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**Economic Themes from the National People's Congress
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Introduction

This month, the National People's Congress (**Quanguo Renmin Daibiao Dahui**, 全国人民代表大会), or NPC, and the Chinese People's Political Consultative Conference (**Zhongguo Renmin Zhengzhi Xieshang Huiyi**, 中国人民政治协商会议) convened concurrently in Beijing. Collectively known as the “Two Sessions” (**Lianghui**, 两会), the annual meetings of these bodies—normally held for two weeks in the early spring—comprise two of the largest annual events on China's official political calendar. The two bodies hold no real power—and function as, respectively, a rubber stamp legislature for Chinese Communist Party (CCP) policy decisions, and as a nominal advisory body intended to provide the state with a veneer of political

pluralism. However, while the NPC and the CPPCC are both highly scripted, the “Two Sessions” often provide insights into the concerns and policy priorities of the CCP’s senior leadership.

During each year’s full session of the NPC, it has become standard practice for the People’s Republic of China (PRC) Premier—the official in charge of the PRC State Council, and the leading figure in managing national macroeconomic policy—to present a lengthy “government work report” (**zhengfu gongzuo baogao**, 政府工作报告). This annual report both extolls the state’s achievements over the course of the previous year, and lays out policy priorities for the year ahead. This year was no exception, and the opening of the NPC on March 5th was accompanied both by public release of the report, and a major speech by Premier Li Keqiang summarizing its contents. Li’s speech ranged across a broad range of policy matters, but economic policy was at the core. This year, Li’s comments were noteworthy for hinting at deep concerns regarding the linkage between the country’s economic direction and the security of the regime.



Image: PRC Premier Li Keqiang walks to the podium to deliver the government’s annual work report during the National People’s Congress in Beijing, March 5th, 2019. (Source: PRC State Council)

Economic Highlights from the Government Work Report

The report and Li’s accompanying speech laid out a list of ambitious goals for 2019. These include an effort to boost the economy through reductions to value-added taxation: lowering the level for manufacturers from 16 to 13 percent, and the rate for transportation, construction, and other heavy industries from 10 to 9 percent. Goals were also announced to maintain consumer inflation at 3 percent; and to allow a rise in the state’s fiscal deficit to 2.8 percent of gross domestic product (GDP), up 0.2 percentage points as compared to 2018. The Premier’s report further called for reducing the ranks of the rural poor by ten million people, although the metrics for achieving this latter goal were left undefined ([PRC Government Work Report](#), March 5).

Two central points of the work report related to future projections for employment levels and GDP. The report called for creating 11 million new jobs in urban areas—the key regions for regime security—with a “surveyed” unemployment rate target set at 5.5 percent. In terms of GDP, the report claimed that, over the course of the past year, China’s economy had outperformed the official 2018 goal of 6.5 percent by expanding at a rate of 6.6 percent. For 2019, a new GDP growth goal was announced for a range between 6 and 6.5 percent ([PRC Government Work Report](#), March 5), thereby continuing a recent trend in which annual projections for GDP growth have been gradually revised downward.

One glaring omission from the work report was any mention of “Made in China 2025” ([Zhongguo Zhizao 2025](#), 中国制造2025), an ambitious state-driven program to advance China’s industries from lower-end to higher-end manufacturing in sectors such as pharmaceuticals, automobiles, and information technology. [1] The initiative was a centerpiece of Li Keqiang’s report presented in 2018, but it was not mentioned this year. The reasons for the omission are unknown, but may reflect at least some level of disenchantment with the program within CCP leadership circles. A glimpse into high-level opposition to “Made in China 2025” has been provided by former finance minister Lou Jiwei, who made statements this month that called the program a doomed effort on the part of the government to pick out future winning high-tech enterprises, and asserted that it represented a waste of taxpayers’ money ([SCMP](#), March 7).

In laying out the state’s economic goals, Premier Li told the NPC that “Under the firm leadership of the Party Central Committee with Comrade Xi Jinping at its core... the year’s main targets for economic and social development were accomplished.” Li further asserted that the projected goals for 2019 were “ambitious but realistic—they represent our aim of promoting high-quality development, are in keeping with the current realities of China’s development, and are aligned with the goal of completing the building of a moderately prosperous society in all respects” ([PRC Government Work Report](#), March 5).

Concerns for Domestic Security Impact the State’s Economic Projections

Although assessments regarding the state of China’s economy vary widely, most expert observers agree that the Chinese economy slowed over the past year in response to a range of factors—to include stock market devaluation, rising indebtedness, and disruptions to exports caused by the ongoing “trade war” with the United States ([Carnegie Endowment](#), January 19; [Bloomberg](#), February 6). Indeed, Premier Li himself admitted to challenges ahead for the Chinese economy, telling the NPC that in 2018, “China faced a complicated and challenging domestic and international environment of a kind rarely seen in many years, and [our] economy came under new downward pressure” ([PRC Government Work Report](#), March 5).

The PRC’s official economic statistics have long been treated with skepticism by many economists, and this is particularly true in regards to the state’s published figures for GDP growth ([Foreign Policy](#), March 2013). The CCP has long linked its legitimacy to rising prosperity, with steady and rapid GDP growth treated as a key benchmark of the state’s economic achievements. As such, the state’s figures are suspect: for example,

Premier Li's projection of an economic growth rate between 6 and 6.5 percent growth aligns closely with what internal CCP sources have identified as the minimal rate of economic growth required to avoid social unrest. Deng Yuwen, the former editor of the newspaper of the CCP Central Party School, wrote in January that "as far as the current national condition is concerned, future economic growth cannot go below 6 percent [or] otherwise there will be big problems... If economic growth were too low, the problems and contradictions obscured by the previous rate of high growth would stand out and intensify" ([BBC Chinese Service](#), January 31; [Chinascope](#), March 11).

Li Keqiang's own comments accompanying the work report hinted at deep concerns for social order; and in striking contrast to the optimistic projections of past years, Li presented a picture of major challenges ahead for the Chinese economy. Li told the NPC that "Only alertness to danger will ensure safety" for the state in the times ahead, and that "a full analysis of developments in and outside China shows that in pursuing development this year, we will face a graver and more complicated environment as well as risks and challenges [that may be] greater in number and size... We must be fully prepared for a tough struggle" ([PRC Government Work Report](#), March 5).

Conclusions

The true state of the Chinese economy is difficult to determine from official statements, and it may well be that the statistics and projections contained in documents such as the 2019 PRC Government Work Report conceal a macroeconomy that has slowed far more than the state would care to publicly admit. Furthermore, the unusually sober tone of Li Keqiang's presentation at the NPC accords closely with dire warnings about the security of the regime made recently by other senior CCP officials ([China Brief](#), February 20), as well as an ongoing and dramatic expansion of the government's expenditures for its domestic security apparatus ([China Brief](#), March 22). Despite all of the outward signs of China's continuing economic successes, the leaders of the CCP evidently harbor deep anxieties about the future course of the country's economic development, and of the "tough struggles" that the year ahead might hold in store.

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Notes

[1] For official statements on the "Made in China 2025" program, see: "State Council Opinions Regarding Strengthening the Implementation of Innovation Development Strategies, and Advancing and Deepening Development of Mass Pioneering Work and Mass Innovation" [国务院关于加强实施创新驱动发展战略进一步推进大众创业万众创新深入发展的意见], PRC State Council Document #37 (July 21, 2017), http://www.gov.cn/zhengce/content/2017-07/27/content_5213735.htm; and "Li Keqiang: Strongly Pressing Ahead with 'Double Innovation' and 'Made in China 2025' and Using Innovation to Raise Economic Transformation to New Levels" [李克强:扎实推进"双创"和"中国制造2025" 以创新驱动经济发展转型升级], *Xinhua*, Oct. 13, 2016, http://www.xinhuanet.com/politics/2016-10/13/c_1119713679.htm.

“Stability Maintenance” Gets a Major Boost at the National People’s Congress
By Willy Lam

The Theme of “Stability Maintenance” at the National People’s Congress

Since the mid-2010s, the ruling Chinese Communist Party (CCP) has been preoccupied with ensuring a relatively high growth rate for China, even as the economy is facing serious downward pressures. This has emerged as a perennial theme in the annual springtime meetings of the National People’s Congress (NPC) and its counterpart, the Chinese People’s Political Consultative Conference (CPPCC). However, an even more striking theme this year is “stability maintenance” (**weiwen**, 维稳)—coded language for ensuring the CCP’s ruling status, and President’s Xi Jinping’s quasi-permanent role as the “leadership core” of the world’s largest political organization.

In his annual **Government Work Report** to the NPC, Premier Li Keqiang gave utmost emphasis to upholding social stability through means such as job creation and raising welfare payouts to underprivileged classes ([China Brief](#), March 22). Saving and creating jobs was first among the six major areas of stability cited by Li: “stabilizing employment; stabilizing finance; stabilizing foreign trade; stabilizing foreign investment; stabilizing [domestic] investment; and stabilizing expectations.” The Li cabinet has committed itself to creating 11 million new urban jobs through 2019—a tall order given the large number of factories along the coast that are moving to other countries, either to save costs or to avoid being hit by U.S. tariffs ([China Daily](#), March 6).

Another thrust of “social stability management” (**shehui wending guanli**, 社会稳定管理) is the vigorous application of harsh laws against destabilizing elements in a broad number of social groups, ranging from dissident intellectuals and impoverished petitioners to underground church-goers and ethnic “terrorists” in Xinjiang and Tibet. As NPC deputies were told by Zhou Qiang, President of the Supreme People’s Court, courts of various levels were committed to “severely punishing crimes that will jeopardize state security, and to resolutely upholding state political security whose cores are regime security and security of the [political] order.” He disclosed that judicial officials in the past year had “severely punished crimes regarding the incitement of the subversion of state power, incitement of splitting up the country, and espionage” ([Ming Pao \[Hong Kong\]](#), March 13; [PRC National People’s Congress](#), March 12).

Questions Surrounding the State’s Budget for Domestic Security

The most effective way for the CCP to keep social unrest—and challenges to the regime—at bay is to perfect China’s already formidable police-state apparatus (**jingchaguojia jiqi**, 警察国家机器). However, in an apparent effort to counter foreign criticisms of the Xi leadership’s suppression of the “five new black categories” (**xin hei wulei**, 新黑物类) (human rights attorneys, underground churches, dissidents, unapproved Internet commentators, and activists from disadvantaged sectors in society) and other potential sources of dissent ([China Brief](#), February 20), the authorities have tried to keep this year’s **weiwen** budget

under wraps. Assessing the real size of China's public security expenditure (PSE) provides a valuable prism through which to analyze how the Xi administration is pulling out all the stops to suppress voices of dissent, and seeking thereby to uphold the CCP's monopoly on power.

The NPC and CPPCC delegates were told on March 5th that the central budget this year for **weiwēn** was 179.78 billion **renminbi** (RMB), which represented an increase of 5.6 percent over that of 2018. This official figure was just 15 percent of this year's announced 1.19 trillion RMB budget for the People's Liberation Army (PLA) ([Guancha.cn \[Beijing\]](#), March 5; [China Net](#), March 5). Not only was the officially promulgated **weiwēn** budget conspicuously small, it also broke the tradition of stability-related expenditures exceeding those of the official military budget. [1] For example, in 2011, the last year in which both the military budget and the PSE were publicized, the **weiwēn** outlay was set at 624.4 billion RMB, or 3.88 percent more than that of the defense forces ([Reuters](#), March 5 2011).

The mystery around this year's PSE figure was solved when the Guangzhou-based **21st Century Economic Herald** reported a detailed breakdown of the 2019 national budget of 23.52 trillion RMB, in which PSE took up 5.9 percent, or 1.39 trillion RMB. By contrast, medical expenditure, scientific research and development, and state subsidies for housing were earmarked respectively at 7 percent, 3.9 percent, and 2.9 percent of this total national budget. Moreover, the **weiwēn** figure of 1.39 trillion RMB was 16.8 percent higher than official military expenditure ([Radio Free Asia](#), March 14; [21st Century Economic Herald](#), March 7). This astronomical sum has been corroborated by reports in Hong Kong newspapers, based on interviews with NPC deputies who had access to internal budget figures ([Ming Pao \[Hong Kong\]](#), March 13).

The bulk of the PSE is used to finance a 24-hour, multi-pronged and fully digitalized "dragnet stretching from heaven to earth" (**tianluo diwang**, 天罗地网), which is geared toward muzzling destabilizing elements ranging from ethnic separatists to NGO activists who supposedly enjoy the support of the West. Since taking office in 2012, President Xi has applied the nation's achievements in cutting edge technologies such as AI, robotics, big data, cloud computing, neural science and psychiatric drugs to boost this pervasive police state apparatus ([China Brief](#), July 21 2017).

Further Weiwēn Expenditures Beyond the State Budget

It is evident, however, that the enormous sum of 1.39 trillion RMB is still insufficient to cover the increasingly burdensome and multitudinous efforts taken by **weiwēn** units to nip destabilizing factors in the bud. Thus, the true stability maintenance budget could be much bigger than imagined. For example, state-owned enterprises (SOEs) and large private firms also make considerable outlays for stability-maintenance personnel, equipment, and operations—which in many respects contribute to, and overlap with, the functions of the state apparatus. Furthermore, owing to security concerns, the CCP leadership has mandated that the information technology (IT) sector, which includes social media and e-commerce, be run either by SOEs or putatively private firms that enjoy sterling connections with the party elite. Almost all these quasi-monopolies have

become multi-billion dollar businesses. In return for state patronage, these IT companies and e-platforms surrender without cost to state-security units sensitive information about dissidents and activists—in addition to providing data that feeds China’s controversial and labyrinthine social credit system (SCS). The SCS enables **weiben** officers to not only pick up intelligence about “destabilizing agents” but also to track their movements and activities ([South China Morning Post](#), February 7; [SSRN.com](#), May 22 2018; [DWnews.com](#), March 19 2018).

Apart from high-tech surveillance, Beijing has revived Mao’s concept of “people’s warfare” in the domestic sphere, and is recruiting politically reliable sectors of the populace into service as citizen spies. As former Minister of Public Security Guo Shengkun has asserted, the **weiben** apparatus should incorporate the “new line of thinking and new methodology of ‘the feet plus the Internet,’ [meaning] tradition and technology, specialist work and the mass line” ([PRC State Council](#), May 24 2016). For example, big cities such as Beijing and Shanghai have in recent years been recruiting large numbers of “law-and-order volunteers” (**zhī‘ān zhìyuǎnzhe**, 治安志愿者), a corps of sanctioned vigilantes charged with providing **weiben**-related intelligence to local authorities. Beijing boasts up to 1 million such volunteers, most of whom are concentrated in the two populous districts of Chaoyang and Xicheng.



Image: Law-and-order volunteers“ stand in formation at an organization ceremony for security activities accompanying the 19th CCP Congress in Beijing, 2017. (Source: Sohu.com)

Official media has revealed that in 2015, the last year for which such figures are available, Chaoyang vigilantes furnished the police with 210,000-odd tidbits of intelligence—some of which led to the arrests of figures ranging from ordinary criminals to spies. The vigilantes get tiny monthly stipends, but they can be paid tens of thousands of RMB if their tip-offs result in the foiling of any major disturbances to the city’s law and order ([China News Service](#), July 12 2017; [Global Times](#), July 4 2017). Given the huge expenses involved in retaining the services of tens of millions of informers in a growing number of cities, funding for such “people’s

warfare” is shared between the cities and local **weiwen** departments ([Radio French International Chinese Service](#), March 11; [Apple Daily \[Hong Kong\]](#), March 11).

Further expenditure beyond the designated PSE budget may be found in police-state institutions such as “thought reform” (**sixianggaizao**, 思想改造) centers in Tibet, and the even more expansive “transformation through education” (**jiaoyu zhuanhua**, 教育转化) internment facilities constructed in Xinjiang ([China Brief](#), November 5 2018; [China Brief](#), February 1). While the so-called “transformation” facilities—which are said to accommodate at least 1 million Uighurs throughout Xinjiang—have attracted global condemnation, they have their origins in the **sixianggaizao** units in nearby Tibet. The latter were first put together by then-Tibet Party Secretary Chen Quanguo, who ran the predominantly Buddhist region with an iron fist from 2011 to 2016. Chen was subsequently appointed as CCP Secretary for the Xinjiang Uighur Autonomous Region (XUAR) in 2016, when he started building internment camps intended to indoctrinate Muslims with the ideas of Mao Zedong and Xi Jinping ([VOA Chinese](#), November 28, 2018; [Radio Free Asia](#), October 1, 2018). According to Patrick Poon, a Hong Kong-based China researcher for Amnesty International, there is evidence to show that costs for the construction and running of the camps are shared between police agencies, ethnic affairs units in the central government, the PLA, and departments in the XUAR administration. [2]

Conclusions

Given President Xi’s perception that the CCP is being increasingly buffeted by challenges from both within and outside China, the workload—and the budget—for the **weiwen** apparatus is likely to continue to rise in the foreseeable future. One new avenue of renewed state repression is religion. In his **Government Work Report** presented to the NPC, Premier Li Keqiang highlighted Beijing’s responsibility for regulating and controlling religion: “We must fully implement the party’s basic goals regarding religious work... we must uphold the direction of the Sinicization of our country’s religions, and to manage religious affairs according to law” ([Xinhua](#), March 5). It was the first time that Li had cited the imperative of “rendering religions Chinese” in his public statements. Apart from the emasculation of radical Islamists, members of China’s estimated 60 million Christians and Catholics have been subjected in the past year to tighter, AI-enabled supervision, including 24-hour surveillance by police who are stationed at venues of religious worship (VOA Cantonese, January 4; [BBC Chinese](#), December 12, 2018).

It remains to be seen whether the apparently limitless resources that Beijing has applied towards the **weiwen** cause will really ensure the CCP’s proverbial “long reign and perennial stability.” However, CCP strongman Xi Jinping seems to have attained the goal of obliging all cadres, including Politburo Standing Committee (PBSC) members, to profess allegiance to himself. In their reports to the NPC and the CPPCC, both Premier Li and CPPCC Chairman Wang Yang urged cadres and party members to “even more tightly unite under the party central authorities with comrade Xi Jinping as their core.” Wang, deemed the most liberal member of the PBSC, even put emphasis on “unifying our thoughts and actions around the spirit of the important talks of General Secretary Xi Jinping” ([PRC Government](#), March 3; [Straits Times \[Singapore\]](#), March 3). There is a

danger, however, that Xi's construction of a Mao-style personality cult—which is one criticism that almost all disgruntled sectors of society have levelled against the “New Helmsman”—could further nurture dissent, and render the work of stability maintenance even more difficult despite the ever-expanding **weiwén** budget.

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Notes

[1] Many PLA watchers have noted that the publicized budget does not cover major expenses such as the R&D and manufacturing of military hardware. See, for example, Richard A. Bitzinger, “China's Double-Digit Defense Growth” ([Foreign Affairs](#), March 19, 2015); and “What Does China Really Spend on its Military?” ChinaPower Project, CSIS, [CSIS.org](#) (2017).

[2] Author's interview with Patrick Poon, March 2018.

China's New Foreign Investment Law: Quick Passage after a Long Wait By April Herlevi

Introduction

On March 15th, the National People's Congress (NPC) of the People's Republic of China (PRC) formally passed a new Foreign Investment Law (**waishang touzi fa**, 外商投资法) to govern the increasingly complex issues surrounding foreign direct investment (FDI) in the country. According to the state news service Xinhua, under the new FDI law “A foreign company doing business in China will enjoy a better investment environment” ([Xinhua Twitter feed](#), March 2). Xinhua also claims that “the law will create a more stable, more transparent and predictable legal environment for foreign businesses in China” ([Xinhua](#), March 2). The new FDI law will officially come into force on January 1, 2020 ([Xinhua](#), March 19).

The draft law had been under discussion for some time: in 2015, a similar effort to pass a revised FDI law started but never came to fruition. Small amendments to the legal regime were made in the wake of the 2015 effort, but the changes were not a complete overhaul of policy, as now seems to be the case. The passage of the new law has been branded as the fulfillment of a long-term promise to liberalize China's economy, with PRC Premier Li Keqiang stating that “If we make a promise on opening up, we will certainly deliver” ([Straits Times](#), March 15). However, during Premier Li's comments at the close of the NPC, he also noted that “a series of matching regulations and normative documents” will be necessary for the FDI law to realize its intent ([Straits Times](#), March 15).

This article provides a summary of the PRC's new FDI law, and seeks to examine why the full overhaul of China's FDI policies has finally been realized (at least at a *de jure* level). This article is not intended to provide a legal interpretation; [1] instead, it offers discussion of the political environment surrounding the new law, and analyzes why the timing was right for a major overhaul of the state's legal regime governing FDI.



Image: Delegates to the March 2019 annual session of the National People's Congress, which approved a new law governing foreign direct investment in the Chinese economy.

The Background of the New Investment Law

As adopted, the new FDI law ([NPC](#), March 15) will eventually replace the “Three Investment Laws” (**Waizi San Fa**, 外资三法) that currently guide foreign investment into China. These three laws are: the Sino-Foreign Equity Joint Venture Law (**Zhong-Wai Hezi Jingying Qiye Fa**, 中外合资经营企业法), the Foreign Invested Enterprises (FIE) Law (**Waizi Qiye Fa**, 外资企业法), and the Sino-Foreign Cooperative Joint Ventures Law (**Zhong-Wai Hezuo Jingying Qiye Fa**, 中外合作经营企业法). The “Three Laws” have guided how foreign investors do business in China throughout the Reform Era that began in the late 1970s. The Sino-Foreign Equity Joint Ventures Law was originally passed in 1979, [2] but each of the three have been continually updated; for example, the latter law has been updated roughly each decade since 1979 ([Ministry of Commerce](#), January 14 2003). The Law on Sino-Foreign Cooperative Joint Ventures (also sometimes translated as contractual joint ventures) was originally adopted in 1988, and then updated in 2000 ([Ministry of Commerce](#), January 27 2003).

Each of these three laws, as well as the law that manages investment from Taiwan, were amended in 2016 ([ReedSmith](#), September 22 2016). However, the idea to create one overarching foreign investment law that would merge the existing separate laws has long been under discussion: a proposal along these lines was put forward in 2015, but was never adopted by the NPC ([Ministry of Commerce](#), January 19 2015).

Late in 2018, PRC state media began to clearly signal that a new FDI law was in the works. On December 23, 2018, the NPC Standing Committee began reviewing a draft of the new foreign investment law ([China](#)

[Daily](#) Hong Kong Edition, December 23 2018). Xinhua, in a Twitter video explaining the importance of the upcoming “Two Sessions” (**Liang Hui**, 两会) of the NPC and the Chinese People’s Political Consultative Conference, described the new law as “a highly expected draft law” to be “submitted to the upcoming plenary session of the NPC” in spring 2019 ([Xinhua](#), March 2).

What Is New? What Is Not So New?

While the text and structure of the draft FDI law unveiled in December 2018 is much different than the 2015 version [3], the concept is fundamentally the same: China’s legal regime for investment is confusing to navigate, and was in need of streamlining and consolidation. One component of the law of great interest to foreign investors is the scope of the “negative list” (**fumian qingdan**, 负面清单) system. This basic concept holds that all sectors of the economy will be open to foreign investment, other than those explicitly listed on the negative list. Using a negative list concept is related to China’s move towards granting foreign investors pre-established “national treatment” ([Xinhua](#), December 23 2018). According to Xinhua, in June 2018 “the country unveiled a shortened negative list for foreign investment... cutting the number of items down to 48 from 63” ([Xinhua](#), December 23 2018).

The first version of a negative list for FDI in China was pioneered under the China (Shanghai) Pilot Free Trade Zone [**Zhongguo (Shanghai) Ziyou Maoyi Shiyangu**, 中国（上海）自由贸易试验区], or PFTZ. The PRC State Council’s 2013 announcement of the creation of the Shanghai PFTZ laid the framework for use of a negative list in that zone ([PRC State Council](#), September 18 2013). The negative list framework was subsequently expanded to other pilot free trade zones, such as those in Tianjin, Fujian, and Guangdong ([People’s Daily Online](#), March 5 2017).

The 2017 NPC **Government Work Report** then called for the government to “revise the catalog of industries open to foreign investment” in order to improve the investment environment in China ([PRC State Council](#), March 5 2017). The proposed changes were made in part because the first iterations of the negative list included a relatively long list of restricted sectors. In 2014, the list contained 139 restricted and prohibited areas, “down from 190 restrictions in 2013” ([U.S.-China Business Council](#), 2014).

Why Did Passage Finally Come in 2019?

In 2013, reform momentum seemed high as Xi Jinping began to consolidate power. “Supply-side structural reforms” (**gongjice jigouxing gaige**, 供给侧结构性改革) gained momentum in officially-sanctioned discourse, and in 2015 the Ministry of Commerce released a draft revision of the foreign investment law ([Ministry of Commerce](#), January 1 2015). [4] The Chinese Communist Party (CCP) Central Economic Work Conference held in 2015 highlighted the need to continue actively utilizing foreign capital, and coverage of the work conference stated that foreign and domestic enterprises should be treated equally ([People’s Daily](#),

December 22 2015). However, the 2016 amendments to the investment laws did not fully clarify the administration of foreign-invested enterprises ([ReedSmith](#), September 22 2016).

According to **Economic Daily**, in 2017 China's foreign investment decreased relative to 2016, but "quality and efficiency increased steadily" (**zhiliang he xiaoyi wenbu tisheng**, 质量和效益稳步提升) ([Economic Daily](#), January 22 2018). [5] However, the government's concern was clear: a reduction in investment from abroad could hurt China's ability to continue moving toward a "moderately prosperous society in all respects" ([Xinhua](#), October 17 2017).

The key difference between stalled passage of the draft FDI law in 2015, and of the rapid passage of a revised law in 2019, is the greater sense of government urgency produced by China's slowing growth and continuing trade tensions with the United States. Growth in China is slowing: Zhang Xiaojing of the Chinese Academy of Social Sciences predicts the growth of China's gross domestic product (GDP) slowing to 2 or 3 percent ([Caixin](#), January 9). The World Bank predicts slower growth as well, but notes that "the slowdown in China is projected to be gradual" ([World Bank](#), January 2019). Other indicators are no better: according to the business publication **Caixin**, there is increasing risk in the housing market and "subprime risks are rising," and patterns in China's household debt are approaching those seen in "the 2008 subprime mortgage crisis in the U.S. that led to the Great Recession" ([Caixin](#), January 9).

A second major impetus behind the new FDI law is the series of tariffs imposed by the United States, which have clearly motivated Chinese officials to seek means of boosting investor confidence. In the explanatory introduction that accompanied the December 2018 draft version of the FDI law, the text stated that "China's opening and use of foreign capital are facing a new situation" (**wo guo duiwai kaifang he liyong waizi mianlin xin de xingshi**, 我国对外开放和利用外资面临新的形势). The explanation also highlighted the need to "defend against risks" (**fangfan fengxian**, 防范风险) as a general principle of the law—a use of language suggestive of CCP formulations connected to social stability and regime security. [6]

Conclusions

Boosting investor confidence is an important component of maintaining Chinese economic growth. The NPC explanation of the draft law states that investment promotion mechanisms will be improved (Article 3); that national treatment will be provided to foreign businesses, albeit with the negative list system still in place (Article 4); and that standards and regulations will be applied equally to foreign business (Articles 15 and 16). However, the real challenge still lies ahead in implementation. According to the U.S.-China Business Council's 2018 Member Survey, foreign companies operating in China have reported "increased scrutiny from regulators" in China ([USCBC](#), 2018), and this is unlikely to stop simply because of vague commentary on "improving" investment services in a national-level law. The explanation of the draft law encourages the government at all levels to improve the level of its foreign services (Articles 18 and 19), but foreign businesses know that the devil is often in the regulatory details.

Slowing growth in China, and the course of U.S.-China trade talks, appear to have created the sense of urgency necessary for the PRC to finally overhaul its outdated legal regime for foreign investment. The Chinese leadership clearly wanted to send a message with the passage of the FDI law, and hopes to encourage continued FDI—and thereby maintain economic growth and stability in the financial environment. However, the real work has only just begun. Regulations and methods for enforcing the new FDI law will be far more important than passage of the law itself. The nature of the implementing regulations will show the seriousness of China's commitment to national treatment of foreign businesses—and whether or not foreign firms will be treated fairly within China's domestic economy.

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Notes

[1] For legal analysis, see [China Briefing](#) by Dezan Shira and Associates or the [NPC Observer](#) blog.

[2] The Law on Sino-Foreign Equity Joint Ventures was originally adopted on July 1, 1979 (MOFCOM, January 14, 2003) and is often referred to in English as the EJV law. According to one legal scholar, between 1979 and 1982, “over twenty laws directly relating to foreign investment” and “over sixty laws and regulations indirectly dealing with foreign investment in the PRC were implemented” ([L. Crawford Brickley](#), University of Pennsylvania Journal of International Law, Spring 1988).

[3] The December 2018 draft FDI law has 5 chapters, with 39 individual articles whereas the 2015 version had 11 chapters with 170 distinct articles.

[4] For an English translation of the 2015 Law, the U.S. China Business Council provided a link from Jones Day on its website:

https://www.uschina.org/sites/default/files/2015%20Draft%20Foreign%20Investment%20Law%20of%20the%20People%27s%20Republic%20of%20China_JonesDay_0.pdf.

[5] Interestingly, data released later from both the PRC National Bureau of Statistics and the United Nations **World Investment Report** contradicted some of the initially reported information regarding investment slowdown in China ([National Bureau of Statistics](#), 2018; [UNCTAD](#), June 2018).

[6] During the notice and comment period, the explanation for the law could be accessed on the [NPC website](#). However, after the notice and comment period ended on February 24, 2019, the link was no longer active. The [NPC Observer blog maintained a PDF copy of the explanation](#), which can be accessed from their site in the original Chinese (NPC Observer, February 2019).

China's Policy Towards a Venezuela in Crisis
By Jared Ward



PRC President Xi Jinping and Venezuelan President Nicolas Maduro shake hands during a signing ceremony in Caracas, July 2014. (Source: Reuters)

Introduction

Amid the ongoing crisis in Venezuela—in which the country faces not only economic meltdown, but also a division between two rival presidents, in the persons of incumbent President Nicolas Maduro and opposition leader Juan Guaido—the People's Republic of China (PRC) remains one of the most prominent and influential nations continuing to recognize the legitimacy of the embattled Maduro government. The PRC has refused to offer any support to the opposition, and has maintained its friendly relations with the sitting government; however, Venezuela's increasing international isolation and free-falling economy carry with them increasing anxieties that Maduro can remain a useful partner. The erosion of Venezuela's economic situation—including its ability to continue oil production—has left China scrambling for ways to respond to the worsening situation of its ally in Caracas.

The Chinese government has been a vocal opponent of any potential outside intervention in Venezuelan affairs, and has offered diplomatic cover for the Maduro government: in late February, Beijing joined Russia in vetoing a U.S.-drafted United Nations Security Council resolution calling for a new presidential election in Venezuela ([United Nations](#), February 28). Amidst the crisis, PRC state media has offered sympathetic coverage to the Maduro regime, praising it for "remain[ing] calm and exercis[ing] restraint" in the face of "provocations" from the United States and other countries supportive of Guaido ([Xinhua](#), February 22). Beijing's Foreign Ministry has depicted itself as a voice of moderation in the conflict—encouraging all parties to stay rational and calm, and to seek a political solution through dialogue. One Chinese analysis of the situation has compared the unfolding conflict in Venezuela to the Cuban Missile Crisis of 1962, and lauded

President John F. Kennedy for his sober-mindedness and restraint during that tense period ([China Academy of Social Science](#), February 12).

On its surface, the PRC's stance on Venezuela is consistent with its long-standing policy of non-interference in the domestic affairs of foreign countries—one of the core tenets of the PRC's foundational “Five Principles of Peaceful Co-Existence.” [1] However, for China, maintaining its principle of non-interference is more than simply hollow rhetoric: rather, it is a strategy intended to demonstrate that it is a different sort of superpower, in a region where memories of past American interventions still resonate. If America were to pursue a regime change in Venezuela, it might prove to be a Pyrrhic victory, showing that Beijing's accusations about America exporting poverty and instability in its backyard ring true ([Foreign Policy](#), January 12 2011).

However, there is more to the story than simply adherence to abstract principles, or of competing ideological narratives. China has a particular stake in the stability of Venezuela—which, by some accounts, still owes at least \$20 billion in loan payments to Beijing ([Argus Media](#), October 19 2018; [National Interest](#), February 10). With no immediate solution in view, Beijing's willingness to keep its checkbook open to Maduro (or perhaps, to recognize the opposition at some point in the future) will have an important impact on how events unfold in Venezuela.

The Background of Relations Between Venezuela and the PRC

Venezuela's official diplomatic relations with the PRC were first established in 1974. At that time, Venezuela was part of a cascade of diplomatic losses that the Republic of China (Taiwan) faced in the region of Latin America and the Caribbean (LAC) in the early 1970s: Venezuela's switch came in the wake of other LAC states recognizing the PRC, to include Chile, Mexico, Guyana, and Jamaica. Ties between Venezuela and the PRC remained modest for many years, as the PRC possessed limited influence overseas, and successive Venezuelan governments sought to maintain friendly ties with the United States.

However, in the 2000s the relationship began to blossom under the self-styled “Bolivarian Revolution” of Venezuelan President Hugo Chavez, who proclaimed himself an admirer of Mao Zedong and sought to cultivate close ties with the PRC ([Reuters](#), September 23 2008). Whatever leaders in Beijing may have thought of Chavez and his colorful antics, the new Venezuelan leader provided the PRC with an avenue of entry into a region otherwise filled by largely pro-Western governments. The burgeoning relationship in the early 2000s met the pragmatic needs of each country. For Chavez, an over-dependence on the American market was part of a neocolonial burden for his nation to overcome, and he increasingly looked to diversify his trade toward Asia and non-Western powers. For its part, the PRC had a growing appetite for LAC commodities such as copper, iron ore, and bauxite—and in the case of Venezuela, oil. Venezuela provided China, one of the world's largest importers of oil, a new source of supply and huge untapped reserves for future exploration.

The Sino-Venezuelan Economic Relationship

While most conversations about China and Venezuela center on oil, the relationship is much more diverse, including cultural and educational exchanges, technical transfers, and infrastructure projects (including many in the oil industry). In 2001, Venezuela became the first Spanish speaking nation to enter into a “strategic development partnership” with China; this was later upgraded to a “comprehensive strategic partnership” in 2014. This relationship grew to encompass nearly 800 investment projects in Venezuela, ranging across a broad range of sectors to include infrastructure construction, petroleum, mining, and light industry. However, over the course of the past decade many of these projects have been canceled or stalled due to debt defaults or crippling corruption ([SupChina](#), January 28).

The PRC has also been a major development lender for Venezuela. In 2007, the two countries created a joint development fund worth \$6 billion U.S. dollars; Beijing chipped in \$4 billion of its own money, with additional contributions expanding by 2009 to \$12 billion. Until 2014, Venezuela accounted for 64% of China’s new credit lines to the LAC region—and still today, even amidst rocky times, China stands as Venezuela’s second largest trading partner, trailing only the United States ([OEC](#), 2017).

The PRC has also facilitated technology development for Venezuela, in terms of both showcase projects and investments in new industrial sectors. The first Venezuelan satellite was developed by China and launched from Chinese soil in 2008: the **Simon Bolivar**, named for Venezuela’s national hero, was intended to facilitate land surveys, and to provide rural areas with increased levels of telecommunications connectivity. In 2012 and 2017, China followed up by building and launching two remote sensing satellites for Venezuela, the VRSS-1 and VRSS-2 ([Xinhua](#), October 9 2017). China built Venezuela’s first two cell phone factories—promising to make an affordable option available for common Venezuelans—while also building a \$912 million Haier appliance factory to make washing machines and refrigerators ([Venezuelanalysis](#), May 7 2012).

The PRC’s credit line to Venezuela, trickling into industries throughout Venezuelan society, has currently reached \$60 billion. With a reported \$20 billion still owed by Venezuela to Chinese creditors, this a substantial debt burden. One of the striking aspects of China’s relationship with Venezuela is the conditions of repayment: namely, China accepting crude oil in place of cash. China has shored up investments in other Third World nations with similar deals—and in places like Sudan, the Congo, and Venezuela, large stores of minerals and oil are seen as a potential way to offset the risks of non-payment. According to Deborah Brautigam and Kevin P. Gallagher, from 2003 to 2011 over half of Chinese bank loans to Africa and Latin America, approximately 75 billion, were secured and backed by commodities ([Global Policy](#), September 2014). However, with Venezuela’s petroleum production severely impacted by the country’s economic and political chaos, even this form of repayment to China is now very much in doubt.

Problems in the Sino-Venezuelan Relationship

The Venezuelan crisis has put the PRC-Maduro relationship under a microscope, but difficulties in the relationship are not new. Venezuela once stood out among the PRC's allies, comprising 64% of China's LAC investments from 2010-2013; however, this fell to 18% from 2014-2017. In 2016, China stopped issuing loans to Venezuela entirely ([Reuters](#), March 20 2018). In other partner nations, China has shown a willingness to restructure debt repayments, and is not likely to ensnare Venezuela in a debt trap. However, the PRC has tightened its checkbook—a step that has less to do with recent calls for Maduro's ouster than with a more general uneasiness that the once free flowing spigots of oil will be turned off by Venezuela's spreading political instability.



Image: The once-ambitious Tinaco-Anaco Railway Project has been largely abandoned amidst Venezuela's spreading economic crisis. (Source: Zero Hedge)

However, it is not only failures from Venezuela to deliver on its end of the relationship that has tarnished the once promising partnership. As seen in many Belt and Road Initiative (BRI) infrastructure projects around the globe, ambitious plans sometimes run afoul of practical difficulties on the ground. In Venezuela, China once proposed building South America's first high speed train, the Tinaco-Anaco Railway. Conceived under Chavez as a "model of socialist fraternity," the train line was projected to be capable of traveling up to 220 kilometers per hour, and of moving five million passengers and 9.8 tons of cargo annually ([SCMP](#), May 15 2016). Today, the project remains four years past due its original completion date, its construction sites are abandoned amid complaints of unpaid wages, and the \$7.6 billion investment appears to be at a standstill.

China's relationship with Venezuela can only be properly understood within the context of China's relationship with the region as a whole, which has expanded since PRC representatives have invited more LAC nations to sign on to the BRI. Recently, small Caribbean nations like Barbados and Jamaica have joined China's

“Maritime Silk Road” initiative, while China has increased its relations with Venezuela’s land neighbors, including Colombia and Guyana. While the train in Venezuela was left unbuilt, thousands of Chinese workers flocked to Jamaica to build a super-highway across the island. In Argentina, China has built one of the world’s largest solar plants. Whereas even a decade ago Venezuela stood out as a unique ally for the PRC, the field today is considerably more crowded. This means that the partnership has less strategic value than it once did, and any erosion of influence in Venezuela can be countered with China’s significant inroads elsewhere in the region.

While petroleum will continue to remain central to Venezuela’s economy—and by extension, the country’s ability to repay its debts—the PRC is not dependent on Venezuelan oil. Venezuela provides roughly 4% of China’s crude oil imports—less than Angola, Iraq, Kuwait, or Russia. In the future, other Venezuelan resource products such as coltan (“blue gold”), as well as new emphases on renewable energy, are likely to rise in importance ([Venezuelanalysis](#), October 22 2018). Furthermore, the PRC is already looking elsewhere: Venezuela’s neighbor Guyana is poised to be South America’s next mega producer of oil, and the China National Offshore Oil Corporation already has a vested stake in this potential bounty ([The National](#), October 8 2018).

Conclusions

PRC leaders face a quandary in Venezuela: on the one hand, the Chavez/Maduro regime has offered China inroads into a region of geopolitical significance, and Beijing has consistently maintained opposition to “color revolutions” that have toppled authoritarian regimes in other countries ([China Brief](#), February 10 2011; [China Brief](#), February 20). On the other hand, Chinese leaders are concerned for the future of their investments and loans in the country—and by some accounts, have even made back-channel outreach to the Venezuelan opposition in order to be prepared in the event that Maduro is forced from office ([Reuters](#), February 13).

For now, PRC leaders seem intent on hedging their bets on Venezuela: speaking loudly in the diplomatic arena, but carrying a small stick. If the Maduro regime manages to weather the current storm and keep its grip on power, China can count on a traditional ally in Caracas—and one, perhaps, more dependent on Chinese backing than ever before. However, if opposition leader Juan Guaido succeeds in obtaining power, it is unlikely that he would risk hurting his new regime’s legitimacy by defaulting on Chinese loans, or otherwise alienating himself from one of the world’s largest economies. Much like the rest of the world, Beijing appears to be biding its time on Venezuela--and seeking to ensure that its interests are protected, whatever the outcome.

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Notes

[1] The “Five Principles of Peaceful Coexistence,” first articulated and advocated by PRC leaders in the 1950s, are: mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-interference in one another's internal affairs; equality and mutual benefit, and peaceful coexistence ([PRC Foreign Ministry](#), undated).

Strategic Strong Points and Chinese Naval Strategy

By Conor Kennedy

Introduction

On August 1, 2017, China opened its first overseas military base, in the East African nation of Djibouti. This was a landmark event that raised a whole host of questions for Indo-Pacific states: Is Djibouti the first of other bases to come? If so, how many? Where will China build them? How will they be used? Where do they fit into Chinese military strategy? Chinese policymakers and analysts are pondering these same questions. However, they are employing concepts unique to Chinese strategic discourse, and it is essential to grasp these concepts in order to understand how Beijing intends to project military power abroad.



PLA Navy Vice Admiral Tian Zhong reviews Chinese and Djiboutian troops at the PLA Navy support base in Djibouti, August 1, 2017. (Source: China Daily)

For the People's Republic of China (PRC), the term “overseas military base” (**haiwai junshi jidi**, 海外军事基地) carries significant historical baggage: foreign imperialists built them on the soil of other countries in order to colonize and exploit them. On the other hand, Chinese policymakers have come to recognize the value of maintaining locations overseas where the Chinese military—above all, the People's Liberation Army Navy (PLAN)—can concentrate resources needed to support operations abroad. To distinguish Chinese actions from the predatory deeds of Western and Japanese imperialists, Chinese military thinkers have adopted a

specialized term: the “strategic strong point” (**zhanlüe zhidian**, 战略支点). [1] A careful analysis of the Chinese use of this concept offers valuable insights into Beijing’s strategic intentions outside of East Asia.

Understanding the “Strategic Strong Point” Concept

The term “strategic strong point” has different meanings, depending on the context in which it is used. In some cases it refers to a quasi-alliance relationship; in other cases, it is used in the context of overseas ports ([Journal of Strategy and Decision-Making](#), No. 2, 2017). The 2013 **Science of Military Strategy** describes them as locations that “provide support for overseas military operations or act as a forward base for deploying military forces overseas” ([Military Science Publishing](#), December 2013). The PLAN’s new facility in Djibouti has been called China’s first “overseas strategic strong point” ([World Affairs](#), July 26, 2017).

The term is not just applied to Chinese bases: U.S. bases in the Pacific and Indian Oceans are also sometimes described as strategic strong points, and Chinese observers have spent considerable time examining these bases in order to inform their own thinking on developing overseas strategic strong points. Between 2016 and 2017, the PLAN’s official magazine **Navy Today** ran a series of articles, each one discussing the features and strategic roles of individual U.S. bases. One refers to Pearl Harbor as a “strategic strong point in America’s forward defense,” without which its defensive lines would be limited to the homeland ([Navy Today](#), June 24 2016). Two others describe the roles of Diego Garcia and Guam as strategic strong points critical to Washington’s global strategy. [2]

However, Chinese experts are quick to point out that China’s strategic strong points are fundamentally different from those of other states. They state that China’s strategic strong points offer benefits to host states and provide them with public security goods. Moreover, these sites will not be used to conduct offensive operations, as is the case with the overseas bases of other states. [3]

The Need for Strategic Strong Points

Strategic strong points will improve the Chinese military’s ability to operate overseas. Currently, the PLAN conducts the vast majority of the PRC’s military missions abroad. The PLAN serves two primary functions: protecting China’s sea lines of communication (SLOCs), and safeguarding China’s overseas interests. Both require forward presence in strategically important areas of the Indo-Pacific. According to the **Science of Military Strategy**, an expansion of the geographic scope of naval operations requires the establishment of replenishment points and “various forms of limited force presence” ([Science of Military Strategy](#), December 2013).

Strategic strong points fulfill these demands. An engineer at the Academy of Military Science’s Institute of Logistics explains that overseas strategic strong points will support the military’s long-range projection

capabilities by effectively shortening resupply intervals and expanding the range of support for Chinese forces operating abroad ([National Defense](#), December 2017). However, replenishment ships alone cannot meet the Navy's needs. As the deputy chief of the PLAN Operations Department wrote in 2010, personnel relief, equipment servicing, and the uncertainties of foreign berthing facilities were limiting factors in the long-term regularization of overseas operations. Chinese facilities in overseas ports are the next step in building an "overseas support system." [4]

PLAN Commander Adm. Wu Shengli talked about the importance of strategic strong points in December 2016, during an event commemorating the eighth anniversary of China's anti-piracy operation off the Horn of Africa. Wu Shengli pointed out that "overseas strategic strong point construction has provided a new support for escort operations... We must give full play to the supporting role of the overseas support system to carry out larger scale missions in broader areas and to shape the situation." [5]

Establishing several strategic strong points near crisis regions is integral to ensuring the sustained and effective use of forces in these roles. [6] When incidents and crises erupted in the past, efforts to protect China's overseas interests were highly reactive. Strategic strong points allow China to gradually shift its posture to stabilize and control situations before they become crises. They might even play a role in stabilizing local governments and economies, and in ensuring civil order ([International Herald Tribune](#), October 13 2015).

Accurate and timely intelligence is vital to effective operations, and PLA thinkers believe that strategic strong points will serve intelligence support functions. [7] Two authors from the PLA Equipment Academy write about the PLAN's development of a "sea & space battlefield versatile situation picture" that integrates various intelligence sources to provide real-time visualized information support for the PLAN's overseas actions. This system, they state, will support the PLAN's defensive strategy in its strategic strong points, maritime passages, and core interest areas ([Journal of Equipment Academy](#), April 2017).

One is Not Enough

The 2013 **Science of Military Strategy** declared that China "must build overseas strategic strong points that depend on the homeland, radiate into the surrounding areas, and move toward the two oceans." The "two oceans" refer to the Pacific Ocean and the Indian Ocean. Chinese sources clearly place an emphasis on the Indian Ocean, across which extends China's most important SLOC: often called China's "lifeline" (**shengming xian**, 生命线), this SLOC runs from the mainland across the South China Sea, and through the Malacca Strait into the Indian Ocean. There are two primary straits at the end of this lifeline: the Bab-el-Mandeb Strait and the Strait of Hormuz ([Grand Strategies for Strengthening the Nation: Research on the Forefront Issues of National Strategy](#), June 2016). Securing the end of this lifeline is China's first overseas strategic strong point, the PLAN support base in Djibouti ([World Affairs](#), July 26, 2017).

The Maritime Silk Road follows China's lifeline through the Indian Ocean, connecting the ports of many of the countries along this route. The secretary general of the China Port Association explains that Chinese port companies are expanding their investment layout overseas through mergers and acquisitions, joint ventures, and other methods. These ports are referred to as important nodes for constructing the Maritime Silk Road ([China Ports](#), July 2018). According to an expert from the Dalian Naval Academy, each of these nodes can potentially be transformed into a strategic strong point ([Ocean Development and Management](#), January 2016).

Chinese strategists also view the PLAN's island bases in the South China Sea (SCS) as strategic strong points, and believe that a network of mutually-supporting strategic strong points will help China secure the SCS leg of its maritime lifeline. The PRC established and expanded Sansha City in the Paracels in 2012, and began constructing artificial islands in the Spratlys in 2013 ([China Ocean Press](#), December 5, 2016; [China News Weekly](#), May 12, 2016). Authors from the PLA and government-sponsored institutes describe these efforts as the construction of strategic strong points meant to strengthen China's position in the SCS.

Three authors from the Dalian Naval Academy discuss the strategic logic of building this network in the SCS, and the support that these island points might offer for the PLAN's operations along the Maritime Silk Road ([Proceedings from the 8th Maritime Power Strategy Forum](#), October 21, 2016). Figure 1 (below) shows their depiction of the interlocking nature of strategic strong points in the South China Sea.

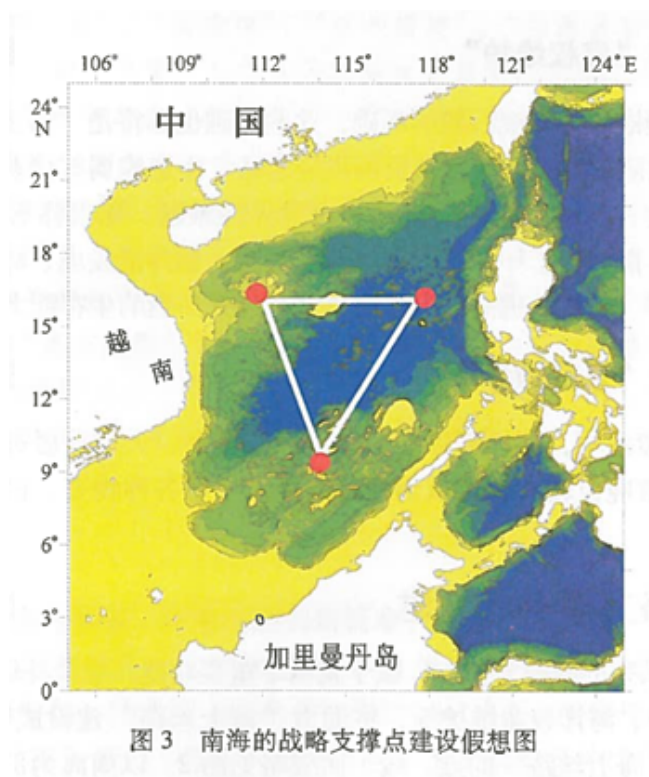


Figure 1: “Hypothetical Map of Strategic Strong Point Construction in the South China Sea” ([Proceedings from the 8th Maritime Power Strategy Forum](#), October 21, 2016).

Linked to the PRC mainland, this network of strategic strong points is intended to secure a military presence on the eastern entrance to the Malacca Strait. With the Djibouti naval base in place, China has secured a military presence on the far end of its lifeline. However, the PLAN has not been sufficiently engaged on the western entrance to the Malacca Strait, and many Chinese analysts believe that this is the logical next step ([The New Orient](#), September 23, 2014). [8]

Discussion of the strategic strong point concept is not confined to the Indian Ocean and the SCS. Other authoritative sources have recently used the term in a grander context, citing the expansion of China's interests globally ([World Affairs](#), June 2018). Indeed, the deputy director of the Center for National Strategic Research at the Chinese Academy of Governance advocates the building of numerous strategic strong points across multiple regions ([Administrative Reform](#), June 2016). For example, some propose building a similar network of strategic strong points in the South Pacific ([Journal of Strategy and Decision-Making](#), No. 2, 2017), stating that the control of strategic strong points in these areas can help relieve strategic pressure from maritime challenges closer to home in the SCS ([Ministry of Commerce](#), May 23, 2017).

However, there currently exists a wide gap in strategic strong point coverage of China's lifeline across the northern Indian Ocean between Djibouti and the SCS, making this area the current priority. In the northern Indian Ocean, the ports of Gwadar (Pakistan) and Hambantota (Sri Lanka) are frequently cited as candidates to become future strategic strong points ([Reformation & Strategy](#), March 2017). Gwadar is well-positioned to cover the Strait of Hormuz, a key passage for Chinese energy imports; whereas Hambantota provides an excellent Indian Ocean mid-transit point for replenishment, repair, and berthing ([China Water Transport](#), December 2015).

Creating an Overseas Support System

Chinese strategists are already discussing the need to integrate individual strategic strong points into an overseas support system. The need to connect individual "points" (**dian**, 点) into "lines" (**xian**, 线) is a common theme in discussions about strategic strong points ([Administrative Reform](#), June 2016). Officers from the PLAN Command College describe a future basing layout that "combines points and lines" and "controls chokepoints." [9] Chinese experts also point out that these lines should eventually combine to form "fronts" (**mian**, 面) ([Proceedings from the 8th Maritime Power Strategy Forum](#), October 21, 2016).

Faculty at the Dalian Naval Academy have explained the functions of strategic strong points in what they refer to as the "Points, Lines, and Fronts Strategy for 'Maritime Silk Road' Strategic Strong Point Construction" ([Proceedings from the 8th Maritime Power Strategy Forum](#), October 21, 2016). This concept is illustrated in Figure 2 (**below**).

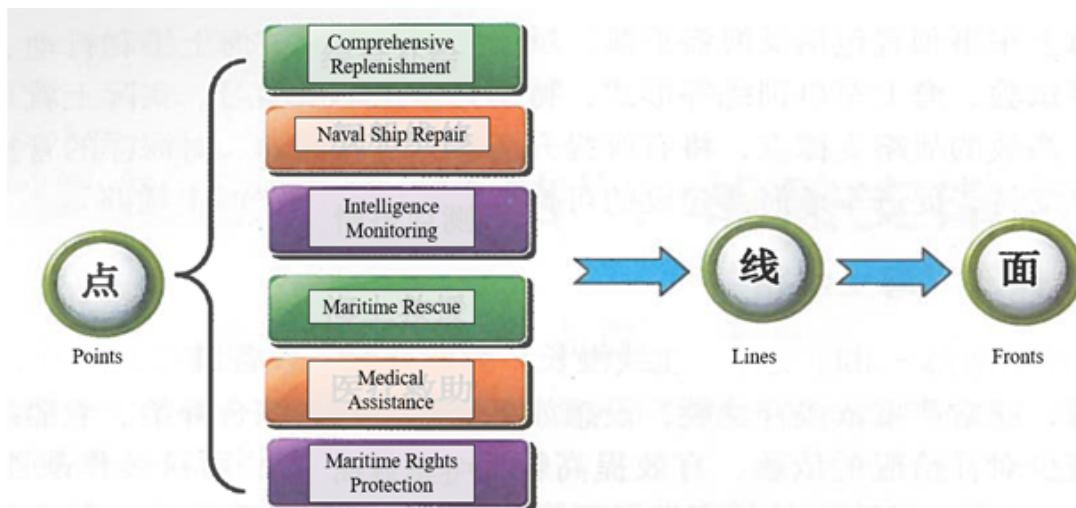


图2 “海上丝路”战略支撑点建设的点、线、面战略

Figure 2: “Points, Lines, and Front Strategy for ‘Maritime Silk Road’ Strategic Strong Point Construction.”

(Original graphic modified to provide author’s translation of the original Chinese)

The subject of “fronts” is currently unclear and somewhat sensitive. Some discussions of a mutually supporting network of strategic strong points intentionally avoid drawing connections between each point, fearing that doing so could raise fears about China’s grander ambitions. As one author from the Institute of Strategic and Security Studies at the PLA’s National Defense University explains, the relationship between “points” and “fronts” in strategic strong point construction must be properly managed to reduce the risk of sparking alarm among foreign observers and host-states, who might interpret such expansion negatively. China must realistically plan numerous “points,” but only let some of them “bloom.” Some can make developmental breakthroughs, but multiple “lines” should not coincide with each other. The most strategically valuable strategic strong points must be developed first. [10]

If such an approach is ultimately adopted, it is likely that we are witnessing an initial period of rapid strategic strong point construction. What follows may be a gradual maturation of civilian port infrastructure into a more robust logistics support network—one located along the mid-section of the lifeline route, which will link up with locations in the South China Sea.

Conclusions

This article has attempted to answer some critical questions about China’s approach to developing its overseas military support capabilities. Tracking Chinese discussion on strategic strong points can shed light on the PRC’s intent to establish an overseas military presence. Significantly, the term demonstrates a relationship between the seeming unrelated military facilities that the PRC has constructed in the Horn of Africa and the South China Sea. Academic discussions on strategic strong points are widespread, and there

are numerous Chinese experts exploring this subject on two levels. Many examine in-depth the role of strategic strong points in supporting Chinese sea power ([Journal of International Security Studies](#), February 2015). However, there is also a branch of discourse that utilizes the term as an alternative concept to an alliance: scholarly discussions of strategic strong points in this context often advocate that China relax, but not abandon, its non-alliance policy ([Journal of Contemporary Asia-Pacific Studies](#), No. 1, 2014).

Beijing has sought to minimize the security dimensions of its Belt and Road strategy in order to mitigate negative press coverage regarding the PRC's future geopolitical intentions ([China Defense News](#), May 5, 2017). However, the widespread use of the term "strategic strong points" appears to have successfully allowed an open discussion since 2013 of China's construction of overseas military presence and basing, while still allowing the PRC to posture itself as a more virtuous international actor than the rapacious imperial powers of the past. Understanding the terms and concepts of this discussion will prove fundamental to assessing future Chinese naval strategy.

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Notes

[1] The term "strategic strong point" is also often written as 战略支撑点 (*zhanlüe zhichengdian*), used interchangeably. See: 王多月 [Wang Duoyue], "战略支撑点与 '21世纪海上丝绸之路' 的建设" [Strategic Pivot Countries and the Construction of the 'Maritime Silk Road' in 21st Century], May 20, 2017, Zhongnan University of Economics and Law, p. 27.

[2] 李大光 [Li Daguang], "关岛基地: 美军西太军事要塞" [Guam Base: The US Military's Fortress in the Western Pacific], 当代海军 [Navy Today], No. 2, 2016, pp. 60-62; 杨燕南 [Yang Yan'nan], "迪戈加西亚: 美军印度洋上不沉的 '航母'" [Diego Garcia: US Military's Unsinkable 'Aircraft Carrier' in the Indian Ocean], 当代海军 [Navy Today], No. 7, 2016, pp. 52-55.

[3] 许可 [Xu Ke], "构建 '海上丝路' 上的战略支点" [On the Establishment of Strategic Fulcrums for the 21st Century Maritime Silk Road: A Reference of Diego Garcia Base for China], 亚太安全与海洋研究 [Asia-Pacific Security and Maritime Affairs], No. 5 2016, p. 13.

[4] 王滨 [Wang Bin], "护航行动海外保障点建设思考" [Thoughts on the Construction of Overseas Support Points for Escort Operations], 海军杂志 [Navy Magazine], No. 12, 2010, p. 2.

[5] Commander Wu Shengli's original quote: "海外战略支点建设为护航行动提供了新支撑。我们必须充分发挥海外保障体系的支撑作用, 以便在更大范围、更广领域遂行任务、塑造态势." See: 梁庆松 [Liang Qingsong], 王元元 [Wang Yuanyuan], "海军召开亚丁湾护航8周年研讨会" [The Navy Holds a Seminar on the 8th Anniversary of the Gulf of Aden Escorts], 人民海军 [People's Navy], December 30, 2016, p. 1.

[6] Xu Ke, p. 12.

[7] Ibid.

[8] Xu Ke, p. 10.

[9] The original Chinese for the phrase describing China's basing layout is “点线结合、控制咽喉、依托城市、重在长远.” See: 谌力, 汪丽, 韦政 [Chen Li, Wang Li, Wei Zheng], “新安全观视域下海外基地转型重塑的影响及启示” [The Impact and Lessons of the Transformation and Reconstruction of Overseas Military Bases Under the New Security Concept], 国防 [National Defense], No. 9, 2017, pp. 41-45.

[10] Original Chinese is “可以多点运筹, 但不宜全面开花; 适宜重点突破, 不能多线并进.” See: 胡欣 [Hu Xin], “中国的海外战略支点建设需要处理好五对关系” [China's Construction of Overseas Strategic Strong Points Must Deal with Five Relationships], 世界知识 [World Affairs], No. 3, 2018, p. 74.
