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METRIX

1,250,000 Euro

That’s the record sum an anonymous Chinese buyer paid for a Belgian racing pigeon, after a bidding war with a fellow Chinese enthusiast. The bird, Armando, a former Belgian and European champion, is five years old and is said

to have an exceptional sense of direction and remarkable wing strength. He has been described as the “Lewis Hamilton of pigeons.” The final bid of EUR 1,25 million smashed a previous world record of EUR 400,000, paid by a Chinese property tycoon for another Belgian pigeon, known as Nadine. Armando will not fly any races in China but will be bred with a hen also purchased for a large sum.

TOPIC OF THE WEEK: XI JINPING IN EUROPE

Italy embraces BRI as Europe pushes back against Beijing

Chinese president and party leader Xi Jinping was due to arrive in Italy on Thursday March 21, the first leg of a European tour that will also take him to Monaco and France. During his visit to Rome, Italy is expected to endorse the Belt and Road Initiative (BRI), Xi's key foreign policy project, despite reservations in other European countries.

Xi's tour comes as the European Union tries to strike a balance between concerns about China's rising political and economic influence and a desire to maintain close relations with Beijing. Last week, the European Commission adopted a **new tone** vis-à-vis China, calling it a "systemic rival" for the first time.

The Italian government, an uneasy coalition of the right-wing League of vice premier Matteo Salvini and the populist Five Star Movement under the leadership of Luigi Di Maio, confirmed last week, that it would seek closer ties with Beijing by signing a Memorandum of Understanding (MoU) on BRI. Italy would be the first member of the G7 group of industrialized countries and the first EU founding member to endorse BRI. Italy is also the third largest economy within the Euro zone, giving its BRI support added impact.

The government in Rome hopes that its support for BRI will help increase exports to China and address a bilateral trade deficit that stood at USD 12.13 billion last year. However, it is unclear whether the move will have a major impact on Italy's economic relationship with China. European countries like France and Germany, that have more balanced trade relations with China, have not signed any BRI agreements. EU countries that did sign up to the initiative, like Poland and other central European member states, have yet to see tangible benefits and substantially increased investments from China.

Rome's attempts to forge closer political and economic ties with Beijing have drawn criticism from opposition parties in Italy and raised eyebrows elsewhere. Following Italy's announcement, **French President Emmanuel Macron** said that EU countries should have a "coordinated approach" to China. "It's a good thing that China is taking part in the development of many countries, but I believe in the spirit of equality, reciprocity. The spirit of equality means respecting the sovereignty of nations," Macron said.

Concerns over BRI projects have risen over the last few months. 27 EU ambassadors to China, including the Italian ambassador, wrote a joint report last year, expressing concerns that BRI projects mainly benefit China and Chinese companies. China also faces criticism that BRI projects in developing countries create debt traps, political dependencies or fail to meet international standards of transparency.

The EU Commission has so far not directly commented on Italy's move. But last week it published a proposal for a ten-point action plan, advocating closer scrutiny of Chinese investments in Europe, especially in technologies, critical assets, and infrastructure. The paper adopts a tougher tone on China, calling it "an economic competitor in pursuit of technological leadership" and "a systemic rival promoting alternative models of governance." The action plan is due to be discussed during the European Council this week (March 21 and 22). The next EU-China summit is due to take place next month on April 9.

Lucrezia Poggetti, research associate at MERICS: Italy's signature of the controversial Memorandum of Understanding is part of the current government's more China-friendly policy, which aims to please Beijing in the hope of getting economic rewards. The MoU has the potential to harm Italy's credibility as a reliable EU partner because it undermines efforts by the EU and its largest member states to better coordinate on China.

MERICCS analysis:

- **Xi Jinping heads to Europe: "This could be a watershed moment for Italy's China policy."** Q&A with Lucrezia Poggetti. Also available in [Italian](#) and [French](#).
- **"Rome's support for BRI would legitimize China's geopolitical ambitions."** Podcast with Lucrezia Poggetti.

CHINA AND THE WORLD

China blocks bid to blacklist Pakistan-based terror suspect

China has again blocked attempts by India to get the UN Security Council to designate a Pakistan-based extremist as a terror suspect. The man, Massod Azhar, leader of the Islamist group Jaish-e-Mohammed (JeM), is wanted in India for a series of terrorist attacks, including a suicide bombing last month in Kashmir which killed 40 Indian paramilitary police. JeM has claimed responsibility for the attack.

China, a long-standing ally of Pakistan, was **the only country in the UN Security Council** to block the proposal to blacklist Azhar. Beijing's move led to protests in India with traders burning Chinese goods, **including laptops, mobile phones, and toys**, and calling on the Indian government to increase taxes on Chinese imports.

The Kashmir attack led to a sharp rise in tensions between India and Pakistan. In retaliation for the suicide bombing, India launched air strikes across the line of control that divides Kashmir. Pakistan, for its part, retaliated in a similar way. Tensions eased only after Pakistan released an Indian pilot whose plane had been shot down in a dogfight.

India has grown increasingly frustrated with China blocking moves against Pakistan-based extremist groups. China's backing for Pakistan is rooted in the two countries' strategic partnership. China is also an important investor in Pakistan, especially along the China-Pakistan Economic Corridor, which is part of Beijing's Belt and Road Initiative.

News in brief

- **Taiwan:** Talks with US to counter pressure from China scheduled for September
- **Regional security:** Beijing plans "strategic service and logistics base" in South China Sea
- **Belt and Road:** Kuwait discusses joint investment fund with China worth USD 10 billion

POLITICS, SOCIETY AND MEDIA

China goes on the offensive defending “transformation through education” in Xinjiang

China has rejected criticism of its treatment of Muslim minorities in the north-western region of Xinjiang. In a White Paper on anti-terrorism and human rights protection in Xinjiang, the Chinese government defended its approach of requiring ethnic minorities to undergo what is officially called “transformation through education” in “vocational education and training centers.” The White Paper also lauded China’s successes in fighting terrorism, saying the **authorities arrested** almost 13,000 “terrorists” since 2014 without providing further details on those detained.

The **White Paper** was published only days after the UN Human Rights Council in Geneva concluded its five-yearly periodic review of China. Xinjiang was **a key focus** this time. Many countries asked China to allow independent observers to visit the region and called on China to end mass detentions and restrictions on religious and cultural practices.

Adrian Zenz, one of the leading international scholars documenting the mass detentions in Xinjiang, presented **new research** in Geneva, estimating that more than 1.5 million Uighurs and other members of ethnic minorities have been interned in the region. He called China’s tactics “nothing less than a systematic campaign of cultural genocide.”

After the UN meeting, China’s deputy foreign minister Le Yucheng said that the “training programs” in Xinjiang would be gradually downsized as the “counter-terrorism situation improves”. However, the White Paper and a related Five-Year-Plan for the sinicization of religion, **published in January**, suggest that tight controls will continue. The White Paper also highlights China’s efforts to increase international cooperation on fighting terrorism and promote its own model abroad, especially in Central and South Asia.

MERICS analysis: “The CCP wants people to forget their religious and cultural roots.” Podcast with Adrian Zenz on re-education camps in Xinjiang.

CCP introduces another loyalty test for cadres

The Chinese Communist Party (CCP) has issued a new set of rules for the promotion of cadres that places renewed stress on the political integrity and loyalty of candidates. State news agency Xinhua reported that the new rules came into force on March 3, replacing a set of guidelines from 2014.

The new regulations also state that cadres must be given the all-clear by the anti-corruption watchdog **before they are promoted** and those who show initiative in making and acting on decisions will be favored. Previous restrictions, for instance on **having close family members abroad**, were relaxed.

China has some even million civil servants or cadres who have come under mounting pressure since Xi Jinping launched his anti-corruption campaign in 2013. Many of the privileges previously associated with

civil service jobs have disappeared, and better paid jobs in the private sector are becoming more attractive. A series of interviews by Bloomberg news agency with former cadres highlights the disillusionment many civil servants now experience.

Chinese Premier puts jobs over environment to ensure economic stability

Chinese Premier Li Keqiang called for a “grace period” for polluting enterprises to comply with environmental requirements in a speech at the National People’s Congress on March 6. The announcement is part of his “employment first” policy to help the slowing Chinese economy. It effectively prioritizes job creation over environmental protection.

Li’s new line stands in stark contrast to previous commitments. Five years ago, the premier had declared a “war on pollution”, with subsequent efforts to clean up the environment apparently bearing fruit. A study published in March 2018 by the Energy Policy Institute at the University of Chicago found that air quality in China had markedly improved between 2013 and 2017. However, Reuters analysis of particle emissions in 79 cities in November 2018 revealed that they had increased again by 14 percent in comparison to the previous year.

Local officials often face difficult choices when implementing official policy: they risk being reprimanded for being either too lenient or too strict on environmental issues. That dilemma was illustrated when the minister of environment and ecology, Li Ganjie, said at a press conference on March 12: “We will crack-down on the ‘one-size-fits-all’ practices in implementing environmental policies [...] we will also resolutely oppose relaxing environmental regulations.”

Environmental causes have long been a catalyst for protest in China. The latest large-scale protest was reported in Sichuan province in February. Following two earthquakes that left two people dead and many without shelter, several thousand people gathered in Rongxian county to demand an end to local fracking operations, which they saw as the cause of the earthquakes.

News in brief

- **South-North water diversion:** CPPCC delegate warns that Beijing water supply cannot be guaranteed
- **Chengdu:** Moldy foods at school canteen lead to parents' protest; school principal sacked
- **Taiwan:** Chinese student seeks political asylum after streaming criticism of political system

ECONOMY, FINANCE AND TECHNOLOGY

Study casts fresh doubt on Chinese economic data

New research suggests that China has overestimated its GDP growth by 1.7 percent every year between 2008 and 2016. The cumulative effect of these distortions is that China might now overstate the true

size of its economy by nearly 20 percent, according to calculations by three scholars at the Chinese University of Hongkong and one academic at the University of Chicago who published their findings on March 7.

According to official figures, the overall size of the Chinese economy reached 13.4 trillion USD last year, about 65 percent of the US economy. But the authors of the study estimate that the actual size is much lower, only about half the size of the US economy.

One problem when compiling economic statistics in China is the low reliability of regional data. As local officials compete for promotions and outside investment, they often **exaggerate their region's growth figures**. The central government has recently acknowledged that problem. Yin Zhongqing, vice-chair of the NPC's Financial and Economic Committee, said on March 10 that "in the past few years the sum of regional GDP has been greater than national calculations."

Yin announced that the National Bureau of Statistics will take over the collection of regional economic data and suspend regional rankings of GDP growth. While these measures show the government's intent to clean up the books, they might not fix all underlying problems in the Chinese calculation of GDP.

Michael Pettis, an economics professor at Peking University, **said in January** that the setting of GDP goals was one of the main problems. It led to the measurement of debt-financed political intent and not to healthy economic growth. At the NPC earlier this month, Chinese premier Li Keqiang lowered the country's 2019 growth target to between 6 and 6.5 percent.

Looser monetary policy sends Chinese stocks on 10-month high

Looser monetary policy by China's central bank and an inflow of foreign capital have bolstered Chinese bourses and send Chinese stocks to a 10-month high. The SSE composite index on Monday reached the highest level since June 2018. Smaller firms were the biggest winners of the stock market run, with the index for the 380 largest companies outperforming the index for the 50 largest. The 380 and 50 indices have climbed 32 and 24 percent respectively since the beginning of the year.

The stock market surge is mainly the result of the People's Bank of China (PBOC) looser monetary policy. The Chinese central bank cut several reserve requirements in recent months to release liquidity into the market and boost the economy. As a result, new bank lending hit a record of three trillion CNY in January. Much of that money made it into the stock markets.

The inflow of foreign capital into the Chinese market follows the announcement by New-York-based index provider MSCI to quadruple the number of Chinese A-shares in its emerging market index. The first Chinese shares were included in the index last summer. While the increase will not happen before the end of the year, the announcement illustrates the growing importance of the Chinese economy and its financial markets in the international financial system. Critics have claimed that China pressured MSCI to increase the proportion of Chinese shares, but these claims are denied.

News in brief

- **Ageing society:** Ministry of Finance transfers shares worth USD 4.7 billion to state pension fund
- **Trade dispute:** China and United States push for meeting in April
- **External accounts:** China may soon run first current account deficit since 1993
- **Exchange Rate:** Former PBOC governor fears China may follow Japan into lost decade
- **Price drop:** Mercedes and BMW to cut prices in China amid weaker demand and lower VAT

PROFILE

Italy's Mr. China: Michele Geraci

He is the driving force behind Italy's attempts to forge closer ties with Beijing. The economist Michele Geraci, originally from the Sicilian capital Palermo, is a close advisor to Italy's deputy prime minister Luigi Di Maio. As undersecretary in the ministry for economic development, the 52-year old Geraci is responsible for international trade and foreign direct investment to Italy.

Before moving into politics last summer, Geraci had already seen quite a bit of the world. He worked as an investment banker in New York and London before moving to China to teach finance at universities in Ningbo, Hangzhou and Shanghai for ten years. He also was a regular contributor to the Chinese business magazine Caixin.

Geraci is a **known Eurosceptic** and many of his political views align with those of the rightist League of Interior Minister Matteo Salvini. Some **observers describe him** as being obsessed with trying to please the Chinese. In a **controversial blogpost** last year, he described China as a model for Italy, praising Beijing's approaches to public security and managing migration. His pro-Beijing **views were fiercely contested** by many Italian scholars who published an open letter in response, highlighting widespread human rights abuses in China

More recently, Geraci has risen to prominence as the architect of Italy's controversial move to join China's Belt and Road Initiative (BRI), the first member of the G7 group of industrialized countries to endorse Xi Jinping's signature foreign policy project.

"I know China really well, and we are in a better position than others to spot possible risks," Geraci rebuked when both the US and some EU member states voiced concerns over Italy's move. He sees BRI as an opportunity to increase Italian exports to China and attract Chinese investments to Italy and has described the ports of Trieste, Genova and Palermo as attractive destinations for Chinese money.

Geraci's boss, economics minister Di Maio, appears to follow his advice almost blindly. However, Di Maio, 20 years Geraci's junior, already had his own China experience. When he visited Beijing to prepare for Xi Jinping's visit to Italy a few months ago, he embarrassed his entourage by calling the Chinese state and party leader simply Mr. Ping.

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