocking the boat, it is all too easy for stronger leaders like Xi to get what they want. At a meeting in preparation for the recent Party Congress, for example, he encouraged attendees to "speak out freely" (畅所欲言) (Xinhua, October 5 2017). There is, of course, robust freedom of expression when it comes to expressing support of Xi. Indeed, the idea of subordinates innovating ways to please Xi harkens back to what CPC historians have dubbed "working toward the Chairman" [9]. The Chairman, be it Mao or Xi, need only select from the menu of options offered by unctuous subordinates. Unlike Mao's reign, however, the current leadership's promise of economic development and the populace's reliance on the outside world make it hard to imagine Xi remaining in charge without providing more than empty slogans.

Conclusion

Despite assertions that Xi's governance has been the most restrictive since the post-Tiananmen period, in truth China's level of democracy today is no lower than it was five years ago. Removing presidential term limits is one more measure in Xi's program of power consolidation, but is neither a coup de grace nor a fundamental change in the governing structure. Indeed, there was nothing in the previous constitution preventing further non-consecutive presidential terms [10].

Considering Xi's ability to bend decision makers to his will, we should by no means consider him weak, but he is no Deng and must still struggle to shore up his support. This fact is reflected in the decision of the PRC's highly savvy propaganda apparatus to downplay the extension of presidential term limits as quickly as possible, allowing little time for debate and no space to have it in.

Xi may only have a small circle of friends he can rely on without question, but the Party as a whole has proven eager to aid his endeavors by implementing his Belt and Road Initiative, lauding him with titles like "people's leader" and "core," and of course abolishing presidential term limits. Although there are great risks to such power consolidation, it may not be a bad bet in the short term given Xi's relatively even keel at this juncture. And while his main accomplishments to date have been economic and political, moves within the military and security realms may not be far behind.

In the long term, though, Xi's need to maintain positional power would betray a lack of acceptance for his program. As the ancient Chinese political philosopher Mencius once said, "Those who feign benevolence using force are tyrants and can only have a large kingdom. The virtuous who act benevolently are true rulers, requiring no external greatness" [11]. In other words, the will of the virtuous needs no force to buttress it.

In this sense, Xi's call for a "Community of Human Destiny" and declaration that "a country without morals cannot flourish" make clear his desire for China to appear virtuous while securing a place in the world order for China to develop peacefully for as long as it can. It is on this basis that the United States can successfully compete with Xi's China: calling out China's excesses as moral failings and quietly but firmly pushing back when words fail.

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Notes

[1] For example, Salvatore Babones, “Leader For Life: Xi Jinping Strengthens Hold On Power As China Communist Party Ends Term Limits,” [Forbes](#), February 25; Chris Buckley, “How Xi Jinping Made His Power Grab: With Stealth, Speed and Guile,” [New York Times](#), March 7; and James Holmes, “Xi Jinping is now China’s President for Life: What Would Machiavelli Think?” [The National Interest](#), March 4.

[2] Yan Jiaqi, “The Nature of Chinese Authoritarianism,” in Carol Lee Hamrin and Suisheng Zhao, *Decision-making in Deng’s China: Perspectives from Insiders* (Armonk: M.E. Sharpe, 1995), 5.

[3] Deng Xiaoping, “On the Reform of the System of Party and State Leadership,” August 18, 1980, [The Selected Works of Deng Xiaoping](#), Modern Day Contributions to Marxism-Leninism; Alice Miller, “The Succession of Hu Jintao,” [China Leadership Monitor](#), No.1 Part 2, January 2002; see also Cai Haoxiang, “七上八下是什么？[What is 7-Up 8-Down?]" [China Times](#), October 19, 2017.

[4] Deng Xiaoping; see also, for example, Jonathan D. Spence, *The Search for Modern China* (New York: W.W. Norton & Company, 1990).

[5] Cui Chenguang, Zhao Jing, eds/, “邓小平生平简介 [Synopsis of Deng Xiaoping’s Life],” [People’s Daily](#), July 12, 2004.

[6] “胡锦涛未获‘核心’称号暗藏巨大秘密 [The Mystery of Why Hu Jintao Never Earned the Title of ‘Core’],” [Liao Wang / China News](#), February 5, 2016; also Alice Miller.

[7] Xuan Li (pseudonym), “保证党和国家长治久安的重大制度安排 [Ensuring the Great Systemic Organization of Lasting Party and State Rule],” [People’s Daily](#), March 1.

[8] Flora Sapio, “General Program and Constitution of the Communist Party of China (Table of Amendments),” [Coalition for Peace and Ethics](#), 2017.

[9] Roderick MacFarquhar, Michael Schoenhals, “Mao’s Last Revolution (Cambridge, MA: Harvard University Press, 2006).

[10] “Constitution of the People’s Republic of China (Adopted on December 4, 1982),” [People’s Daily](#).

[11] [Mencius](#), Gong Sun Chou I, verse 3.

In Drive for Tech Independence, Xi Doubles Down on Civil-Military Fusion

By Lorand Laskai

Amid growing tensions with the United States over technology and trade, China is elevating civil-military fusion (军民融合) to the center of the country’s cybersecurity and informatization agenda ([New America](#), April 30). “We must grasp the historical opportunity of the current information technology transformation and new transformation of military affairs [and] deeply understand the immanent relationships of productivity and fighting capability, the market and the battlefield,” Xi stated during an important speech at the Cybersecurity and Informatization Work Conference last month. Civil-military fusion (CMF) in cybersecurity and informatization, Xi said, “is a focus area and an area for advancement.” It is also the area within CMF with “the most dynamism and potential.”

After years of false-starts and empty sloganeering, China’s leadership appears to be getting serious about fusing the development of the hi-tech economy and military. The inclusion of CMF in an important

speech on ICT work signals that CMF will be central to China's strategy of building a 'cyber superpower' (网络强国) in a contested technological landscape. While Xi's speech did not directly address U.S. Section 301 trade action against China or the recent ZTE blacklisting, Xi was more direct in the days that followed: In the face of a "foreign blockade," Xi said, China is ready to "cast aside illusions and rely on itself" ([Xinhua](#), April 26). CMF will be critical to bolstering China's technological independence, especially with research to 'core technologies' (核心技术) like semiconductors, operating systems, and big data analytics—many of which have equally important commercial and military functions.

Building a Lean Defense Industry Base

Even with the added urgency in the aftermath of the ZTE blacklisting (covered elsewhere in this issue), the obstacles to CMF remain the same: China's sclerotic state-owned defense industrial base and byzantine regulations, which have long kept private enterprises away from defense-related work. At a press conference in December 2017, SASTIND Chief Engineer Long Hongshang (龙红山) summarized the main challenges facing the CMF as the "four insufficients" (四个不够): insufficient top-level planning; insufficient liberalization of military industry base; insufficient sharing of military resources and information; and insufficient 'spin-off' of defense technology ([Cyber Civil-Mil Fusion Mag](#), January 31 via Wechat). China's leadership understands that rectifying these shortcomings and pave the way for greater fusion through long-term reforms that create the legal and regulatory foundation for private sector involvement in the defense industrial base.

In December 2017, the State Council issued the most in-depth and comprehensive opinion to date on reforming the defense industrial base through promoting CMF. The opinion called for further marketization of state-owned defense conglomerates on the principle of 'survival of the fittest' (优胜劣汰); establishing quantitative indicators for the openness of state-owned enterprises and participation in defense conversion; revising the restrictive stock shareholder system of state-owned defense conglomerates; and other reforms to 'lower the bar' for private enterprises (降低了进入门槛) ([JRJ.com](#), December 5 2017).

In addition, SASTIND and key agencies within the Central Military Commission (CMC) have undertaken incremental reforms like simplifying the permit process for private firms to contract with the military, declassifying defense patents for private sectors use, and opening more contracts for private company participation ([Cyber Civil-Mil Fusion Mag](#), March 18 2018 via Wechat; [IISS](#), January 2018; [SCMP](#), April 20 2017).

The success of these reform will come down to whether new regulation lowers the entry cost for private firms contracting with the PLA and incentivizes defense conglomerates to collaborate with the private sector. In order to simplify regulation already on the books and unify CMF efforts, in February 2018, the CPC, State Council, and CMC issued a rare high-profile edict that empowers the CCMIDC to clean up old law and regulation. State-media hailed the move as ushering in a "springtime" for CMF (军民融合 '春天') ([China Court](#), February 23).

Local Development with CMF Characteristics

In part through the inclusion of CMF in major state development initiatives, China's leadership has impressed upon local officials the importance of prioritizing dual-use industries as a means of economic

development [1]. Accordingly, a number of provinces and municipalities have heeded the call, integrating CMF into their development plans [2]. Often this has taken the form of ‘cluster development’ (集群发展) that involves promoting collaboration between defense conglomerates, research institutes, and private enterprises that are located in near proximity. Notable examples include:

- Foshan has included CMF as a major component of a proposed “S&T corridor” linking Guangzhou and Shenzhen, China’s premier hub for software and hardware development, and is relying on guidance from experts the Chinese Academy of Science, Chinese Academy of Military Science, and a number of large defense enterprises to establish ten CMF pilot projects in key emerging industries ([Southern Daily](#), September 11 2017).
- Shanghai’s Minhang district has touted itself as an “intelligent cluster” and has jointly established a research institute for CMF applications of AI and robotics in collaboration with the Harbin Institute of Technology ([Reference Times](#), March 21).
- In Xi’an, officials have established a chamber of commerce for CMF enterprises and a dual-use robotics industry alliance in partnership with CASIC’s 16th Research Institute and Xi’an Jiaotong University ([Shaanxi Daily](#), July 25 2017; [West Net](#), July 13 2017).

Several municipalities like Tianjin also have released companion plans to the 13th Five Year Plan and New Generation Artificial Intelligence Development Plan (AIDP). Like the AIDP, which aims to turn China into a global leader in AI by 2025, these companion plans focus on boosting regional competitiveness in specific ‘frontier technologies’ with military applications. That includes efforts to create the R&D infrastructure for the next generation of dual-use technology. Several examples are worth noting:

- The 2nd Research Institute of China Aerospace Science and Industry Corporation (CASIC) has reportedly developed a deep-learning software for self-driving cars that rivals industry leaders, and is developing dual-use applications in collaboration with commercial firms ([China Economy Daily](#), March 26).
- In March 2018, Tianjin University and the Chinese Academy of Launch Vehicle Technology (CALT) established the “joint-lab for human-machine melding intelligent Innovation” 机混智能创新联合实验室, which is dedicated to pooling together expertise in neuroscience, artificial intelligence, and aerospace to progressing research on human-machine hybrid research with aerospace applications ([China News Service](#), March 24).
- In December 2017, following the guidance of the CCIMCD office, China’s largest cybersecurity company 360 established the Cybersecurity Civil-Military Fusion Innovation Center 网络安全军民融合创新中心 in Mianyang, Sichuan in order to provide solutions to national cyber defense [3]. The center will also collaborate with the National Engineering Laboratory for Big Data Collaborative Security Technology 大数据协同安全技术国家工程实验室 to provide big data security analytics solutions. ([China Net Science](#), March 29).

Funding CMF Development

Helping along these local developments in CMF are a number of state-backed venture funds that have sprung up over the past few years. While much attention has been paid to the main fund behind China’s semiconductor push, the National Integrated Circuit Industry Investment Fund (National IC Fund), sev-

eral major national and regional CMF funds also command notable sway and are currently driving investment in dual-use industries. The size of the top CMF seven funds, according to publicly available information, is a combined RMB 362 billion (\$56.85 billion). The powerful National Development and Reform Commission (NDRC) has also established its own CMF fund, though details about the fund's size and scale have not been forthcoming ([Cyber Civil-Military Fusion Magazine](#) accessed via Wechat, March 21).

Name	Date Established	Fund Size	Region	Source
Central Enterprises National Innovation Investment Fund 中央企业国创投 资引导基金	07/01/17	RMB 113.9 billion	National	http://www.most.gov.cn/kjbgz/201705/t20170519_132869.htm
Foshan Civil-Military Innovative Industries Fund 佛山军民融合创 新产业基金	09/01/17	RMB 200 bil- lion	Foshan, Guangdong	http://www.ce.cn/cysc/ny/gdxw/201709/17/t2017091726037639.shtml
Guohua Civil-Military Fusion Industry Development Fund 国华军民融合产 业发展基金	08/01/16	RMB 30.2 bil- lion [first phase]	Guangzhou, Guangdong	http://www.space-china.com/n25/n144/n206/n224/c1423620/content.html
Shaanxi Civil-Military Fusion Industry Investment Fund 陕西军民融合产 业投资基金	12/01/16	RMB 10 billion	Xi'an	http://www.sohu.com/a/193173694_99917590
Chengdu Civil-Military Fusion Industries Development Fund 军民融合产业发 展基金	04/21/2018	RMB 5 billion	Chengdu, Sichuan	http://e.chengdu.cn/html/2018-04/21/content_622423.htm
Mianyang S&T Wall Civil-Military Fusion Results Conversion Fund 军民融合成果转 化基金	09/01/16	RMB 2 billion	Mianyang, Sichuan	http://zdb.pedaily.cn/pe/show32219/

Military Fusion Electronic and Aer- ospace Industries Fund 军融电子航天产 业基金	12/01/16	RMB 1.5 billion	Xi'an	http://www.sohu.com/a/193173694_99917590
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Like the more prominent National IC Fund, these CMF funds are investing in production facilities, supporting research, and funding overseas mergers and acquisitions in a wide range of dual-use industries like aviation, aerospace, and robotics. At least on paper, some CMF funds, like the Foshan Civil-Military Innovative Industries Fund, are nearly as well capitalized or better capitalized than the National IC Fund. While analysts should not read too much into the stated capitalization—how that capital will be deployed will be more important to watch—it's clear that the CMF is on its way to become a nationwide effort comparable to China's semiconductor push.

A New Strategy for a New Tech Cold War?

As has become abundantly clear, Xi has a muscular vision of “self-reliance” in digital and emerging technologies that involves turning inward to harness internal capacity for innovation and production for objectives like turning the PLA into a ‘world class fighting force.’ Analysts, however, should contextualize CMF as part of a larger trend of the state imposing control over China's tech sectors.

More broadly, with private sector innovation increasingly powering advances in military technology, China's leadership sees the interweaving of the two domains as a national priority.

Xi's vision also includes greater control over China's hi-tech unicorns through internal party committees and privileged access to capital, which goes hand-in-hand with involving private sector firms in sensitive defense work (see [New America](#), April 17). As the chances of a U.S.-China tech cold war grow more likely, it's increasingly clear that CMF is here to stay.

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Notes

[1] CMF has been included in nearly every major strategic initiative during Xi's tenure, including Made in China 2025 and Next Generation Artificial Intelligence Plan.

[2] SASTIND has been engaged in coordinating and implementing CMF at the local level through signing “strategic cooperation framework agreements” with provincial-level and country-level officials. For more, see Greg Levesque and Mark Stokes, “Blurred Lines: Military-Civil Fusion and the ‘Going Out’ of China's Defense Industry,” Pointe Bello, December 2016.

[3] Mianyang is home to the Chinese Academy Engineering Physics 中国工程物理研究院, which is responsible for developing and testing China's nuclear weapons.

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