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IN THIS ISSUE

Financial Boss's Fall Hints at Deleveraging's Political Side (Part 1)

By Matt Schrader

Xi Reasserts Control Over PRC Politics As Trade War Deepens

By Willy Lam

China's New Missile Force: New Ambitions, New Challenges (Part 2)

By Bates Gill and Adam Ni

Party Control Meets Citizen Pushback: Renegotiating Social Norms Online

By Cheng Li and Diana Liang

China-Myanmar Economic Corridor Ambitions Meet Hard Reality

By Sudha Ramachandran

Financial Boss's Fall Hints at Deleveraging's Political Side (Part 1)

By Matt Schrader

Almost immediately after assuming office in 2012, CCP General Secretary Xi Jinping kicked off a brutal anti-corruption campaign whose stated goal was to curb rampant official self-dealing. However, most observers agree that, like many high-level PRC campaigns, Xi's anti-corruption push was also a political purge, one that allowed him to sideline potential rivals, and to consolidate control to a degree unseen since Deng Xiaoping or Mao Zedong ([China Brief](#), December 7 2015).

Students of PRC elite politics are accustomed to thinking of high-level CCP political campaigns as purges—this has been a common feature of such campaigns since the founding of the Chinese Communist Party (CCP)—and have developed a set of analytical tools to predict and explain the outcomes of such purges. Analysts who focus on PRC *economic* policy, on the other hand, do not typically frame their analysis in terms of 'purges', since the consensus view has long been that the Party does a relatively good job insulating its economic decisionmaking from political pressures. But it might be time for that to change. The PRC government's current campaign to 'deleverage'—or reduce excess credit—in the PRC economy has begun to take on noticeable purge-like characteristics ([China Brief](#), July 10).

Upon reflection, there are obvious reasons to think that deleveraging campaign might result in purge-like outcomes. In China, the heavy hand of the state is present at almost every step of the borrowing and lending process; in a slowing economy where there is no longer a rising tide to lift all boats, decisions about who gets access to credit can be, quite literally, a matter of life or death for private businesses, state-owned enterprises, executives, and bureaucrats at every level of the party-state system. Everyone involved has every incentive to manipulate the system to protect their own interests and sideline rivals, using every means at their disposal.

A slowing PRC economy and the government's determination to see deleveraging through both appear here to stay ([Trivium](#), August 8). It may, therefore, be worthwhile for PRC economic analysts—as well as foreign businesspersons and investors—to familiarize themselves with the tools traditionally used by PRC political analysts to try to understand purge outcomes in the context of the PRC's notoriously opaque politics. One recent case—the downfall of Huarong Asset Management (华融资产管理公司) and its former chairman Lai Xiaoming—may have opened cracks through which we can glimpse suggestions of the political, factional, and personal factors shaping the deleveraging purge.

Chairman of the Hoard

In April of this year, Lai Xiaomin (赖小民), who had served as Huarong's chairman since 2009, was placed under investigation for corruption and breaches of party discipline ([Dai1 Media](#), August 14) [1]. As has long been typical for officials caught up in purges, Lai's life became fair game for reporters; his downfall quickly became the stuff of gossip fodder. News accounts crowed that the three tons of hard currency recovered from his home were a 'reform-era record', while other reports speculated eagerly that a second family he kept in Hong Kong—complete with a second wife and twins—made Lai the inspiration for a particularly corrupt character in a popular recent TV series about graft fighting ([VOA Chinese](#), August 13; [JRJ.com](#), April 21).

But media reports made clear that Lai was removed from his post for more than just personal corruption; most went out of their way to make him a poster boy for the kind of reckless business practices the deleveraging campaign is meant to stamp out. Among his missteps were providing generous financing to some of China's most famously overextended borrowers—so-called 'grey rhinos' like HNA, Anbang, Hanenergy, and CEFC ([SCMP](#), August 26)—and plowing large sums into corrupt, ill-advised real-estate deals ([Dai1 Media](#), June 6). In these portrayals, Lai was precisely the kind of greedy, irresponsible executive whom regulators pushing deleveraging might want to target, to encourage other businesses to be more prudent in their borrowing and lending.

Regulators also hinted that Lai was removed from his position because he led his company too far afield from its original, core mission ([Macropolo](#), September 4). Huarong is one of four asset management companies (AMCs) that were created in 1999 to dispose of the bad loans of China's four largest state-run banks, in order to prepare those banks for eventual IPOs [1]. Over time, however, all four AMCs diversified away from the business of repackaging and reselling bad loans, moving into other areas such as real estate lending and stock broking. Regulators clearly felt that, rather than solving the problem of bad debt, the AMCs had begun to exacerbate it. Judging by statements from all four AMCs following Lai's downfall, all of which pledged that the companies would shed their extraneous business lines and return to their core mission, regulators' message was received loud and clear.

More than Meets the Eye?

Framed this way, Lai Xiaomin's fate makes complete sense. Lai was clearly a corrupt, irresponsible executive, who drove his company to lend much more freely than he should have. If top economic regulators trying to rein in reckless lending needed someone to make an example of, they could hardly ask for a better candidate. It is an entirely plausible *technocratic* story about a venal businessman run afoul of well-designed economic policy.

However, there are reasons to doubt that technocratic story is the full story. For example: Why was Huarong penalized so harshly, while the other three AMC's were essentially let off with nothing but a warning?

One explanation might be that Lai Xiaoming's personal corruption was especially egregious. But while his behavior was certainly shocking by the standards of ordinary individuals, rare is the observer of PRC financial markets who believes that it was particularly unusual among China's financial elite.

Another explanation might be that, in its rush to expand its business, Huarong's lending was especially reckless, making it a tempting target for regulators looking to drive home a message about deleveraging. But there are reasons to doubt this explanation as well. The graphic below, reproduced with the kind permission of Dinny Mahon of Macropolo, shows the size of both Huarong's core and ancillary business lines relative to its three AMC peers.

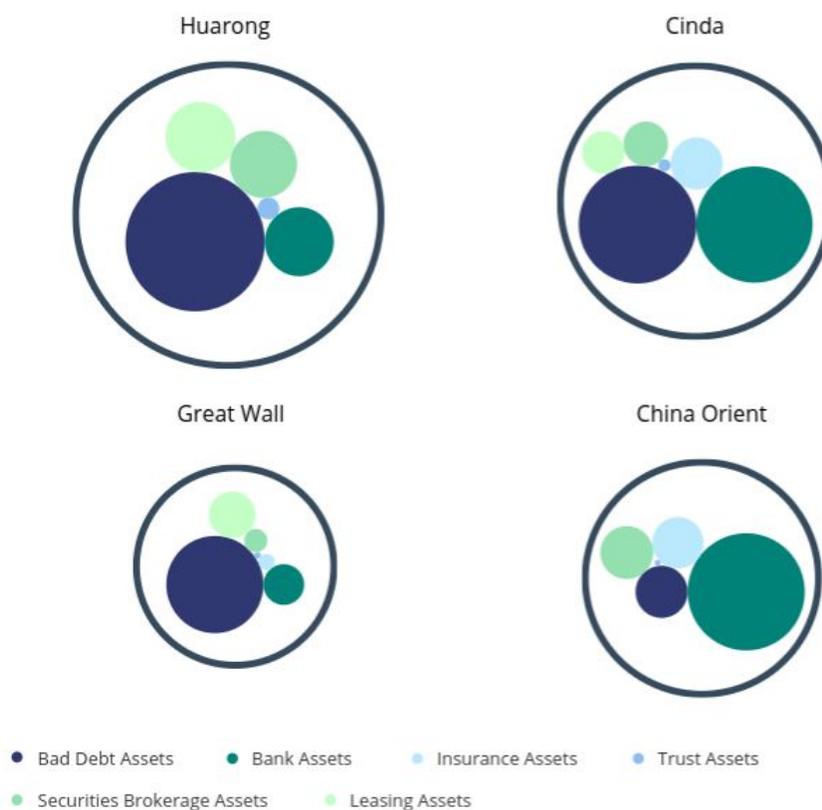


Figure 1: Size of each AMC's financial subsidiaries by asset size, compared with distressed debt assets, at end-2017.

Source: https://macropolo.org/cleanup_analysis/the-big-four-amcs/

The dark blue circles, “bad debt assets”, represent each AMC’s original, core bad debt business. The other circles represent new business lines beyond their core business. Huarong’s bad debt holdings are the largest of the four AMCs, and while it does have somewhat larger leasing and securities brokerage holdings than the other three AMCs, both China Orient (中国东方资产管理公司) and Cinda (中国信达资产管理公司) have much larger holdings of bank assets. In other words, Huarong does not appear to have been especially reckless when compared with its peers, and indeed, seems to have stuck closer to its original mandate than any of them.

So why were Lai Xiaomin and his company singled out, while other AMCs were spared? Part 2 will make the case that the traditional tools used by students of PRC elite politics to understand purge outcomes offer several possible explanations. These tools include close examination of possible factional affiliation, official career paths, educational affiliations, and judicious evaluation of the Beijing rumor mill.

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Notes

[1] The author would like to thank Dai1 Media for the use of their subscription-only PRC-focused financial news service in the preparation of this story.

[2] Each of the four AMCs took over the bad loan book—and to some extent, the institutional DNA—of one of the four big state-owned banks. Huarong was created to manage the bad loans of Industrial and Commercial Bank of China, China’s largest bank. Each of the other three big banks—Bank of China, China Construction Bank, and Agricultural Bank of China—has its own corresponding AMC.

Xi Reasserts Control Over PRC Politics As Trade War Deepens

By Willy Lam

President Xi Jinping seems to have resumed his status as “leadership core” and primary decision-maker after a two-month period of adopting a low profile within the party. The leader was blamed for self-aggrandizement by abrogating term limits to the state presidency, and more importantly, a failure to avert the trade war with the US and to counter President Trump’s efforts to rein in China’s rise ([China Brief](#), August 1). Since returning to Beijing on August 16 after two weeks of informal meetings at the seaside Beidaihe resort, however, Xi has restored enough authority to reassert his ultra-conservative line on socialist-style economic policy, imposing ideological conformity within the Chinese Communist Party (CCP) and challenging America’s position as the pre-eminent world leader. That Xi, also CCP General Secretary and Chairman of its Central Military Commission, still faces opposition, however, is evidenced by the dearth of top civilian and military cadres willing to offer ritualistic public praise of the wisdom of the “highest commander” and “pathfinder for the Chinese people.”

Apart from cutting its trade deficit with China, the Trump White House has asked Beijing to adopt market liberalization and stop interfering in high-tech development sectors and state-owned enterprise (SOE) conglomerates. A series of post-Beidaihe articles in major PRC official media, however, have upheld Xi’s long-standing view that reforms must serve the interests of the party leadership, despite the fact that the CCP is preparing for the celebration of the 40th anniversary of Deng Xiaoping’s market-oriented reforms. While the *People’s Daily* published a commentary on August

ChinaBrief Volume 18 • Issue 15 • September 19, 2018

13 apparently saluting Deng's contributions to economic liberalization, the mouthpiece made clear that "Chinese-style socialism is the fundamental guarantee for smoothly pushing forward reform and the open door." Officials were asked to be "bold 'believers' [in socialism] and their hearts must be filled with faith" in socialism with Chinese characteristics ([People's Daily](#), August 13). Another commentary in the conservative Red Flag Archives (红旗文稿) warned against reform going down the "evil path" (*xie lu* or 邪路) of capitalism. "Changing our flags and standards... deviations from the socialist direction and negating the socialist order means an evil path that will lead to a cul de sac, bringing about grave dangers [to the party and state]," the piece noted ([Qstheory.cn](#), August 11).

A full Politburo session on July 31, the most recent high-level meeting on the economy, emphasized the party-state's role in promoting stability in six areas: employment, finance, foreign trade, foreign investment in China, domestic investments (largely by the state), and other "anticipated work" in ensuring economic health. This meeting set the tone for Xi's insistence at the Beidaihe meetings that ultra-conservative economic measures be followed. In an apparent reversal of a major economic policy—deleveraging or cutting debt sustained by different levels of government—the Politburo vowed to use fiscal and monetary policy to sustain a sufficiently high GDP growth rate. It urged more effective fiscal means to expand domestic demand and indicated that "the flow [of liquidity] must be rational and sufficient." This seemed an indication that a significant degree of quantitative easing would continue to prevent damage to the economy from the trade war ([Ming Pao \[Hong Kong\]](#), August 1; [Xinhua](#), July 31).

Xi's twin task of boosting his own authority within the party while rallying officials and the populace behind his "new-era" theories was evidenced by the National Conference on Ideology and Propaganda held on August 21-22. Xi pointed out in his keynote speech that seminal political thoughts such as "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era" and "21st-century Marxism," "should be used to arm the entire party, educate the people, and push forward work." Cadres and officials were asked to "sing the leitmotif of the times and enhance positive energy" by rallying around the leadership of the "party core," meaning Xi himself. Of equal importance was Xi's insistence that the guiding principles of governance and economic construction be based on Marxist and socialist ethos with "Chinese characteristics, Chinese style, and Chinese *qipai* 气派 [flair]" ([Gov.cn](#), September 3; [Xinhua](#), August 22). Xi's speech was a striking call for ideological conformity amid a deepening trade war with Washington.

At the start of the trade tiff, even fervently nationalistic media such as the *Global Times* counselled restraint in China's rhetoric regarding its relations with the US. However, in the past month party mouthpieces have returned to high-decibel attacks against the Trump administration's alleged unilateralism. A key commentary in Xinhua News Agency urged the Chinese media to "continuously raise its voice against unilateralism, protectionism, and trade bullying." Xinhua added that Chinese propaganda units must be "bold, frequent and adroit in raising [Beijing's] views." "We do not favor fighting [a trade war]," it added. "But we are not afraid of fighting – and we will fight if there were no other choice" ([Xinhua](#), August 20).

Chinese officials and media have reiterated that Beijing has no intention of displacing the US as the most powerful arbiter of world affairs. As the Foreign Ministry spokesperson said at the end of May, "Irrespective of the level of development that China has reached, she will never seek hegemonism and she will never adopt expansionist [policies]" ([Phoenix Television](#), May 31). At a late August speech marking the fifth anniversary of the inauguration of the Belt and Road Initiative (BRI), however, Xi said his administration was eager to build a "community of common destiny for mankind." The paramount PRC leader cited the age-old Chinese *tianxiaguan* ("worldview") of *hexiewanbang* ("using harmony to unify 10,000 countries,") which, Xi added, would facilitate China attaining the "commanding height of the international moral high ground." While making no reference to alleged US "isolationism" and "unilateralism," Xi said Beijing was eager to help "perfect the global development model and global governance so as to push forward the healthy development of economic globalization" ([China Daily](#), August 27; [Xinhua](#), August 27).

That Xi is after some version of "Pax Sinica" was further evidenced by the China-Africa Forum of early September. In an

ChinaBrief Volume 18 • Issue 15 • September 19, 2018

apparent throwback to the chieftains of vassal states paying homage to the Imperial Court of the Middle Kingdom, the heads of state of 53 African nations gathered in Beijing to give thanks and praise for China's economic aid and the BRI. The Chinese administration gave \$60 billion worth of loans, grants and aid to its African "brothers." Much of the largesse was used to cover infrastructure projects that fall within the SRI's fold. Xi again linked China's illustrious ties with Africa – the establishment of a China-African Community of Common Destiny – to the glories of the Chinese model of economic development. To better fulfil its obligations to the poor continent, Xi said, the country would "ceaselessly improve its mechanisms, be innovative in ideas [of economic construction], and extend territories [of international cooperation]" ([Xinhua](#), September 4; [Hong Kong Economic Times](#), September 3). In an editorial justifying the \$60 billion largesse despite considerable poverty in China, the *Global Times* wrote, "Chinese must realize that a big country must fulfil the obligations of a big country," the party mouthpiece said. "Otherwise we cannot retain our [global] stature for long, let alone hope to continue marching forward [on the world stage]" ([Global Times](#), September 3).

To remain China's paramount leader, Xi has to address multiple threats from Washington. As US President Donald Trump indicated on September 7 that the US was preparing to levy 25 percent tariffs on \$200 billion worth Chinese imports, he also warned that an additional \$267 billion worth of Chinese products might also be subject to extra duties. Beijing's reaction has been to reassure China's businesses and populace that the US administration's aggressive tactics would have an insignificant impact. Senior financial expert and former Governor of the People's Bank of China Zhou Xiaochuan told a foreign media that the tariffs would have less than half a percent of an impact on the Chinese economy ([Ming Pao](#), September 9). Zhou's optimistic projections contrast with other officials who fear that unemployment caused by the trade war could ignite massive political disturbances. For example, Finance Minister Liu Kun noted that prolonged trade disputes with the US would produce a "more pronounced" impact on the economy ([Radio French International](#), August 24; [Cn.routers.com](#), August 24).

One reason that Beijing has been reluctant to engage in talks with the Americans is Xi's apparent decision not to adopt the relatively realistic and conciliatory policies of his erstwhile principal economic adviser Liu He, who is also Politburo member and Vice-Premier in charge of finance. While at the beginning of negotiations Liu had been designated "head of the Chinese team in comprehensive dialogue with the US" (中美全面经济对话中方牵头人), he has ceased to play a prominent role in US-related commercial ties since his inability to reach a deal with the White House after leading a high-level delegation to Washington last May ([Minzhuzhongguo.org](#), August 19; [Apple Daily \[Hong Kong\]](#), August 16). This is despite the fact that, in an apparent attempt to give him face, Xi has bestowed on Liu three additional portfolios: leading the reform of SOE conglomerates; heading a State Council unit on industrial safety; and being Deputy Head of the newly founded National Science and Technology Leading Group within the State Council ([Beijing Youth Daily](#), September 6; [The Paper \[Shanghai\]](#), July 24). Since July, his prior role has been taken over by He Lifeng, the Minister at the National Development and Reform Commission, one of the most powerful State Council units. Minister He had worked with Xi when the latter was a regional official in Fujian Province from 1985 to 2002 ([Ming Pao](#), September 5).

Yet Liu He, who has retained the respect of party cadres who think that Beijing should adopt a more flexible attitude toward the US, is a minor problem compared to the lack of heavyweight regional officials openly supporting Xi ([China Brief](#), August 1). Almost immediately after returning to Beijing from Beidaihe, Xi called a meeting of the PLA top brass on the subject of "party construction within the army." "The key to our army's construction and development is party leadership and party construction," the commander-in-chief said ([Xinhua](#), August 20). While Xi seemed to be asking top generals to rally around himself as the unchallenged leader of the country's military and police forces, there was a surprising lack of senior generals joining the *biaotai* ("show your allegiance" or 表态) ritual. It would seem that Xi still has a long way to go before he can reclaim the title of "Mao Zedong of the 21st century" by convincing the party and other vested interests that his ultra-leftist ideas are the best for China's future.

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China's New Missile Force: New Ambitions, New Challenges (Part 2)

By Bates Gill and Adam Ni

This is the second in a series of two articles that examine the establishment of the PLA Rocket Force (PLARF) and its implications for PLA warfighting and deterrence capabilities. While [part 1](#) reviewed the drivers and motivations behind the creation of the PLARF and compares it with its predecessor, the Second Artillery Force, this second article evaluates the challenges faced by the PLARF.

Xi Jinping called upon the PLARF in 2017 to focus on making “new breakthroughs” by enhancing “strategic deterrence and containment capabilities” (战略遏制能力), raising “combat readiness” (备战实战化水平), and improving “strategic applications” (战略运用) of both its conventional and nuclear missile forces ([People's Daily](#), December 17, 2017). At the operational level, the PLARF is required to be “ready to fight at any time” (随时能战), “launch on-time” (准时发射), and “effectively destroy [targets]” (有效毁伤) under complex and challenging combat conditions ([Military Reporter](#), April 16). This remains a tall order for the PLARF. To reach these strategic and operational goals, the PLARF will need to overcome a number of challenges, including with respect to missile capabilities, command and control systems, combat training, and personnel development.

Command and Control Challenges

The modernization of China's conventional and nuclear missile forces has been accompanied by a range of command and control challenges. Indeed, the introduction of new missile systems (such as the DF-26 and DF-41) and the increasing dispersal of land-mobile missiles adds a new layer of complexity and demand on the PLARF's command and control systems. On a higher level, China's nuclear command and control system is entering a vastly more complex era, especially with the PLA Navy's nascent sea-based nuclear deterrent and the upcoming next generation strategic bomber.

These challenges are compounded by the new command structure announced in early 2016 shortly after the establishment of the PLARF ([Xinhua](#), February 1, 2016). Under this new system, the four services are now only responsible for force development, leaving the conduct of military operations to theater commanders (who report directly to the Joint Staff Department of the Central Military Commission).

At the conventional level, early efforts are underway to integrate PLARF missile bases (divisional size elements) with theater commands under the new joint command structure to improve joint operations. For example, since late 2017, pilot programs are being run to integrate the information and command systems of PLARF missile bases and theater commands to facilitate joint theater-level exercises in 2018 ([PLA Daily](#), February 6). As part of the pilot, one particular missile base has been integrated into the “theater joint operations command structure” (战区联合作战指挥体系) and the “theater joint operational command information system” (战区联合作战指挥信息) ([PLA Daily](#), February 6). In addition, this particular missile base has created operational clusters (作战集群) for joint exercises to improve joint effects (联合效能).

There is also evidence that theater commanders now have command over missile force units, at least at the conventional level. The Commander of the Eastern Theater Command, General Liu Yuejun, in an interview shortly after the establishment of the joint theater command system, stated that “[the Eastern Theater Command] is responsible for commanding theater Army, Navy, Air Force, PLARF and other armed forces in joint operations and military operations other than war” ([PLA TV](#), March 4, 2016). While he did not differentiate between the PLARF's nuclear and conventional forces, for reasons discussed above his command authority almost certainly does not extend to nuclear forces.

One practical obstacle to joint theater command exercising command and control over missile bases is that some missile bases have geographic boundaries overlapping more than one theater command. Another issue is that a number of missile bases have both conventional and nuclear-capable missile systems, such as the dual-capable DF-26 IRBMs. Delegating command authority to theater commands could create ambiguous signals for strategic deterrence purposes, increasing the risk of miscalculation during an escalating crisis or conflict.

On the strategic level, there is no evidence that command and control arrangements for the PLARF's nuclear forces have changed. A number of Chinese experts, including PLA officers, have been quite adamant that the command and control over nuclear forces remain unchanged and continue to be highly centralized under the CMC (Authors' interviews, Beijing, April). In practice this means that nuclear missile forces continue to operate under the "skip echelon" system in which the CMC can bypass intermediate commanders and issue direct orders to missile brigade commanders in the field [1].

There are two main reasons to believe that the CMC still retains highly centralized control over PLARF nuclear forces. First, China continues to emphasize the strategic rationale for its nuclear force [2]. Granting command authority over PLARF nuclear forces to theater commanders would send ambiguous signals that may be viewed as a shift away from the official strategy, towards a posture that allows for the tactical use of nuclear weapons (nuclear warfighting). Second, it would be unnecessarily risky to transfer command and control over nuclear forces to a theater-level joint command system that is untested and very much still a work in progress.

Realistic and Practical Combat Training

Realistic and practical combat training is often cited as crucial in building the PLARF into a world-leading missile force. In recent years, the PLARF has stepped up the pace of realistic combat training, with one source emphasizing that "realistic combat training" (实战化训练) and "operational testing and exercises" (作战检验演习) have been "normalized within the PLARF" ([People's Daily](#), December 17, 2017).

Evidence suggests that the PLARF leadership, like many other parts of the PLA, is pushing for a training culture with stronger realistic and practical elements ([PLA Daily](#), March 8). This effort includes the use of military training supervision and inspection teams to ensure training quality ([PLA Daily](#), February 23), and the regularization of confrontational exercises with realistic and competent opposing forces to improve training outcomes ([PLA Daily](#), May 14).

The PLARF's training and exercises have focused on joint operations ([PLA Daily](#), February 6), brigade attacks, sustained offensive operations, long distance and cross-regional mobility operations ([PLA Daily](#), February 5), and operations in complex terrain, weather ([PLA Daily](#), January 31) and electromagnetic environments ([PLA Daily](#), January 18). Since 2016, the PLARF have formalized the "Sky Sword" (天剑) series, consisting of ten missile force combat training exercises annually, including joint operations training with other services. For example, in the 2016 iteration of Sky Sword, the PLARF trained alongside of the PLA AF as well as against it as the opposing force ([Observe](#), May 30). Inter-service interoperability and coordination and joint strike campaigns are highlighted as priority areas for this year's Sky Sword ([Xinhua](#), May 30).

The importance of realistic training is especially pronounced given the rapid modernization of PLARF's equipment and weapons. The ability to operate quickly and effectively, in the words of one launch battalion commander, "depends on the level of informatization of weapon equipment as well as [the experience gained from] major training exercise missions" ([China Military Online](#), January 17). At the missile base level, the increased sophistication of command and control technology has also called for more training in order to best leverage information and data systems for the generation of combat power ([PLA Daily](#), April 1).

Human Talent Pool

Closely related to the need for effective and realistic training and exercises is the PLARF's human talent and human resources challenge. Missile force operations require high quality human input in the form of experienced operators, commanders, scientists, technicians, and other support staff. According to one PLARF officer, "the Rocket Force has vigorously implemented its talent development project and achieved fine results," and that the "transformation of the Rocket Force" is based on the increasing pool of talent and innovation ([PLA Daily](#), March 16). Despite this rosy picture, many PLARF units still suffer from shortage of high quality personnel, including junior commanders, non-commissioned officers (NCOs), and technical staff for its new equipment ([PLA Daily](#), May 3).

One priority area highlighted is the development of in-house missile experts and technicians. According to one PLA source, the PLARF has made a substantial progress in the development of technical and scientific talent in support of its mission ([China Military Online](#), June 19, 2017). First, the PLARF has rationalized the allocation of missile experts to eliminate the "phenomenon of over-concentration of missile experts in non-combat units." Second, the PLARF has substantially increased the number of technical experts in both combat operations and support roles, and introduced a whole new series of professional disciplines for training purposes. Third, the PLARF is cultivating a new generation of missile experts to take over from the older generation with an estimated over 90 percent of current PLARF missile experts being middle-aged or younger.

In addition to missile experts, the PLARF has also focused on improving training for NCOs and missile operators. For instance, in recent years the PLARF Research Academy has been formulating tailored development programs for NCOs in technical, command and management roles ([Xinhua](#), April 11). New models have also been piloted for training missile operators, such as rotational and multi-role training to ensure that operators can perform in multiple positions if necessary ([PLA Daily](#), April 9). The PLARF has also been tightening the supervision of operating processes for missile operations in order to achieve "real combat standards" (实战化标准) ([PLA Daily](#), March 13).

Conclusion

Since its establishment in late 2015, the PLARF has made notable progress in upgrading its conventional and nuclear missile capabilities, reorganizing command and control systems, developing realistic combat training for its troops, and building a pool of human talent necessary for effective missile force operations. However, as highlighted above, challenges remain in all these areas. They will need to be tackled successfully if the PLARF is to realize its aspiration of becoming the top missile force in the world and fulfill its missions across a wide spectrum of deterrence and warfighting scenarios.

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Notes

[1] For details on the command and control systems of China's nuclear forces, see Bates Gill, James Mulvenon, and Mark Stokes, "The Chinese Second Artillery Corps: Transition to Credible Deterrence," in [The PLA as Organization v1.0.](#), eds. James C. Mulvenon and Andrew N. D. Yang (Santa Monica, CA: RAND Corporation, 2002), 510-586, at 521.

[2] See, for example, State Council Information Office, [China's Military Strategy](#) (Beijing, May 2015), section IV; and [The Diversified Employment of China's Armed Forces](#) (Beijing: April 2013), section III.

Party Control Meets Citizen Pushback: Renegotiating Social Norms Online

By Cheng Li and Diana Liang

Contrary to popular perception, the Chinese Communist Party's control over online discourse is not absolute; complete control would be impractical in a country as large, diverse, and dynamic as the PRC. In reality, China's internet is a battlefield, upon which aggrieved socioeconomic groups renegotiate social norms and policy decisions, in a continual tug-of-war between internet activists seeking change and liberty and a government that prioritizes stability and control above all.

Recent events underscore this dynamic. In the past several months alone, Chinese internet users have launched a series of large-scale online protests over controversial issues, including economic inequality, environmental degradation, food and drug safety, and child protection.

Some of these movements have been more successful than others. While the CCP has immense power to control and channel public dissent, it has not won every battle. What factors might explain those instances in which activists have gained modest successes, and those where their demands have fallen on deaf ears? Two recent cases are particularly revealing. The first, where activists enjoyed some success in influencing policy, relates to LGBT issues; the second, which authorities have alternately ignored and tried to suppress, is China's homegrown #MeToo movement.

#iamgay Scores a Modest Victory

This past spring, a vast number of Chinese netizens rallied against party authorities after LGBT-related content was erased from Weibo, one of China's most popular social media platforms. On April 13, Weibo announced it had launched a three-month campaign to bring its platform into compliance with a new PRC cybersecurity law by erasing content associated with homosexuality, pornography, and violence ([Weibo](#), April 13). Within a single day, Weibo's announcement had drawn more than 24,000 comments, and was forwarded more than 110,000 times ([Reuters](#), April 13). As the platform deleted content, advocates for LGBT rights adopted variations of the hashtag #iamgay to express their indignation. Some denounced Weibo's censorship as a re-marginalization of homosexuals that undermined the legal decriminalization of homosexuality in a 1997 revision of the national penal code.

Three days later, claiming it had been instructed to do so by the "relevant authorities", Weibo announced that it would "primarily focus on pornographic and violent material" instead of homosexuality, and thanked the public for its input ([Weibo](#), April 16). To the extent that #iamgay persisted in the face of censorship and resulted in policy walkback, it can be considered a success. Why was #iamgay able to succeed—albeit in a limited fashion—where other online movements failed?

Netizens' Strategy: Moral and Legal Appeals

Critically, #iamgay activists were able to draw on moral arguments *and* solid legal precedent to make their case. Since 1997, the PRC state has slowly shifted its penal code and medical guidance towards decriminalization and

normalization homosexuality ([People.com.cn](#), February 27, 2012; [Ministry of Justice](#), November 6, 1990; [Ministry of Justice](#), May 1, 2004). Though positive legal protections for LGBT individuals remain limited, and broad social consensus on LGBT rights elusive, netizens pointed out that the attempt to censor LGBT-related content was still a rollback of established legal principles. By highlighting earlier legal reforms, activists pushed the state to rectify its contradictory policies. Since the state had already quietly established and endorsed a legal framework for respect and tolerance of the LGBT community, advocates could press for Weibo to walk back its discriminatory content guidelines without having to make a separate, independent case for their community's legal right to exist.

This framing made the issue one on which the party could not morally equivocate, forcing it ultimately to cede the point. Even the state-run *People's Daily* joined the chorus suggesting Weibo should reconsider its stance, publishing a piece advocating a “consensus around respecting other people's sexual orientation” ([People's Daily](#), April 15). In so doing, both *People's Daily* and #iamgay activists successfully linked censorship with society's unjust treatment of an entire community, transforming the issue into an emotionally compelling question of justice by layering moral arguments on top of an existing legal framework.

Why the State Backed Down: Low Cost of Acquiescence

It is also important to remember that, from the state's point of view, the cost of acquiescing to #iamgay critics was low. In the PRC, criticism that might spark collective action is dealt with much more harshly than other forms of complaint ([American Political Science Review](#), May 2013). The CCP likely recognized that giving #iamgay activists their way would result in manageable change, not escalatory engagement, making the political risk of accession low. Additionally, activists' demands were modest. They did not demand additional rights such as the right to marry their partners or adopt children.

However, despite the ostensible existence of legal protections for LGBT individuals, it may have been the CCP's ambiguous position on homosexuality that gave rise to Weibo's misguided announcement in the first place. Despite the 1997 revisions to the penal law and the removal of homosexuality from a list of officially defined mental disorders in 2001, the CCP has never taken a firm stance on the issue. This ambiguity, compounded by the cybersecurity law's vague statements on protecting the public interest and social morality ([National People's Congress of the PRC](#)), may have led Weibo to issue its guidelines in an overzealous attempt at compliance [1].

Yet, #iamgay activists were able to exploit the same ambiguity to push back against Weibo. And it was only in the absence of a strong, coherent stance from the CCP—which often styles itself as China's only legitimate source of moral authority—that a prominent state-run paper like *People's Daily* could express dissent on moral grounds. The resulting lack of a “morality lobby”, like those present in Taiwan and South Korea, meant that the political cost of changing course was low. Thus, the ambiguity may have created room for policy debate and change.

It would be simplistic to dismiss this instance of policy revision as an anomaly. The events of #iamgay point to deeper underlying tensions and changes underway in Chinese society.

Parallel Trends and #MeToo Headwinds

Underpinning this incident are two trends, which might seem mutually contradictory at first glance. On the one hand, Xi Jinping's government has pushed the PRC's already-repressive system of media control and censorship even further than his predecessors. On the other, Chinese society has continued to grow more energetic, dynamic, and pluralistic. When these trends clash, the censorship regime typically maintains the upper hand, as can be discerned from the long list of subjects now considered politically taboo. However, in cases such as #iamgay, they can come together such that negotiation between the CCP and PRC society serves to define new social norms.

In this respect, there are notable similarities between #iamgay and China's #MeToo movement. To the extent that the two issues are comparable in broad terms, Chinese netizens and activists in both cases have been inspired by overseas movements. Activists have also reached out to and garnered a degree of sympathy and receptiveness from state affiliated media, a limited success worth noting.

Similarities also exist in the approaches of the two movements. #MeToo activists have also employed the language of morality and justice in promoting their cause. By using this language, they have been able to galvanize support online, despite PRC society's wide variety of opinions on women's empowerment and social roles, and a limited public discourse around issues of harassment and consent. As with #iamgay, #MeToo activists have invoked the legal realm, calling for better protections, arbitration mechanisms, and recourse. Supportive university statements and state media-published op-eds, including some by *People's Daily*, have also focused on issues of morality and legality ([Sohu](#), April 5; [People's Daily](#), April 6).

The broad direction of the state's online response, however, has been very different for the #MeToo movement, which has persisted in starts and stops in the face of vigorous censorship. One key factor driving authorities' diverging reaction is perceived political risk. The #MeToo movement demands that the rich and powerful be held accountable. Acceding to such demands is, obviously, unappealing to those in power. Additionally, such acknowledgement could undermine the party's public image and its perceived authority. Further, given that much of China's population might readily identify with the victims, such calls for responsibility hold a much higher risk of collective action—a central factor galvanizing censorship. From the party's perspective, the power dynamics of #MeToo pose a different and more consequential challenge than #iamgay.

An Increasingly Contested Domain

What do these cases tell us about new dynamics in state-society relations, especially in the digital age?

The extent of Chinese internet censorship and the party's use of new technologies to surveil and control should not be trivialized. The authorities have increasingly employed a nimble strategy in their approach to online censorship, calculating, adjusting, and compromising in instances where that is determined to be the optimal approach. But where netizens claim the moral high ground and legal backing and are pragmatic in making demands, they have been able to push for incremental change. Social media platforms can buoy the causes of netizens by facilitating the quick spread of posts and discussion online. Further, they have facilitated visible negotiation. Not only can netizens more easily observe the issues of concern and tactics used by their peers and lend support across geographical distances, but they do so knowing that the authorities must react under the scrutiny of the larger public eye.

The Chinese government's top-down efforts to dictate social morality and ideology, especially in the name of national security and social harmony, continue to persist. Not every case of censorship will be emotionally or morally compelling to the people and galvanize action, and not every case that is compelling to the people can successfully involve engagement, debate, and revision with the authorities. The limits of online mobilization are evident in the case of the Chinese government's suppression of Uighurs in Xinjiang, through measures both online and offline, which have failed to spur much outcry or sympathetic response from Chinese netizens. Where the terms "national security" and "social harmony" are invoked, the cost of engagement for both parties may be far steeper. Moreover, these terms, coupled with other dynamics of Islamophobia, identity politics, and more, may also numb the public to injustices ([China Brief](#), July 25).

As any observer of the Chinese internet can immediately discern, China is by no means a monolith. The clashes between CCP control and an energetic, dynamic society reflect that. China continues to re-negotiate its social norms, identity, policies and balance of interests—and it is increasingly doing so online.

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Notes

[1] See also the Cybersecurity Law of the People's Republic of China, Article 1, Clauses 1, 9, and 12.

China-Myanmar Economic Corridor Ambitions Meet Hard Reality

By Sudha Ramachandran

China and Myanmar have been widely expected to sign a 15-point Memorandum of Understanding on the China-Myanmar Economic Corridor by the end of this year ([Global Times](#), June 26). However, this mega project, a key component of China's Belt and Road Initiative (BRI), may have hit a rough patch. Apprehensive over being saddled with massive debt that it may not be able to pay, the Myanmar government is considering scaling down one of the project's central elements over concern it will land the country in the sort of 'debt trap' that has ensnared other sovereign borrowers from the PRC ([Myanmar Times](#), July 12). A recent study warns of "potential local resistance" to Chinese projects if "investment strategies do not consider the local context carefully" ([The Irrawaddy](#), June 22). The CMEC may also exacerbate ethnic conflict in a country already riven by serious inter-ethnic strife.

CMEC's Significance

An Indian Ocean littoral state, Myanmar provides China with overland access to the sea. Its position within the larger BRI schema is therefore unique; it is the only BRI participant—other than Pakistan—that is part of both the 21st Century Maritime Silk Road and the Silk Road Economic Belt, the BRI's main overland and sea-going legs, respectively. The China-Myanmar Economic Corridor (CMEC) is planned to run from Kunming in China's Yunnan province, cross the Sino-Myanmar border at Muse and continue to Mandalay, where it will split into two. One section will run westward to Kyaukpyu on the Bay of Bengal in Rakhine state, while the other will run south to Yangon. The route to and from Kyaukpyu port runs parallel to gas and oil pipelines built by China that have been operational since 2013 and 2017, respectively. Although they were planned prior to the BRI's rollout, like many PRC projects overseas they have been rebranded as part of the Belt and Road ([Xinhuanet](#), May 10, 2017).

The CMEC is of considerable economic and strategic significance to China. The Kyaukpyu link with the Indian Ocean cuts 5,000 km off the travel distance for shipments from Africa, West Asia and South Asia to China. Both it and the Yangon link are expected to facilitate China's oil and other trade with Africa and West Asia, and to boost the economy of underdeveloped and landlocked Yunnan Province, which borders Myanmar. Importantly, CMEC would also enable Chinese ships and oil tankers to bypass the Malacca Straits, making it more difficult for potential adversaries to squeeze China's oil supply by blocking the Straits during a conflict.

The government of Myanmar views participation in the BRI and the CMEC as an opportunity for the country to modernize its decrepit infrastructure. Many local and international businesses based in Myanmar have likewise welcomed the CMEC ([Myanmar Times](#), June 7, 2017). As a part of the BRI, China will extend Myanmar "much-needed

funds” for developing its infrastructure. Besides, with the “promised investment by Western businesses not materializing” and Myanmar’s handling of the Rohingya conflict deepening the West’s reluctance to invest in Myanmar, “the value of Chinese funding to Myanmar under the BRI has grown,” according to an Indian businessman based in Yangon [1].

Chinese Approach

Despite obvious reasons for optimism, according to Khin Khin Kyaw Kyee, lead researcher at the Institute for Strategy and Policy – Myanmar, many in Myanmar have “mixed feelings” about CMEC. While they “welcome investment in infrastructure,” they are concerned about “the negative consequences of massive development projects” envisaged under BRI, she said, pointing to the “poor record” of China’s previous investments in Myanmar [2].

Indeed, to date non-consultation and exclusion of local communities from the benefits of projects have been the hallmark of many major Chinese investment projects in Myanmar. Farmers in Rakhine—a state on Myanmar’s northwest coast home to the country’s persecuted Rohingya minority, among others—are protesting environmental damage to their land by a China-backed oil pipeline ([Economic Times](#), July 9). Protests also greeted the \$3.6 billion Myitsone hydropower project, an enormous dam that was planned for Kachin State, near Myanmar’s northern border with China. Even as it deprived local farmers and fishing communities of their livelihoods, 90% of the dam’s power generated was to be sent to China. Myitsone triggered mass protests that forced the Thein Sein government to suspend the project in 2011. The project was so unpopular that the mere discussion of its revival imperiled the survival of the ruling coalition in 2016 ([The Irrawaddy](#), October 20, 2016).

Apprehensions over Debt and Sovereignty

Kyaukpyu has triggered similar apprehensions over sovereignty, control, and indebtedness to China. The project has two components: a deep-sea port and a 1,000-acre industrial park. The cost of the port was originally pegged at \$7.3 billion, versus \$2.7 billion for the industrial park.

The price tag for the port project has been described as “artificially high” ([The Irrawaddy](#), June 8). Experts have questioned whether Myanmar needs such costly projects. Sean Turnell, an economic advisor to Myanmar’s State Counselor Aung San Suu Kyi observed recently that the cost for development of Kyaukpyu port was “way, way, way beyond what [Myanmar] needs” ([Myanmar Times](#), June 13).

Myanmar’s government is concerned about the large loans that such a massive port project would entail. The country’s external debt at the end of 2017 was \$9.1 billion, 41% of which is owed to Beijing ([The Irrawaddy](#), July 10). Although at present the debt load is relatively manageable (total government spending was \$13.4 billion in 2017 alone), it could grow enormously were CMEC to proceed in its original form.

Myanmar’s government has no desire to repeat the mistakes of other countries that have borrowed heavily from China. Sri Lanka’s experience with the China-built Hambantota port has been followed closely in Myanmar. Colombo borrowed heavily from China for the Hambantota port’s construction, and, unable to afford loan repayments, ended up handing over the port to the Chinese on a 99-year lease. Myanmar fears a default on its part could lead to a similar outcome with Kyaukpyu ([The Irrawaddy](#), June 8).

This fear has prompted Myanmar to scale down the size of the Kyaukpyu project. Myanmar officials are in talks with a Chinese consortium led by state-owned investment company Citic Group to reduce the project’s original \$7.3 billion pricetag to \$1.3 billion. The revised port project would include two berths instead of the originally proposed ten ([Sina](#), August 3).

CMEC and Myanmar's Conflicts

While many of Myanmar's concerns about CMEC center around the potential for unsustainable debt, on the Chinese side it is threats to the security of PRC workers and Chinese-built infrastructure that could potentially hamper cooperation. Kyaukpyu is located in the restive Rakhine state, and although the mega-project is not in the Rohingya conflict zone, the potential threat that Rohingya militants pose to the Kyaukpyu infrastructure cannot be easily dismissed. The magnitude of such a threat would increase if Rohingya militants established links with Uighur militants or Islamic State jihadists.

China is also apprehensive over the security of infrastructure along the corridor, which runs through strife-torn areas like the Kachin and Shan states. The Muse-Mandalay highway, which China is upgrading, is critical to CMEC's success. However, clashes between Myanmar's military and the Northern Alliance (an umbrella organization of armed groups that did not participate in Myanmar's 2015 nationwide ceasefire agreement [NCA]) have disrupted trade on this road ([Frontier Myanmar](#), June 16, 2017).

To ensure stability and security, especially in the Sino-Myanmar border regions and in Rakhine State, China has taken on a role as a mediator in Myanmar's numerous internal conflicts. In November 2017, for instance, China put forward a three-phase plan for ending the Rohingya refugee crisis and restoring stability in the region ([China Brief](#), November 22, 2017). It has also contributed to the reconstruction effort by setting up poverty alleviation projects in Myanmar, and is working towards repatriation of Rohingya refugees who had fled to Bangladesh ([Global Times](#), April 2; [Global Times](#), June 29).

China is also involved in the NCA peace process. According to Myanmar officials, Beijing is pushing the Myanmar government to keep the ceasefire alive. Simultaneously, it is talking to the armed groups outside the NCA, such as the Arakan Army, the Kachin Independence Army and the United Wa State Army (USWA), and also hosting secret talks between the Myanmar military and the armed militias on Chinese soil ([Frontier Myanmar](#), March 16).

A Peaceful Corridor?

China often portrays BRI as "a road for peace" ([Xinhuanet](#), May 14, 2017). But analysts in Myanmar doubt that CMEC will bring peace to their country.

"CMEC will have huge implications for the Myanmar peace process," observes Khin Khin Kyaw Kyee. Its projects "extend across many of Myanmar's conflict-sensitive areas and affect the livelihood of local people," she says, warning that if the projects exclude locals, they could deepen existing conflicts, and trigger new ones "by enlarging the grievances of local communities."

Conversely, a deeper PRC involvement in the peacemaking process could also be beneficial. Describing China's efforts in the ceasefire agreement as "a positive development," Khin Khin Kyaw Kyee, however, noted that "an NCA brought about through pressure from an external party would not be conducive to ushering in long-term peace."

However, China's approach to peacemaking in Myanmar is deeply problematic in some ways. Third-party peace-brokers are more likely to be successful when they do not have vested interest in the outcome of the peace process, but China is deeply invested in the outcome in Myanmar. Importantly, it appears to be more interested in stability than in tackling the underlying causes of the conflict and building a sustainable peace.

Additionally, China has taken sides in conflicts in Myanmar, instead of behaving as a disinterested mediator. It has "strongly welcomed" the Myanmar government's brutal crackdowns in Rakhine, describing these as "counterattacks" against Rohingya "extremist terrorists" ([The Global New Light of Myanmar](#), September 14, 2017). It is also known to

supply weapons to outfits such as the USWA, which is made up largely of ethnically Chinese members, and whose leadership contains numerous individuals from mainland China. China has not been shy about using its ties with the ethnic militias to pressure Myanmar's government. The possibility of Beijing using such pressure to wring concessions from Myanmar on issues relating to CMEC cannot therefore be ruled out.

The Way Forward

Clearly, Myanmar is deeply skeptical about the benefits that CMEC will bring its people. "Transparency, accountability and public participation in decision-making are key to CMEC's success," says Khin Khin Kyaw Kyee. Importantly, CMEC "should not be supply driven" or focused on what China wants but should be demand driven or based on what Myanmar needs.

CMEC's journey is unlikely to be easy or smooth. Myanmar's troubles with CMEC mirror many of the issues China faces with BRI investment other countries. As with elsewhere, China may have the capital to spend on infrastructure in Myanmar, but it needs to adjust its approach and be more sensitive to needs and grievances on the ground if it wants CMEC to succeed.

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Notes

[1] Author Interview with an Indian businessman, Yangon, August 25.

[2] Author Interview with Khin Khin Kyaw Kyee, lead researcher at the Institute for Strategy and Policy – Myanmar, August 14.