



VOLUME 18 • ISSUE 11 • JUNE 19, 2018

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Huawei's Smart Cities and CCP Influence, At Home and Abroad

What do international espionage concerns, a Chinese truckers' strike, and the smart cities of the future all have in common? All are part of the story of how the commercial ambitions of Huawei—one of the PRC's leading developers of high-tech electronics and telecommunications equipment—could be leveraged by the Chinese Communist Party (CCP) to protect its wealth and prerogatives at home, and extend its surveillance reach abroad.

21st-Century Strike Breaking

On June 8, truck drivers at locations across China began a loosely coordinated national strike ([China Labour Bulletin](#), June 11). The CCP immediately banned any mention of the strike by social or traditional media ([China Digital Times](#), June 12).

The information blackout, a common tactic for preventing the spread of large-scale industrial action, indicates that the CCP's response to the strike is likely to follow a well-worn path: Strike leaders will probably be detained by state security organs. Some strike participants may be subject to criminal punishment, or stripped of their employment ([China Labour Bulletin](#), December 2017) [1].

These time-honed strikebreaking tactics have been given a new edge by the CCP's widespread deployment of tools such as networked surveillance cameras, facial recognition algorithms, and big data-enabled monitoring of social

media communication. These tools make it easier to identify, track, and punish people—like strikers—who threaten social stability ([SCMP](#), May 31).

Huawei is doing its part to contribute, through its development of what it calls “safe city solutions”—a marketing term for smart city platforms that integrate and analyze the torrent of data generated by this proliferation of automated surveillance technology. Huawei compares its flagship smart city product, its “Intelligent Operation Center”, to a smart city ‘brain’ that guides and makes sense of the input from the city’s ‘nervous system’—networked cameras and other sensing devices— to provide comprehensible, actionable information on crime and unrest to police and municipal decisionmakers ([Huawei](#), November 10, 2017).

In the PRC, such decisionmakers’ prospects for promotion depend in large part upon their ability to stamp out unrest, maintain social stability, and promote economic development. The demonstrated efficacy of technological solutions like Huawei’s may help explain the embrace of its “safe city” platform by officials in Hefei and Chengdu, two large cities reportedly affected by the recent truckers’ strike ([China-ASEAN Expo](#), September 2017; [CCPSE](#), May 30 2016).

For Whom the Strike Was Broke

In the case of the truckers’ strike, Huawei’s safe city solutions could help to protect more than just the careers of a few local officials. Using advanced surveillance tools to break strikes could also help protect the interests of other large tech companies, and their politically well-connected investors.

One of the truckers’ loudest complaints was about Manbang, a cell phone app some call the “Uber of trucking” that lets companies hire truckers on demand; some of the most widely circulated videos of the strike feature truckers yelling “down with Manbang!”. Manbang was formed in November 2017 by the merger of two competing companies, giving it a monopoly on its market. Recent updates to the app have removed truckers’ ability to decide what they charge; shipping fees are now determined by Manbang itself. Some of the striking truckers say that the new arrangement makes it almost impossible for them to make a living and feed their families ([Twitter](#), June 11).

In April 2018, several months after the merger that formed Manbang, a private equity firm named China Reform Fund led a \$1.9 billion private placement in the newly merged company ([China Money Network](#), April 24) [2]. China Reform’s ultimate beneficial owners are not clear; in China, as in many other countries, this information is not always available. However, there are circumstantial reasons to suspect that China Reform could be helping line the pockets of individuals with powerful political connection, among them China Reform’s status as a centrally managed state-owned enterprise, and the state-connected private equity industry’s long history as a locus of elite corruption within China [3].

To be sure, none of this proves that officials are using Manbang to enrich themselves, or that Huawei is helping them protect their investments through the suppression of the truckers’ strike. But it does suggest that Huawei’s smart city systems could be useful to CCP leaders in ways that go beyond simply protecting law and order, and extend into of the protection of powerful monied interests, at the expense of the less powerful. Such a model of social control has obvious attraction for elites within China. It could also potentially prove appealing for elites in other countries.

Taking Huawei’s Smart City Global

Huawei has successfully marketed its smart city solutions abroad. In the space of three years it doubled the number of countries where its smart city technology is deployed, from twenty to forty ([Huawei](#), November 14 2017; [Huawei](#)

2014). Huawei has several smart city business lines; it describes its “safe city” public safety solutions as one of its most important ([Eastday](#), October 31 2017).

Whether Huawei’s safe city technologies are being employed by authoritarian and kleptocratic regimes to reinforce their rule is an understudied question. However, it is both interesting and suggestive that the list of countries where Huawei’s safe city solutions were first deployed includes a number of authoritarian and hybrid regimes with close ties to China, among them Russia, Pakistan, Venezuela, Laos, and Angola ([Huawei](#), 2014).

Since then, Huawei has branched out to democratic countries. It recently signed a contract to install safe city solutions in the small city of Valenciennes in northern France, as well as the German city of Gelsenkirchen ([Xinhua](#), February 10 2017; [Huawei](#), Sept 7 2017).

It has also made progress in selling other smart city solutions to other sub-national actors in Western Europe. For example, Huawei and the German city of Duisburg recently signed a memorandum of understanding for Huawei to provide Duisburg with “eGovernment” smart city solutions designed to make city bureaucracy work more effectively ([Huawei](#), January 12).

Underlying the spread of Huawei’s smart city solutions into democratic countries are concerns that the company’s equipment may act as a conduit for PRC intelligence gathering. Both Australia and the United States have banned Huawei equipment from their telecommunications backbones over spying concerns ([VentureBeat](#), February 23).

“eGovernment” smart city solutions could be of particular concern in this respect, as they involve Huawei intermediating directly between citizen and state, with the information gathered potentially available to PRC intelligence services. China’s recently ratified *National Intelligence Law* codifies the obligation of PRC-based entities to assist in intelligence gathering. The relevant passage reads:

All organizations and citizens shall, in accordance with the law, support, cooperate with, and collaborate in national intelligence work, and guard the secrecy of national intelligence work they are aware of. The state will protect individuals and organizations that support, cooperate with, and collaborate in national intelligence work ([ASPI The Strategist](#), Mar 28).

While there are questions as to how the law is enforced in practice, the mere existence of such a legal obligation should give pause to any western municipality considering the installation of Huawei hardware as the ‘brains’ of its new smart city.

So too should the ways in which the PRC could use Huawei’s ‘safe city’ technology at home, as well as the ways in which such technology could be deployed abroad. While the smart cities of the future could be better, more efficient cities, they could also provide authoritarian regimes with previously undreamt of tools of surveillance and control.

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Notes

[1] One PRC worker who recently shared on social media a call for crane operators to strike described his subsequent experience: “Terrifying. Because I forwarded a post about a worker strike on May 1 yesterday, the Changsha Ministry of State Security collected all possible information about me within a day, including my address, telephone number, work unit and more. Two hours ago they came to my workplace and demanded that I come to the police station and explain myself.” ([China Change](#), May 7)

[2] Other participants in the private placement include Softbank, a major Japanese technological investment firm, as well as CapitalG, Google's investment arm ([Crunchbase](#), April 24). Softbank has been active in the PRC, including its recent establishment of a Beijing-based JV for one of its microchip design subsidiaries that could help China break its dependence on foreign microchip technology ([China Brief](#), May 9).

[3] To elaborate further, China Reform is itself a state-run private equity firm. In the past, centrally managed state-owned enterprises and private equity firms have frequently acted as the vehicles by which the families of top CCP leaders amassed enormous wealth ([New York Times](#), May 12 2012). Second, an examination of China Reform's corporate structure reveals connections to some of the most corrupt elements of China's party-state ([China National Enterprise Credit Information Publicity System](#), June 15). One of its important underlying entities is China's state-owned tobacco monopoly, famous as an avenue by which officials siphon off state resources.

China's Intensifying Pressure Campaign against Taiwan

By Russell Hsiao

China has significantly ramped up pressure on Taiwan since Tsai Ing-wen was democratically-elected as the country's president in January 2016. As Beijing's external pressure on Taiwan grows, pressure for action is building on the Tsai administration, both from the opposition as well as from within her own party. The confluence of these factors will make it harder for the Tsai administration to sustain her administration's pragmatic efforts to maintain the "status quo" in cross-Strait relations without greater international support.

As the United States and its partners weigh their response to Beijing's intimidation and coercion, it is important to unpack Beijing's intensifying pressure campaign and examine its constituent parts, if only to appreciate the astonishing range of ways Beijing has sought to pressure Taiwan following Tsai's ascension to the presidency. Most analyses focus only on one or several aspects; but they must be considered in the aggregate, to better formulate a proportionate response.

China's pressure campaign on Taiwan includes ten elements which are, generally speaking, meant to interact with and reinforce each other. Some are new, some are not. Most of those that are not new have seen intensified application in the past two years. These elements are: poaching Taiwan's diplomatic allies; military coercion; economic coercion; excluding Taiwan from international organizations; pressuring foreign corporations; pressuring Taiwan's non-diplomatic allies; economic incentives; political warfare; cyber espionage; and traditional espionage.

1. Diplomatic Allies

Most visibly, China is poaching Taiwan's diplomatic allies at an accelerating rate, putting to an end the unofficial diplomatic truce between the two sides during the Ma Ying-jeou administration. The west African nation of Gambia severed ties with Taiwan in 2013, but did not establish diplomatic ties with Beijing until March 2016, a scant two months before Tsai's inauguration. São Tomé and Príncipe switched on December 2016, while Panama severed ties in June 2017. In May 2018, the Dominican Republic and Burkina Faso both switched their recognition to the PRC, leaving Taiwan with only 18 diplomatic allies remaining.

2. Military Coercion

The People's Liberation Army (PLA) has ramped up its military exercises around Taiwan. Between August 2016 and December 2017, Taiwan's Ministry of National Defense tracked at least 26 aerial exercises conducted by the

Chinese military around Taiwan versus a total of eight in 2015 and 2016 combined ([Global Taiwan Brief](#), August 30, 2017). Of those exercises, 15 encircled Taiwan, meaning that military aircraft either entered or exited the Bashi channel or near the Ryuku Islands ([Global Taiwan Brief](#), February 7). Over the same period, the PLA Navy's maiden aircraft carrier *Liaoning* conducted four long-range exercises around Taiwan: two to the west of the Taiwan Strait mid-line, another two along the eastern coast of Taiwan.

3. Economic Coercion

After Tsai's election, Beijing began limiting the number of group tours visiting Taiwan from the mainland. Taiwan receives over 10 million tourists per year since 2015, of which tourists from China have comprised over 30 percent ([Admin.taiwan.net.tw](#)). In 2017, even as the number of Chinese tourists dropped by around 700,000 from the previous year, it was still 2.7 million out of a total of 10.7 million ([Admin.taiwan.net.tw](#)). The drop hit hard the parts of Taiwan's economy that had come to rely on Chinese tourists. However, overall, the decrease in Chinese tourists was largely offset by a significant increase by tourists from New Southbound Policy (NSP) target countries [1]. Over 2 million tourists from NSP countries visited Taiwan in 2017, a 30 percent increase from 2016. Tourists visits from Japan, Hong Kong & Macao, and South Korea all increased ([Taiwan News](#), February 1).

4. International Organizations

Despite US efforts, for the second year in a row Taiwan was denied observer status at the World Health Assembly. Beijing is closing off procedural mechanisms that permit Taiwan's meaningful participation in such forums, through a combination of its direct control over their functioning, and political coercion of member nations [2]. In the lead up to the World Health Assembly this year, the PRC's mission to the United Nations apparently warned a number of countries that support for Taiwan's participation could endanger their cooperation with China.

In addition to preventing Taiwan's meaningful participation in international organizations, Beijing is utilizing the rules of these institutions to further marginalize Taiwan. This was on clear display in the case of Beijing's unilateral move in announcing the northbound M-503 commercial air route along the Taiwan Strait, right before the lunar new year holiday—the heaviest cross-Strait travel season—without the prior consultation the two sides had agreed upon in 2015 ([Global Taiwan Brief](#), May 2).

5. Corporations

In late April 2018, Beijing issued a directive to 44 foreign air carriers demanding that they change their designation of Taiwan on their website to "Taiwan, China." Eighteen carriers complied before the original May 25 deadline; the rest asked and were granted extensions until July 25 ([China Brief](#), May 31). The US government has urged US airlines to ignore the Chinese demand.

This political pressure has gone beyond airlines. The Marriott hotel chain was forced to fire one of its employees after he liked a Tibet-related post on Twitter ([United Daily News](#), March 4). Other companies such as Gap Inc., Daimler AG's Mercedes-Benz, Zara, Medtronic, and Costco, among others, have been forced to apologize for depicting Taiwan or other issues Beijing considers sensitive in a manner that do not comport with the PRC's definition of what is politically correct.

6. Non-diplomatic partners

Beijing is also forcing non-diplomatic allies of Taiwan to downgrade their relations with Taipei. Nigeria reportedly asked Taipei to move its representative office from the capital of Abuja to Lagos ([Focus Taiwan News Channel](#), July 4, 2017). In Dubai (UAE), Ecuador, Bahrain, Jordan, and most recently in Papua New Guinea, Taiwan's representative offices were pressured to remove any reference to the Republic of China or Taiwan in the name of their *de facto* embassies ([Taiwan News](#), June 14, 2017; [Taipei Times](#), June 2). China has also continued to pressure

those countries with which it has diplomatic ties with to deport Taiwan nationals convicted of criminal offenses to the People's Republic of China (PRC), instead of to Taiwan. This has happened in Cambodia, Kenya, and Spain, among many others ([Taiwan Democracy Bulletin](#), January 31).

7. Economic Incentives

In addition to punitive measures, Beijing is also attempting to entangle Taiwanese people and businesses more deeply with the PRC's economy through generous economic incentives. In February 2018, Beijing announced a raft of 31 measures aimed at providing equal—and in some cases preferential—treatment for Taiwanese persons and businesses operating in China. These include measures designed to incorporate Taiwan into the PRC's "Made in China 2025"—a wide-ranging industrial policy aimed at moving the Chinese industrial base up the value chain. Other incentives include generous tax breaks for Taiwanese high-tech corporations, as well as equal intellectual property rights protection for Taiwan-owned legal entities registered in China.

Other measures include allowing Taiwanese persons to participate in the national "thousand-person program"—a CCP-managed project designed to attract foreign talent to help with the country's national development goals. Most importantly, Taiwanese professionals are now eligible to apply for various state-provided funds for the promotion of science and arts. These measures are worrisome over the long term, since they could further exacerbate Taiwan's "brain drain" ([Global Taiwan Brief](#), March 21).

8. Political Warfare

While Beijing authorities continue to spurn meaningful dialogue with Taiwan's government, it has stepped up United Front Work Department (UFWD) activities against Taipei. The UFWD is a CCP department charged with harassing party-state organizations under direct CCP control to indoctrinate, mobilize, and manipulate non-CCP individuals and entities—PRC native and foreign alike—in service of the Party's policy objectives ([USCC.gov](#), April 5). In Taiwan, the UFWD targets a broad range of constituencies, including aborigines, local villages and townships, youths and students, pro-China political parties and groups, and Taiwan military veterans ([Liberty Times](#), January 15). Taiwan's government has previously estimated that China spends at least \$337.8 million per year on UFWD recruiting efforts in Taiwan, but has also said it believes there might be more "invisible funding" ([Taipei Times](#), January 15).

Taiwan's national security organs have noted a growing volume of disinformation circulating in Taiwan's media space, the product of PRC "content farms". Beijing is apparently using social media disinformation and propaganda to generate social instability in Taiwan ([China Brief](#), April 24). For instance, during a tense period in an ongoing pension reform debate in Taiwan, users of LINE—the most popular messaging application on the island—and other internet reported a flood of messages and websites that falsely claimed that the central government was planning to impose draconian restrictions on pensioners. Taiwan's government was forced to quickly issue a statement denying the fake news.

9. Cyber

Although PRC hacking has made news in the US and Europe, Taiwan is the top target for China-sponsored cyber espionage ([China Brief](#), December 5, 2013). Indeed, Taiwan has endured more than a decade of targeted cyber-theft and attacks from China of the kind that are now being directed towards larger countries. Taiwan reportedly suffered 20 million to 40 million attempted hacking attacks on its public sector per month in 2017 ([Taiwan News](#), April 5). According to the Taiwan government, most of the hacks originate from China ([Taiwan News](#), April 5).

10. Espionage

Taiwan is struggling to recover from the “dark decade,” a period between 2006-2016 in which more than 40 Taiwanese citizens were prosecuted for espionage and espionage-related crimes involving China, among them serving and retired officials, military officers, and businesspeople ([Global Taiwan Brief](#), September 28, 2016). As noted by one former US government analyst: “While Taiwan faces an espionage and subversion challenge from China at a scale that no modern democracy has faced, its leading political parties struggle to address the problem.” Indeed, “... covert Chinese activities [against Taiwan] have increased in scope, sophistication, and intensity. For the first time in many years, Taiwan’s national security officials see change rather than continuity as a hallmark of Beijing’s intelligence and subversive operations” ([China Brief](#), August 17, 2017).

In the final analysis, it is clear that China has significantly increased pressure on Taiwan since Tsai Ing-wen’s election in January 2016. As external pressure on Taiwan grows, internal pressure on the Tsai administration is also building. It is no exaggeration to say that Taipei’s is the only government on either side of the Taiwan Strait committed to the peace and stability of the status quo. Maintaining the status quo, however, cannot be the responsibility of Taipei alone. In the face of Beijing’s mounting pressure, the US and other like-minded nations must push back against PRC coercion, lest it become even more difficult for Taipei to stay the course.

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Notes

[1] The NSP is a comprehensive strategic policy developed by the Tsai administration to strengthen economic engagement and deepen people-to-people exchanges between Taiwan and 18 countries in South Asia, Southeast Asia, Australia, and New Zealand.

[2] Increasingly, PRC nationals oversee important multinational institutions. Interpol’s current president is a PRC national, as is the International Civil Aviation Organization secretary general, who was reappointed for a second consecutive term commencing August 2018. A PRC national also runs the International Telecommunications Union, an important standards setting body for the global internet ([China Brief](#), June 5).

Understanding the Role of Chambers of Commerce and Industry Associations in United Front Work

By Gerry Groot

In 2017, following explosive allegations of CCP interference in Australian politics by mainstream Australian media outlets, real estate billionaire Chau Chak-Wing (周泽荣) sat for an interview with one of Australia’s major daily newspapers. Chau had featured prominently in the reporting that touched off the controversy, with some reports singling out his donations to mainstream Australian political parties as a key vector for CCP influence and others linking him to a United Nations-linked bribery scandal. When asked about allegations of his ties to the CCP, he responded:

For the record, I have never been a member of the Chinese Communist Party and I have never been a member of an advisory group called the People’s Political Consultative Conference. As to the entity referred to ... as the “United Front Work Department,” I have no idea what this is [1].

The United Front Work Department (中共中央统一战线工作部) is the department of the CCP charged with

consolidating support for Party policies among non-CCP members, including among individuals of Chinese descent overseas. It has long been a key, albeit well concealed, element of the CCP's foreign policy ([China Brief](#), July 6 2017).

Chau is from the Chaozhou region of Guangdong. He immigrated to Australia in the 1980s, while continuing to run the PRC-based property business that would make him a billionaire ([SBS News](#), May 23). Chaozhou is a particular focus of United Front activity directed at overseas Chinese, because of the region's long history as a source of migrant outflows, and their subsequent economic success around the world.

Chau's interview claims were remarkable precisely because of his long, well-documented association with provincial and city level elements of the United Front Work Department (UFWD). Chau has been a longtime participant in and leader of industry associations for overseas Chinese from Guangdong, and has been cited as a model for overseas Chinese more generally by various levels of the PRC government and the CCP. This is reflected in his appearances on United Front websites, such as that of Shantou, a city in Chaozhou ([The United Front of Shantou](#), January 08, 2014), and in 2016 group photographs with the head of the United Front for Guangzhou district of Tianhe, a center of commerce in one of China's wealthiest cities ([United Front of Tianhe](#), March 1, 2016).



Chau Chak-wing's biography on the Shantou UFWD website

The available record of Chau's ties with the UFWD can be dated back to July 2007, when he launched the Guangdong Overseas Chinese Commercial Investor Industry Association in the presence of the head of the UFWD in Guangdong Province, Zhou Zhenlong [2]. In his speech, Chau praised the work of the earlier Overseas Chinese Investor association established in Guangzhou in 1990, for protecting the 'legitimate interests' of the investors, helping solve problems and for helping improving the quality and competitiveness of industry [3]. Chau was also direct in his acknowledgement of Zhou Zhenlong and his United Front role when launching the [Guangdong Huaxing Bank](#) in 2011. That Chau's links to United Front work dates back to at least 2007 was also documented in a US State Department cable released by Wikileaks ([Sydney Morning Herald](#), July 16, 2017).

A Brief History of the UFWD and Business

The UFWD's ties with key business people through industry associations (企业协商会) is a time-honed tactic. The PRC was founded with the intention of building a communist society by abolishing all private property, businesses, and profit. These would be replaced with state ownership of all land, property and industry. Those who had been in business before 1949 were denounced as evil capitalists and exploiters of the Chinese people. The Party demanded that they hand over their property and transform themselves and their thinking from capitalism to socialism. They

were forced to undergo extensive thought reform (思想改造) or brain washing (洗脑), a process so severe that those on the receiving end frequently went mad or committed suicide [4].

One of the key ways businesses were thus transformed was through the use of corporatist organizations established by the UFWD to represent them, most notably the All-China Federation of Industry and Commerce (ACFIC) for small business, and the so-called China Democratic National Construction Party for larger ones. Nearly all “bourgeois elements” (中产阶级分子) were forced to join one or the other of these organizations. Then and now, not joining these organizations is not an option [5].

Many of the members of these two organizations, if not nearly all, became scapegoats and were subjected to harsh treatment—and in some cases even torture and execution—in political campaigns initiated by CCP leader Mao Zedong, most famously during the so-called Anti-Rightist Campaign (反右运动) of 1958-1959, and the Great Proletarian Cultural Revolution (伟大的无产阶级文化革命) of 1966-1976. After Mao died in 1976, the CCP, seeking to rebuild China’s industry and commerce, called survivors back to service under the auspices of the UFWD. One of their most important tasks was rebuilding ties to prominent Chinese overseas, so as to rehabilitate the CCP’s image and encourage investment in China through a dual-track strategy that incorporated appeals to patriotism with promises of generous treatment and healthy profits [6].

The UFWD and Business Today

China’s spectacular economic rise in the years since has generated a vastly increased degree of economic and social complexity. It is one of the jobs of the UFWD to survey, understand, and manage the ways in which this complexity is to be organized, controlled, and represented. While the role of ACFIC has increased, the UFWD has also allowed a proliferation of small industry-specific organizations, with two goals in mind: to account for rapidly emerging interest groups, and integrate them into both the general political and surveillance system, and the United Front system in particular. Among these organizations are the large number of newly founded provincial and municipal ‘chambers of commerce.’

This United Front is organized along corporatist lines, and therefore creates or permits the creation of organizations—such as chambers of commerce—to cater to new social groups. In return for this license the UFWD controls or oversees their administration. Potential leaders are carefully vetted to ensure they support the CCP, as well as its key positions, even on external issues such as the status of Taiwan. Leaders are expected to publicly support the party when called upon, to promote the goals at all times, and to extend the influence of United Front work whenever possible, both at home and abroad. They are expected to use their personal influence and professional reputations to model proper behavior, and to inform the department of the needs, complaints and thinking of their members. They are often able to use these political connections to solve practical problems for the organization’s members as noted by Chau in his comments about the history of the Overseas Chinese Investors Associations.

The reward for those who pass UFWD vetting is clear recognition as political leaders, endorsed as reliable by the party. With this trust comes increased access to government and party officials, as well as access to material support for their needs, business and otherwise. If a business can help achieve party goals, then even more support is likely. The benefit of membership for ordinary members varies but often revolves around the connections made with fellow members. Political education is just part of the package. Amongst the most spectacular interventions to serve United Front work was the CCP’s rescue of Tung Chee-hwa’s shipping empire shortly before his appointment as the first chief administrator of Hong Kong following the city’s return to China ([The Independent](#), November 24, 1996).

Putting Up a Front

Despite the above, foreigners doing business in China may never encounter the United Front aspects of Chinese businesses, because they might only ever deal with what they know of as chambers of commerce. In reality the chambers are other side of the industry association coin, part of a 'two nameplates – one office' policy: 'Industry Association' on one plate and 'Chamber of Commerce' on the other. Chambers of commerce provide a useful face for dealings with foreigners, while associations allow the UFWD to discretely manage more directly political aspects. Considering the recent fate of the State Administration of Religious Affairs—a government ministry that was absorbed wholesale into the UFWD—we might perhaps expect to see the same occur to the chambers of commerce (See [China Brief](#), April 24).

Given the UFWD's close oversight of all industry associations, their part in the wider United Front system including the CPPCCs, and the desirability of becoming a leader in one, it would be impossible for any successful Chinese business person not to know what they are or who they are dealing with. On the contrary, the more ambitious and influential one is, the more benefits to be gained and the more valuable one is to united front work. As for Mr. Chau and his association with the United Front, despite his denial of any involvement with the CCP, he appears to have received the ultimate reward: an invitation to Beijing in late November 2017 to meet Xi Jinping himself ([Sydney Morning Herald](#), December 1, 2017).

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Notes

[1] Simon Benson, "Chinese billionaire hits back at ASIO: I'm not a communist agent," *The Australian* June 27, 2017.

[2] For more information, see Gerry Groot, *China Yearbook 2017*, Ch.5 'Precarious Wealth' (ANU Press, Canberra 2018) p.163.

<https://www.thechinastory.org/yearbooks/yearbook-2017/chapter-5-precious-wealth-the-search-for-status-and-security/>

[3] For more information, see 'Provincial Overseas Chinese Investors Association Established: Zhou Zerong Takes Charge,' 省侨商会成立 周泽荣掌舵 <https://news.qq.com/a/20070721/001100.htm>.

[4] See Gerry Groot, *Managing Transitions: The Chinese Communist Party, United Front Work, Corporatism and Hegemony* (Routledge, 2004) pp.76-84. (For more on the processes involved, see the work of Robert J. Lifton).

[5] Additional details can be found in "The UFD's "Two Nameplate" ACFIC/Chamber of Commerce Policy," *Ibid.* pp.206-211.

[6] For the most recent substantial work on united front work among overseas Chinese, see James To, *Qiaowu: Extra-Territorial Policies for the Overseas Chinese* (Brill, 2014).

The Lessons China Taught Itself: Why the Shanghai Cooperation Organization Matters

By Abigail Grace

China's changing political landscape and the recent accession of India to the Shanghai Cooperation Organization (SCO) marks the beginning of a new chapter for one of China's first self-founded multilateral groupings. First established in June 2001 by China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, the Shanghai Cooperation Organization's initial activities were primarily focused on security, namely combatting the "three evils"—terrorism, separatism, and extremism ([Shanghai Cooperation Organization](#), June 15 2001). This year's leader-level summit marks the first instance in which Indian Prime Minister Modi will join the grouping as a full member, introducing a democratic counterweight into an organization historically dominated by China, and to a lesser degree, Russia.

Despite this unique constellation of actors, Western onlookers have frequently discounted the relevance and importance of the Shanghai Cooperation Organization ([Council on Foreign Relations](#), October 14 2015). Highlighting internal dissent between China and Russia, few tangible outcomes, and an under-emphasis on strengthening economic partnerships, critics of the organization paint the grouping as ineffectual. Largely absent from previous outcome-focused Western analyses is a close look at the lessons that China itself has learned on advancing its geostrategic interests through multilateral organizations.

A review of the Shanghai Cooperation Organization's activities reveals that China perceives the organization as a blank canvas to hone its own approaches to leading on the international stage. Chinese official newspapers and netizens have described the organization as a forum for China to explore and implement a new model of international relations. Moreover, official releases from the SCO itself acknowledge the need for the group to continue refining coordination and organization mechanisms, indicating that China's strategy for engaging the organization is evolving as the SCO's issue set expands in scope. Thus, the current value of the SCO is as a forum for China to define and articulate its interests, shape the focus of international institutions based on its own domestic priorities, lobby its neighbors to adopt its approach, and codify those views within an internationally legitimate multilateral process.

Creation of the Shanghai Cooperation Organization

The Shanghai Cooperation Organization was preceded by the Shanghai Five, which was created in April 1996 by all SCO founding member states, excluding Uzbekistan. The Shanghai Five's initial mandate was limited in scope and focused on the demilitarization and clear delineation borders within the region ([Xinhua](#), June 21 2016). Thus, China's initial step into this multilateral grouping was driven by a strategic necessity stemming from the collapse of the Soviet Union and the need for clear territorial boundaries, rather than a broader plan to imbue Eurasia with multilateralism.

From its first days, the SCO positioned itself as an organization premised on learning from the past. At the SCO's founding ceremony CCP Chairman Jiang Zemin stated, "facing profound lessons...each country's people fervently hopes that humanity is able to take a step towards peace and development." ([Chinese Ministry of Foreign Affairs](#), June 22 2001). In its early stages, the SCO remained primarily focused on counterterrorism activities. The intense focus on this issue set was motivated by China's need to elicit cooperation from Central Asian states in its campaign to stem Uyghur separatism. Given the high population of Uyghur citizens in other SCO member states, garnering law enforcement cooperation from Central Asian countries (many of whom might have been sympathetic to the Uyghur's plight) was viewed as an important step in safeguarding China's domestic security by Chinese Communist Party (CCP) officials.

Broadening the SCO's Aperture

As time passed, and China's grip on the security situation in Xinjiang tightened, Chinese officials advocated the expansion of the SCO's mandate. In 2004, official SCO documents began to increasingly emphasize the "further development and deepening of the SCO cooperation on trade, economic, investment" ([Shanghai Cooperation Organization](#), September 23 2004). These preliminary discussions served as a precursor to China's Belt and Road Initiative. By 2006, the SCO was highlighting the role of information and communications technology (ICT) in its forward planning documents, and openly acknowledging that ICT could cause "serious damage to the security...and non-interference in the internal affairs of sovereign states" ([Shanghai Cooperation Organization](#), June 15, 2006). Despite the gradual broadening of the SCO's activities, at its core, the organization remained a regionally-focused grouping, which it acknowledged itself in its Fifth Anniversary Declaration ([Shanghai Cooperation Organization](#), June 15 2006).

Many external observers have describe the global financial crisis of 2008 as a turning point for China's view of its place in the world. The SCO reflected this shift, as it began to broaden what had been a narrow regional agenda. That year, the organization issued formal guidance on how external states could accede as dialogue partners, acknowledged the importance of the SCO's work to develop an international legal framework for ICT standards, and promoted deepening relations between the SCO and other multilateral institutions, such as the United Nations (UN) and Association of Southeast Asian Nations (ASEAN) ([Shanghai Cooperation Organization](#), August 28 2008). The SCO's work on ICT is particularly noteworthy, as it both presaged and proceeded in concert with an evolution of Chinese rhetoric on ICT standards into a robust defense of "cyber sovereignty." The complementary nature of China's work in the SCO with its work in other multinational fora is underscored by its repeated efforts to use the United Nations as a means to legitimize and extend China's illiberal ICT governance norms across new domains ([China Brief](#), June 5).

Despite this expanded vision for the organization's work, few concrete developments and new economic instruments emerged from China's increased efforts ([Russia in Global Affairs](#), August 8 2007). Onlookers attributed this to Russia's distaste with former Soviet republics moving closer into China's economic orbit ([Carnegie Moscow Center](#), June 23 2017). Increasingly, China's own goals for deepening financial ties with Central Asia came into conflict with Russia's security-centric priorities for the organization.

China's Changing Perception of its Role in the World

As China's perception of its own role in the world evolved, its expectations for regional engagement shifted as well. The Chinese Communist Party's 18th Party Congress marked the beginning of Secretary General Xi Jinping's tenure and a sharp shift in how China perceived itself within the existing international order. As Xi has centralized power and his policy priorities have become paramount within the CCP, China's foreign policy objectives have changed accordingly. Chief among Xi's initiatives is to "unremittingly strive" for the "great rejuvenation of the Chinese nation" by 2049, the centennial of the founding of the People's Republic of China ([Xinhua News](#), October 18 2017). The practical implications of Xi's pledge to achieve this "great rejuvenation" (伟大的复兴) are not straightforward, but it may be most appropriate to envision it as an effort for China to return to what it views as its rightful role as a leader within the region.

The foreign policy implications of the great rejuvenation are evident in China's expanding economic engagement with countries on its periphery. China initially attempted to achieve these enhanced ties through the auspices of the SCO ([The Diplomat](#), December 5 2013). Despite that process's lack of tangible outcomes, with the introduction of the Belt and Road Initiative, China was able to build on the framework of bilateral engagement with individual SCO member states to shape the group's receptiveness towards Chinese investment. In September 2013, Chinese President Xi

Jinping delivered a landmark speech announcing the initiative at Kazakhstan's Nazarbayev University. Focusing heavily on the historic links between imperial China's dependence on the Silk Road and modern China's need to expand regional economic cooperation, President Xi delineated China's past and future engagement with Central Asian states.

As China has realized success with the Belt and Road Initiative (BRI) in its bilateral dealings with SCO member states, China's Foreign Ministry is increasingly linking BRI to the upcoming work of the SCO itself. Indeed, a key deliverable for the 2018 SCO Summit was the "strengthening of ties" between the SCO countries and the Belt and Road Initiative, which, "have been closely related...from the very beginning" ([Xinhua News](#), June 9 2018).

India's Accession

Although China has succeeded in gaining Russian support for the Belt and Road Initiative over the past five years, India's accession to the Shanghai Cooperation Organization introduces another actor, one that is keen to check China's ambitions for regional hegemony. At the 2018 meeting of the Shanghai Cooperation Organization's Foreign Ministers, India refused to endorse the Belt and Road Initiative, highlighting a fissure between the members ([Shanghai Cooperation Organization](#), April 24 2018). Despite this public split, both China and India have used the 2018 SCO Qingdao Summit to highlight regional cooperation rather than competition ([Narendra Modi](#), June 9 2018).

Although India's inclusion will undoubtedly limit China's free reign to use the SCO as a forum to garner legitimacy for its more controversial political positions, broadening the SCO's aperture could position the organization as a more credible voice in the international community. However, on controversial issues such as ICT standards, India could constraint the SCO's ability to forcefully advocate for Beijing and Moscow's preferred positions at the United Nations. In contrast to the SCO's 2017 Astana Declaration, the 2018 Qingdao Declaration notably declined to endorse the SCO's 2015 ICT standards submission to the United Nations ([Shanghai Cooperation Organization](#), June 9 2017; [Shanghai Cooperation Organization](#), June 10 2018).

China's Role as a Leader of Multilateral Institutions

Altogether, the 2018 Qingdao Declaration totals two thousand more words than the SCO's 2017 Astana Declaration and includes references to issues as diverse as infectious diseases, e-trade, Afghanistan's peace process, the Syrian Civil War, international trade barriers, peace on the Korean Peninsula, disarmament and nonproliferation, state sovereignty, counterterrorism, drug-trafficking, anti-corruption efforts, and a host of other topics ([Shanghai Cooperation Organization](#), June 10 2018).

That China's Foreign Ministry was able to lead multilateral negotiations on such an array of issues demonstrates their bureaucrats' attention to detail, diplomatic deftness, and desire to influence policy outcomes on a broad range of matters, many of which may not produce tangible impacts for years to come. By building multilateral support for emerging issue sets that remain underdiscussed within developing countries, China is benefitting from a "first mover" approach to international relations, where it is able to set the parameters and define success on matters that will be of critical importance to future generations.

As China's own domestic priorities, clout within the international community, and approach to engagement with pre-existing international organizations shifted, its approach to the SCO evolved as well. The case study of the SCO's engagement with China's Belt and Road Initiative demonstrates that, when stymied multilaterally, China will use bilateral mechanisms to generate support for its own priorities. Furthermore, although the expansion of the issues included in SCO communiqués demonstrates diplomatic agility on the part of China's Foreign Ministry, if the organization focuses efforts too broadly, then it runs the risk of losing its ability to prioritize high-impact issues.

In the years to come, it remains to be seen if China itself will adhere to the Shanghai Cooperation Organization's pledge to advance this "new type of international relations" defined by equality among all states and domestic political non-interference, or if China's own "great rejuvenation" will impinge upon those in its periphery. What is certain is that China's engagement in the Shanghai Cooperation Organization has taught Beijing valuable lessons on how to form, shape, and engage "new models" of international organizations.

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Notes

[1] For examples of such discourse, see [People's Daily](#), July 10 2015; [China's Communist Party News](#), June 16 2016; and [Baidu Zhidao](#), December 18 2013.

Next Steps in the Merger of the Eurasian Economic Union and the Belt and Road Initiative

By Greg Shtraks

On June 9th, 2018 the Shanghai Cooperation Organization (SCO) held its annual summit at the Chinese seaside city of Qingdao. The past three summits have been preoccupied with the impending membership of India and Pakistan, but now that the two are full members, the focus has shifted. Both pre- and post-summit statements suggest that one of the highlights of the conference was the unveiling of concrete steps towards the merger of the Eurasian Economic Union (EAEU) and the Belt and Road Initiative (BRI). The initial merger of the two organizations was announced in May of 2015, just four months after the EAEU's launch, but there has thus far been little visible progress of integration. Still, over the last three years the EAEU and BRI have gradually evolved and the announcement of actual projects can be seen as a victory for both China and Russia.

The Eurasian Economic Union: Many Layers, Few Nutrients

The EAEU was ostensibly created as a Eurasian alternative to the European Union, with the goal of building a common market without internal barriers. Despite its name, the EAEU was envisioned by Moscow as a geopolitical rather than an economic animal. It was to be akin to a new Commonwealth of Independent States (CIS), but with real, functioning institutions whose main organ, the Eurasian Economic Commission (EEC), would be headquartered in Moscow, while a new Court of the EAEU would be based in Minsk, and a financial regulator would make a home in Almaty ([cer.eu](#), March 16 2017).

Although these grandiose dreams have not been realized, the EAEU does have a well-structured institutional organization, which is perhaps the greatest advantage it has to offer the BRI in any potential merger. The EAEU's most important decisions are made by the Supreme Eurasian Economic Council, which is composed of the heads of member states, while a secondary level, consisting of prime ministers, roughly corresponds to EU's Council of Ministers. Most of the day-to-day bureaucratic work is conducted by the EEC ([Russian Analytical Digest](#), May 3, 2016). These bodies could potentially streamline policies and facilitate the construction of the infrastructure envisioned by the BRI. They can also enact and enforce the various legal arrangements that may be agreed to as part of an EAEU-BRI merger.

Despite Russia's ideological and geopolitical aspirations, in practice the EAEU has remained a purely economic institution. The organization has functioned primarily as a limited customs union, whose most successful element has been the improvement of cross-border commercial transit ([New Eastern Europe](#), January 9). The EAEU has also raised external tariffs on imports from non-EAEU countries and thus made products from within the EAEU more competitive. In addition, the EAEU has eased conditions for laborers from Kazakhstan and Kyrgyzstan who are working in Russia by eliminating burdens, including mandatory language tests, and payment for a monthly work permit (these hurdles remain for workers from non-EAEU countries). This matters especially for Kyrgyzstan, which derives 25.7 percent of its GDP from labor remittances ([crisisgroup.org](#), July 27).

The EAEU has also served as a useful platform for the creation of Free Trade Agreements (FTAs) with foreign countries. Thus far, Vietnam, Moldova, Uzbekistan and, most recently, Iran have signed FTAs with the EAEU. It is likely that the "agreement on trade and economic cooperation" with China, announced in May and elaborated upon at the Qingdao summit, will be based on the same premises as these previous agreements.

These notable successes notwithstanding, the EAEU faces many problems. First and foremost among these is that the Union was born just as Russia's economy began to crumble under the weight of low energy prices, international sanctions, and Moscow's subsequently imposed counter-sanctions. Russia's economy accounts for 84 percent of EAEU GDP; its stagnation has sapped the union's forward momentum, as Russia's trade with EAEU partners fell by 15 billion US dollars year-on-year in 2015, and declined further in 2016 before rebounding slightly in 2017 ([Chatham house](#), May 2 2017). The collapse of the Ruble only worsened the problem, cheapening Russian goods and hurting other countries' competitiveness vis-a-vis Russia. Secondly, little headway has been made in creating a common market for oil, gas, and electricity, all of which are supposedly among the union's main goals. Third, non-tariff barriers remain a huge problem in many sectors ([cer.eu](#), March 16 2017). Although efforts have been made to liberalize the services market in areas such as construction, engineering, agriculture, retail, and wholesale trade, the opening has been slow and only partial.

The EAEU remains popular among the elite of all five member countries and, according to polls, retains public support. Its existence is secure for the short and medium term, but its influence will largely depend on how closely it is integrated with the BRI. The EAEU, as a relatively new creation, lacks the deep set norms that define older institutions. This immaturity could work in its favor, however, as it could mature alongside the BRI, as the two mechanisms develop jointly without infringing on each other's core interests.

The Nebulous One Belt, One Road Initiative

Contrary to its name, the Xi administration's flagship foreign policy initiative actually includes six different "economic corridors": four for the Silk Road Economic Belt and two for the Maritime Silk Road ([ndu.edu](#), October 4). Integration with the EAEU focuses on three: the New Eurasian land bridge connecting China with Europe via Kazakhstan, the China-Central Asia-West Africa Economic Corridor, and the China-Mongolia-Russia economic corridor ([National Bureau of Asian Research](#), July 15).

Unlike the EAEU, which was clearly modeled on the European Union, BRI has no real precedent. Some commentators have compared it to the Marshall Plan, although the proposed financial scope of the BRI is actually far larger. For example, the National Silk Road Fund (with a \$40 billion endowment) is directly responsible for financing BRI projects, although its only large investment to date was its purchase of an equity stake in a Russian liquefied natural gas project on the Yamal Peninsula ([Xinhua](#), November 1). The BRICS Bank is headquartered in Shanghai and has \$70 billion at its disposal. Most important is the Asia Infrastructure Investment Bank (AIIB), with \$100 billion in capital [1]. These three nascent financial institutions were all created within the last five years and have yet to truly

flex their muscle. But their potential is substantial, despite the fact that, five years into its existence, the BRI remains somewhat nebulous from a bureaucratic implementation standpoint.

“Trade and Economic Cooperation”: The Meaning of Agreement

Immediately following the May 2015 signing of the Joint Statement on Cooperation on the Construction of Joint EAEU and the Silk Road projects, a Sino-Russian joint working group met in Beijing to define key issues for EAEU-BRI cooperation. They concluded that the key areas would be: major infrastructure projects, the creation of a system for the protection of mutual investments, and the creation of mechanisms for the resolution of investment disputes (iorj.hse.ru, December 8, 2016). The notion of an “agreement on trade and economic cooperation”, as opposed to a more conventional free trade agreement, was first proposed in September 2016 at a meeting of experts organized by the Eurasian Economic Commission (journals.aau.dk, June 29).

The idea found traction, and in May 2018 the two sides signed a Sino-EAEU agreement that is expected to take effect at the beginning of 2019. In an interview with Xinhua, Tigran Sargsyan, the chairman of the board to the Eurasian Economic Commission, said that the treaty “creates a serious legal framework for the interaction of businesses and makes the environment in which they will operate predictable. The proper alignment of transport infrastructure and logistics holds serious potential, and 40 specific projects in the sectors of rail transport, road transport, and other types of infrastructure are currently under discussion” (Xinhua, June 5).

It is likely that among the 40 projects that Sargsyan mentions are the Moscow-Kazan high speed railroad and the Western Europe-Western China expressway that would connect Lianyungang with St. Petersburg. Additionally, there are several hydropower projects in the Russian Far East that will be financed by Chinese investment (Central Asia Institute for Strategic Studies, July 15). The list also likely includes the agreement between the Russia Direct Investment Fund and the China Development Bank to create a new \$10 billion cooperation fund for cross border projects, as well as the \$850 million loan that the China Development Bank gave to the Russian VEB bank for the construction of an innovation fund (Gazetta.ru, May 29). It would not be surprising, however, if the majority of these projects were in Kazakhstan rather than in Russia, as Astana has worked hard to incorporate its “Nurly Zhul” infrastructure initiative with BRI. On the other hand, there has been a noticeable rise of anti-Chinese sentiments in Kazakhstan that may preclude some of these projects from reaching fruition (Eurasia Daily Monitor, January 8). It also remains unclear what the “legal framework” that Sargsyan alluded to actually entails, although the Valdai Discussion Club, a Russian think tank that has published papers on Russia’s Asia policy, has suggested it could encompass sectoral and customs cooperation, sanitary measures, technical barriers, intellectual property protection, and greater transparency in trade remedy actions (Valdai Discussion Club, September 8).

Conclusion

It is possible that Vladimir Putin's vision of a greater Eurasia may have grown to include a free trade zone that extends from the borders of Poland to the Yellow Sea. This notion of a “greater Eurasia” has cropped up throughout the writings of Russian policy experts, such as Sergei Karaganov and Dmitry Efremenko, and is seen by many as a paradigm for Russia’s geopolitical strategy in the second decade of the 21st century (Russia International Affairs Council, September 1).

The concept seeks to encompass a number of different trends that have defined Russian diplomacy over the last several years, namely, the “turn to the east”, the establishment of the Eurasian Economic Union, and the attempt to reinvigorate the Russian Far East. Interestingly, many Russian experts are looking to the SCO as the negotiating

venue for this “greater Eurasia” partnership—a perspective that is certain to be met with approval by Beijing ([Russian Analytical Digest](#), May 3, 2016).

It appears that Russia and China share a long term vision for the Eurasian region. Smaller actors such as Kazakhstan and Mongolia will have to fine tune their foreign policy to meet the new challenges presented by Moscow and Beijing’s renewed focus on Central Asia. In addition to multilateral conferences, the SCO summit in Qingdao was replete with bilateral and trilateral sideline meetings between various actors in this new great game. Eurasia is coming into focus on the world stage. Somewhere, Halford Mackinder is smiling.

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Notes

[1] Prior to the establishment of the BRI, China has long advocated for the establishment of an SCO bank only to be blocked by Russia. Now, however, the tables have turned and it is the Russians who are more interested in the SCO Bank with the Chinese balking at the idea ([Carnegie Moscow Center](#), March 19, 2015).

China Brief is a bi-weekly journal of information and analysis covering Greater China in Eurasia.

China Brief is a publication of The Jamestown Foundation, a private non-profit organization based in Washington D.C. and is edited by Matt Schrader.

The opinions expressed in China Brief are solely those of the authors, and do not necessarily reflect the views of The Jamestown Foundation.

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